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### **Improving Budget Transparency and Accountability in Aid Dependent Countries: How Can Donors Help?**

Vivek Ramkumar and Paolo de Renzio<sup>1</sup>

#### **Findings from the Open Budget Survey 2008<sup>2</sup>**

Only 20 percent of the world's governments are providing adequate information for their citizens to begin to hold them accountable for managing the public's money. This finding comes from the Open Budget Survey 2008, an extensive new survey of government budget transparency in 85 countries issued on February 1, 2009, by the International Budget Partnership (IBP).<sup>3</sup> The Survey also found that nearly 50 percent of the 85 countries evaluated provide such minimal information that they are able to hide unpopular, wasteful, and corrupt spending.

The Survey shows that transparency practices can be improved very quickly and at little cost if there is sufficient political will to implement reforms. The decision to undertake budget transparency reforms can be supported in a number of ways, including by demands for and support of increased transparency within a country by the public, civil society organizations (CSO), legislatures, supreme audit institutions (SAI), and the media. In developing countries, political will can also be supported by external factors, such as the policies and practices adopted by donor agencies and the international community.

Budget transparency in aid-recipient countries should be a core concern for donor agencies, as highlighted in the Paris Declaration on Aid Effectiveness, which states that "corruption and lack of transparency [...] impede effective resource mobilization and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development" (OECD, 2005:2). In aid-dependent countries, improved transparency of aid flows is also key for enhancing domestic accountability around the budget process. Donors have recognized this in the Accra Agenda for Action, adding a number of additional commitments to those made in Paris on providing comprehensive and timely information on aid flows to recipient governments, regardless of whether such flows are channeled through country budget systems or not.

In this Brief, IBP provides general recommendations to the international donor community and International Financial Institutions (IFI) on how they can support better budget transparency practices in countries to which they provide assistance.

## Budget Transparency in Aid-dependent Countries

The Open Budget Survey reveals that those countries performing least well in terms of budget transparency practices share certain characteristics, including lower income levels, dependence on foreign aid, reliance on revenues from hydrocarbon extraction, and weak democratic institutions. Table 1 provides a snapshot of how countries that receive Official Development Assistance (ODA) fare in terms of budget transparency. It shows that not only is the average budget transparency score for aid-recipient countries lower than for all countries covered in the Survey but also that the score declines as their degree of dependence on foreign aid increases.

**Table 1. Aid Dependency and Budget Transparency**

Degree of Aid Dependence	Number of Countries	Average OBI Score	Countries
High (Aid > 10% of GNI)	18	22	Bosnia and Herzegovina, Burkina Faso, Cambodia, Chad, Democratic Republic of Congo, Ghana, Honduras, Kyrgyz Republic, Liberia, Malawi, Mongolia, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia
Medium (Aid > 5% and < 10% of GNI)	12	28	Albania, Angola, Bolivia, Cameroon, Georgia, Jordan, Macedonia, Nepal, Nigeria, Papua New Guinea, Sudan, Vietnam
Low (Aid < 5% of GNI)	45	45	Algeria, Argentina, Azerbaijan, Bangladesh, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Croatia, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Fiji, Guatemala, India, Indonesia, Kazakhstan, Kenya, Lebanon, Malaysia, Mexico, Morocco, Namibia, Pakistan, Peru, Philippines, Poland, Romania, Russia, Saudi Arabia, Slovenia, South Africa, South Korea, Sri Lanka, Thailand, Trinidad and Tobago, Turkey, Ukraine, Venezuela, Yemen
<b>Overall</b>	<b>75</b>	<b>32</b>	

Source: World Development Indicators (Aid/GNI average for period 2000-2006)

\*Only countries that receive Official Development Assistance were included in this table. Afghanistan, Serbia, and São Tome were not included in the database.

While this might be a spurious relationship—caused by the fact that aid-dependent countries are also poor and have weaker institutions—it still raises an interesting question about the role of donor agencies in supporting and promoting budget transparency and accountability. In countries where donor funding is high, aid

represents a sizable share of public resources; in some cases donor contributions are greater than the government's domestic revenues. Where aid has such an important role, how it is given inevitably has an impact on budget transparency and accountability practices. It also is interesting that countries that receive a sizable share of their aid as direct budget support, which is more conducive to budget transparency, do not seem to fare significantly better in terms of budget transparency than countries where aid mostly comes in the form of project assistance.

There are four main ways in which bilateral and multilateral donor organizations can affect budget transparency and accountability in aid-recipient countries. The first is by influencing recipient governments' capacity and commitment to make budgets more transparent. The second is by supporting other actors (CSOs, legislatures, SAIs, etc.) in making better use of available budget information. The third, and most direct way, is by changing their own practices with regard to transparency and accountability. Finally, the fourth is by conducting additional analysis on the ways in which aid affects budget transparency and accountability in poor countries. Each of these issues is discussed in greater detail below.

### **1. Donors Can Influence the Capacity and Commitment of Governments in Aid-Recipient Countries**

The Survey finds that in the majority of countries surveyed little budget information is made available to the public. However, the reasons for lack of transparency vary. In some cases, governments do not have sufficient resources or technical capacity to generate even the basic budget documents required by international good practices on budget transparency. In other cases, governments produce such documents for internal purposes or for their parliaments or donors but choose not to make them publicly available.

In countries where the main obstacle to increased budget transparency is a lack of technical capacity or adequate systems for producing and disseminating budget information, donors can play an important role. For example, they can support the introduction of comprehensive information systems to enhance the capacity of a government to produce accurate and timely budget information. In addition, donors can support the creation of information disclosure systems that would allow governments to proactively make information available to the public on the use of public resources and the provision of government services. Technical assistance and funding to establish e-government systems that harness the power of information technology are one example. Donors can also support governments in developing institutional capacities to improve record-keeping, especially in light of the growing willingness of countries to adopt laws that give the public the right to access government information through specific requests. Often these laws are not immediately effective because government agencies are unable to develop systems to respond to information requests.

In countries where the main obstacle lies in the government's unwillingness to disclose information that is already produced for internal purposes, donors can pressure governments to make this information publicly available. Such pressure could be placed on recipient governments by linking specific transparency conditions to the disbursement of aid funds, for example.

While donors are legitimate stakeholders in the budget processes of aid-dependent countries, given their need to account for the use of aid funds to their domestic constituencies, their right of access to budget information should never trump or distort domestic accountability processes. Yet, in many aid dependent countries, especially those that receive direct budget support, donors have privileged and exclusive access to budget information that is not always released to the public in a timely manner. This is the case, for example, when governments have to get the International Monetary Fund's approval on their macroeconomic framework even before it is discussed in cabinet or sent to the legislature, or when they distribute budget reports to budget support donors long before such information is released to the public. Clauses that require governments to make available to the public any budget information that is made available to donors could be included in aid agreements. This would address existing accountability distortions and provide domestic actors in aid recipient countries, such as CSOs and the media, with important budget information.

## **2. Donors Can Support External Oversight Agencies**

A key finding of the Survey is that poor budget transparency is often compounded by weak oversight institutions, including legislatures and SAIs that lack analytical capacity, have inadequate legal powers, or are not sufficiently independent from the executive. There is increasing recognition within the donor community that improvements in public resource management are influenced not just by the overall level of transparency but also by the wider accountability environment around the budget process. The wider environment includes not only oversight institutions with an official mandate to monitor the work of the executive but also CSOs—which are increasingly important players—using available budget information to hold governments to account for the use of public resources.

Reforms that enhance the institutional system of checks and balances in the budget process, as well as strengthen the role and powers of legislatures and SAIs, could be an important contribution. However, donors may have limited influence in such matters, unless there is an existing domestic political consensus for such reforms to take hold. What donors can do, however, is provide funding and technical assistance to build the capacity of official oversight institutions. They also can support efforts by civil society and the media to analyze available budget information. Such support should be seen as a comprehensive package of efforts to improve overall budget accountability and oversight, helping to build the necessary linkages and synergies between the different institutions.<sup>4</sup>

## **3. Donors Can Change Their Own Practices that Undermine Budget Transparency**

While donor agencies can promote budget transparency and accountability by supporting and influencing the actions of domestic governmental and non-governmental actors, there is also much that donors can do by altering their own practices and procedures. Improving the transparency of aid flows can promote accountability both at the international and country level. At the moment, the main sources of systematic and comparable information on aid flows at the international level are the two databases maintained by the Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC), which capture aggregate and activity-specific aid data, respectively. However, despite having greatly improved in recent years, both these databases have serious

flaws, as they are often incomplete and inconsistent (mostly because they depend on the voluntary submissions of individual donor agencies) and are compiled with considerable delays. Annual reports and statistics from individual donors can also be utilized as a source of information, but these are often fragmented and not easily comparable.

More important for budget transparency and accountability at the country level, the current lack of available information on donor-financed activities paints an unclear picture of the amounts, nature, and distribution of aid funds flowing into a specific country in a specific year. A survey carried out by the OECD/DAC to monitor indicators linked to the Paris Declaration shows how in 2007 the average percentage of aid flows that recipient governments were able to capture in their budget documents was a meager 48 percent in the 55 countries surveyed (OECD, 2008). This means that, on average, more than half of aid flows that finance basic service delivery and other government activities cannot be easily monitored or subjected to normal budget accountability and oversight procedures.

Much of the rationale behind such transparency failure lies in the fact that donors often channel their aid through mechanisms that are outside an aid-recipient government's formal budget system, and which follow separate and parallel budget formulation, implementation, and reporting procedures. Such off-budget funding is justified by donor concerns that existing government budget management institutions and practices may be weak and, therefore, susceptible to mismanagement. While donors should be concerned about the proper use of their aid monies, they also need to assess the long-term impact of off-budget funding. In practice such approaches by donors can be in themselves a source of the very weakness and mismanagement they are trying to avoid. Off-budget financing places strains on domestic budget management systems and inhibits the effective coordination of donor support and its integration in the regular policy- and budget-making cycle. For example, a 2007 study on budget practices in Tanzanian local governments found that district authorities were spending much of their time providing reports to auditors sent by donor agencies, being subjected to up to 23 separate audits in one year alone.<sup>5</sup> In Ghana, a study found that senior government officials in the country spent approximately 44 weeks in a year fulfilling the requirements of donor agencies (Brautigam and Knack, 2004).

Whenever possible, donors should channel aid flows through government budget systems, for example, by using budget support mechanisms of different kinds. When this is not possible, donors should ensure that the systems and procedures utilized for their projects and programs are as compatible as possible with those of recipient government budget systems. For example, donors should ensure that planned aid-financed activities are captured in the relevant sector's medium-term plan and expenditure framework, and that information on commitments and disbursements is provided to government in formats and at times that facilitate their inclusion in budget documents.

A study carried out by the Collaborative Africa Budget Reform Initiative and the Strategic Partnership for Africa on "Putting aid on budget" clarifies the different ways in which aid flows could be brought "on-budget," distinguishing among seven key moments in the budget cycle (CABRI/SPA, 2008). Any aid activity can be included in development plans, draft budget documents, or the official budget approved by parliament. It can also be channeled and recorded through the government treasury and accounting systems and captured in execution and audit reports. The main

challenge for donors interested in promoting budget transparency and accountability, therefore, is to ensure that regardless of the aid delivery mechanism they use, they satisfy as many of the “on-budget” categories as possible.

In recent years, more than 50 country-level mechanisms to increase the availability and quality of information on aid flows have been created, as in Rwanda, Mozambique, and Afghanistan. While these initiatives are laudable, donors should put greater effort into ensuring that these country-specific aid databases are fully compatible with government budget classification systems and provide information in ways that make it easy to incorporate it into budget documents at different phases of the budget cycle. This will allow for more comprehensive coverage of aid flows in budget documents and thus increase overall budget transparency and accountability, regardless of whether government activities are financed by domestic revenues or aid receipts.

#### **4. Donors Can Support Additional Analysis of the Impact of Their Aid on Budget Transparency in Recipient Countries**

While the Open Budget Survey 2008 found a correlation between aid dependency and weak transparency practices, it does not identify the reasons why—or the practices by which—donor aid can undermine transparency in aid-recipient countries. This is clearly an area where additional analysis is needed, and donors could play an important role in supporting or conducting research on the effects of donor interventions and ongoing budget reforms on budget transparency in recipient countries. If aid is found to be inhibiting transparency among aid recipient countries, further research should be conducted to identify why this is happening.

#### **Summary of Recommendations and Conclusions**

In this report, we have provided four suggestions that the donor community should consider to improve budget transparency and accountability in aid-recipient countries. First, donors can directly support the development of better budget information systems through technical assistance and financing, and include specific transparency clauses and conditions in aid agreements. Second, donors can similarly support formal and non-formal budget oversight actors, such as legislatures, SAIs, and civil society organizations. Third, donors can change and improve their own practices, enhancing the quality of the information they provide on aid flows, particularly at country level, and utilize modalities that are compatible with country budget systems and processes. Finally, donors can support further analysis and research on the impact of aid on budget transparency and accountability in aid-recipient countries.

It is not our intent to question the important impact that donor aid can have on supporting economic stability and growth in poor countries around the world. The role that international donors play is critical but should be structured in a way that strengthens the capacity and will of governments to meet the needs of their people, especially those living in poverty. Despite the repeated commitments at international conferences and the related declarations and action plans, IBP strongly believes that donors can become much more proactive in creating a global environment in which transparency is seen as a fundamental right of all peoples. In such an environment, donors will themselves find it easier to demand greater

accountability from governments and thus will be able to improve the effectiveness of the aid they provide.

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<sup>2</sup> This brief draws on the Open Budget Survey 2008 report available at <http://openbudgetindex.org/index.cfm?fa=fullReport>.

<sup>3</sup> The IBP collaborates with civil society organizations in developing countries to analyze, monitor, and influence government budget processes, institutions, and outcomes. The aim of the Partnership is to make budget systems more responsive to the needs of poor and low-income people in society and, accordingly, to make these systems more transparent and accountable to the public.

<sup>4</sup> A recent paper by the Christen Michelsen Institute explores the potential of connecting the efforts of CSOs, legislatures, and SAIs (van Zyl et al., 2009).

<sup>5</sup> Interview with Rakesh Rajani, 2007.