

<h1>Introduction to development aid, budgets and accountability</h1> <p>Module 1</p>		<h1>2014</h1> <p>December</p>
		<p>Development Initiatives exists to end absolute poverty by 2030</p>
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## Introduction

This module provides an introduction to development aid and budgets and the links between the two. It is intended to serve either as an introduction to those new to this area of work or as a refresher for those who have some knowledge of aid and budget accountability. The module identifies key terminology and concepts and addresses the importance of accountability in ensuring effective use and management of resources for development.

The first in a series of six, this module was developed using content created by [Development Initiatives](#), [Integrity Action](#), the [International Budget Partnership](#) and [Publish What You Fund](#). The module aims to develop and strengthen the skills, capacities and strategic visions of civil society organisations working in the areas of aid and budget analysis, monitoring and advocacy.

Expanded versions of these materials have previously been used in pilot workshops in Nepal and Kenya. Participants engaged in practical, experiential learning activities, which encouraged collaboration and peer learning. This module includes lessons from these pilot workshops.

## What is aid and how is it spent?

Broadly, aid can be defined as the transfer of resources from one country or organisation to another. However, depending on the sector or area, aid can hold a variety of different meanings and be delivered by a variety of different **actors** (those who deliver aid) and through varying **modalities** (ways to give aid) and **instruments** (types of finance).

Aid is focused on a variety of areas, including long-term poverty alleviation, humanitarian relief, technical assistance, research and debt relief. Traditionally aid is primarily channelled through **official development assistance (ODA)** (see text box), but in recent years the nature of the aid world has been changing. Although ODA remains incredibly significant, new aid actors are playing an increasingly important role in providing aid. For example, non-governmental organisations (NGOs), philanthropic foundations and the private sector, as well as south–south cooperation (exchange of resources, technology and knowledge between countries of the global south) are all now contributing to the global structure of aid.

**Official development assistance (ODA)** is aid that must: i) support **economic development and welfare**; ii) be provided by **official agencies** (including governments, multilateral donors and NGOs active in the development sector); iii) if provided as a loan, have a minimum grant element 25% and interest rates lower than the market average.

For more information, visit: <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>

## Why is aid given and how effective is it?

Tackling poverty on ethical grounds, recognition of the economic interdependence between rich and poor countries, or the pursuit of political and economic strategic interests can all be motivations for donors providing aid. While aid is becoming comparatively less important for many developing countries, with an increase in alternative resources, such as foreign direct investment or remittances, it is still a significant source of income in developing countries. Net ODA in 2012 was US\$127 billion<sup>1</sup>. Monitoring aid can help to ensure it is being spent effectively.

Many examples of the successes and failures of aid around the world have been documented. Participants at the pilot workshops in Kenya identified successes in the role of donor funds in supporting the development of the new constitution and in HIV/AIDS projects. They also noted failures in donors not acknowledging the voice of ethnic minorities in programming and poor targeting of funds. At the pilot workshops in Nepal, some participants described one particular aid project as a failure, while others identified the same project as a great success. Stories of success and failure can be instrumental in informing the future work of aid providers, but without better access to information on aid, the true nature of aid successes and failures can be difficult to measure.

## What is a budget?

A budget organizes and classifies a government's planned expenditures and anticipated revenues, reflecting its policy priorities for the coming budget year. It is a tool through which governments implement policies and programs. The budget is more than just a document, however; it is a year-long cycle of processes and includes four stages. At each stage, certain documents should be produced according to international good practice. These stages and documents are outlined below:

Stage	What happens? <sup>2</sup>	Documents produced
Formulation	The executive branch of government formulates the draft budget	Pre-budget statement, executive's budget proposal, and citizens budget
Approval	The legislature reviews and amends the budget, and then enacts it into law	Enacted budget (budget law)
Execution	The executive collects revenue and spends money according to the allocations made in the budget law	In-year reports on budget implementation (monthly or quarterly), mid-year review, and year-end report
Audit/oversight	The budget accounts are audited and findings are reviewed by the legislature, which requires action to be taken by the executive to correct audit findings	Audit report

Understanding these stages and the documents produced during each stage is essential for identifying points of engagement for advocacy.

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<sup>1</sup> OECD <http://www.oecd.org/dac/stats/final2012oda.htm>

<sup>2</sup> Drawn from *Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures* by Vivek Ramkumar, The International Budget Project, 2008.

Due to the centrality of the budget to the functioning of a government, a considerable amount of good practice guidance has emerged around budgets. Elements of budgetary good governance include:

- **Comprehensiveness:** disclosure of as much relevant information as possible, provided at different stages of the budget year;
- **Transparency:** ensuring policy intentions, formulation and implementation processes are open, and all relevant fiscal information is made available in a timely and systematic manner;
- **Accountability:** an obligation for the government to report, explain and be answerable for the consequences of administrative and implementation decisions.

## What is the link between aid and a government budget?

In many countries, aid resources make up a large proportion of the budget. In order to allocate resources efficiently and in line with policy priorities, governments require detailed information from donors on the aid they are giving. Significant pressure has been placed on donors to integrate aid resources into recipient country budgets, so that they can be allocated alongside domestic resources and provide a comprehensive and accurate estimate of **total available resources**. The [\*Paris Declaration on Aid Effectiveness \(2005\)\*](#) and [\*Accra Agenda for Action \(2008\)\*](#) commit donors to **report aid on budget** and **make use of country systems**.

Putting aid 'on budget' means aligning aid with the budget. There are [\*seven ways that aid can be 'on budget'\*](#). These are: **on plan, on budget, on parliament, on treasury, on accounting, on audit** and **on report**<sup>3</sup> (see Glossary document). Aid can be captured in some of these seven dimensions and not in others, depending on the type of aid, how it is provided and which donors are providing it. Aid being on budget goes beyond donors reporting information to include in budget documents; it also includes integrating aid into every stage of the budget process using government systems.

At different stages in the budget process, having aid 'on budget' can be useful for:

- **Formulation:** enables allocative efficiency (i.e. allocations are prioritized strategically according to policy priorities); integrates government- and aid-financed programmes;
- **Approval:** supports scrutiny of resource allocation by the legislature;
- **Execution:** ensures timely aid disbursements; strengthens country procurement and accounting systems;
- **Oversight:** enables accountability for the execution of aid disbursements.

## Accountability: who and to whom?

Accountability is an 'account-giving' relationship between two or more organizations or individuals, for example between the government and citizens. It is an acknowledgement by government of the responsibility for **actions, decisions and policies** for **administration, governance, policy implementation** and the **use of public resources**. It involves obligations to report, explain and be answerable for the consequences of government actions.

**Budget accountability:** The government must be accountable to the **public** (including civil society) and to **monitoring and oversight institutions** (including the legislature and supreme audit institution) when using public resources. In turn, the public and monitoring and oversight institutions are responsible for holding the government to account.

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<sup>3</sup> Taken from CABRI (2009) "Putting aid on budget – Good practice note: Using country budget systems."

Aid accountability: Donors hold similar responsibilities to governments, with regard to aid actions, decisions and policies. They need to be accountable to **governments they provide aid to** and the **beneficiaries of that aid**.

The accountability relationships in the aid and budget sectors are complex, given the different actors, modalities and types of aid. At the pilot workshop in Kenya, participants from six different countries mapped the accountability mechanisms between aid and budget actors. Each group identified slightly different processes and lines of accountability between stakeholders, highlighting the diversity of accountability mechanisms in their countries. Good access to information was identified by many as playing an important role in strengthening accountability mechanisms.

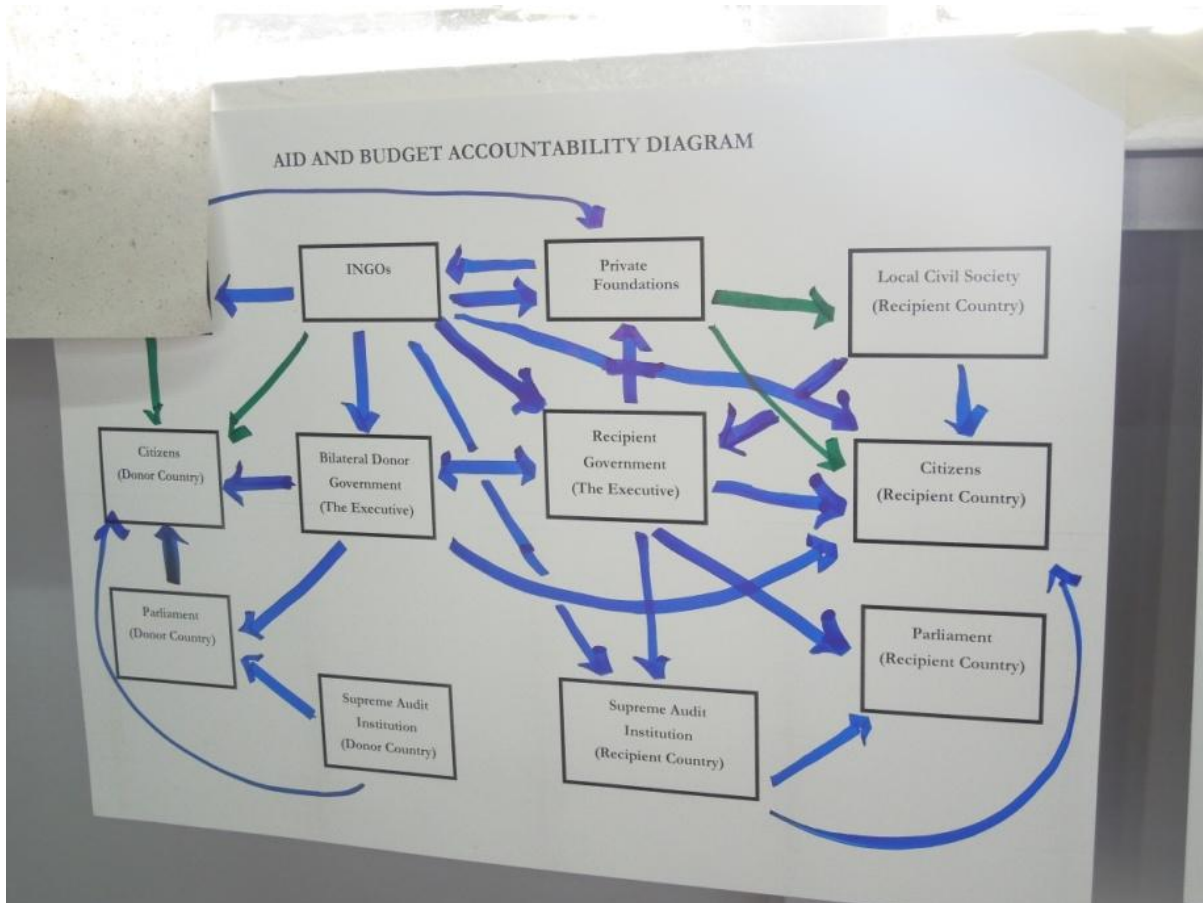


Figure: Accountability mechanisms mapped out during a pilot workshop in Kenya.

## Glossary

Accountability	In the context of good governance, this is an account-giving relationship between government and citizens, whereby the government acknowledges and takes responsibility for actions, decisions and policies
(Aid) actors	Those stakeholders who give development aid. Traditionally this has been bilateral and multilateral donors, but now includes NGOs, private foundations and the private sector
Aid on budget	Aid that is channelled through a recipient country's budget processes and government systems
Debt relief	A type of aid that seeks to relieve a developing country's debt and reduce the overall burden
Foreign direct investment (FDI)	Investments made by a company from one country, into a company or another entity in another country
Humanitarian relief	Funds and activities that are targeted at saving lives, alleviating suffering and maintaining and protecting human dignity during and after disasters and emergencies
(Aid) instruments	Types of finance that are given as development assistance, for example grants, loans etc.
(Aid) modalities	Ways of delivering official development assistance, for example project aid, budget support etc.
Non-governmental organisation (NGO)	A legally constituted organisation that operates independently from government.
Official development assistance (ODA)	Aid flows to countries and multilateral development organisations that are provided by official agencies, and have the promotion of economic development and welfare of developing countries as the main objective. Loans provided as ODA must be concessional (with lower than market interest rates) and include at least a 25% grant element
On accounting	Aid is recorded and accounted for in the government's accounting system, in line with the government's budget classification system
On audit	Aid is audited by the government's auditing system
On budget	Aid, including program and project aid, and its intended use are reported in budget documentation
On Parliament	Aid is included in the revenue and appropriations approved by parliament
On plan	Programme and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for the policy intentions behind their budget submissions
On report	Aid is included in ex-post reports (on evaluation of budget impact over the long-term) by the government
On Treasury	Aid is disbursed into the main revenue funds of the government and managed through the government's systems
Poverty alleviation	Ensuring that everyone has adequate access to basic human needs (nutrition, basic health, education, housing, and information and freedom from discrimination to enable them to participate fully in society). Poverty is multidimensional and not only about income.
Private foundation	A non-governmental, non-profit organisation with funds (usually from a single source, such as an individual, family or corporation) and programs managed by its own trustees or directors
Private sector flows	These consist mainly of investments by transnational corporations and private banks, as well as export credits given by industries
South–south cooperation	The exchange of resources and knowledge between developing countries.
technical assistance (or cooperation)	Non-financial aid given to recipient countries by donors, the objective of which is to provide the countries with expertise needed to promote development.

## Further reading

### **Aid**

- Development Finance, [Guide to Donors](#) [Accessed December 2014]
- Development Initiatives (2012) [Official Development Assistance: An Essential Guide](#)
- Development Initiatives (2013) [Investments to End Poverty](#)
- Lister, S, Oates, P, and Desta, F. (2006) [Aid Modalities in Ethiopia](#). Development Cooperation Ireland
- OECD DAC [ODA Recipients](#)
- Oxfam, Briefing Paper 137 (2010) [21st Century Aid: Recognising success and tackling failure](#)
- Tomlinson, B (2012) [Reality of Aid Report: Aid and the Private Sector: Catalysing Poverty Reduction and Development?](#)

### **Budgets**

- CABRI (2009) [Putting aid on budget – Good practice note: Using country budget systems](#)
- Center for International Development (2014) [This is PFM](#), CID Working Paper No. 285, Harvard University

### **Accountability**

- Newell, P and Wheeler, J. (2009) [Making Accountability Count](#), Institute of Development Studies, Policy Briefing 33