

Linking Aid Transparency & Budget Transparency for Development Effectiveness

What Can and Should Be Done at the Busan High-Level Forum on Aid Effectiveness?

Key Messages

- Transparent and accountable public finances are key ingredients of both aid and development effectiveness.
- Aid transparency and budget transparency are inextricably linked.
- Demand for improvements in aid and budget transparency is growing, while ongoing efforts have fallen short of their goals.
- Donor agencies, recipient governments, and other actors can take concrete steps to strengthen the linkage between aid and budget transparency.
- At Busan, all participants should: a) officially recognize the importance of transparency and accountability for development effectiveness; b) include in the Busan Outcome Document specific language linking aid transparency and fiscal transparency and commitments to improve both; and c) create a multi-stakeholder follow-up mechanism to monitor advances in aid and budget transparency, and to promote more transparent and accountable public finances generally.

Transparency and accountability in the use of public resources are increasingly recognized as key ingredients of both aid and development effectiveness. The Tunis Consensus, adopted at a recent event organized by the New Partnership for Africa's Development (NEPAD) and the African Development Bank, states that "accountability is fundamental to the achievement of development results," and that this calls for "a dramatic increase in the transparency of the use of development funds — both national resources and external assistance." The need for greater transparency and accountability on both sides of the aid relationship also was clearly stated in the Accra Agenda for Action (AAA), which included the following commitments: "Developing countries will facilitate [...] public disclosure of revenues, budgets, expenditures, procurement and audits. Donors will publicly disclose regular, detailed and timely information on [...] development expenditure *to enable more accurate budget, accounting and audit by developing countries*" (emphasis added).

These statements highlight the importance of the relationship between donors' provision of information on aid flows and partner country governments' disclosure of budget information to their citizens. In fact, aid transparency and budget transparency are inextricably linked. Governments in partner countries cannot make their budgets fully transparent without improved aid transparency. Only if donors provide partner countries with sufficient information, compatible with partner country budget systems and schedules, can timely, accurate, and comprehensive budget information be made available to citizens of aid-receiving countries. In countries where conditions exist, donors also can channel their resources directly through country Public Financial Management (PFM) systems, so that aid flows are automatically captured in partner countries' own budget systems and documents. In turn citizens and parliaments in partner countries, alongside donors, need to ensure that governments publish timely and comprehensive information on all aspects of public finance.

Demand for such improvements in aid and budget transparency is growing. Partner countries across different regions have called for progress to be made at Busan on increased transparency and use of country systems to promote stronger state institutions responsible for delivering development outcomes.¹ Similarly, civil society groups across the world are demanding more and better information on public finances (including aid flows) from governments, so as to improve public participation in development and better link resource flows with development impact.

Existing efforts and evidence

On **aid transparency**, the International Aid Transparency Initiative has achieved important progress, setting out some basic standards that donors should meet to improve the quantity and quality of information that needs to be disclosed on aid flows. Yet, the need for such information to be made compatible with country systems, a necessary condition for delivering on the AAA commitments mentioned above, has so far received little emphasis. Partner countries consulted as part of the IATI process have highlighted how “donors at the country level do not prioritize sufficiently the provision of aid information to national authorities.” For example, aligning aid information with the budget classifications used by partner countries is a fundamental precondition to enable more accurate budgeting, accounting, and audit by developing countries, and to increase the proportion of aid that is recorded on budget.

While these international efforts are under way, the situation at country level shows that donors are falling short of their stated AAA commitments on aid transparency. A good way to gauge donors’ efforts in providing adequate levels of aid information to partner governments is through indicator D-2 of the PEFA methodology, which looks at “financial information provided by donors for budgeting and reporting on project and program aid.” Of the 71 countries for which PEFA assessments were finalized and made public through March 2011, and for which indicator D-2 had been scored, 48 received a D or a D+ score (the lowest possible scores), highlighting the lack of information provided by donors that is directly useful for partner countries’ budgeting and reporting purposes. In these rankings, there are no significant differences across world regions, and donors fare only slightly better when it comes to providing estimates for future support compared to reporting on actual disbursements. In the case of Rwanda, one of the countries that are considered to have made most progress in reporting on aid received, the 2008 PEFA assessment reported that, according to the government agency in charge of aid management, “comfortably less than half of donors provide budget estimates for disbursement at least three months prior to the start of the coming fiscal year,” and that “quarterly reports are not produced by donors for at least 50% of externally financed projects in the budget within two months of end of quarter.” Similar problems were found in Honduras, where some donor agencies only submitted their disbursement reports after a delay of four months from the end of each quarter.

The comparative “Aid on Budget” study carried out by the Collaborative Africa Budget Reform Initiative (CABRI 2008) highlighted numerous challenges that partner countries face in bringing aid on budget at different stages of the budget cycle, especially when it comes to fragmented project aid. As a result of this study, CABRI and its member African countries have recently issued a draft position paper on aid transparency, which puts forward a strong argument for strengthening the linkages between aid transparency and budget transparency.² It states that “adequate aid transparency for development means that aid information should be transparent: to and within country governments for country budgeting and aid effectiveness purposes; and through country budgets to country parliaments and citizens in support of domestic accountability.” For this purpose, donor systems need to be more oriented toward country needs, providing information that is *comprehensive* (i.e., covering all aid flows and modalities, both for commitments and disbursements), *reliable* (i.e., allowing the partner government to plan ahead), *timely* (i.e., available in time for country budget processes to incorporate the information throughout the budget cycle), *useful* (i.e., classified consistently with country systems), and *accessible* (i.e., routinely available to all stakeholders). Donor country offices therefore need to have appropriate authority and capacity to produce and release such information, and adequate knowledge of country budget systems. Partner governments, in turn, need to provide clear rules and procedures that facilitate the provision of aid information by donors according to the requirements above. For example, partner

¹ Consultations held by the Task Force on PFM (Dec 2010 and Jun 2011); Global Partnership on Country Systems (Oct 2010 and Jun 2011), and CABRI (Feb 2011).

² Available at: <http://www.cabri-sbo.org/en/news/170-promoting-aid-transparency-in-africa-cabri-position-on-aid-transparency->

governments could do this through aid management policies and adequate systems to collect, collate, and use aid information in country budgeting and accountability processes, including making their own budgets more transparent.

On the **use of country systems**, the results of the Paris Declaration Monitoring Surveys have been disappointing. Improvements in the share of aid that is recorded in partner country budgets (Ind. 3) have been marginal, and the total remains below 50 percent. This mostly arises from donors not adequately reporting their disbursement intentions to recipient governments, as already highlighted above. Actual use of country PFM and procurement systems (Ind. 5a/5b) also saw a limited increase, while overall goals remain far from being met. Even in countries where such systems have become more reliable, donors have not channelled more resources through them. Donors' fear of financial misuse and generally risk-averse attitudes and systems help explain these disappointing trends. Despite these difficulties, increasing the use of country PFM systems by donor agencies is a natural way to strengthen the link between aid and budget transparency. The Practitioner's Guide to Using Country PFM Systems, soon to be issued by the OECD/DAC, proposes a framework that includes: i) minimum meaningful information that donors should provide on their programs to help integration in country planning, budgeting, and reporting documentation; and ii) means to move beyond the minimum level to using components of country systems to a higher degree in all aid modalities.

On **budget transparency** in partner countries, the Open Budget Index 2010 (OBI), compiled by the International Budget Partnership (IBP), shows that 74 out of 94 countries assessed fail to meet basic standards of transparency and accountability in their national budgets.³ The 32 aid-dependent countries surveyed had an average OBI 2010 score of 30 out of 100, which is 14 points lower than countries that are not dependent on aid. This means that the governments of these countries fail to produce or publish at least some of the eight key budget documents required to keep the public informed about public finances throughout the various phases of the budget cycle, and that information they do publish lacks important details, including information about aid flows. Yet, between 2006 and 2010, a number of low-income, aid-dependent countries like Afghanistan, Liberia, and Uganda significantly improved their level of budget transparency by publishing more and more comprehensive budget documents.

Preliminary research results from the IBP also show that donor efforts in aid-dependent countries to: a) channel more of their aid through partner country budget systems, and b) strengthen partner country PFM systems, e.g., through technical assistance, are associated with better performance on budget transparency standards in partner countries.⁴ Evidence from comparative case studies shows that many countries carried out reforms partly aimed at enhancing budget transparency over the past decade, with substantial technical and financial support from a number of donor agencies. While some improvements were registered, however, reforms often had only limited success, partly because they were not well adapted to the local context, and partly because donors put limited emphasis on improving public access to budget information. Moreover, donor efforts to promote reforms that could strengthen budget transparency were often offset by other characteristics of donor interventions, namely their fragmentation, lack of transparency, and limited use of program aid modalities, such as budget support and pooled sector funding.

Linking aid and budget transparency: key issues and next steps

Ongoing efforts and existing evidence point to the fact that there is increasing interest in and demand for improving the transparency of both aid flows and partner country budgets, and for recognizing that they are complementary in promoting more effective use of development resources. While progress has been made, there is still a lot to be done.

³ To easily measure the overall commitment of the countries surveyed to transparency and to allow for comparisons among countries, the IBP created the Open Budget Index (OBI) from a subset of questions from the Open Budget Survey — the only independent, comparative, regular measure of budget transparency and accountability around the world. The OBI assigns a score to each country based on the information it makes available to the public throughout the budget process.

⁴ See Paolo de Renzio and Diego Angemi "Comrades or Culprits? Donor Engagement and Budget Transparency in Aid Dependent Countries." Paper presented at the 1st Global Conference on Transparency Research, Rutgers University-Newark, May 19-20, 2011. Available at: http://spaa.newark.rutgers.edu/images/stories/documents/Transparency_Research_Conference/Papers/Derenzio_Paolo.pdf.

Donor agencies need to act at both the international and country levels. At the international level, they should step up their efforts within the IATI framework to ensure that aid transparency standards are made as compatible with country systems as possible. This implies carrying out further work on the recipient country budget identifier, and developing a common coding system that facilitates the translation of aid information for direct use by partner country budget authorities. Donors also should issue revised procedures that reflect the OECD/DAC's guidance on the use of country PFM systems and do more to foster budget transparency improvements in partner countries, either through targeted technical assistance or through conditions attached to the increased use of country PFM systems. At the country level, donors should work toward ever increasing coverage of aid information into partner countries' budget systems, processes, and documents. This can happen in a number of ways, for example through supporting the integration of aid management and budget management information systems, through an increased use of country PFM systems across various aid modalities, and by going beyond internationally defined standards to provide partner governments with aid information that is comprehensive, reliable, timely, useful, and accessible.

Governments receiving aid, on their part, need to create the necessary conditions for a better integration of aid information in budget systems and documents. This means clarifying the roles and responsibilities of the various government institutions in charge of aid coordination and management, putting in place a legal and policy framework that clarifies what is needed from donor agencies, and working to integrate aid management and budget management information systems. They also should commit to specific actions aimed at increasing the quantity, quality, and timeliness of the budget information that they make available to the public.

Other actors also have important roles to play. Parliaments and audit institutions in partner countries should demand increasing integration of aid information into their governments' budgets, and push the executive toward an increasing the transparency of their budgets as a whole. Civil society organizations in both donor and partner countries need to put pressure on their respective governments to be more transparent and accountable, either in the aid that they give, or on their use of public resources, independent of the source of these resources.

More specifically, **at the Busan High-Level Forum**, it is imperative that all actors involved:

- 1) explicitly recognize and politically endorse the importance of transparency and accountability in both the provision of aid by donors and in its use for development purposes by recipient countries, as outlined in this brief;
- 2) include in the Busan Outcome Document specific language and commitments linking aid transparency and fiscal transparency, and ensuring that aid information is compatible with country budget systems; and
- 3) mobilize support to create a multi-stakeholder follow-up mechanism in the form of a "Global Task Force on Transparent and Accountable Public Finance," as part of the broader plan to establish a Global Partnership for Development Effectiveness.