

<h1>Analysing aid and budgets</h1>		<h2>2014</h2> <p>December</p>
		<p>Development Initiatives exists to end absolute poverty by 2030</p>
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## Introduction

Analysing aid and budget resources lets you gather evidence about how development resources are being used. If the available resources are not addressing the development problems they are intended to improve, analysis can support you to understand why. This module introduces some of the basic skills and practices for analysing aid and budget data, with a focus on providing evidence for advocacy.

The fourth 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.

## Analysis and advocacy

This module serves as the framework for doing ground work for advocacy. Analysis on aid and budgets is only useful when you generate evidence that can be used to build a compelling advocacy argument. Research and analysis should be seen in a dynamic and complementary relationship to advocacy. For civil society to have an impact, research on aid and budgets should always speak to and shape advocacy, just as advocacy should inform and guide research and analysis.

One of the key factors you will have to take into account when analysing aid and budgets is the degree to which aid is 'on budget'. That is, it will be important to know to what extent specific aid flows can be seen and tracked through a country's budget. In particular, aid should be 'on budget' in four important ways. It should be visible in:

1. **Government plans:** aid should be integrated into a country's strategic plans and policies
2. **The annual budget:** all aid should be included in the government's budget proposal and estimates of expenditure
3. **Budget reports:** aid should be included in all types of budget reports from ministries and departments
4. **Audit reports:** aid should be included in expenditures audited by the supreme audit institution

In reality, it is rarely the case that aid is easily identifiable and ‘on budget’. Often, inconsistencies between aid and budget information will make it impossible to conduct all the analyses that could help to make the most compelling advocacy case. For this reason, most civil society advocacy on aid and budgets will also have something to say about transparency and how governments (and donors) can improve the classification and harmonisation of aid and budget information.

## Budget problems

The approach to advocacy in this module is based on a central assumption: that most development problems are mirrored in budget systems. This means that most of the time, when a government is failing to provide quality goods and services to people, there is an underlying budget problem that contributes to this poor performance. The implications are that it is difficult to solve a development problem without also addressing the underlying budget problem; that most budget problems require a budget solution; and that the right budget solution should make it possible to bring about improvements in service delivery or development outputs.

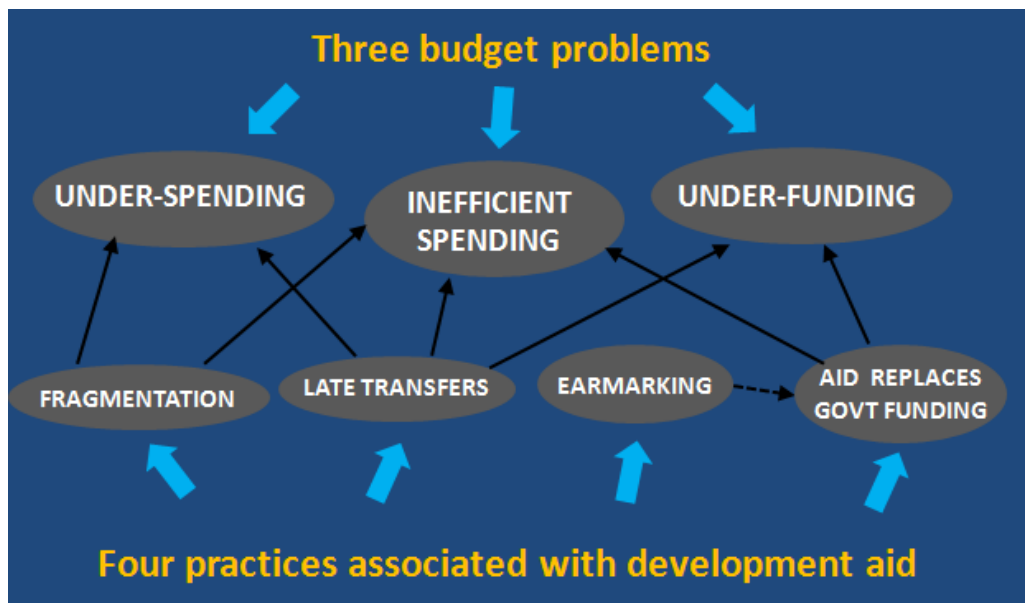
There are three main budget problems that lead to inadequate or poor development. These are:

<b>Underspending</b>	<b>Inefficient spending</b>	<b>Underfunding</b>
<p><i>When a program or department has funds available, but they aren't being spent.</i></p> <p>This can be due to lack of capacity or skills to implement the program; management and coordination problems; or delays in the way that funds flow through the system.</p>	<p><i>When the available funds are not being used efficiently. This means that funds are not being translated into goods and services as well as they should be.</i></p> <p>The aim of governments should be to provide services and goods of the best possible quality to the most beneficiaries, particularly to those in need. Inefficient spending can be caused by poor planning and management; weak or non-transparent procurement processes; or corruption.</p>	<p><i>When a program or department is not allocated sufficient funds to deliver what it is meant to deliver.</i></p> <p>When this happens, there is simply not enough money to deliver what needs to be delivered. It is a relative concept – a program could be underfunded relative to the past, to other similar programs, to its responsibilities, to the needs of the beneficiary population, or to national or international benchmarks. When identifying underfunding, we need to know how much would be “enough” in order to compare it with what is being allocated.</p>

## Aid-related budget problems

In addition to the three key budget problems above, there are four other budget issues or practices associated more specifically with aid and budgets. These are:

Aid-related practices	Contribution to budget problems
<p><b>Earmarking:</b>  <i>When a donor or government designates a particular pool or stream of funds to be used only for specific programs, projects or sectors.</i></p>	<p>For example, in recent years, there has been an increase in ‘vertical’ global funds (e.g., The Global Fund) that are directed exclusively to financing specific development goals – in this case, for fighting AIDS, tuberculosis and malaria.</p> <p>Earmarking is not a budget problem in itself, but when analysing aid and budget information it is important to be aware of it and its potential contribution to development problems.</p>
<p><b>Fungibility (or aid replacing government funding):</b>  <i>Often linked to earmarking, this happens when aid has been allocated exclusively to a certain program (e.g., ‘Good Purpose A’). The funds have been earmarked so that they won’t be spent on less desirable things (e.g. ‘Bad Purpose B’).</i>  <i>Since money is fungible (meaning it can be substituted), a government may divert the resources that it would have spent on Good Purpose A – that is, if no aid had been earmarked for it – and spend them instead on Bad Purpose B.</i></p>	<p>Fungibility would generally result in underfunding, as government resources are diverted away from programs receiving earmarked donor funds. It is important to be aware when earmarking and fungibility are contributing to a development problem.</p>
<p><b>Fragmentation:</b>  <i>When a country, department, sector or program receives budget resources and/or ‘off-budget’ aid in many relatively small amounts from different sources.</i></p>	<p>Fragmentation undermines holistic strategic planning and places a large administrative burden on the recipient country or implementing agency, as each source of funding comes with its own required timelines and reporting procedures.</p> <p>Fragmentation is not necessarily a budget problem, but will often manifest in underspending (since it reduces capacity and complicates implementation) or inefficient spending (since it places a burden on management and undermines economies of scale).</p>
<p><b>Late transfers:</b>  <i>When donors are late in transferring aid funds to recipient countries.</i></p>	<p>Delays in transferring funds from donors to countries often means that funds can’t be used in a timely manner (e.g., if it has come to the end of the country’s fiscal year). This can prevent government agencies from implementing programs in a timely and appropriate manner and contribute to underfunding, under-spending or inefficient spending.</p>



This diagram helps to illustrate how the four practices associated with aid provision contribute to the three main budget problems of under-spending, inefficient spending and underfunding

## Aid and budget cycles

The **aid cycle** in a country is the process whereby development assistance is negotiated, agreed to, disbursed, spent, reported on and reviewed. In most aid recipient countries, there are usually multiple aid cycles in motion at the same time, each with their own deadlines, milestones and reporting requirements. As discussed in module 1, there are four stages in a country's **budget process**: 1) formulation, 2) approval, 3) execution, and 4) audit/oversight.

In an ideal situation, all aid would be negotiated and committed during the formulation state of the budget process, and then enacted by the legislature as part of the national budget. Better alignment between aid cycles and the budget process would:

- **Enable the government** and ministries, departments, and agencies (MDAs) receiving aid to **plan better**
- **Decrease the administrative burden** on recipient governments and relevant MDAs
- **Increase accountability** by simplifying lines of reporting and oversight.

### What to look out for when comparing aid and budget data

**Currency:** Is the data using the same one? If not you will need to convert one set.

**Financial years** can be different for donors and governments.

**Sector/program definitions** vary between governments and donors. Make sure you are comparing like for like.

**Commitments vs disbursements:** Aid commitments are often disbursed over several years, so make sure you are looking at the right budget period.

## When to intervene with your advocacy

In order to investigate the relationship between aid and budgets in a country, you need to get to know the following:

- The budget documents that are available
- How 'on budget' and 'off budget' aid funds are accounted for in the available budget documents
- How the budget process works in that country and the key decisions made at each stage
- The key decision makers in the budget process (both individuals and institutions).

Different decisions are made by different people at each stage of the budget process. In order to have impact with your advocacy, you need to know which decisions to influence and intervene **before** those decisions are made, not after.

## Aid and budget analysis: The process of inquiry

One way to start narrowing down the main causes of a development problem is to test different hypotheses, i.e. statements that can be tested to see whether or not they are true. The three hypotheses that were tested in the Nepal pilot workshop were:

1. **Hypothesis 1: Underspensing** in the water and sanitation sector is causing inadequate access to safe water and the slow roll-out of sanitation facilities.
2. **Hypothesis 2: Inefficient spending** is leading to inadequate progress in providing access to safe water and sanitation.
3. **Hypothesis 3: Underfunding** is responsible for the fact that so many people in Nepal still do not have access to safe drinking water and sanitation facilities.

Note that these three hypotheses come directly from the three key budget problems discussed earlier: underspending, inefficient spending and underfunding. These three problems are a good starting point for your inquiry into the budget problems underlying a development problem.

The six-step process for testing the hypotheses is as follows:

1. **Unpack the problem:** First, consider some of the characteristics and features of the problem.
2. **Find out which calculations you could use to test the hypothesis:** In most cases, there may be more than one way to test the hypothesis. To start your analysis, choose a single calculation.
3. **Try out some calculations.**
4. **Consider your findings through the lens of development aid:** Ask how aid and its related mechanisms may be influencing the problem.
5. **Identify a solution (if the hypothesis is true):** Identifying only the problem is not enough for effective advocacy. You'll need to develop realistic solutions that could be effective in addressing the problem, as well as how they could be feasibly implemented.
6. **Decide how you could use this information for advocacy:** Complete your inquiry into each hypothesis by discussing whether it uncovered any useful evidence, who would have the power to make decisions about the issue, and how you can best use what you learned for advocacy.

We'll demonstrate this process by testing Hypothesis 1: Underspensing in the water and sanitation sector is causing inadequate access to safe water and the slow roll-out of sanitation facilities.

### Step 1: Unpack the problem

- Underspensing means that a department, sector, etc., is not spending all of the funds that it has available for a given budget year.
- Why is this a problem? Isn't it a sign of saving money?
- When a department or sector underspends, it isn't using its funds to deliver services, and other departments or sectors can't use the money either.
- Underspensing is a cause for concern, even if there are other budget problems.
- In this case, it wouldn't help to allocate more funds if existing funds are not being spent.

## Step 2: Which calculations can we use?

- There is one basic calculation you can use to calculate under-spending as a rate, expressed as a percentage.
- Divide actual expenditure by estimated expenditure (the allocation). How do you do this? Use this formula:

$$(\text{Actual expenditure} / \text{Estimated expenditure}) \times 100 = \text{spending rate (\%)}$$

- What does the answer mean? If the answer is 85%, for example, this means that only 85% of the available funds were spent and the remaining 15% was unspent.

## Step 3: Try out some calculations

- In the 2006/07 Nepal budget, the government allocated **3,974.6 million** Rupees to water and sanitation spending. Actual spending on water and sanitation was **2,214.6 million** Rupees.
- Our formula is: (actual expenditure / estimated expenditure) x 100 = spending rate (%)
- So the calculation is:

$$(2,214,600,000 / 3,974,600,000) \times 100 = 55.7\%$$

- This means that in 2006/07 Nepal's water and sanitation sector only spent 55.7% of the resources allocated to it, and 44.3% of its allocation remained unspent.
- If you perform the same calculation for additional budget years – 2007/08, 2008/09 and 2009/10 – you get the following results:

Year	Estimated expenditure (in Rupees)	Actual expenditure (in Rupees)	Rate of spending (in %)
2006/07	3,974,600,000	2,214,600,000	55.7
2007/08	2,942,700,000	4,692,500,000	159.5
2008/09	7,956,400,000	7,101,200,000	89.3
2009/10	9,045,300,000	6,420,200,000	70.9
<b>Total</b>	23,919,000,000	20,428,500,000	85.4

## Step 4: Consider your findings through the lens of development aid

To examine your findings through the lens of aid, you could...

- Establish how aid dependent the water and sanitation sector is in Nepal:
  - Calculate foreign sources of funding as a share of total allocations to the water and sanitation sector over a number of years
  - If the share of aid funding is significant, this would suggest the likelihood of aid playing a role in the underspending pattern.
- Identify the programs and projects most responsible for under- and over-spending:
  - Use data from the Nepal budget and repeat the rate of spending calculation for every program
  - Identify who funds the programmes with the most underspending.

- Track aid commitments and disbursements to these programs and projects.

For example, in the water and sanitation sector in Nepal, there is a Rural Water Supply & Sanitation Fund. If you apply the rate of spending calculation to the expenditure figures for this programme, you get the following results:

Year	Estimated expenditure (in Rupees)	Actual expenditure (in Rupees)	Rate of spending (in %)
2008/09	1,130,000,000	853,900,000	75.6
2009/10	1,121,020,000	412,000,000	36.8
2010/11	1,082,000,000	434,000,000	40.1

*Note: The 2010/11 actual expenditure figure reflect only the first 8 months of the budget year.*

### Step 5: Identify a solution

The solutions that you develop to address the identified under-spending problem will depend on deeper investigation into the causes of the problem. For example:

- Under-spending could be caused by **poor coordination of disbursement dates** for aid funds. A solution might be a better system for coordinating aid disbursements.
- Underspensing could be due to **fiscal dumping**, meaning that funds are disbursed to districts or implementing agencies too late in the budget year. A solution might be to improve monitoring and early problem detection in relation to inter-governmental transfers (i.e., transfers from the national government to districts or implementing agencies).
- In programmes like the Rural Water Supply & Sanitation Fund, underspending could be due to **low implementation capacity**. A solution might be to allocate a share of the Fund's money for training and capacity building of staff.

### Step 6: Decide how you could use this information for advocacy

First, summarize what you have learned so far about under-spending in the water and sanitation sector:

- Looking at the sector as a whole, with the exception of budget year 2007/08, under-spending appears to be a serious problem
- Erratic spending is also a cause for concern, as there are big swings between over- and under-spending
- The under-spending and erratic spending indicate a serious mismatch between planning and implementation
- At least one program – the Rural Water Supply & Sanitation Fund – is showing a clear weakness in spending its allocations.

How you use your findings for advocacy will depend on your diagnosis of the cause(s) of the underspending problem. For example, you could look at the three potential causes identified under Step 5.

- If disbursements of foreign aid are found to be playing a role:
  - **Further research:** You would need to do more research on the timing and conditions attached to aid disbursements and why these are not being met in the planned timeframes
  - **Decision makers to influence:** relevant donors, senior Ministry of Finance officials, the Cabinet

- **When to intervene:** You would need to influence decisions during the budget formulation stage and monitor through the budget implementation stage.
- If **fiscal dumping** is found to be contributing to the problem:
  - **Further research:** You would need to do more research about inter-governmental transfer procedures to find out why funds are arriving so late in the budget year
  - **Decision makers to influence:** senior officials in the Ministry of Finance, financial officers responsible for the transfer of funds from the national government to implementing agencies
  - **When to intervene:** You would need to influence decisions and monitor the transfer of funds during the budget implementation stage.
- If **low implementation capacity** is found to be undermining service delivery:
  - **Further research:** You would need to do more research about the types of capacity and skills gaps that are hindering delivery and how to fill them
  - **Decision makers to influence:** Water and sanitation program planners and policy makers, donors (if the program has a large aid component)
  - **When to intervene:** You would need to influence decisions regarding spending on capacity during the budget formulation stage and monitor through the budget implementation stage.

## Drawing conclusions and formulating recommendations for advocacy

Once you complete the six-step process of inquiry for one hypothesis, you then move on to testing the other hypotheses using the same process for each. Once you have tested all three hypotheses, you will want to review all of the findings that came from your analysis.

It is helpful to list what you consider your key findings and then rank them in order of importance, depending on how useful they are for your advocacy purposes. This will help you to develop your advocacy messages, as well as the tactics and strategies you will use in your advocacy campaign. In particular, you will be able to decide on what the **main problem** is that you want to see addressed, develop the **specific solution** that you recommend for addressing the problem, and describe what **action or decision** you want taken and who should take it.

### **SOLUTIONS: What to consider?**

- Ensure that what you propose is **feasible**
- Include **timeframes** for the solution
- Where possible, include the **estimated costs** of the solution you propose.

After researching and analysing a development issue such as poor service delivery, the underlying problem you identify should be a **specific aid or budget problem** that you believe is contributing to poor service delivery. The solution should relate to addressing **problems in aid and/or budget systems**, and it should improve the provision of that service in the future. Lastly, the action is what is required to bring about your proposed solution.

## Additional calculations for testing for budget problems

The following are two additional calculations that can serve as a useful starting point for investigating inefficient spending and underfunding. Note that these calculations are not exhaustive – there are a variety of other calculations that can be performed to look at both inefficient spending and underfunding. The types of calculations you use will depend on the aid and budget data that is available in your country and in aid databases.



### **Measuring efficiency**

What are you measuring? *The relative efficiency of different service delivery agents (e.g., government versus an NGO).*

Use this calculation to identify: **Inefficient spending**

Calculation: Divide the amount allocated to a program by the amount government spends to deliver that program to one beneficiary (i.e., the *per capita* cost). Then perform the same calculation using the amount an NGO spends to deliver that program to one beneficiary.

**(Amount allocated to a programme / Government's per capita cost to deliver the programme)**

**= Number of beneficiaries that can be reached by government**

**(Amount allocated to a programme / NGO's per capita cost to deliver the programme)**

**= Number of beneficiaries that can be reached by an NGO**

Results: You will have two figures that show the potential number of beneficiaries reached by each service provider. Although one service delivery agency may reach more beneficiaries than the other, this does not necessarily make them more efficient. You would need to carry out further analysis (e.g., reviewing service delivery evaluation reports) to assess the quality of the services delivered.

### **Calculating budget shares**

What are you measuring? *How much of a budget is allocated to a particular sector or program compared to other programs.*

Use this calculation to identify: **Underfunding**

Calculation: Divide the amount allocated to the program by the total budget for the relevant sector or ministry, and then express it as a percentage. You may want to do this calculation for more than one program, so that you can compare what share each program receives.

**(Allocation to programme 1 / total sector allocation) x 100**

**= Budget share (%) of programme 1**

**(Allocation to programme 2 / total sector allocation) x 100**

**= Budget share (%) of programme 2**

Results: This will tell you what share of a sector budget is being allocated to certain programmes. If, for example, there is a commitment to improve programme 1, but you see that the budget share for programme 2 is higher, you cannot automatically assume that programme 1 is underfunded. You would have to do further research to find out whether programme 1 is receiving enough funds to carry out its obligations. You may also want to look into why programme 2 has a larger budget share, among other possible channels of inquiry.

## Glossary

Commitment	The total amount of aid agreed to for a project or program by a donor over a certain time period.
Disbursement	Funds that are actually transferred by a donor for a project or programme.
Earmarking	Designation of funds by a donor to a specific program, sector, region, etc., meaning that the funds cannot be spent anywhere else.
Fragmentation	When a country, department, sector or program receives budget resources and/or 'off-budget' aid in many relatively small amounts from different sources.
Fungibility (of aid funds)	Often linked to earmarking, this happens when aid has been allocated exclusively to a certain program (e.g., 'Good Purpose A'). The funds have been earmarked so that they won't be spent on less desirable things, e.g. 'Bad Purpose B'. Since money is fungible (meaning it can be substituted), a government may divert the resources that it would have spent on Good Purpose A – that is, if no aid had been earmarked for it – and spend them instead on Bad Purpose B. This results in aid replacing government funding.
Late transfers	When donors are late in transferring aid funds to recipient countries, or when the national government in a country is late in transferring funds to subnational governments (e.g., districts) or to implementing agencies.
On-budget aid	Aid that is channelled through a recipient country's budget processes and government systems.
Off-budget aid	Aid that bypasses a recipient country's budget processes and systems and that goes directly to particular programs, projects, etc. Off-budget aid is not found in government budget documents.

## Budget terminology

Actual expenditure	Funds that were actually spent during the budget year. These amounts are not confirmed until they have been audited, at which point they may then be reported as 'actual audited expenditures'.
Allocations / expenditure estimates	The amount the government plans to spend on a given ministry, sector, program, or line item at the beginning of the budget year. Allocations or estimates indicate <i>planned</i> or <i>projected spending</i> and not what is actually spent during the budget year.
Capital (or development) expenditure	Refers to funds that are used to buy or construct long-term physical assets such as buildings, roads, bridges, pipelines, vehicles, etc.
Fiscal Dumping	When implementing agencies receive their funds late in the budget year and therefore have to rush to spend their remaining allocated funds before the end of that year.
Intergovernmental transfers	Transfers of funds from one level of government (usually the national government) to lower levels. In many countries they are a significant source of revenue for subnational governments.
Per capita cost	Per capita basically means the 'average per person', so the per capita cost is the average amount of money it takes for the government (or other agency) to deliver a program or provide a service to one person.
Recurrent expenditure	Spending that needs to be repeated year after year and that does not result in the acquisition of long-term assets. Recurrent expenditure includes salaries for government staff and costs related to road maintenance, medicines or electricity consumption, among others.
Revised allocations / revised estimates	Planned expenditure amounts that have been adjusted at the mid-point of the budget year based on the progress of budget implementation.

## Further reading

- CABRI (2009) [“Putting aid on budget – Good practice note: Using country budget systems”](#)
- The International Budget Partnership’s [website](#) has a range of resources to support budget analysis and advocacy work by civil society organisations, including:
- [Guide to Transparency in Government Budget Reports: How Civil Society can use Budget Reports for Research and Advocacy](#)
- [Information on budget analysis, relevant to certain sectors](#)
- [Strategies, tools and tactics for budget analysis](#)
- [Opportunities and methods for advocacy at different stages in the budget cycle](#)