

Briefing Paper 1: Why Aid Transparency Matters, and the Global Movement for Aid Transparency

Whether aid works is a contentious topic with debate ranging from Jeffrey Sachs and Bono to Bill Easterly and Dambisa Moyo. Nonetheless aid transparency is emerging as an area of common ground. For sceptics it has the potential to reduce distortions. For advocates it is a way of improving both the quality and impact of aid.

There are groups who will not gain from greater aid transparency; people for whom changes in the status quo would be costly. There are, however, a number of overlapping sets of players in aid relationships for whom greater levels of access to information would be of significant value.

This paper explores the benefits of aid transparency as well as who benefits from it – from recipient governments, donors and aid agencies, to citizens and their representatives in both the South and North. It goes on to set out what information needs to be disclosed and in what fashion for these benefits to be gained.

Who needs aid transparency?

1. Recipient governments

Governments in recipient countries struggle to know with precision how much aid is invested in their country, from whom, and how it is being spent.ⁱ This not only affects how aid resources are utilised but it also has an impact in the allocation of their own resources. Even in the most aid dependent countries receiving the highest levels of aid, domestic resources remain greater than external support levels.

The issues here are two-fold: a lack of funds means that plans cannot be implemented, whilst a lack of predictability or future aid information means that government officials invest less in future planning processes. Donor ‘fickleness’ is, unfortunately, not an uncommon experience for recipients.ⁱⁱ At the macroeconomic level, not knowing how much external aid is flowing into a country undermines macro-planning and stability thus affecting exchange rates, monetary supply and fiscal policy, potentially making poverty reduction harder to achieve.

One study found that:

*“Donors are funding approximately 265 different aid projects in Sierra Leone. Many of these projects are implemented unbeknownst to the government, which struggles to capture information about the diverse and competing initiatives in the country”.*ⁱⁱⁱ

This is not an isolated case. In Afghanistan, the government does not know how a third of all aid since 2001 has been spent – totaling some US\$ 5 billion.^{iv} Additionally, an aid-mapping exercise in Uganda discovered that double the project aid previously accounted for was actually being spent in the country.^v

Improving the **transparency of aid is essential for the efficient and effective use of resources**, to enhance the quality of both planning and decision-making processes and subsequent implementation. For example, in 2007 the Sierra Leone government received US\$ 26 million less from donors than it had budgeted for, much of which had been ear-marked for spending on poverty reduction.^{vi}

Weak aid transparency as well as planning and implementation deficiencies also **undermine evaluation and learning** at both the technical and political level. It is not possible to evaluate a programme’s effectiveness or efficiency when a significant proportion of resources in a sector or region remain unknown.

2. Donors and aid agencies

Donors such as governments, multilaterals, private foundations, and aid agencies (including NGOs) are not only suppliers of aid information but also need greater aid transparency for optimal impact.

In order for donors to make sense of priority areas and to harmonise their efforts with others, readily-available information on existing aid funding, mechanisms and results need to be accessible. It is therefore to the donors’ advantage to be informed in order to make the best use of the funding they are allocating and to ensure an adequate balance of investment between different donors.

Lack of transparency about aid resources creates **donor ‘orphans’ or ‘darlings’** – where aid flows disproportionately to a particular region, sector, issue or ministry. For example, the first large-scale evaluation of aid to the Palestinian territories, undertaken by UN Development Programme in 2000, concluded that most aid projects were urban, whilst rural areas and refugee camps – where the aid was most needed – were neglected. Within the education sector, donors have focused their aid spending on achieving universal primary education in Sub-Saharan Africa, whilst constraining secondary and tertiary-level education.

3. Southern citizens and their representatives

In recipient countries, it is not only the government that requires aid information. Greater levels of information about aid transparency benefits civil society, including non-governmental organisations, parliamentarians and direct beneficiaries. Aid transparency in this case is a prerequisite for holding accountable not only donors and service providers over commitments made, but also to hold their governments to account over discrepancies between aid received and aid spent on behalf of beneficiaries. By exposing whether donor funds are used for the correct purpose, aid transparency is one way of helping reduce corruption.

For example, in 2000, aid being delivered via the Uganda Poverty Action Fund successfully contributed to a major initiative to improve the transparency and accountability of public finances allocated to the Ugandan Local Government. This was achieved by establishing a reporting system for local government grants and setting aside a small percentage of Poverty Action Fund resources to monitoring and accountability of funds transferred to line ministries, various government inspectorates as well as local governments.

While challenges remain, there is clear evidence of an increase in the quality of public engagement in aid and government policies and in their implementation as a result of this shift in approach.^{vii}

4. Northern citizens and their representatives

In donor countries, information about government expenditure can be used to monitor the results of government or multilateral aid spending. By providing information more publicly, donors can encourage active engagement in the aid sector. It is also essential for parliamentarians, as overseers of public funds, to be able to access more and better information about aid.

Polling has found people significantly overestimate how much public money is spent on overseas aid. In the UK,

people estimated the proportion of government spending was 18.55% when the actual figure is only 1.3%. Findings in other donor countries are similar. Interestingly this overestimate is often accompanied by concerns about the effectiveness of aid.^{viii}

How information needs to be disclosed

Better and more accurate information on aid is needed for greater levels of aid transparency. How this information should be disclosed in order to achieve the benefits of aid transparency is delineated in the Publish What You Fund aid transparency principles (see Box 1).

Box 1: The Publish What You Fund principles

1. **Information on aid should be published pro-actively** – a donor agency or organisation should tell people what they are doing, for whom, when, and how.
2. **Information on aid should be comprehensive, timely, accessible and comparable** – the information should be provided in a format that is useful and meaningful.
3. **Everyone can request and receive information on aid processes** – ensure everyone is able to access the information as and when they wish.
4. **The right of access to information about aid should be promoted** – donor organisation should actively promote this right.

In collaboration with freedom of information, governance integrity and aid effectiveness organisations, these principles were designed to be applied by all public and private bodies engaged in the funding and delivery of aid, including donors, NGOs and contractors.

To obtain the full benefits of aid transparency, **the information needs to be meaningful.**

Without the ability to compare the flows and activities of different actors it is not possible to start making judgments on the best use of resources. There are key characteristics of aid information that are published (see Box 2).

Comparability of information

For example, for a U.S. taxpayer or legislator, just knowing how much U.S. money is being spent in Liberia and on what is of limited use. To assess whether this is a good allocation of funds or to decide how to spend new aid money requires knowing what other donors and aid agencies are spending their money on and to be able to relate those external resources to the Liberian government’s own expenditure.

Box 2: The characteristics of aid information

- **Country-specific information** about the aid to a particular country/area (e.g. primary health care in district of Uganda by agency).
- **Comprehensiveness**, covering all aid given, both in terms of breadth (all the different types of foreign assistance – development, humanitarian, post conflict, security, etc.) and depth (detailed enough for others to be able plan on the basis of that information).
- **Budget compatibility** – aid information presented in-line with recipient-country budget cycle (planning, evaluation, etc.), particularly recipient budget classifications to make information comparable both between donors and particularly with the recipient's spending patterns.
- **'Traceability' of aid** – capturing the full 'supply chain' of aid, tracking the re-granting and subcontracting of aid.
- **Terms of aid** – information on conditions, terms, sub-contractors, etc. (not only financial information).
- **Timely** – information is current (unlike the OECD DAC data which reports data after 2 years).
- **Medium-term forward plans** – future aid activities, as well as planned and estimated spending, that allow for medium term (3–5 year) planning.

Why now?

A global movement for aid transparency has emerged at a time when there is growing awareness of the importance of how aid is used.

International focus on financial and fiscal aid transparency

As a result of the current financial crisis, there has been a resurgence of commitment to financial aid transparency in all areas and greater focus on the effectiveness of spending. Governments have already begun to respond to this by attempting to improve domestic financial aid transparency through initiatives such as recovery.gov and data.gov in the U.S. and the G20 commitments on financial transparency in the wake of the dual challenges of the economic crisis.^{ix}

Mid-point to the Millennium Development Goals

The Millennium Summit in September 2008 functioned as a global stock-take on mid-term progress towards achieving the MDGs by 2015. It was already evident before the summit that this vital international effort to increase the volumes, quality and impact of aid was stumbling over basic information challenges. These gaps are about what resources are going where, how they are delivered and to what effect.

Donor commitments on aid effectiveness

Without progress on aid transparency, key commitments made by donors to improve the effectiveness of their aid will not be delivered. Information on donor activities is a precondition for delivering the commitments of both the 2005 Paris Declaration on Aid Effectiveness and the subsequent Accra Agenda for Action which followed in 2008. The relationship between aid transparency and aid effectiveness is explored further in Publish What You Fund's Briefing Paper 2. Transparency of future aid flows reduces unpredictability, whilst comprehensive information on the terms and conditions of aid projects is essential for removing excess conditionality. Without information on inputs, results cannot be managed or be held accountable. Aid transparency is needed for the coordination and redirection of efforts, to improve the division of labour between donors, and to better direct resources in relation to recipient countries' own efforts. Transparency is a prerequisite for effective country-led development, and ownership by recipients. As discussed in an Oxfam report, ownership means supporting effective states and active citizens' efforts to determine how they use aid resources as part of their broader development agendas.^x

Maintaining public support for aid

The success of the Make Poverty History campaigns and Gleneagles summit in 2005 saw donor public support for aid and development reach an all-time high. But these gains may yet be lost. In aid recipient countries, studies suggest that public faith in foreign aid remains low. In donor countries support is shallow, with low levels of understanding of the nature of the development and aid process, leaving support for aid vulnerable to short term scandals and shocks.

The pressure on development spending is mounting as the impact of the economic crisis takes hold, potentially reducing the availability of resources and increasing the demand for results from the public in donor countries with respect to public expenditure. Transparency on public expenditure is an important part of the response needed to engage and maintain public support for aid.

The Global Aid Transparency Movement

Momentum is building amongst a range of actors from different sectors to promote greater transparency of the funding and delivery of aid. There are a variety of initiatives and organisations working on the availability of aid information.

Activities of the global movement

The work undertaken by members of the aid transparency movement is extensive, ranging from analytical and empirical research to advocacy and media outreach. Current activities include:

- Producing data and information on aid (e.g. OECD data collection, individual agencies' management information systems and more than 50 country-level data collection systems).
- Working on information publication, format and disclosure mechanisms (e.g. Publish What You Fund, International Aid Transparency Initiative and aidinfo)
- Analysing and conducting research on information (e.g. DRI's Guide to Donors, aidinfo and NYU's Development Research Institute).
- Advocating, lobbying and campaigning for specific issues using that information (e.g. Center for Global Development, EU Aidwatch and UN Development Cooperation Forum).
- Monitoring the disclosure of information, (e.g. aidinfo, Global Transparency Initiative and Publish What You Fund).
- Advocating, lobbying and campaigning for aid transparency (e.g. Publish What You Fund, Access Info and Transparency International).

Conclusions

Greater aid transparency has significant benefits: more effective **allocation and management** of aid, better recipient government **planning**, increased **accountability** of donors and governments in the North and South, reduced risk of **corruption** and enhanced public **participation**. Improving the quality of information on aid will benefit all stakeholders in the development process. The aims of the emerging aid transparency movement are to get the right information at the right time and in the right formats to meet the need of the players who will benefit from more information about aid.

Progress on aid transparency can occur swiftly and help achieve significant impacts by 2015. The information already exists: now it is a matter of agreeing basic **common standards** around transparency and for all aid actors to move quickly towards proactively publishing what they fund.

Further information and links

Publish What You Fund: www.PublishWhatYouFund.org

Aidinfo: <http://www.aidinfo.org/>

International Aid Transparency Initiative:
<http://www.aidtransparency.net/>

Reality of Aid Network: <http://www.realityofaid.org/>

ⁱ Within recipient governments the issue around lack of aid transparency has an impact on line ministries and agencies, as well as oversight bodies such as prime minister's or cabinet offices, ministries of finance, audit institutions, etc.

ⁱⁱ Celasun, O. and Walliser, J., "Predictability of aid: Do fickle donors undermine aid effectiveness?", *Economic Policy*, July 2008, pp. 545–594.

ⁱⁱⁱ "Old habits die hard: aid and accountability in Sierra Leone", p. 4, EURODAD with Campaign for Good Governance, January 2008.

^{iv} Waldman, M., "Falling Short: Aid Effectiveness in Afghanistan", p. 5, *ACBAR Advocacy Series*, March 2008.

^v "Interim Report of the Uganda Donor Division of Labour Exercise", Overseas Development Institute, March 2007.

^{vi} Idem, Eurodad, p. 5.

^{vii} McGee, R. et al. "Assessing Participation in Poverty Reduction Strategies: a desk-based synthesis of experience in sub-Saharan Africa", *IDS Research Report 52*, Institute of Development Studies.

^{viii} <http://www.oxfamamerica.org/files/oa-aeownership-092109.pdf>.

^{ix} http://www.hm-treasury.gov.uk/press_39_06.htm.

^x Ownership in Practice: the key to smart development, Oxfam America, 2009.