

Volume I

Aid Predictability – Synthesis of Findings and Good Practices

October 2011

**Prepared for the DAC Working Party on Aid Effectiveness –
Task Team on Transparency and Predictability**



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The authors bear sole responsibility for any errors in this report.

This is Volume I of a 4-part report produced by the aid predictability study:

- Volume I: Aid Predictability – Synthesis of Findings and Good Practices
- Volume II: Aid Predictability – Assessment Framework
- Volume III: Aid Predictability – Country Case Studies
- Volume IV: Aid Predictability – Donor Profiles

TABLE OF CONTENTS

ACKNOWLEDGMENTS	2
ACRONYMS	6
EXECUTIVE SUMMARY	7
A. WHY AID PREDICTABILITY MATTERS	15
B. ASSESSING AID PREDICTABILITY	16
C. STUDY APPROACH	18
D. KEY FINDINGS	21
E. CONCLUSIONS	33
F. GOOD PRACTICES AND AREAS FOR IMPROVEMENT	38
G. KEY MESSAGES	51
GLOSSARY	53
BIBLIOGRAPHY	55
ANNEX A METHODOLOGY	62
ANNEX B AID UNPREDICTABILITY AND ITS COSTS	70
ANNEX C PARIS & ACCRA COMMITMENTS ON PREDICTABILITY AND PROGRESS IN IMPLEMENTATION	73

Boxes

Box 1 Objectives of the Task Team's work on aid predictability	16
Box 2 Key definitions: aid predictability, transparency and reliability	18
Box 3 International Aid Transparency Initiative	28
Box 4 Conditionality commitments	37
Box 5 Good practice: longer-term financing instruments	39
Box 6 Good practice: multi-year budget measures	39
Box 7 Good practices for predictability – Danida	40
Box 8 Good practice: developing long-term costed plans	42
Box 9 Good practice: joint process for multi-year projections	44
Box 10 Good practice: improving efficiency of donors' procedures	45
Box 11 Good practice: transparent and appropriate conditionality	46
Box 12 Good practice: mitigating strategies	47

Tables

Table 1 Aid transparency assessments	29
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Acronyms

AAA	Accra Agenda for Action
AusAID	Australian Agency for International Development
CABRI	Collaborative Africa Budget Reform Initiative
CRS	Creditor Reporting System
DAC	Development Assistance Committee (of OECD)
EC	European Commission
GBS	General Budget Support
HLF	High Level Forum
IATI	International Aid Transparency Initiative
IMF	International Monetary Fund
IT	Information Technology
MDAs	ministries, departments and agencies
MDG	Millennium Development Goal
MT	Medium Term
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Assistance
ODI	Overseas Development Institute
PD	Paris Declaration
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
WB	World Bank

Executive Summary

Background

This report is the culmination of a work programme commissioned by the DAC Task Team on Transparency and Predictability in preparation for the 2011 High Level Forum to be held in Busan. The study objectives were to take stock of progress in meeting commitments on aid predictability, to identify institutional impediments that affect both donors and partner countries, and to highlight good practices towards improved aid predictability. An assessment framework was developed and applied in examining country cases and reviewing donor practices. Twelve donors participated in the donor review (Australia, Belgium, Canada,¹ Denmark, the European Commission, Finland, Germany, Luxembourg, New Zealand, Portugal, Switzerland and the World Bank), and the report draws on six country case studies (Cambodia, Rwanda, Sierra Leone, Ghana, Tanzania, Uganda²).

Defining aid predictability

Aid predictability as a concept is often not well understood. This study draws on the OECD DAC definition that Aid is predictable when partner countries can be confident about the amounts and the timing of aid disbursements, and identifies two complementary dimensions: transparency (timely availability of information on expected aid flows with the appropriate degree of detail) and reliability (the extent to which partner countries can rely on donor pledges/commitments being translated into actual flows).

Predictability and volatility are distinct concepts: aid may be volatile but still predictable if its fluctuations follow known rules.

Why aid predictability matters

Research has shown that unpredictability devalues aid through its negative impact on growth and on public financial management. As a consequence unpredictable aid undermines donors' and partner countries' efforts to achieve development results, including the Millennium Development Goals. Predictability is not an end in itself: more predictable aid is supposed to lead to more efficient use of resources and more development results.

Studies have demonstrated that aid is typically less predictable than domestic revenues, and that the unpredictability and volatility of aid have serious costs, both for specific interventions and at the macroeconomic level.

The literature outlines how predictability is a key feature of well-performing public finance management (PFM) systems. Predictability has implications for each of the three levels of PFM identified in standard analyses, such as the Public Expenditure and Financial Accountability (PEFA) framework, namely: aggregate control, strategic allocation and operational implementation.

Aid predictability is highlighted in the Paris Declaration (2005) and the Accra Agenda for Action (2008) as a challenge to governments' planning and budgeting processes generally, and aid effectiveness specifically, and it continues to be highlighted by partner countries as one of their major concerns in the run-up to the HLF in Busan.

¹ CIDA requested that their profile not be included in the report.

² The last three were part of a separate ODI/World Bank study with a similar approach.

Key findings

The study's key findings are:

- **numerous examples where the unpredictability of aid has demonstrable negative effects**, including effects on *aggregate fiscal management* (problems of cash management to cope with in-year predictability of aid flows); on *strategic allocation* (unpredictable aid lowering domestic investment and raising its cost/decreasing its efficiency through a negative impact on operational implementation of domestically funded expenditure); and on *operational management* (transaction costs imposed on governments, at all levels, by the very short horizons of donor aid commitments).
- **the complexity and lack of rigour in the debate**: for any recipient country the aid scene (with donor and aid instrument proliferation and aid fragmentation) and the institutional framework for PFM are inherently complex and subject to change over time. The discourse on predictability rarely takes account of the distinctions between predictability and volatility, and between transparency and reliability. Also the interactive nature of predictability is often overlooked (e.g. when it is assumed that donor transparency by itself can resolve the issue, without attention either to the reliability dimension of predictability, or to the need for donor information to be both useful and used if it is to make a difference to outcomes).
- **a lack of working definitions or explicit policies to tackle unpredictable aid by donors**: no donor has established a working definition of predictability and no donor has introduced an explicit policy to operationalise improvements in predictability.
- **agency-wide and country-level donor structural constraints**: some donors' structures and processes support more predictable aid than others (for example, through agency-wide multi-year rolling planning and budgeting frameworks; longer-term country partnerships and strategies; new longer-term aid instruments; effective tracking and reporting on disbursements). At the country level there are some improvements by some donors (longer-term and collaborative donor-partner country partnerships) but many issues persist (such as too short donor country strategic horizons and a lack of joint country processes for improving aid predictability).
- **room for improvement by donors on aid transparency**: good progress but also a wide range of performance on aid transparency by donors is reported by independent transparency assessments and found through this study, There is much scope for improvement in terms of how much aid data is shared with recipient governments (and whether it is aligned with the government's planning and budgeting format and cycle in order to facilitate putting aid on budget) and (in a useful format and at appropriate intervals) with other stakeholders (beneficiaries, donor domestic constituencies and the wider public).
- **problems leading to unreliable aid, and in particular a tendency of aggregate under-disbursement against scheduled disbursements**: donor issues (changing authorising environment; delays caused by donor's structures and processes; rapid staff turnover, donor coordination issues); partner country issues (political commitment; disbursement absorptive capacity; cases of corruption and financial mismanagement; weak implementing capacity); and donor and partner country joint issues (weak information flow; issues with programme/project planning and design; delays in signing and effectiveness).
- **the interdependence of predictable aid and PFM**:
 - The reliability of aid, at the level of operational implementation, is highly dependent on the quality and capacity of partner country PFM systems.
 - Partner government improvements in PFM are not necessarily rewarded by the provision of more predictable aid.

- Partner countries' abilities to make use of advance information about aid flows depend on several aspects of their PFM systems (as well as the format, quality and timing of the information that is provided). However, chicken/egg arguments as to whether lack of donor information or poor government systems are more to blame are inherently sterile – the findings highlight the need for joint action by governments and donors to address the practical reasons for the unreliability of aid.
- There has been progress by some recipient governments in strengthening systems and capacity (for PFM generally, aid management specifically) that can facilitate improved predictability, but with some way still to go (unsurprisingly given the complex and long-term nature of these reforms).
- **use of mitigating strategies by partner countries:** a variety of mitigation strategies are observed and directed at different issues of aggregate fiscal management, strategic allocation and operational **implementation**. These include, among others, discounting aid commitments, maintaining sufficient reserves and cash management strategies.

Conclusions

Costs and disappointing progress: The country studies confirm that the characteristic unpredictability of aid has serious costs at all levels of public finance management and therefore for development results. Despite the Paris and Accra commitments and the recognition of the critical role of aid predictability, progress on aid predictability has to be seen as disappointing. Quantitative evidence from the Paris Declaration (PD) monitoring surveys shows poor performance against the PD indicators, which themselves focus only on short-term predictability. Country contexts tend to be complex (with donor and aid instrument proliferation and aid fragmentation); even taking into consideration this complexity, the study has revealed apparently lacklustre action on predictability, in particular by donors.

Technical vs. structural factors: Some issues in aid predictability stem from technical inefficiencies in the way aid is managed, but deeper problems arise from how donors and recipient governments are structured. Aid agencies are not well configured to provide reliable medium- and long-term assurances of aid, and there are, in any case, strong political and operational incentives for agencies to keep their options open. For the most part their own funding cycles and planning horizons do not allow long-term aid commitments. However, the country case studies found that donor commitments and projections for future years even in the medium-term characteristically tail off sharply, so that, if donor information were taken literally, partner countries would continually be planning for a sharp reduction in aid flows. The country cases also found structural issues (in PFM and aid management) on the partner country side that have an impact on the recipient government's ability to support predictable aid.

Tendency to focus on short-term predictability and on transparency: There is a tendency to focus on short-term predictability, with particular attention to providing information about planned expenditures for the coming year in time for inclusion in government budgets, and also to the in-year predictability of programmatic support (and there are clear examples of improved practices in these dimensions). This bias towards short-term issues seems to occur partly because significant action on medium- and long-term predictability (although arguably more important) is effectively precluded by donors' embedded ways of doing business. There is a related tendency to focus on the transparency (information sharing) rather than the reliability dimension of predictability, and on timeliness of information sharing, rather than on the relevance, quality and format of data from the perspective of its use by recipient governments.

Implications for aid modalities: Budget support has often been at the centre of discussions of aid predictability, but the issues are equally relevant to all modalities. Project aid continues to dominate

aid flows and the predictability and reliability of project aid should therefore receive much more attention than it has up to now. Empirically, no modality is clearly superior in all dimensions of predictability. But a government's ability to mitigate the effects of unpredictability is highly dependent on access to discretionary resources: programmatic aid which is not tightly earmarked is particularly valuable. Conversely the costs of unreliability are potentially greatest when aid is tightly earmarked to particular funding lines. The detailed design of all aid modalities (including aspects such as earmarking and the use of country systems) can make a big difference both to its predictability per se and to the government's ability to mitigate the effects of unpredictability.

Predictability and other issues in aid effectiveness: There are strong overlaps between predictability and other elements of the aid effectiveness agenda. Usually, the overlaps are convergent (e.g. improved transparency and more use of country systems will assist predictability) but there may also be tensions – as in the case of the division of labour.

Transparency is a crucial component of predictability, but additional transparency by itself will not make aid reliable. The donor profiles and country case studies suggest the agenda being addressed by the International Aid Transparency Initiative (IATI) – that aid organisations publish accessible, timely, and detailed management information – is an extremely important one; that while there has been significant progress on transparency, in terms of donors sharing more information and earlier, supplying information does not ensure its use. Rather, this depends on the format and quality, as well as the timeliness, of the information provided, and on systems for using the information for planning and monitoring.

There are very strong links between the **using country systems** agenda and the predictability agenda. This is not to say simply that more use of country systems would solve predictability problems. The bypassing of country systems does undermine predictability since it undermines efficiency in operational implementation. It also undermines the benefits of predictability by making it harder to optimise strategic allocation of resources. However, simply exhorting donors to switch to country systems is unlikely to overcome concerns about fiduciary risk and so forth. The requirement is to address the underlying issues in the quality of country systems. This would simultaneously address issues in PFM predictability and some of the bottlenecks that cause aid to be unreliable at the level of operational implementation.

Predictability and **conditionality** are also linked. For a number of years OECD DAC has promoted appropriate and transparent conditionality as a crucial factor in improving predictability. The failure to meet conditions (often of a fiduciary or administrative nature, rather than policy or performance conditions) is a frequent cause of unreliability in aid delivery, and the relevance and quality of conditions may legitimately be reviewed from the perspective of their effects on the long-term predictability and the short-term reliability of aid. At the same time the study's definition of predictability acknowledges that aid is not unpredictable if it is withheld because of a failure to meet clearly-specified conditions. This in turn may be linked to an argument that conditions themselves should be designed to ensure that aid is used more effectively.

Several of the case studies highlight a risk that the **division of labour** will make aid less predictable in particular sectors. There is evidence that, despite the transaction costs of dealing with many donors, a multiplicity of donors tends to average out volatility. It is therefore a concern that reducing the number of donors in a sector is not being accompanied by firmer and longer-term aid commitments from those that remain. Similarly, silent partnerships put more aid at risk if the vocal partner decides to withdraw.

Good practices

While overall progress has been disappointing, there are a number of good practices that donors and partner countries can learn from to address some of the problems of unpredictable aid (and constraints that need to be overcome in doing so). For example, some donors are introducing innovative initiatives such as longer-term aid instruments; some recipient governments are introducing planning, budgeting and aid management processes to support overall public resource (and aid) predictability; and together some donors and recipient governments are working to coordinate aid information management.

The study finds some general principles of good practice to be:

- The underlying importance of strengthening country PFM systems, and the potential for aid practices either to undermine or to reinforce such systems.
- Transparency is essential for predictable aid but it is not the whole answer: aid needs to be reliable too.
- Working together is critical: a one-way flow of information from donors to recipient governments is not sufficient and so far there has not been enough attention to the interaction between donor and government behaviour that is needed to make aid more predictable and reliable.
- There is no “magic bullet”: increasing the transparency and reliability of aid requires a whole series of interlocking operational problems to be addressed, with action both by partner governments and by donors. Which actions are most important will depend on the country context.
- Given the multiplicity of aid effectiveness issues, it is easy for predictability to get lost in the crowd. At the same time “predictability” issues are not easily compartmentalised: the aid effectiveness issues of predictability, conditionality, transparency, use of country systems etc require to be addressed in a holistic way.

The good practices identified from the country case studies and donor survey are summarised in the table below.

Summary of good practices

	Donors	Recipient Government	Donors and Recipient Governments
Internal structures and processes	<ul style="list-style-type: none"> • Understanding the dimensions and drivers of predictability. • Agency-wide rolling multi-annual programming. • Coherent and flexible budgeting • Longer-term instruments. • Effective tracking and reporting on disbursements. • Coordination between donors' internal agencies/ departments; HQ and field offices. 	<ul style="list-style-type: none"> • Strengthening country PFM systems. • Integrating strategic planning, budgeting and aid management. • Improving the predictability of national budget execution at decentralised and service delivery levels. • Long-term costed plans (national, sectoral, local government). • Aid management policy. 	<ul style="list-style-type: none"> • Role for donors and partner countries to work together on PFM strengthening and capacity development.
Transparency	<ul style="list-style-type: none"> • Sharing the maximum envelope (and the deciding criteria) of aid allocated. • Providing data on medium-term reliable indicative projections, short-term firm commitments and actual disbursements to recipient governments on request, in timely and accessible format aligned with recipient government planning and budgeting systems and processes. • Publishing to wider stakeholders the same aid data. 	<ul style="list-style-type: none"> • Streamlining recipient government mechanisms for collecting information on aid flows. • Integrating aid flows in national budget and medium-term expenditure framework. • Improving the presentation of national budget to Parliament/National Assembly. • Publishing budget and aid data and regular analysis of aid flow trends. 	<ul style="list-style-type: none"> • Joint in-country agreements and activities designed for the country context. • Joint process for sharing and publishing rolling multi-year indicative forecasts, commitments and disbursements. • Sector and programme level partnership principles. <p>Enabling inclusion of all development actors in aid predictability processes.</p>
Reliability	<ul style="list-style-type: none"> • Investing in longer-term partnerships, and better communication and collaboration with partner countries. • Longer-term aid instruments • Streamlining donor procedures • Ensuring conditions are transparent and appropriate • Using programme-based approaches to balance predictability and 	<ul style="list-style-type: none"> • Strengthening PFM processes, systems and capacity in order to address demonstrable bottlenecks preventing reliability (e.g. procurement delay). 	<ul style="list-style-type: none"> • Consultations on longer-term country strategies. • Sector and programme level partnership principles with focus on transparency and reliability of aid, and clarity on how progress will be monitored. <p>Joint monitoring and reviews.</p>

	flexibility.		
Mitigating strategies	<ul style="list-style-type: none"> • Earmarking funds only when appropriate, and using broad earmarking where possible. • Using programme-based approaches to balance predictability and flexibility. 	<ul style="list-style-type: none"> • Discounting aid commitments when preparing budgets. • Ensuring a complementary mix of aid modalities with sufficient flexibility to allow budgetary adjustments. • fiscal and monetary control and prudent macro-economic strategies. 	<ul style="list-style-type: none"> • Dialogue and feedback on aid discounting for planning and budgeting.

Key messages

The following key messages have been drawn from analysis of the country cases and donor profiles.

- 1. Experience of partner countries and donors shows that improved predictability is possible; but so far overall progress on predictability has been disappointing** and unpredictable aid is still widespread. This has serious costs at all levels of public finance management and for development results.
- 2. There needs to be improved understanding by partner countries and donors that predictability is a combined result of aid being both 1) transparent and 2) reliable.**
- 3. Making aid more predictable requires joint actions and disaggregated information sharing between partner countries and donors.** Donor actions are necessary but not by themselves sufficient to ensure predictability.
 - Partner countries need to know in advance what aid will be delivered, when, by whom, and for which activity/purpose, and be able to use that information for national and sector budgeting and planning, and then have the promised aid delivered on time for the agreed activity/purpose.
 - Donors need to understand partner country systems, capacity and incentives and align their aid accordingly (e.g. using the appropriate budget classification system; providing the aid data in a useful format and in sync with the budget calendar), providing the following data:
 - reliable indicative rolling projections for medium- and long- term macroeconomic planning and budgeting
 - firm commitments for short- term planning and budgeting
 - actual disbursements for in-year financial management.
 - Partner countries and donors together need to design programmes and projects with realistic disbursement schedules.
- 4. By their nature these activities have to be sequenced:** recipient governments cannot budget effectively until they have the data from the donors; donors have to understand what recipient governments need to be able to provide the appropriate aid data.
- 5. Moving forward on aid predictability requires tackling both technical and structural issues:**
 - **technical inefficiencies** (e.g. mismatch between donor and recipient fiscal years; donor requirements that are equivalent in intent but disharmonised in detail e.g. disharmonised recipient aid information coordination processes and databases), and

- **structural impediments** (donors' decision-making cycles, replenishment cycles; recipient PFM, including aid management, processes; the ways in which conditionality is applied)

Focused donor and recipient political will and investment of staff resources are needed to operationalise the commitments on aid predictability into practical action.

6. **Aid information needs to be shared publicly; it is not enough to share aid information just between donors and recipient governments.** There are other stakeholders (donor taxpayers, recipient country parliaments, beneficiaries) who require aid information, each with a (different) role to play in holding donors and the recipient governments to account for the effectiveness of the aid spent. With sharing aid data as the default, an appropriately designed policy is needed for such exemptions that are essential.
7. **Predictable aid does not have to be unconditional and inflexible.** Some donors perceive a trade-off between predictability and flexibility (to respond to changes in domestic environments and events in partner country contexts, developments in project/programme implementation, etc.). Aid can still be linked to underlying principles and to well-chosen results indicators. But these need to be appropriate and transparent.
8. **More progress is needed particularly on the medium- and long-term predictability of aid.** While some donors have improved their multi-annual programming (enabling them to provide, for example, indicative medium-term projections), others have not. This is a structural issue within agencies: donors cannot share reliable medium- and long-term aid projections if they themselves do not have this information.
9. **PFM improvements and aid predictability are closely linked.** Addressing the underlying issues in the quality of country systems would simultaneously address issues in PFM predictability and some of the bottlenecks that cause aid to be unreliable at the level of operational implementation.
10. Most of the shortcomings and recommendations for improving aid predictability are already well known to most donors; **Busan will be a critical opportunity to 1) recognise that there are deep structural issues at the heart of aid predictability and 2) act to improve structures and processes to provide more predictable aid.**
11. **Donors and partner countries can 1) learn from existing good practices on aid predictability and 2) consider opportunities for innovation.** There are many good practices in existence for donors and partner countries to learn from. At the same time the structural impediments to improvements on aid predictability mean that innovation, and not just exhortation, will be necessary if the Busan HLF is to spark significant progress on providing aid that is more reliable in the short, medium and long term. For example, donors and partner countries could usefully consider:
 - (a) whether new instruments (such as cash-on-delivery and other results-based instruments) will improve predictability in practice and if their design could focus on and/or be adapted to ensure better predictability;
 - (b) how best to maximise the opportunities for multilaterals with longer-term aid instruments to act as fund coordinator.

Aid Predictability – Synthesis of Findings and Good Practices

A. Why aid predictability matters

Research has shown that unpredictability devalues aid through its negative impact on growth and on public financial management.³ As a consequence unpredictable aid undermines donors' and partner countries' efforts to achieve development results, including the Millennium Development Goals. Therefore, predictability is not an end in itself: more predictable aid is supposed to lead to more efficient use of resources and more effective development results.

There is an extensive literature which attempts to chart the costs of unpredictable aid (Annex B presents the key findings). These include calculations of the negative impact on growth and the deadweight loss of volatility and uncertainty of aid.⁴ Studies have demonstrated that aid is typically less predictable than domestic revenues, and that the unpredictability and volatility of aid have serious costs, both for specific interventions and at macroeconomic level.

The literature also outlines how predictability is a key feature of well-performing public finance management (PFM) systems.⁵ Predictability has implications for each of the three levels of PFM identified in standard analyses, such as the Public Expenditure and Financial Accountability (PEFA) framework, namely: aggregate control, strategic allocation and operational implementation. The PEFA framework itself includes various indicators related to predictability.

Aid predictability is highlighted in the Paris Declaration (2005) and the Accra Agenda for Action (2008)⁶ as a challenge to aid effectiveness; the Accra communiqué spelling out that 'greater predictability in the provision of aid flows is needed to enable developing countries to effectively plan and manage their development programmes over the short and medium term'. Aid unpredictability continues to be a widespread problem, across both donors and countries (for example, the Paris Declaration monitoring surveys highlight the continuing prevalence of unpredictability). With this dysfunctional situation, aid predictability continues to be highlighted by partner countries as one of their major concerns in the run-up to the HLF in Busan.

³ Many studies focus on *volatility* of aid which is associated with its unpredictability. See Box 2 for the definitions of predictability and volatility.

⁴ For example: Lensink and Morrissey 2000; Kharas 2008.

⁵ For example: OECD DAC 2006a; Celasun and Walliser 2007; O'Connell et al 2008; OECD DAC 2007a; Eifert and Gelb 2008.

⁶ Annex C provides details on the Paris and Accra commitments.

B. Assessing aid predictability

Purpose and outputs

As part of preparations for the Fourth High Level Forum (HLF4), to take place in Busan, Korea in 2011, the DAC Task Team on Transparency and Predictability commissioned a study to assess predictability and develop a synthesis of good practices. Box 1 below is a reminder of the Task Team's objectives.

Box 1 *Objectives of the Task Team's work on aid predictability*

The challenge is to identify the policy and institutional impediments on both donors and partner countries, especially as they interface, to address the issue of making aid more predictable, document success through presenting creative ways in which some donors and countries are already addressing these issues in the short term, as well as find ways towards more permanent and systematic solutions in the longer term.

The overall objective of the work would be to (i) identify policy and institutional/operational impediments of donor and partner countries for improving aid predictability at the country level; (ii) gather and disseminate good practices that demonstrate success with how donors and partner countries are finding ways to address the predictability issue; (iii) identify political and technical impediments to improve aid predictability, and (iv) suggest ways for improvements for both donors and partner countries, short and long term (TOR, ¶17–8)

This paper is the culmination of this work programme overseen by the Task Team.⁷ It provides a synthesis of the findings and good practices from case studies on aid predictability at country level and from a survey of donor practices.

The first step was the preparation of an Assessment Framework (Volume II). This included an extensive literature review and summary of existing findings on the effects of aid unpredictability, and set out a methodology to be followed in reviewing aid predictability at country level. Three countries – Cambodia, Rwanda and Sierra Leone – were selected for desk studies using the Assessment Framework methodology, which is summarised in Annex A. The study team has also been able to draw on three country case studies undertaken by the WB and ODI – in Ghana, Tanzania and Uganda – which provide complementary insights into aid predictability at country level.⁸

The same study team was later commissioned to undertake a review of donor practices relating to aid predictability, also drawing on the methodology of the Assessment Framework. So far twelve donors have completed a predictability questionnaire: Australia, Belgium, Canada,⁹ Denmark, the European Commission (EC), Finland, Germany, Luxembourg, New Zealand, Portugal, Switzerland and the World Bank.

⁷ This is a revised version of the draft paper submitted to the Task Team on April 30, and takes into account comments made by the Task Team on the previous draft.

⁸ See the bibliography (page 54).

⁹ CIDA has requested that their profile not be included in the report.

The study outputs are published in four reports, available for download from the websites of the DAC Working Party on Aid Effectiveness and the World Bank.

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Limitations

Only twelve donors have participated in this assessment (ten DAC bilaterals and two multilaterals), and in responding to the predictability questionnaire they have not all provided the same degree of detail. Also there is a self-selection bias as the donors have chosen whether to participate or not in this exercise. Therefore one must be wary of making sweeping generalisations.

The country case studies are diverse, and again one must be wary of making sweeping generalisations. Above all they emphasise the importance of context and the fact that issues in aid predictability are inextricably interwoven with other dimensions of aid effectiveness. Moreover, there are characteristic lags in data which mean that the situations described are a snap-shot that may not precisely describe the current situation (they nevertheless provide relevant evidence of systemic issues).

The three desk studies (Cambodia, Rwanda, Sierra Leone) in particular have not been systematically reviewed by in-country practitioners, and would benefit from such feedback.

Report structure

Section C of this paper summarises the analytical approach for this study; Section D presents findings drawn from the country cases and donor survey; Section E gives the conclusions; Section F looks at the good practices and areas for improvement identified from the country cases and donor survey; and finally, Section G lists the key messages from the study.

C. Study approach

The study has used the definitions shown in Box 2. The distinctions between predictability and volatility, and between transparency and reliability are fundamental.

Box 2 Key definitions: aid predictability, transparency and reliability¹⁰

This is not a formal evaluation, but it adopts a systematic approach to the review of predictability in practice. It draws on the OECD DAC definition that *Aid is predictable when partner countries can be confident about the amounts and the timing of aid disbursements*. However, it is important to note that *predictability* and *volatility* are distinct concepts (aid may be volatile but still predictable if its fluctuations follow known rules). Hence it is important to consider *transparency* and *reliability* of aid as complementary dimensions of predictability:

The ability to predict aid flows is related to reliability and transparency as follows:

Aid reliability: The extent to which partner countries can rely on donor pledges/being translated into actual flows is a major component of predictability. Note that reliability is related to the existence of clear rules governing aid disbursements. If rules are clear (e.g. the pre-conditions for disbursement) then aid is more predictable – variations between what was anticipated and what actually occurred can be explained with reference to the rules in operation.

Aid transparency is important for reliability, since accurate prediction is hampered if the rules of the game are obscure. The timely availability of information on expected future aid flows, with the appropriate degree of detail, is an important element of predictability.

Aid volatility: Aid is volatile when fluctuations in aid flows are large, relative to the volume involved. Aid may fluctuate but still be predictable if the fluctuations can be foreseen.

The study reviews predictability over the following time periods:

Long term	More than five years.
Medium term	Two to five years.
Short term	Annual/less than two years.
In-year	Forecasts of aid flows within the fiscal year.

The standard OECD definitions of pledges, commitments and disbursements are used:

Pledge: Announced contribution, promise of contribution of aid.

Commitment: A firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation.

Disbursement: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent.

We also use the terms **forecasts** or **projections** of aid flows, which are indicative i.e. the data indicates future aid provision but does not constitute formal pledges or commitments.

While there is ample evidence in the literature that aid predictability is a significant issue, especially for more aid dependent countries,¹¹ its ramifications are highly complex. In order to approach this

¹⁰ See the Glossary, at the end of this paper (page 52), for a full set of definitions.

complexity in a systematic way, the study identified a number of key characteristics of predictability, which provided an analytical framework:¹²

- (a) *Predictability is not an end in itself*: more predictable aid is supposed to lead to more efficient use of resources and more effective development results.
- It is important not to lose sight of this. Even though it is very difficult to follow causal chains in practice,¹³ it is always relevant to consider how proposed improvements to predictability are expected to influence aid effectiveness, and whether the likely benefits are commensurate with the likely costs.
 - Moreover, the difficulty of precisely measuring effects does not mean that effects are insignificant.¹⁴
- (b) *Predictability is an important criterion of effective PFM*. Aid predictability is a subset of the broader issue of the management of public resources irrespective of their source (as demonstrated by the way it features among the PEFA criteria), and has to be assessed in that context.
- (c) *Aid predictability can be expected to have different effects at the different levels of PFM (aggregate control, strategic allocation, operational implementation)* and it is important always to be clear which level of PFM is under consideration.
- (d) *Different levels of aggregation*: Predictability at higher levels of aggregation does not necessarily translate into predictability at lower levels of aggregation. Examples:
- A donor's total disbursements may be highly predictable, but the amount destined for country x, or sector y, may be much less predictable.
 - On the recipient side, a ministry of finance may be able to make confident predictions of total aid in a given year, but be much less certain about which donors it will come from and which sectors will benefit from aid; in turn this makes it hard to provide predictable resource guidelines to line ministries and service delivery agencies.
 - At service delivery level, the predictability of an individual project or budget line may be very significant (though it may not be picked up in indicators of aggregate predictability¹⁵).
 - Predictability issues may be different in different sectors, not least because the degree of aid dependence and the donor landscape differ significantly from sector to sector.
- (e) *Overall PFM and aid predictability are interdependent*: Improvements in PFM will support improvements in aid predictability and vice versa. Conversely, weak aid predictability can be counterproductive to attempts to strengthen PFM and vice versa:

¹¹ See Volume II: Aid Predictability – Assessment Framework.

¹² Described as "working assumptions" in the Assessment Framework. The original list of working assumptions in the Assessment Framework has been expanded, drawing on the experience of undertaking the country desk studies.

¹³ Because the causal chains themselves are complex; because relevant and timely indicators of predictability and of performance are difficult to obtain; because predictability is one of many factors influencing performance; because predictability interacts with many of these other factors; and because country contexts vary significantly.

¹⁴ Note that some indicators of predictability in practice (a) are measuring composite effects, for which predictability may be only part of the explanation; (b) use definitions for measurement which exclude large parts of the potential problem. For example, the ODI case studies measure predictability as the difference between budgeted expenditures and actual expenditures over particular periods. But predictability, as defined in the Assessment Framework, will be only part of the explanation of this difference. And restricting the analysis to on-budget aid (while understandable for practical reasons) excludes consideration of the predictability of aid which is not on-budget.

¹⁵ The ODI study has noted that: *it is important to base average unpredictability on absolute values to avoid an effect whereby shortfalls cancel out windfalls in the aggregate, masking unpredictability.* (Uganda case study, footnote 11)

... the ability to make good use of information about aid largely depends on the quality of the information and processes relating to non-aid resources. Similarly, lack of predictability of external resources – in particular when they represent a significant share of resources at country level – may be a constraint to the development of better PFM practices. (Volume II: Aid Predictability – Assessment Framework)

- (f) *Aid predictability is strongly linked to other aspects of aid effectiveness.* It is evident that predictability is affected by many of the other aid effectiveness issues highlighted in the Paris Declaration and the Accra Agenda for Action. For example, there is likely to be considerable overlap with good practices emerging from the workstreams on transparency, on the use of country systems, and on conditionality.
- (g) *Effects of (un)predictability will be more or less serious according to the mitigating actions that are taken.* Mitigation is therefore a special focus of the case studies, which look both at countries' efforts to mitigate the unpredictability of aid and at the way aid delivery mechanisms may affect the scope for mitigation.
- (h) *Predictability and aid dependence.* Aid predictability is likely to be a more significant issue for aid dependent states. And fragile states, in particular, because of their limited PFM management capacity, are less likely to be able to mitigate the effects of unpredictability:

The issue of country level capacity to manage aid information should similarly be seen as critical to the discussion. Capacity weaknesses to manage aid relationships, aid inflows and aid information are likely to be extremely weak in a fragile state. Moreover, given a very limited public sector human resource base, and a wide-ranging scope of problem issues to deal with, improving the predictability of aid may not even be a top priority for the recipient. (Sierra Leone case)

Generalisations about predictability are not likely to be useful unless they take account of the definitions and distinctions set out above.

D. Key findings

This section presents a summary of the key findings from the country case studies and the donor profiles. Findings from the two strands of work are highly consistent with each other. The detailed evidence is provided in the supporting Volume III (Country Cases) and Volume IV (Donor Profiles).

Demonstrable effects of aid unpredictability

The case studies provide numerous examples where the unpredictability of aid has demonstrable negative effects, although they do not attempt to isolate and quantify these effects. The examples given below are illustrative, not comprehensive.

Several of the studies note a background of buoyant domestic revenues and/or rising levels of aid, and assess that this has muted the potential effects of aid unpredictability, since it gives governments more scope to offset specific aid shortfalls from their own revenue, or by drawing on other resources within an expanding aid envelope. A corollary is that the current climate of more constrained aid flows may make volatility and unpredictability of aid more costly.

Effects on aggregate fiscal management

Well-documented effects include problems of cash management to cope with in-year unpredictability of aid flows (effects which are especially but not exclusively related to more programmatic aid instruments). These have costs in terms of necessitating (expensive) domestic borrowing, with potential macroeconomic repercussions for the private sector. Cash-management strategies, while effective in maintaining aggregate control, have negative effects on the operational implementation of government budgets, since they may mean that ministries, departments and agencies cannot count on receiving budgeted funds on time or in full. These issues continue to be serious, although there is evidence that the rules and practices for short-term management of budget support have tended to improve.

Effects on strategic allocation

The studies confirm a characteristic inability of aid agencies to provide reliable medium- and long-term forecasts of their aid, in aggregate or by sector. Where governments have developed a track record of medium-term planning, they base plans not on explicit commitments or forecasts from donors but on intelligent extrapolation from past experience.

A striking finding is that windfalls (when aid delivered exceeds aid anticipated) and shortfalls (when aid delivered is less than anticipated) have asymmetric effects: shortfalls tend to have their biggest effect in reducing domestic investment expenditure (because this is where, realistically, governments have the most discretion to make adjustments), but windfalls do not boost domestic investment. The unpredictability of aid thus lowers domestic investment, and also raises its cost/decreases its efficiency, through a negative impact on operational implementation of domestically funded expenditures.

Effects on operational management

We have a sense that the effects of aid unpredictability on operational implementation of budgets, and therefore on the efficiency and effectiveness of service delivery, tend to be under-recognised. There are several factors:

- (a) a tendency for the predictability debate to focus on issues in aggregate financial management;

- (b) a tendency to assume, incorrectly, that predictability is primarily an issue for programmatic instruments (especially budget support) rather than for projects – see the discussion on predictability issues for different aid modalities in Section 0, paragraphs 0–0;
- (c) a tendency (by donors) to ascribe bottlenecks in aid implementation to problems in government capacity and not to regard the reliability of aid delivery as part of broader issues in predictability – again see Section 0;
- (d) an underestimation of the transaction costs imposed on governments, at all levels, by the very short horizons of donor aid commitments. This means that an immense amount of the energy, not just of planners but of service delivery implementers, is devoted to the marshalling of funding to keep services going from year to year, rather than addressing the substantive issues in service delivery that are critical for development results.

Patterns of effects

Unpredictability is clearly more of an issue in some sectors than in others:

- (a) The ODI studies include special attention to the health sector, and suggest that issues in predictability are especially salient there. This reflects the high level of donor involvement in the health sector, the large number of external agencies involved, and the large amounts of funding now being provided through highly earmarked vertical funding that has undermined the effectiveness of sector approaches. There are issues about strategic allocation (as to whether earmarked donor funding does or should result in additionality – super-imposing donor preferences on those of the government, and whether, in the long run, governments can sustain the costly treatments currently underpinned by donors), but also about operational implementation, since service delivery agencies may have to devote much effort to anticipating and attempting to cope with the unpredictability of resource flows from the government and from donors (e.g. dealing with stock-outs of key drugs).
- (b) Given that funding requirements for the education sector are inherently highly predictable (and much more so than in most other sectors) it is striking that long-term funding mechanisms have not been developed to support the expansion of basic education in line with MDG targets (Cambridge Education et al 2010).

Unpredictability at decentralised levels (of government, and of central government agencies) deserves more attention. Decentralised agencies are often at the front line of service delivery, but also at the end of a long chain of budgeting and disbursement that often makes their budgets especially unreliable. There is no guarantee that information available to central government will percolate to decentralised levels, or that government agencies will be well-informed about parallel service delivery activities funded by donors. There are interesting examples where aid operations have attempted to address directly the level and the predictability of funding to local governments (e.g. a World Bank Adaptable Program Loan to support local government services in Sierra Leone, or the Protecting Basic Services instrument in Ethiopia, which channels funding to the regional and district levels to support on-budget service delivery).

Complexity and lack of rigour in the debate

Both the country and the donor reviews bear out the complexity of the issues, and the lack of rigour in the way they are commonly discussed.

- (a) On complexity, the ODI synthesis notes: *For any recipient country the aid scene is likely to be complex, with characteristics specific to the historical, geopolitical and institutional situation of that country.* The institutional framework for PFM is inherently complex and subject to change over time, e.g. when considering the interactions among central government

agencies and between different levels of central and local government. Moreover, aid patterns are themselves complex and varied: This is highlighted in the Tanzania case, but applies equally to all:

Overall, a key point to note is that external assistance to Tanzania is extremely complex. There are not only different aid modalities, but donors also deliver them using contrasting methods and within contrasting planning cycles. For instance, all of the sector and reform programme basket funds differ slightly and there is an enormous range in the types, styles and design of donor projects. Even with budget support the triggers, financial years, and commitment exchange rates vary across the 14 donors. (Tanzania case study)

- (b) On rigour, the discourse on predictability rarely takes account of the distinctions between predictability and volatility, and between transparency and reliability, that we have highlighted. The interactive nature of predictability is often overlooked (e.g. when it is assumed that donor transparency by itself can resolve the issue, without attention either to the reliability dimension of predictability, or to the need for donor information to be both useful and used if it is to make a difference to outcomes).

Donor definitions and policy

The donors¹⁶ do not define predictability in their policies and programming guidelines. There are many different interpretations of what predictability means and what drives predictability. The terms predictability, transparency, reliability and volatility are often used interchangeably.

No donor has a separate policy on predictability, although all the donors include in their overarching development policies the Paris and Accra commitments to improve the predictability of their aid. A number of donors highlight that aid predictability is considered a priority and an important objective. Few donors (Belgium, Switzerland) have issued or plan to issue guidelines on aid predictability for country programming.

Donor structures and processes

Agency-wide

Some donors (Australia, Luxembourg, Finland) include in their long-term strategies commitments to their target level of aid. However, only Australia and the EC have financial planning instruments that are longer than five years (the study definition of long-term).¹⁷ Bilateral donors' development strategy and policy tend to be limited to the domestic government's legislature period (commonly four years) or for multilateral donors, the period of replenishment (three years for IDA, World Bank).

Some donors have agency-wide rolling¹⁸ multi-annual planning and budgeting systems¹⁹ with commitments and spending limits updated annually, and they are able to create robust short-term and medium-term projections of aid financing. Donors without multi-annual programming at the

¹⁶ For shorthand, in this section the term 'donors' will refer to the set of donors that provided information for inclusion in this synthesis: Australia, Belgium, Denmark, the EC, Finland, Germany, Luxembourg, New Zealand, Portugal, Switzerland and the World Bank.

¹⁷ Nevertheless, individual projects may have longer horizons, and donors' country assistance strategies may bridge replenishment periods.

¹⁸ A rolling multi-annual programme updates the outer year each year, so that the programme always covers a year or more ahead.

¹⁹ From now for convenient shorthand referred to as 'programming'.

agency-level tend still to have multi-annual programming at the country level. Here is a summary by donor:

- *Agency-wide rolling multi-annual programme*: (Denmark (five-year horizon); Finland, Germany, Switzerland (four-year horizon); New Zealand (three-year horizon).
- *Agency-wide cliff-edge²⁰ multi-annual programme*: World Bank (three-year horizon); EC (six-year horizon for EDF – ACP; seven years for Budget – other regions); Belgium (four-year horizon).²¹
- *No agency-wide multi-annual programming (but with country-level multi-annual programming)*: Australia (but with a three-year forward estimates period agreed with the annual budget); Luxembourg, Portugal.

Some donors have introduced initiatives to build predictability into their medium-term financial planning:

- by strengthening the coherence and transparency of the budget structure (e.g. by i) moving from disbursement predictions to commitment-based budgeting and ii) presenting all different aid modalities (humanitarian assistance, development assistance, targeted assistance to fragile states) by country in the budget).
- by improving the flexibility of their programming (e.g. making funds transferable within the envelope; rolling over funds from budget year (n) to n+1, n+2, etc).
- for example, New Zealand reports that: *“3 year rolling appropriations (high level fiscal envelopes which can be used as formal disbursement projections) coupled with the ability to roll over unspent monies from one year to another is a good tool to ensure all available funding is utilised across the years”* (Volume IV: Aid Predictability – Donor Profiles).

The donors identify challenges in agency-wide financial planning. There is a challenge with aligning cliff-edge government policy programmes and rolling country-level programming, with a perceived trade-off between changes in development policy at a strategic level and predictability of cooperation at operational level. Another identified challenge is that the high rate of staff turnover and the complexity of systems can lead to data issues.

At the operational level some donors have instruments for individual programmes and projects with longer (four years+) horizons (e.g. financing plans and commitments, such as the 6-year commitments for the EC MDG contract and the 8-15 year horizons for the World Bank adaptable programme loans). As well as donor structural constraints on providing longer-term aid instruments, the lack of a suitably stable policy and funding commitment in place from the partner country can also be a limiting factor for donors moving to longer-term support.

Some donors have strong capacity to track and report internally on in-year implementation while others have weaker capacity:

- Some donors track disbursement data in real time, have a financing data system that is widely accessible to donor staff and publish (for internal consumption) regular (usually monthly) reports.

²⁰ Cliff-edge programmes have a fixed end. The distinction between cliff-edge and rolling can in practice blur if on-going projects and programmes are continued across the end year of the multi-annual programme.

²¹ The distinction between cliff-edge and rolling is not always black and white if ongoing projects and programmes continue across one multi-annual programme to the next.

- Others do not have real-time data capture; are only able to report quarterly or less frequently; face challenges in coordinating data from individual ministries, agencies and/or departments; and do not provide access to the data systems to all field representatives.

Country-level

Long-term

Some donors do not have long-term programming instruments at the country level; donor country strategies commonly cover five years or shorter periods. Others (Australia, Denmark, EC, Finland and Germany) have introduced long-term (5-7 year horizons or open-ended) country strategies and partnership agreements. However, by their nature, these policy instruments define the broad framework for cooperation and do not go into details regarding financing.

Medium-term

All donors have medium-term (MT) strategies at the country level, usually spanning 3-5 years, depending on the country context. The type of indicative financing information informing the MT country programming varies by donor.

- (a) Formally cliff-edge, most strategies are in practice rolling, with preparation in the last year for the new strategy, and commonly have annual follow up and a mid-term review to update.
- (b) Most donors' country MT programming will include one financing scenario, commonly the indicative maximum envelope for the strategy horizon from which a pro rata indicative annual projection is calculated.
- (c) All donors' in principle align their country strategies with the partner country's poverty reduction strategic priorities and cycle.
- (d) All donors' MT strategies are consulted and agreed with country partner governments; some donors highlight that the negotiation for MT programming is a lengthy process and involves discussions with many stakeholders (partner governments, other donors, civil society representatives, private sector etc.).
- (e) Some donors highlight that they agree to a MT transition plan when a reduction or withdrawal of funding is planned.
- (f) For many donors the development of country strategies is a relatively new process, and some donors highlight that they are still learning from these early experiences.

Donors identify a number of strengths with their country-level MT programming that can support the delivery of more predictable aid:

- Alignment with country poverty reduction strategy and timing.
- Clear information on maximum envelope and guide for dialogue with partner countries.
- Flexible planning of specific interventions within the country programme, while avoiding a proliferation of activities and diffusion of strategic priorities.
- Joint programming with other donors.
- Help to keep both donors and partner countries focussed on more medium-term challenges as opposed to short-term responses.

Donors identify a number of issues with their country-level MT programming:

- (a) A more strategic, long-term policy approach to country programming would enhance predictability and transparency at the country level in the medium and long term. To strengthen division of labour and complementarity, such strategic planning should preferably be carried out jointly between development partners at the country level. In practice a 4 year term is found to be too short to assess results. It can be counter-productive to launch mid-term reviews (with heavy reporting requirements) too early in the cycle.
- (b) Internal predictability does not guarantee external predictability: operational and financial planning does not guarantee that the right information is provided to the partner at the right time in the right format, let alone integrated into their MT planning and macroeconomic frameworks.
- (c) Processes by donors to strengthen predictability may not be standardised across the countries they are providing assistance to.
- (d) Monitoring country strategies is at an early stage of implementation for some donors.
- (e) Country consultations on strategies can vary in degree of alignment with country systems and depth of participation. For example, plans are not always translated into the relevant working language of the recipient (or into English); the country consultations may not be aligned with partners' own planning and budgeting cycles.
- (f) Joint country programming with other donors is resource intensive and can be difficult to manage: it is difficult to have an 'all inclusive' process in which all donors present in a country participate; design process is very time-consuming especially if there are many donors involved.

Short-term

Annual planning operationalises the MT programming into concrete activities and budgets. Donors commonly use joint partner-donor committees to follow up on country strategies in general and on specific project implementation.

Donors report that whether data is integrated in partner country systems and on budget depends on local systems and local donor-partner coordination (good examples in Mozambique, Uganda, Tanzania).

Issues identified by donors are:

- (a) There is a need for strong and continuous coordination between a donor's internal agencies/departments in HQ as well as field offices.
- (b) Short-term programming by lone donors does not make much sense; donor coordination should be improved.
- (c) Donors can face difficulties in aligning with countries' budgeting and planning cycles; a link to recipient government IT systems would be beneficial.
- (d) A challenge can be the lack of clarity from the partner government in how and when donor financing data should be provided.
- (e) Decentralisation within donor agencies (more financial autonomy, freedom for political dialogue with partner governments and other donors, access to disbursement data systems) would support improved predictability.

In-year

Donors do not as a rule develop overall in-year schedules for country disbursement. Donors do develop disbursement schedules for individual interventions, in particular for budget support, jointly agreed by partners and donors; disbursement schedules for other instruments (e.g. technical assistance) may be less developed.

Donors monitor their disbursements to partner countries (see paragraph 0 for discussion of donors' varying capacity to do this). The audience for in-year disbursement reporting is primarily internal; some donors highlight that they share disbursement reports with partner governments when requested; the reports are not published. A donor suggestion for potential improvement to transparency at country level towards wider stakeholders is to publish online the monitoring of disbursements.

Donor transparency

The donors report their forward spending plans (3 year horizon) of country programmable aid to the OECD DAC (an exercise started in 2008) which the DAC publishes in an annual report: "A unique feature of the forward survey is that it is the only regular process at the global level that brings together most bilateral and multilateral aid spending plans, one to three years ahead for each partner country." (OECD DAC 2010) Hitherto these projections have not been made available at individual country level.²²

The DAC forward spending report does not cover funding to multilateral organisations and there is less (little) transparency of the direction of funds (sectors, countries) that is given by donors through indirect actors (NGOs, universities etc).

The donors report their disbursements to the OECD DAC creditor reporting system (CRS) (over 10 years old) which publishes the disbursement data a year in arrears.²³ Some donors use classifications aligned with CRS. Others have to compile data from different databases ex-post and/or cross-track from their internal classification to CRS. Not all donors provide complete information to the DAC. (Birdsall and Kharas 2010)

To provide information on aid flows to their stakeholders and the general public, some of the donors publish their commitments and disbursements on their websites and in reports, in different levels of detail and formats, and at varying frequency. Not all donors publish (all of) their forward spending projections or their disbursements. Some donor websites require some 'digging' to obtain the data.

To improve aid predictability and facilitate putting aid on budget, most donors highlight that they commonly share aid data reports (of indicative projections, commitments and disbursements) with partner governments on request, often annually and in some countries more frequently (e.g. 4 times a year to the aid information management system ODAMOZ in Mozambique).

There are landmark global initiatives under way, with exciting potential to improve future aid transparency. These include notably the International Aid Transparency Initiative (see Box 3 below) and the ongoing efforts to improve donor reporting to the DAC Creditor Reporting System by the DAC Working Party on Statistics. IATI is a new initiative aiming to complement the CRS provision of comprehensive, quality-checked statistics on DAC donors' aid through the introduction of an

²² The "predictability ratios" calculated in the forward spending report are reproduced in Volume IV: Aid Predictability – Donor Profiles. (See also ¶10 below.)

²³ The CRS is a mandatory reporting platform for OECD DAC donors; it includes data from some non-members and most multilateral organisations such as the World Bank and UNDP.

information standard which can be used by a wide variety of organisations to publish accessible, timely, and detailed management information (IATI Secretariat 2010). In addition, at the global level the DAC Working Party on Aid Effectiveness, Transparency Cluster, plays an important role in coordination.

Box 3 *International Aid Transparency Initiative*

An important global initiative aimed at improving aid transparency is the International Aid Transparency Initiative (IATI) which aims to make information about aid spending easier to access, use and understand through the introduction of a single electronic format.

Version 1 of the IATI Standard was agreed by IATI signatories and Steering Committee members at meetings in July and October 2010 and February 2011. Full details of the Standard are available at <http://iatistandard.org>. The Standard is a “living standard” that will be subject to modifications in the light of implementation experience.

While there are some concerns to be addressed (e.g. the feasibility of the IATI, in particular the technical difficulties involved in implementing the standard across many organisations, and the sustainability of frequent reporting requirements), IATI has already made much progress.

19 donors have so far signed up, with 3 donors (DFID, Hewlett Foundation and World Bank) having already started to publish their data to the IATI standard.

Of the eleven donors that are included in this synthesis:

- 3 have not engaged (so far) with IATI (Belgium, Luxembourg, Portugal)
- 8 are IATI signatories (Australia, Denmark, EC, Finland, Germany, New Zealand, Switzerland, World Bank), and of these 4 are members of the IATI Steering Committee (Australia, EC, Germany, WB)
- 4 are IATI funders (Australia, Finland, Germany, Switzerland).

Signatories of the IATI have agreed to aim to implement Phase 1 of the IATI by the time HLF4 is held in late November – December 2011, although it may take some donors longer.

Further details are provided in Volume IV: Aid Predictability – Donor Profiles.

(<http://www.aidtransparency.net>)

There have been a number of recent assessments of donors’ aid transparency. The summary of these assessments in Table 1 provides an external view of donors’ performance to complement the qualitative information that donors themselves supplied to this study. Some points on these assessments are:

- Assessment of donors’ transparency performance is hampered by the lack of robust datasets that allow assessment of donors’ transaction-level transparency or country-by-country comparisons (the new publicly available dataset AidData²⁴ is a useful start; Birdsall and Kharas 2010 used AidData to undertake analysis at the project, agency and country level).
- The assessments have different areas of focus (e.g. Easterly and Williamson 2011 include transparency on donor agency overheads; Birdsall and Kharas 2010 include learning, through proxy indicator of aid to countries with good monitoring and evaluation frameworks).
- Each assessment has designed a unique methodology (indicators and scoring system) by which to grade donor performance.

²⁴ Available from www.aiddata.org.

All the assessments report a wide range of performance across donors, from high fliers to poor performers. There is low correlation among the assessments; Ghosh and Kharas (2011) conclude that “transparency is difficult to measure and that conceptual and data issues will generate different results”. The findings are summarised in Table 1 and the detailed results are provided in Volume IV: Aid Predictability – Donor Profiles.

Table 1 Aid transparency assessments

		Quality of Official Development Assistance Assessment - Transparency and Learning Component	Aid Transparency Assessment	Aid Transparency Assessment	Ranking of Donor Agencies: Transparency Component	Donor Transparency Ranking
		Birdsall & Kharas	Publish What You Fund	CONCORD AidWatch	Easterly & Williamson	Ghosh and Kharas
		2010	2010	2011	2011	2011
Average Rank		31 donors assessed	30 donors	25 donors	34 donors	31 donors
World Bank	2.0	5	1		1	1
EC	4.8	2	4	5	10	3
Australia	5.3	1	8		10	2
Denmark	9.2	4	14	2	21	5
New Zealand	11.0	6	22		10	6
Germany	14.0	11	15	15	18	11
Finland	16.2	12	16	9	32	12
Belgium	16.8	18	18	8	20	20
Luxembourg	19.2	22	24	7	17	26
Portugal	21.6	19	28	19	21	21
Switzerland	22.0	26	17		21	24

Reliability of scheduled aid

The donors’ predictability ratio at the agency-level (as calculated from the forward spending projections shared with the DAC) shows a mixed picture of donors both over- and under-disbursing compared with their projections. This data gives an aggregate total for each donor and therefore masks the unpredictability that exists at the sector and/or project/programme level. Here is the analysis provided in the 2010 OECD Survey on Donors’ Forward Spending Plans 2010-2012 (see Volume IV: Aid Predictability – Donor Profiles for full details):

The ability to predict diverges from one donor to another. Multilateral disbursements for 2009 were 13% higher than was initially programmed as of end 2008. ... The DAC average is 93%. However, there are wide variations around this average. In some cases only half of the initially programmed amounts were actually disbursed, perhaps reflecting reduced CPA budgets in 2009. ... The two-year predictability ratio is 108%, meaning that donors on average disbursed 8% more than what they had initially programmed two years earlier. Multilateral agencies’ predictability ratio was 120%, however with some large variations in this group. (OECD DAC 2010b)

For this study, donors were also asked to provide their aggregate disbursement projections and actuals for the last three years. Those that provided the data confirm the propensity for aggregate under-disbursement against scheduled disbursements.²⁵

At the country level, all donors report some variance between disbursement projections and actuals. Some donors highlight that for general budget support and sector budget support disbursements

²⁵ In some cases the data provided differs from the DAC forward spending data. It is not known why this is the case. It could be because the data provided to this study compares commitments / budget appropriations rather than projections.

mostly match estimates while there is greater risk for implementation delays with programmes/projects.

Donors cite a range of causes for the poor reliability of disbursement projections (variously for in-year, annual and the medium term), including:

- (a) *donor issues:*
 - donor political events changing authorising environment, policy focus and financing envelopes;
 - delays caused by donor agency structure and processes due to:
 - long planning exercises and negotiations; fragmentation of responsibilities and poor communication within a donor agency;
 - insufficient or ineffective decentralisation;
 - complex and time-consuming nature of contractual and procurement processes;
 - rapid staff turnover;
 - donor coordination issues: more complex decision-making mechanisms related to joint planning and implementation.
- (b) *partner country issues:*
 - political commitment;
 - disbursement absorptive capacity;
 - non-compliance with terms of financing arrangements;
 - conditions and triggers not met;
 - cases of corruption and financial mismanagement;
 - slow pace of project execution and weak capacity in the recipient agency.
- (c) *donor and partner country joint issues:*
 - information flow between donor and recipient government;
 - programme/project planning and design;
 - delays in signing and effectiveness.

Donors also highlight a number of recommendations for improving aid reliability which can be grouped as:

donor recommendations: improved planning, contractual and procurement processes, more flexibility in implementation agreements, joint aligned programming, smart use of aid instruments, longer planning cycle at country level; review standard disbursement profiles against recent historical data and provide more systematic updates of projected disbursements, and report these to countries.

donor and partner country joint recommendations: closer collaboration, more proactively feeding into government systems, improved capacity of government systems, improved joint funding programme in programme-based approaches.

The donors' responses show that they do not currently tend to make a distinction between foreseen and unforeseen variability. For example, when conditions are not met or when absorption issues arise, aid can still be reliable if the rules governing disbursement are clear, known and agreed by both parties in advance, and designed for any changes in disbursement to be incorporated in subsequent planning and budgeting cycles.

There is a grey area where ex post implementation delays caused by issues such as capacity constraints and donor procedures (e.g. leading to slow procurement) could (and should) have been foreseen ex ante (if the planning, conditions and donor procedures were transparent and agreed in advance), but for some reason the implementation schedule, conditions and/or performance indicators did not identify and/or were not appropriately designed to work with these constraints.

As an end result, the partner country experiences the resulting delayed disbursements as (unintentional but still) unreliable aid. For example, the Rwanda case study cites a study of aid in the education sector (Foster et al 2005) that provides an illustration of the constraints faced by project aid for in-year implementation and the resulting effect on predictability and, ultimately, service delivery:

“Long delays have been caused by lack of delegation of responsibility to local offices (or lack of such an office in the case of AfDB), with procurement stalled while non-objection certificates or other decisions were obtained from headquarters.” (Chiche 2011)

PFM and aid predictability

The country case studies confirm the interdependence between partner country PFM systems in general and aid predictability in particular, but do not find that improvements in the quality of PFM necessarily lead to improvements in the predictability of aid. Thus, for example:

- (a) Partner countries’ ability to make use of advance information about aid flows depends on several aspects of their PFM systems (e.g. whether the country has a disciplined system for strategic allocation of resources, including an effective medium-term expenditure framework (MTEF) system in place or developing; whether the central authorities follow an active macro strategy to offset the volatility of aid flows; on how well articulated are the fiscal transfers between different levels of government). (On all of these dimensions, there is a striking contrast between Tanzania and Uganda, for example, with Uganda much more proactive and effective in managing both its own resources and aid.)
- (b) The Tanzania study draws attention to the potential for using lack of donor information as an excuse for not developing the MTEF system; but the study itself argues that the absence of an effective MTEF system means that the donors’ failure to provide forward information has little practical consequence. This chicken/egg argument is inherently sterile and highlights the need for joint action by government and donors.
- (c) A number of examples suggest that government improvements in PFM are not necessarily rewarded by the provision of more predictable aid. The Uganda study notes that the finance and planning ministry’s superior performance in managing aggregate resources and imposing expenditure discipline has not been rewarded by the provision of longer-term aid commitments, although it has made the Uganda government rather effective in mitigating the effects of aid unpredictability. Similarly, the Rwanda government’s adoption of a long-term planning perspective for the education sector is applauded by donors, but it has not been rewarded by the provision of long-term finance.
- (d) The reliability of aid, at the level of operational implementation, is highly dependent on the quality and capacity of PFM systems.²⁶ Issues in procurement, in particular, are frequently cited as a source of delay that causes a mismatch between anticipated and actual disbursements.

Mitigation strategies

A variety of mitigation strategies are observed, directed at the different issues of aggregate fiscal management, strategic allocation and operational implementation. Several features deserve comment:

- The asymmetric bias against domestic development expenditures has already been noted (paragraph 0).

²⁶ But it is not solely dependent on recipient PFM systems: many delays in implementation occur because of bottlenecks in donor systems, and/or would be less likely if aid instruments were better designed.

- Examples – such as Uganda’s Poverty Action Fund – where selected sub-categories of expenditure have been given preferential guarantees of predictable disbursement of budgets, as a condition of programmatic funding. (These have a cost in concentrating residual unpredictability effects on the unprotected sections of the budget.)
- Using past experience as a basis for discounting of aid commitments when preparing budgets. Although not all donors have understood the rationality of this, it leads to more realistic aggregate expenditure targets (but is less successful at disaggregated levels, since it is more difficult to predict precisely where shortfalls will occur).
- Some case studies have noted that user fees retained by service facilities (though they may be undesirable on equity grounds) provide some ability to mitigate the unreliability of other funding sources.
- At the macro level, it makes sense for governments to maintain sufficient reserves to allow them to smooth out the likely volatility of aid flows. (However, not all donors appreciate the prudence of using some aid to reinforce reserves.)
- Cash management strategies can be effective in adhering to macro targets, although they make ministries/departments/agencies’ budgets less reliable, and generate obvious costs at the level of operational implementation.

E. Conclusions

Costs and disappointing progress

The country studies confirm that the characteristic unpredictability of aid has serious costs at all levels of public finance management and therefore for development results.

Progress on aid predictability since the Paris (2005) and Accra (2008) High Level Forums has to be seen as disappointing. Despite the commitments to improve predictability (which included in Accra the donor commitment to provide ‘*beginning now*’ full, regular and timely information on annual and medium-term commitments and disbursements), the Paris Declaration monitoring surveys (see Annex C) show poor performance against the indicators that focus on predictability.

Country contexts tend to be complex (with donor and aid instrument proliferation and aid fragmentation); even taking into consideration this complexity, the study has revealed apparently lacklustre action on predictability, in particular by donors. For example, no donor has established a working definition of predictability and no donor has introduced an explicit policy to operationalise improvements in predictability. The country case studies show some progress by recipient governments’ in strengthening systems and capacity (for PFM generally, aid management specifically) that can facilitate improved predictability, but with (unsurprisingly given the complex and long-term nature of these reforms) some way still to go.

Technical vs. structural factors

Some issues in aid predictability stem from technical inefficiencies²⁷ in the way aid is managed, but deeper problems arise from how donors and recipient governments are structured.

The donor profiles, in particular, show that the lack of progress on aid predictability is a structural issue. Aid agencies are not well configured to provide reliable medium- and long-term assurances of aid, and there are, in any case, strong political and operational incentives for agencies to keep their options open. For the most part their own funding cycles and planning horizons do not allow long-term aid commitments, but most can and do provide medium-term projections.

The country case studies found that donor commitments and projections for future years even in the medium term characteristically tail off sharply, so that, if donor information were taken literally, partner countries would continually be planning for a sharp reduction in aid flows. This reflects 1) a reluctance of donors to provide indicative information which might be construed as a binding commitment that limits their future flexibility and 2) the low level of reliability of the indicative information provided. This relates in turn to their internal decision-making procedures: donors are constrained by their own internal budgeting practices and sources of funding, and cannot provide reliable medium- and long-term information on aid allocations if they do not have such information themselves.

The country cases also found structural issues (in PFM and aid management) on the partner country side that impact on the government’s ability to support predictable aid. Some examples are:

- Uganda has a highly articulated system for medium-term expenditure planning, and has attempted to impose discipline in strategic allocation by including all aid funds within sector ceilings.²⁸ But both sector agencies and donors can have an interest in ensuring that resources for a sector/agency are additional to those it receives via the central government,

²⁷ Examples of technical inefficiencies could include the mismatch between donor and recipient fiscal years, donor requirements that are equivalent in intent but disharmonised in detail, etc.

²⁸ Thus bringing aid on-plan even if it is off-treasury.

and may collude to continue off-budget funding; hence there has been an increase in off-budget project funding, with an incentive for sector agencies and donors to be less transparent with the finance ministry.

- In Sierra Leone, improvements have been made in strengthening the public financial management system, with the government having by now implemented many of the recommendations made in the country's first ever Country Financial Accountability Assessment, published right after the end of the war in 2002. However, overall, the institutional structures which govern PFM outcomes are in their infancy. This impacts the government's ability to manage the country's complex aid environment including, for example, their processes and capacity for coordinating the aid data flow from (multiple) donors.

Such institutional features for donors and partner countries help to explain why many commitments are not followed through in practice, and why there has been a tendency (which is discussed further in paragraphs 0–0) to focus efforts on some aspects of predictability and not others.

When there are deep-seated, structural reasons why parties behave as they do, it is unlikely that the resulting behaviours will be significantly modified just by exhortation. It follows that innovation will be necessary if the Busan HLF is to spark significant progress on providing aid that is both transparent and reliable, and that the issue will need higher priority in the way staff are deployed.

Their political and governance arrangements will always shape donors' and partner countries' efforts to improve predictable aid, but still there are examples of good practice by donors and partner countries of strengthening predictability, within and adapting their structural limits. For example, some donors have rolling medium-term frameworks for their aid budgets; some donors are providing medium-term indicative forecasts that are aligned to partner country planning and budgeting cycles and processes; some partner countries are working on strengthening their management of aid information. Good practices and areas for improvement are explored further in Section 0.

Tendency to focus on short-term predictability and on transparency

Although the Paris Declaration and Accra Agenda for Action stress the importance of improving the medium- and long-term predictability of aid, there has been little tangible progress on these time-scales. There is a tendency to focus on short-term predictability, with particular attention to providing information about planned expenditures for the coming year in time for inclusion in government budgets, and also to the in-year predictability of programmatic support (and there are clear examples of improved practices in these dimensions). This bias towards short-term issues seems to occur partly because significant action on medium- and long-term predictability (although arguably more important) is effectively precluded by donors' embedded ways of doing business, including:

- desire to keep donor options open (this is sometimes but not wholly linked to aid effectiveness concerns about allocating aid to proven good performers);
- donors' decision-making cycles (including Parliamentary/Board approval) may not be consistent with meaningful forward programming of funds;
- donors' own uncertainty about the funds they will receive (related to replenishment cycles, parliamentary calendars, etc);
- for all of these reasons, donors themselves frequently do not have forward plans to share.

There is a related tendency to focus on the transparency (information sharing) rather than the reliability dimension of predictability. The Cambodia study, for example, observes:

Aid transparency may be easier ('more technical') and less 'political' for [the government] and development partners to work on. Aid reliability raises complex issues of partnership working, conditionality and involves skills like diplomacy, negotiation. (Carter 201)

Similarly, there is a tendency to focus on timeliness of information sharing, rather than on the relevance, quality and format of data from the perspective of its use by recipient governments.

Predictability issues for different aid modalities

Different aid modalities do have different implications for predictability, but predictability concerns all modalities. It is sometimes assumed that project unpredictability is self-correcting in its macro effects (since there are matching revenue and expenditure effects – if the funds don't arrive the project expenditures dry up). This in itself is debatable, but even if project unpredictability were neutral in its macroeconomic effects, it clearly has consequences for strategic allocation, and, especially, operational implementation. The delays when, for whatever reason, project aid is unreliable have serious implications for project costs, inefficient implementation and delayed project benefits, while uncertainty about future project aid undermines strategic resource allocation. Moreover it is project aid that most frequently bypasses government systems. Evidence suggests that project aid is highly unreliable.²⁹

As regards budget support, the case studies and other recent literature support the following suggestions:

- (a) There has been progress in addressing the short-term and in-year predictability of general budget support (GBS).
- (b) Contrary to expectations, GBS has not provided reliable long- and medium-term aid. Partly as a result, several governments have been careful not to allow themselves to become, in aggregate, dependent on GBS for meeting the basic recurrent costs of government (such as teacher salaries). From the Rwanda case:

Although useful at country level, the development of long and medium-term planning and budgeting tools has not led as expected to enhanced long and medium-term predictability of aid. However, they may have led, as in the case of the education sector, to a shift of donors from project to budget aid. (Chiche 2011)

- (c) There is evidence that sector budget support may be more reliable than GBS, partly because it appears less vulnerable to interruption on political grounds.

Empirically, no modality emerges as clearly superior in all dimensions of predictability. But this does not mean that modalities are a matter of indifference to recipient governments. A government's ability to mitigate the effects of unpredictability (e.g. to reallocate resources to cover for the non-appearance of a particular aid segment) is highly dependent on access to discretionary resources: programmatic aid which is not tightly earmarked is particularly valuable. Conversely, the costs of unreliability are potentially greatest when aid is tightly earmarked to particular funding lines: tightly

²⁹ As measured for the ODI case studies, for example. (In practice these studies tend to underestimate the unreliability of project aid, since their measure of "unreliability" does not capture off-budget project aid, and compares actual project expenditures against government budget figures which may already have discounted donor commitments.)

earmarked vertical funding for health treatments is a case in point (as is well documented in the Uganda case study).

It follows that donors and governments seeking to improve the predictability and the general effectiveness of aid in a particular sector need to consider the detailed design of aid instruments as well as the balance between aid modalities and the overall configuration of aid to the sector. It could be particularly valuable to focus on the implications of different designs for the operational implementation of aid funded activities, with a view to addressing factors – on both government and donor side – that undermine the reliability of aid. As taken up below, such issues are likely to impinge simultaneously on other dimensions of the aid effectiveness agenda.

Predictability and other Issues in aid effectiveness

There are strong overlaps between predictability and other elements of the aid effectiveness agenda (as reflected in the different work streams preparing for Busan). Usually, the overlaps are convergent (e.g. improved transparency and more use of country systems will assist predictability) but there may also be tensions – as we suggest below in the case of the division of labour.

Transparency and predictability

We have noted that transparency is a crucial component of predictability, but have also stressed that additional transparency by itself will not make aid reliable.

The donor profiles and country case studies suggest:

- (a) the agenda being addressed by the International Aid Transparency Initiative (IATI) – that aid organisations publish accessible, timely, and detailed management information – is an extremely important one;
- (b) that there has been significant progress on transparency, in terms of donors sharing more information and earlier;
- (c) however, supplying information does not ensure its use – this depends on the format and quality, as well as the timeliness, of the information provided, and on systems for using the information for planning and monitoring.

Use of country systems

There are very strong links between the use of country systems agenda and the predictability agenda. This is not to say simply that more use of country systems would solve predictability problems. The bypassing of country systems does undermine predictability: it undermines efficiency in operational implementation. It also undermines the benefits of predictability by making it harder to optimise strategic allocation of resources. However, simply exhorting donors to switch to country systems is unlikely to overcome concerns about fiduciary risk and so forth. The requirement is to address the underlying issues in the quality of country systems, so as to give less excuse for bypassing them. This would simultaneously address issues in PFM predictability and some of the bottlenecks that cause aid to be unreliable at the level of operational implementation.

Conditionality³⁰

Predictability and conditionality are also linked. For a number of years OECD DAC has promoted appropriate and transparent conditionality as a crucial factor in improving predictability (OECD DAC

³⁰ Conditionality can be defined as: Commitments that are agreed between a development partner (donor/creditor) and partner country as part of the provision of support, and any other conditions/requirements that must be satisfied for disbursement of approved funds/provision of support. (Foster et al unpublished)

2006a: 23). The failure to meet conditions (often of a fiduciary or administrative nature, rather than policy or performance conditions) is a frequent cause of unreliability in aid delivery, and the relevance and quality³¹ of conditions may legitimately be reviewed from the perspective of their effects on the long-term predictability and the short-term reliability of aid. At the same time the study's definition of predictability acknowledges that aid is not unpredictable if it is withheld because of a failure to meet clearly-specified conditions. This in turn may be linked to an argument that conditions themselves should be designed to ensure that aid is used more effectively.

The Paris Declaration (PD) and Accra Agenda for Action (AAA) encapsulate the good practice principles on conditionality, which donors and partner countries have committed to implement. The key commitments are summarised in Box 4. Donors' progress in implementing PD and AAA commitments on conditionality is under review by a parallel Task Force (paper by Mick Foster et al). Conditionality remains a major bone of contention between donors and recipients, with many observers lamenting the slow pace at which donors deliver on their commitments to improve conditionality (Mold 2009: 83; 77).

Box 4 *Conditionality commitments*

PD commitments on conditionality (in the PD section on "Alignment"):

"16. Donors commit to:

- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results."

AAA commitments on conditionality:

"We will continue to change the nature of conditionality to support ownership

25. To strengthen country ownership and improve the predictability of aid flows, donor agreed in the Paris Declaration that, whenever possible, they would draw their conditions from developing countries' own development policies. We reaffirm our commitment to this principle and will continue to change the nature of conditionality by taking the following actions:

- a) Donors will work with developing countries to agree on a limited set of mutually agreed conditions based on national development strategies. We will jointly assess donor and developing country performance in meeting commitments.
- b) Beginning now, donors and developing countries will regularly make public all conditions linked to disbursements."

Division of labour

Several of the case studies highlight a risk that the division of labour will make aid less predictable in particular sectors. There is evidence that, despite the transaction costs of dealing with many donors, a multiplicity of donors tends to average out volatility. It is therefore a concern that reducing the number of donors in a sector is not being accompanied by firmer and longer-term aid commitments from those that remain. Similarly, silent partnerships put more aid at risk if the vocal partner decides to withdraw.

³¹ Quality may be assessed for example with reference to the IMF's principles of parsimony, criticality, simplicity and feasibility.

F. Good practices and areas for improvement

This section synthesises good practices and areas for improvement found in the country cases and donor profiles that can address some of the problems of unpredictable aid (and constraints that need to be overcome in doing so). Examples from the wider literature review undertaken as part of the study are also included.

The items listed here as ‘good practices’ are tentative, and would need validation and further discussion by donor and country stakeholders.

General principles of good practice

Despite the overall limited progress, there are good practices out there that donors and recipient governments can learn from. The study finds some general principles of good practice to be:

- The underlying importance of strengthening country PFM systems, and the potential for aid practices either to undermine or to reinforce such systems.
- Transparency is essential for predictable aid but it is not the whole answer: aid needs to be reliable too.
- Working together is critical: a one-way flow of information from donors to recipient governments is not sufficient and so far there has not been enough attention to the interaction between donor and government behaviour that is needed to make aid more predictable and reliable.
- There is no “magic bullet”: increasing the transparency and reliability of aid requires a whole series of interlocking operational problems to be addressed, with action both by partner governments and by donors. Which actions are most important will depend on the country context.
- Given the multiplicity of aid effectiveness issues, it is easy for predictability to get lost in the crowd. At the same time “predictability” issues are not easily compartmentalised: the aid effectiveness issues of predictability, conditionality, transparency, use of country systems etc. require to be addressed in a holistic way.

Donor internal structures and processes

Some donors have started improving their internal structures and processes to support aid predictability, through:

- Introducing **agency-wide rolling multi-annual programming** with commitments and spending limits updated annually, to support internal predictability and ensure donors have the data to be able to share medium-term forecasts with external stakeholders (recipient governments, beneficiaries, wider public).
- Strengthening the **coherence and flexibility of budgeting** (e.g. by presenting aid flows by recipient country; ability to roll over unspent monies from one year to another), to ensure more transparent and reliable budgeting and disbursement.
- Designing **innovative longer-term instruments** (see Box 5 for examples from the EC and the World Bank), to enable donors to provide longer-term and therefore more predictable aid.
- Improving **effective tracking and reporting on disbursements** with efficient data systems and timely, format-appropriate internal and external (through global transparency initiatives)

reporting, in order to increase transparency and strengthen management information (thereby supporting more reliable aid).

Box 5 Good practice: longer-term financing instruments

Two examples of financing instruments (plans and commitments) for individual programmes and projects with longer-term (five years+) horizons:

European Commission

MDG contract for budget support is a longer term, more predictable form of general budget support that the EC has launched in a number of countries at the start of EDF 10. It is part of the Commission's response to international commitments to provide more predictable assistance to developing countries. The MDG Contract has the following key features:

- 6 year commitment of funds for the full 6 years of EDF 10;
- Base component of at least 70% of total commitment, to be disbursed subject to no breach in eligibility conditions for GBS, or in the essential and fundamental elements of cooperation;
- Variable performance component of up to 30%.

World Bank

The long-term programming instrument at country level is the **adaptable program loan (APL)** – a form of investment lending. The idea behind this was that some development processes require sustained effort, partnership and continuity to achieve their long-term objectives through a learning-by-doing approach which cannot be achieved in a single operation, and typically imply substantial policy, institutional and behavioural changes. The APL was designed to support such approaches through a series of investment operations – each building on the achievements and experiences of the previous operation (or phase) – funding a long-term program, with defined performance milestones (or “triggers”) for moving from one phase to the next, while adapting the details of implementation in the course of the program. Typically most multi-phase APLs have 2-4 phases for programs extending 8-15 years. An APL involves agreement on (1) phased long-term development program supported by the loan, (2) sector policies relevant to the supported phase, and (3) priorities for sector investments and recurrent expenditures.

(Volume IV: Aid Predictability – Donor Profiles)

Box 6 Good practice: multi-year budget measures

The Australian Government's annual Budget outlines estimated expenditure for a particular financial year and the three subsequent years known as the forward estimates period. AusAID's medium-term predictability is limited by the lack of definite budget commitments beyond the current year due to the constraints imposed by the annual budget cycle. However, within these limits, multi-year budget measures are used to commit AusAID to delivering assistance over the medium term. The way in which medium-term commitments at the country level are determined is well-demonstrated by AusAID's Indonesia programme.

A recent Prime Ministerial announcement committed Australia to up to \$2.5 billion in funding for Indonesia over the 2008-2013 period. While the Indonesia program only receives an annual allocation, this longer-term commitment, including specific budget measures for the Indonesian education sector, provides a degree of funding certainty. Over the first two years of this period, Australia is on track to meet this commitment tracking at \$892.7 million – 36 % of the total.

Funding certainty is also delivered by the Indonesia Program's large multi-year programs that make up a large proportion of the total program. For example, in the 2009-10 financial year two programs made up 24 % of the total program expenditure.

(Volume IV: Aid Predictability – Donor Profiles)

The study found the following key areas for improvement:

- Improving the currently **limited shared understanding of the dimensions and drivers of predictability**, both within donor agencies (at HQ and country level) and among donors (as well as between donors and recipient countries).
- Moving away from **short, cliff-edge country strategic cycles** that do not allow sufficient time to achieve results, require heavy reporting and create uncertainty.
- Strengthening the often **ineffective coordination between donors' internal agencies/departments, between different budgets, and between HQ and field offices**, which can affect i) whether a donor has comprehensive aid data and can report effectively to external stakeholders, and ii) whether a donor can play its role in project and programme design, planning, approval and implementation without excessive bureaucracy and unanticipated delays.

Despite the disappointing progress overall on predictability, a key point to highlight is that there is clear evidence that even among the limited sample of aid agencies reviewed, **there is scope for considerable improvement if more agencies move up to the level of the better ones, and even good performers on predictability have areas with potential for improvement**. A mini-profile of Danida is provided in Box 7 as an example of an overall all-round good predictability performer other donors can learn from, with some remaining areas identified for improvement.

Box 7 Good practices for predictability – Danida

Danida's programming structures, processes and tools provide some good practice examples of what donors can do to ensure they provide predictable (transparent and reliable) aid.

Agency-wide:

- Budgeting of commitments over a five-year horizon, plus a rolling budget updated annually. Moved to commitment-based budgeting (from disbursement predictions) to improve the access to information about and predictability of aid flows. Commitment frames adjusted three times a year and Additional Appropriation Act prepared at end of year.
- Assistance to multilaterals is prepared using same planning tools and processes as for bilateral assistance.

The multilateral organisations that Denmark supports are also included in these five-year plans based on their ability to deliver results that are in line with Danish priorities. Multilaterals also express appreciation of this approach since the Danish contributions are usually predictable and provided as core contributions. (OECD DAC 2011a)

Country-level

- For most of the 26 partner countries, cooperation is based on long-term partnerships. Medium-term planning is to a large degree undertaken between the embassy/representation and partner institutions.
- All 26 partner countries are included in the draft Finance Act 2011, including information on the type of and areas of cooperation in each country, as well as on planned commitments for the subsequent three years.
- Aid flow plans, over a five-year period are included in bilateral agreements.

Authorities in Mali considered the five-year plan to be a unique feature of Danish co-operation since it allows the Ministry of Finance – through which most of Danish assistance is channelled – to plan and budget its support. (OECD DAC 2011a)

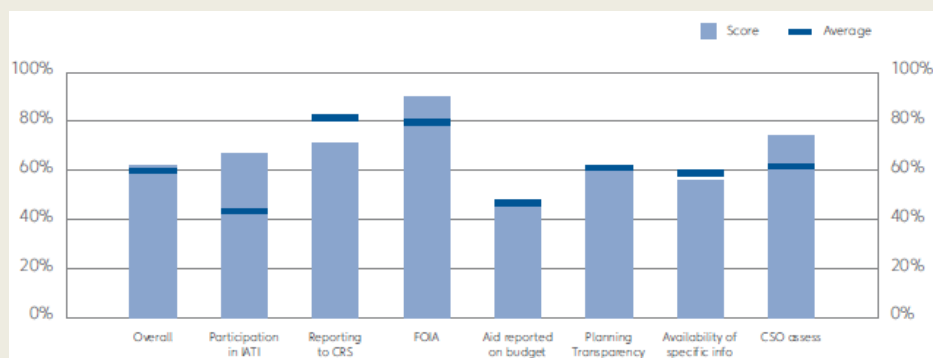
- Within specific programmes, programme documents (agreed with the government) provide disbursement plans covering the programme period (usually 3-5 years) and partner countries are provided rolling 2-4 year expenditure plans and total disbursements annually (some with quarterly or semi-annual follow-up).

Monitoring, reporting, publishing

- The finance system and programme database (where projects/programmes are recorded with the grant allocated per component/activity and the corresponding DAC CRS codes) feed into a common data warehouse from which reports are generated for monitoring and control purposes. The application includes DAC-reportable expenses from other ministries. All employees have access to these reports
- Danida publishes the annual 'Priorities of the Danish Government for Danish Development Assistance', setting out the main development political priorities for the coming five years and commitments at the level of partner countries, organisations etc. This is available in English and available from the Ministry of Foreign Affairs website.

Nevertheless there is still room for improvement:

- According to the 2010 Publish What You Fund Aid Transparency Assessment: *Denmark is about average overall and this is fairly consistent across the indicators. It is a reasonably active participant in IATI. It is the donor with the lowest score for completeness of project reporting to the CRS, with only 78% of its aggregate ODA reported as projects in the CRS. It is below average for aid reported on budget. Civil society rated it fairly highly.*



- In the recent DAC Peer Review, Denmark committed to enhance the transparency of its commitments to partner countries by publishing the relevant sections of the aid budget directly on embassy website.

(Volume IV: Aid Predictability – Donor Profiles; PWYF 2010; OECD DAC 2011a)

Government structures and processes

Some recipient governments are working to improve their planning, budgeting and aid management processes to support overall public resource (and aid) predictability, including by:

- **Strengthening country PFM systems** (plan, budget, treasury, procurement, account, audit, report) to improve allocative and operational efficiency and effectiveness in order to achieve more, and more sustainable, development results.
- Through these PFM reforms **improving the predictability of national budget execution at decentralised and service delivery levels**, where unpredictable resource flow (of which aid is a part) can have an immediate negative impact on services and assistance, and therefore on people's livelihoods and wellbeing.

- **Developing long-term costed plans (national, sectoral, local government)**, thereby providing a potential base for i) more long-term planning and commitments of aid to the programme (national/sector/local); ii) improved transparency of the government objectives and approach, and how donors' aid aligns (or not) to these; and iii) better shared understanding of how to work with the constraints that may affect implementation (and hence disbursements and the reliability of aid).
- **Developing an Aid Management Policy**, a tool that can help to strengthen government strategic oversight and operational management of country programmable aid (as defined by OECD DAC) in particular and all ODA in general, in particular when such a policy sets out clearly the governments' principles and processes for coordinating the (normally multiple) donors' aid provision.

There is an important role for donors to play in supporting partner countries in PFM strengthening and capacity development.

Box 8 Good practice: developing long-term costed plans

Since the early 2000s, Rwanda has made significant progress in improving the medium-term coverage of its planning and budgeting instruments.

- The development of the Poverty Reduction Strategy Paper (PRSP) and its successor the Economic Development and Poverty Reduction Strategy (EDPRS) provided a comprehensive and costed strategy for progress toward Rwanda's development objectives over a period of five years (respectively 2002-2007 and 2008-2012). ... The PRSP includes two financing scenarios: constrained and unconstrained, in order to allow alignment with the macro-economic framework as negotiated with the IMF and to serve as an aid mobilisation mechanism. The EDPRS includes a financing scenario which provides projections of budget support and project support [for] 2008-2012, and an estimate of the financing needs both in terms of budget support and in terms of projects. These projections were discussed with donors and updated according to their commitments.
- At sector level, only the education sector has developed a long term financing strategy: the Long Term Strategy and Financing Framework (LTSFF), covering ten years from 2006 to 2015. The LTSFF defines the long-term objectives and targets and financial framework for the education sector. It identifies the financing gap in order to reach the long-term objectives. It contains six different financing scenarios identifying resource needs (recurrent and capital) based on different objectives for 2015. Although the LTSFF was initially developed as a basis for FTI support (Education For All Fast Track Initiative), it was seen by most local donors as a significant improvement in terms of sector planning and analysis, and was used as a frame of reference for budgeting purposes.

MINECOFIN officials mention the influence of the costed Long Term Strategy and Financing Framework (LTSFF) as a guide for budget allocations to education (both to the sector and intra-sectoral). The LTSFF was used because it provided an overall financing framework linked to a clear strategy and objectives, endorsed by education donors and serving as a basis for the FTI grant (Chiche 2009).

- Finally, since 2007, each district has developed a 5 year district development plan in line with the national EDPRS.

(Chiche 2011)

Areas for improvement include:

- **Many recipient government PFM systems are still weak:** developing effective, efficient, accountable country PFM systems is a long-term process and requires long-term, strategically-focused and coordinated support.
- The **weak integration of strategic planning, budgeting and aid management is a common problem;** this can hinder attempts to strengthen predictability and impede realising the benefits of improved predictability (see examples from Tanzania and Uganda in paragraph 0).
- **Governments' development strategies may not define resource needs concretely** (e.g. through a costing), which means that donors cannot align their (indicative) projections or (firm) commitments.

Transparency

Some donors have started improving the transparency of their aid by:

- **Sharing with recipient governments the maximum envelope (and the deciding criteria) of aid allocated** to a country for a (medium- or long-term) strategic period.
- **Providing the following aid flows data to recipient governments** on request, in timely and accessible format aligned with recipient government planning and budgeting systems and processes:
 - reliable indicative rolling projections for medium- and long-term macro-economic planning and budgeting
 - firm commitments for short-term planning and budgeting
 - actual disbursements for in-year financial management.
- **Sharing the same aid data publicly** (with beneficiaries and wider public), through global transparency initiatives and through donors own publishing.
- **Ensuring transparent conditionality.** (See paragraph 0.)

Partner countries also have a part to play in improving the transparency of aid data, in particular to wider in-country stakeholders (including to parliamentarians, beneficiaries and civil society organisations). Some good practices identified by the study are:

- **Streamlining recipient government mechanisms for collecting information on aid flows,** including the development of appropriate database(s).
- **Improving the integration of aid flows in national budget and medium-term expenditure framework** (including through an integrated chart of accounts for recurrent and development budgets).
- **Improving the presentation of national budget to Parliament/National Assembly,** including information on past year performance and two outer years of the MTEF.
- **Publishing budget and aid data and regular analysis of aid flow trends,** thereby facilitating an evidence-based debate on aid effectiveness to inform future aid planning (on issues such as reducing fragmentation, improving division of labour and ensuring a complementary aid modality mix), and ultimately, strengthening government ownership of the country aid agenda.

At the country level good practices in joint partner country and donor activities to improve transparency include:

- Translating international commitments to improve transparency into **joint in-country agreements and activities designed for and responding to the country context**.
- Agreeing at the country level a **joint process (schedule, format, mechanism) for sharing and publishing multi-year forecasts, commitments and disbursements**.
- Agreeing at sector and programme level **partnership principles** that include commitments (and how to operationalize these) for improving transparency.

The case studies and donor profiles revealed some room for improvement in aid transparency, in particular in the following areas:

- At the country-level **some donors still fail to provide data on forecasts, commitments and disbursements (in time, in correct format) to integrate with the recipient government's PFM and aid management processes**.
- **Not all donors publish their aid data for other stakeholders and the wider public** in a clear and accessible format.
- **The DAC data is not sufficient for full transparency** because the DAC disbursement data is a year in arrears and not all donors provide complete details; the forwarding spending projections are not issued at the country level by donor; not all donors provide details to the DAC system.
- Processes to strengthen predictability need also to focus on **improving aid data to be more comprehensive by incorporating information from all actors and mechanisms**. This is vital with today's global aid landscape which includes increasingly important new players (non-DAC donors, proliferating vertical funds) and innovative financing mechanisms (involving frontloading; partnerships between public and private entities) (OECD DAC 2010a).
- **Aid databases are not always successful** for various reasons: not aligned with the government mainstream budgeting process and classification; duplication with multiple databases (commonly a by-product of ministry/agency/department silos and/or unharmonised donor support and initiatives); lack of capacity within the government aid management agency to maintain the database effectively; a non-user friendly design that hampers sustainability.

Box 9 Good practice: joint process for multi-year projections

In Cambodia the Government has taken a strong lead in introducing in 2007 a framework for coordinating the provision of donors' rolling short- and medium-term aid projections in support of the government's planning and budgeting process:

- The framework is called the 'Multi-Year Indicative Financing Framework' or MYIFF and is updated every 18 months at the RGC-DP main high-level policy dialogue forum, the Cambodia Development Cooperation Forum (CDCF). The current MYIFF can be downloaded from: http://www.cdc-crdb.gov.kh/cdc/third_cdcf/session5/myiff_2010_2012.htm
- The MYIFF replaced the traditional donor pledges of aid. In the MYIFF, the indicative disbursements for the next budget year (n+1) are considered binding but proof (e.g. signed contract, part of a signed programme or country strategy etc) is not requested. For the outer years (n+2 and n+3), the numbers are estimates and do not constitute a pledge or commitment.
- Development partners committed to support the Government in establishing this more comprehensive and robust planning exercise, and many development partners have

improved the transparency (coverage, quality, timeliness and usefulness) of their data. 22 development partners (including China) currently provide information through the MYIFF.

- A critical shortcoming is that the MYIFF is not (yet) fully integrated with RGC's planning and budgeting processes and cycle.

(Carter 2011)

Reliability

Donor good practices that support improved aid reliability are:

- **Investing in longer-term partnerships, and better communication and collaboration with partner countries** to build a platform for a reliable relationship.
- Giving aid through **longer-term aid instruments** (see Box 5).
- **Streamlining donor procedures** to support efficient and reliable planning, designing, signing and implementation (see Box 10).
- Following good practice principles on ensuring **conditions are transparent and appropriate**, defining a process to manage potential conflicts and avoid in-year suspension of aid, and clarifying rules for suspension of aid, thereby avoiding unplanned (and unbudgeted) stop-and-go decisions on aid disbursements. See Box 11 below.
- **Using programme-based approaches to balance predictability and flexibility**, through building a shared platform at the programme/sector/local level that strengthens a government-owned strategy and plan and coordinated alignment of donor-supported activities.

Box 10 Good practice: improving efficiency of donors' procedures

Germany is piloting options to accelerate programme planning, including discussing implementing agreements together with financing agreements during government-to-government negotiations, and introduce more flexibility in negotiating implementation agreements. Other identified issues include: having country negotiations every year makes longer-term planning more difficult; it would be useful to have a standardised planning cycle of at least two years at country level.

The EC is reviewing and updating its projects and programme guidance (building on the ongoing revision of the Guidelines on Budget Support) to deliver a coherent, simplified, accessible and user-friendly set of guidance on aid delivery methods that supports more efficient and effective work processes and decision-making.

New Zealand, recognising that on occasion current processes can delay expected disbursements, is currently reviewing contracting systems and processes with a view to streamlining operations.

(Volume IV: Aid Predictability – Donor Profiles)

Box 11 Good practice: transparent and appropriate conditionality

The Tanzania case study on budget support conditionality:

Since 2001 the conduct of budget support donors has been governed by a Partnership Framework Memorandum [...]. Under the Partnership Framework Memorandum budget support donors commit to providing information on future disbursements in advance of the budget year, disburse all commitments made within the Tanzanian budget year and attempt, where possible, to front load their disbursements within the first quarter. There is also a general rule that conditionality should be ex post and based on the implementation of measures in the Performance Assessment Framework (PAF) that is linked to the MKUKUTA and IMF assessments of macroeconomic performance. Final commitments made by budget support donors thus should reflect any reductions as a result of conditionality (i.e. missed performance targets or triggers for variable tranches). (Smith and Leyaro 2010)

According to the Paris Declaration Phase 2 Evaluation, in Vietnam:

The Poverty Reduction Support Credit, launched in 2001, has developed into a model of best practice on conditionality in budget support operations, based on principles which were subsequently reflected in the Paris Declaration and Accra Agenda for Action. The annual conditions take the form of short-term policy actions designed to achieve Vietnam's stated development goals. They are negotiated between Government of Vietnam and Development Partners (DPs) through sectoral working groups, with non-funding DPs able to participate, making the instrument a key platform for policy dialogue on development policy.' (Wood et al 2011)

Recipient government actions to support improved aid reliability are concerned with strengthening PFM management systems and processes and capacity to enable smooth programme and project implementation in order to address demonstrable bottlenecks preventing reliability (e.g., procurement delay).

Joint donor and partner country good practices to improve aid reliability are:

- **Intensive and collaborative consultations on longer-term country strategies** between donors and recipient governments.
- **Partnership principles** that include commitments (and how to operationalize these commitments) for improving reliability (in particular on the application of conditionality), at the sector and programme level.
- **Joint (government-donor) and aligned (with government systems) monitoring and reviews** (including timely joint sector reviews) to track and discuss implementation performance, past disbursements and future aid flows, supporting transparency and strengthening shared understanding to build reliability.

Areas for improvement include:

- In-country agreements and partnership principles are **not always clear on how progress will be monitored.**
- **Unanticipated programme and project implementation issues affect disbursement reliability;** little or weak joint donor-recipient government programme/project planning and design, and poor communication between donor and recipient government, can result in poor plans and designs with overly-ambitious objectives and scheduling.

- **Ensuring portfolio reviews effect real change to improve implementation and disbursement issues**, and do not become tick-box exercises stalled by political and technical bottlenecks and embedded incentive structures.
- In practice **variable tranches** have **often led to delays** due to complicated assessment process and lack of clarity.
- **Donor programmes for a fixed term without timely review** and planning for the future will result in a cliff-edge of funding and uncertainty.
- **Donors' internal structures and processes causing unanticipated delays** with programme and project design, approval and implementation. Issues include: long planning exercises and negotiations; fragmentation of responsibilities and ineffective deconcentration; complex contractual and procurement processes; and rapid staff turnover.

Mitigating strategies (or 'risk management')

Donors' good practices for mitigating the effects of unpredictable aid include:

- **Earmarking funds only when appropriate, and using broad earmarking where possible** (e.g. justification of aid against overall sector expenditures, or the development budget for a sector) in order not to constrain discretion and limit the ability to mitigate unpredictability.
- Using **programme-based approaches to balance predictability and flexibility** (see paragraph 0).

Some governments pro-actively mitigate the effects of unpredictable aid. Their mitigating strategies are not permanent solutions or long-term good practices if the predictability of aid improves. In the meantime, while the risk of unpredictable aid remains high, adopting a suitably strategic risk management approach is prudent. Examples of mitigating strategies are detailed in Section 0 paragraph 0.

Good practices in mitigating strategies include:

- **Discounting aid commitments when preparing budgets.** Given the tendency for donors to under-disburse against commitments, applying a discount (based on past experience of aid flows) leads to more realistic aggregate expenditure targets. The quality of governments' discounting of donor disbursement forecasts could be enhanced by making it more transparent and part of a dialogue with the donors.
- **Ensuring a complementary mix of aid modalities with sufficient flexibility to allow budgetary adjustments** in the face of some of the aid finance not being delivered transparently or as budgeted.
- Other good practices in mitigating strategies pertain to **fiscal and monetary control and prudent macroeconomic strategies**.

Box 12 Good practice: mitigating strategies

The Uganda case study concludes with recommendations for ministry of finance and/or central bank in partner countries:

- Prudent macroeconomic management strategies can help to protect cash releases – and hence service delivery – from the inherently high unpredictability of aid flows. As Uganda's case illustrates, practices such as adhering to an IMF programme (which requires maintenance of adequate levels of international reserves and close coordination of fiscal and

monetary policy), pursuing a strategy of fiscal deficit reduction and discounting aid forecasts have proved very effective for certain types of aid.

- Insisting that the accounts for externally financed projects are all held at the Central Bank can significantly enhance the data available on aggregate aid inflows and therefore improve macroeconomic management of episodes of unpredictability.

(Handley et al 2010)

Areas for improvement on mitigating strategies include **establishing dialogue and feedback between donors and partner countries on the strategies and process of discounting** aid projections for planning and budgeting purposes.

Summary of good practices

	Donors	Recipient Government	Donors and Recipient Governments
Internal structures and processes	<p>Understanding the dimensions and drivers of predictability.</p> <p>Agency-wide rolling multi-annual programming.</p> <p>Coherent and flexible budgeting</p> <p>Longer-term instruments.</p> <p>Effective tracking and reporting on disbursements.</p> <p>Coordination between donors' internal agencies/ departments; HQ and field offices.</p>	<p>Strengthening country PFM systems.</p> <p>Integrating strategic planning, budgeting and aid management.</p> <p>Improving the predictability of national budget execution at decentralised and service delivery levels.</p> <p>Long-term costed plans (national, sectoral, local government).</p> <p>Aid management policy.</p>	<p>Role for donors and partner countries to work together on PFM strengthening and capacity development.</p>
Transparency	<p>Sharing the maximum envelope (and the deciding criteria) of aid allocated.</p> <p>Providing data on medium-term indicative projections, short-term firm commitments and actual disbursements to recipient governments on request, in timely and accessible format aligned with recipient government planning and budgeting systems and processes.</p> <p>Publishing to wider stakeholders the same aid data.</p>	<p>Streamlining recipient government mechanisms for collecting information on aid flows.</p> <p>Integrating aid flows in national budget and medium-term expenditure framework.</p> <p>Improving the presentation of national budget to Parliament/National Assembly.</p> <p>Publishing budget and aid data and regular analysis of aid flow trends.</p>	<p>Joint in-country agreements and activities designed for the country context.</p> <p>Joint process for sharing and publishing rolling multi-year indicative forecasts, commitments and disbursements.</p> <p>Sector and programme level partnership principles.</p> <p>Enabling inclusion of all development actors in aid predictability processes.</p>
Reliability	<p>Investing in longer-term partnerships, and better communication and collaboration with partner countries.</p> <p>Longer-term aid instruments.</p> <p>Streamlining donor procedures.</p> <p>Ensuring conditions are</p>	<p>Strengthening PFM processes, systems and capacity in order to address demonstrable bottlenecks preventing reliability (e.g. procurement delay).</p>	<p>Consultations on longer-term country strategies.</p> <p>Sector and programme level partnership principles with focus on transparency and reliability of aid, and clarity on how progress will be monitored.</p> <p>Joint monitoring and reviews.</p>

	<p>transparent and appropriate.</p> <p>Using programme-based approaches to balance predictability and flexibility.</p>		
<p>Mitigating strategies</p>	<p>Earmarking funds only when appropriate, and using broad earmarking where possible.</p> <p>Using programme-based approaches to balance predictability and flexibility.</p>	<p>Discounting aid commitments when preparing budgets.</p> <p>Ensuring a complementary mix of aid modalities with sufficient flexibility to allow budgetary adjustments.</p> <p>fiscal and monetary control and prudent macro-economic strategies.</p>	<p>Dialogue and feedback on aid discounting for planning and budgeting.</p>

G. Key messages

The following key messages have been drawn from analysis of the country cases and donor profiles.

1. **Experience of partner countries and donors shows that improved predictability is possible, but so far overall progress on predictability has been disappointing** and unpredictable aid is still widespread. This has serious costs at all levels of public finance management and for development results.
2. **There needs to be improved understanding by partner countries and donors that predictability is a combined result of aid being both 1) transparent and 2) reliable.**
3. **Making aid more predictable requires joint actions and disaggregated information sharing between partner countries and donors.** Donor actions are necessary but not by themselves sufficient to ensure predictability.
 - Partner countries need to know in advance what aid will be delivered, when, by whom, and for which activity/purpose, and be able to use that information for national and sector budgeting and planning, and then have the promised aid delivered on time for the agreed activity/purpose.
 - Donors need to understand partner country systems, capacity and incentives and align their aid accordingly (e.g. using the appropriate budget classification system; providing the aid data in a useful format and in sync with the budget calendar), by providing the following data:
 - reliable indicative rolling projections for medium- and long-term macroeconomic planning and budgeting;
 - firm commitments for short-term planning and budgeting;
 - actual disbursements for in-year financial management.
 - Partner countries and donors together need to design programmes and projects with realistic disbursement schedules.
4. **By their nature these activities have to be sequenced:** recipient governments cannot budget effectively until they have the data from the donors; donors have to understand what recipient governments need to be able to provide the appropriate aid data.
5. **Moving forward on aid predictability requires work on both technical and structural issues:**
 - **technical inefficiencies** (e.g. mismatch between donor and recipient fiscal years; donor requirements that are equivalent in intent but disharmonised in detail e.g. disharmonised recipient aid information coordination processes and databases), and
 - **structural impediments** (donors' decision-making cycles, replenishment cycles; recipient PFM, including aid management, processes; the ways in which conditionality is applied).

Focused donor and recipient political will and investment of staff resources are needed to operationalise the commitments on aid predictability into practical action.
6. **Aid information needs to be shared publicly; it is not enough to share aid information just between donors and recipient governments.** There are other stakeholders (donor taxpayers, recipient country parliaments, beneficiaries) who require aid information, each with a (different) role to play in holding donors and the recipient governments to account for

the effectiveness of the aid spent. With sharing aid data as the default, an appropriately designed policy is needed for such exemptions that are essential.

7. **Predictable aid does not have to be unconditional and inflexible.** Some donors perceive a trade-off between predictability and flexibility (to respond to changes in domestic environments and events in partner country contexts, developments in project/programme implementation, etc.). Aid can still be linked to underlying principles and to well-chosen results indicators. But these need to be appropriate and transparent.
8. **More progress is needed particularly on the medium- and long-term predictability of aid.** While some donors have improved their multi-annual programming (enabling them to provide, for example, indicative medium-term projections), others have not. This is a structural issue within agencies: donors cannot share reliable medium- and long-term aid projections if they themselves do not have this information.
9. **PFM improvements and aid predictability are closely linked.** Addressing the underlying issues in the quality of country systems would simultaneously address issues in PFM predictability and some of the bottlenecks that cause aid to be unreliable at the level of operational implementation.
10. Most of the shortcomings and recommendations for improving aid predictability are already well known to most donors; **Busan will be a critical opportunity to 1) recognise that there are deep structural issues at the heart of aid predictability, and 2) act to improve structures and processes to provide more predictable aid.**
12. **Donors and partner countries can 1) learn from existing good practices on aid predictability, and 2) consider opportunities for innovation.** There are many good practices in existence for donors and partner countries to learn from. At the same time the structural impediments to improvements on aid predictability mean that innovation, and not just exhortation, will be necessary if the Busan HLF is to spark significant progress on providing aid that is more reliable in the short, medium and long term. For example, donors and partner countries could usefully consider:
 - (a) whether new instruments (such as cash-on-delivery and other results-based instruments) will improve predictability in practice and if their design could focus on and/or be adapted to ensure better predictability;
 - (b) how best to maximise the opportunities for multilaterals with longer-term aid instruments to act as fund coordinator.

Glossary

Allocative efficiency	The degree to which resources are allocated in accordance with the strategic priorities of the government.
Cliff-edge commitment	When a funding commitment is for a fixed end, with no mechanism for reviewing the decision to continue providing funds before the end-date of the commitment. See Rolling.
Commitment	A firm obligation expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation.
DAC Creditor Reporting System (CRS)	A system for reporting individual official transactions (both ODA and other official flows) relevant to development. Reports are received directly from participating official agencies, including bilateral and multilateral aid agencies, development lending institutions, and export credit agencies. http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW
DAC Forward Spending Plans	The Survey on Donors' Forward Spending Plans brings together most bilateral and multilateral aid spending plans, one to three years ahead, with the aim of improving global predictability of future aid flows. To consult the 2009 report and other related work please refer to www.oecd.org/dac/scalingup .
Disbursement	The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent.
Disbursement channels	Channel 1: the normal channel for government's own-funded expenditures. Aid is disbursed to government's finance ministry (or —treasury). Funds may or may not be earmarked. Channel 2: funds are provided direct to ministries, departments and agencies (MDAs) and managed through special accounts outside of the regular government system. These funds are therefore held by a government body but do not follow normal government procedures. Channel 3: expenditures are undertaken directly by a donor agency or by non-governmental organisations (NGOs) on its behalf. Government may receive assets or services in kind but does not handle the funds itself.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance (DAC).
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results (DAC). Efficiency, thus, means comparing outputs to inputs (Denmark). ³²
Expenditure	Actual spending on programme/project cost items.
Forecasts	Indicative forecasts or projections of aid flows do not constitute formal pledges. Pledges and commitments are (to different degrees) binding on the donor; indicative forecasts or projections are not.

³² 'Effectiveness' and 'Efficiency' definitions taken from Ministry of Foreign Affairs, Denmark 2011.

<p>On budget</p>	<p>The dimensions of ‘on-budget’:</p> <p>On Plan: Programme and project aid spending integrated into spending agencies’ strategic planning and supporting documentation for policy intentions behind the budget submissions.</p> <p>On Budget: External financing, including programme and project financing, and its intended use reported in the budget documentation.</p> <p>On Parliament (or through budget): External financing included in the revenue and appropriations approved by parliament.</p> <p>On Treasury: External financing disbursed into the main revenue funds of government and managed through government’s systems.</p> <p>On Procurement: External financing follows government’s standard procurement procedures.</p> <p>On Accounting: External financing recorded and accounted for in government’s accounting system, in line with government’s classification system.</p> <p>On Audit: External financing audited by government’s auditing system.</p> <p>On Report: External financing included in ex post reports by government.</p>
<p>Operational efficiency</p>	<p>The rate at which resources allocated towards and spent on the government’s strategic priorities are actually translated into results, or in short the value for money of public expenditure. Ways to achieve greater operational efficiency include improving the balance between capital and recurrent spending in the budget, increasing the share of the budget being spent by service providers, or a reduction in transaction costs.</p>
<p>Pledge</p>	<p>Announced contribution; promise of contribution, of aid.</p>
<p>Programming</p>	<p>Different donors may use different definitions of ‘planning’ and ‘programming’. This template uses the term ‘programming’ broadly to cover both strategic and operational intervention-level planning and programming. When filling in the template, donors should identify which term they use and provide definitions.</p>
<p>Projections</p>	<p>Indicative forecasts or projections of aid flows do not constitute formal pledges. Pledges and commitments are (to different degrees) binding on the donor; indicative forecasts or projections are not.</p>
<p>Rolling</p>	<p>A rolling multi-year forecast updates the outer year each year, so that the forecast always covers a year or more ahead.</p>

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Annex A Methodology

This annex summarises the methodology used in this and parallel desk studies. For a fuller treatment and more background on predictability issues see Volume II: Aid Predictability – Assessment Framework.

Terminology

Predictability

The broad definition provided in Volume 2 of the DAC harmonisation guidelines is widely referred to in the literature and remains useful:

Aid is predictable when partner countries can be confident about the amounts and the timing of aid disbursements. (OECD DAC 2006a, p22)

Within the context of this broad definition, it is useful to analyse in more detail the different dimensions of predictability. These dimensions will be used as a basis both to measure predictability in country, and to assess good practices at country level. We also spell out other terminology which is needed to ensure analytical precision.

Volatility

There is an important distinction between *volatility* and *predictability*

Volatility: Volatility refers to fluctuations around a trend. Aid is *volatile* when fluctuations in aid flows are large, relative to the volume involved. (OECD DAC 2006a)

Aid may fluctuate but still be predictable if the fluctuations can be foreseen. Although volatility and predictability are different notions, they are related in the sense that it is partly the volatility of aid that makes its lack of predictability a major issue for aid effectiveness. Also, in practice, discussions of predictability may use measures of volatility as a proxy indicator of unpredictability.

Reliability and Transparency

The ability to predict aid flows is related to reliability and transparency as follows:

Reliability: The extent to which partner countries can rely on donor pledges/commitments being translated into actual flows is a major component of predictability. Note that reliability is related to the existence of clear rules governing aid disbursements. If rules are clear (e.g. the pre-conditions for disbursement) then aid is more predictable – variations between what was anticipated and what actually occurred can be explained with reference to the rules in operation.

Transparency is important for reliability, since accurate prediction is hampered if the rules of the game are obscure. The timely availability of information on expected future aid flows, with the appropriate degree of detail, is an important element of predictability.

Time horizon

We follow the DAC harmonisation guidelines in their classification of the different time frames over which predictability may be considered:

- Long term (more than five years)
- Medium term (two to five years)

- Short term (less than two years)
- In-year predictability is an important element of short-term predictability.

Budget cycle and use of government systems

Aid predictability has different implications for different stages of the planning and budgeting cycle. Using the definitions applied in the CABRI-sponsored study of putting aid on budget (Mokoro 2008b), aid is "on budget" (or, more generically, "on system") as follows:

On Plan	Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On Budget	External financing, including programme and project financing, and its intended use reported in the budget documentation.
On Parliament (or through budget)	External financing included in the revenue and appropriations approved by parliament.
On Treasury	External financing disbursed into the main revenue funds of government and managed through government's systems.
On Procurement	External financing follows government's standard procurement procedures
On Accounting	External financing recorded and accounted for in government's accounting system, in line with government's classification system.
On Audit	External financing audited by government's auditing system.
On Report	External financing included in ex post reports by government.

Perspective on predictability

There is ample evidence in the literature that aid predictability is a significant issue, especially for more aid dependent countries (see Volume II: Aid Predictability – Assessment Framework). However, its ramifications are highly complex. In order to approach this complexity in a systematic way, the study adopts a number of working assumptions:

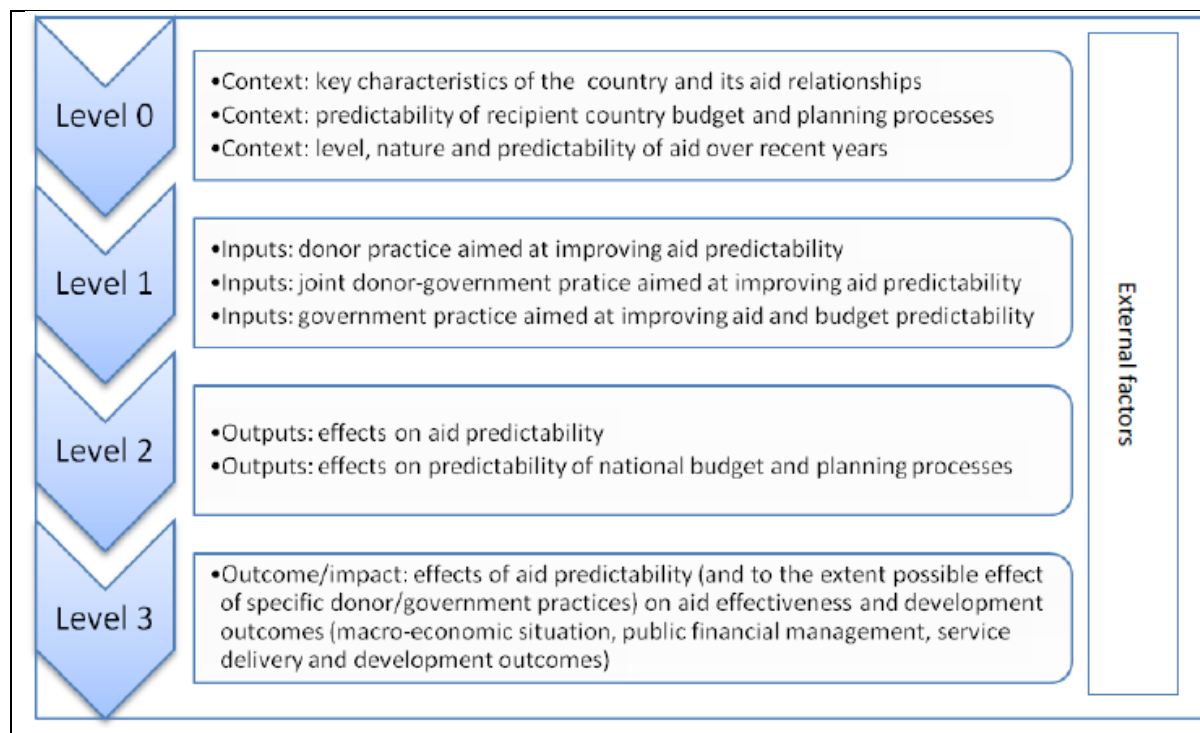
- Predictability is not an end in itself:* more predictable aid is supposed to lead to more efficient use of resources and more effective development results. This is reflected in the structure of the Assessment Framework.
- Predictability is an important criterion of effective public finance management.* Aid predictability is a subset of the broader issue of the management of public resources irrespective of their source (as demonstrated by the way it features among the PEFA criteria), and has to be assessed in that context.
- Different levels of aggregation:* Predictability at higher levels of aggregation does not necessarily translate into predictability at lower levels of aggregation. Examples:
 - A donor's total disbursements may be highly predictable, but the amount destined for country x, or sector y, may be much less predictable.
 - On the recipient side, a ministry of finance may be able to make confident predictions of total aid in a given year, but be much less certain about which donors it will come from and which sectors will benefit from aid; in turn this makes it hard to provide predictable resource guidelines to line ministries and service delivery agencies.

- At service delivery level, the predictability of an individual project or budget line may be very significant (though it may not be picked up in indicators of aggregate predictability).
 - Predictability issues may be different in different sectors, not least because the degree of aid dependence and the donor landscape differ significantly from sector to sector.
- (d) Links to other aspects of aid effectiveness. It is evident that predictability is affected by many of the other aid effectiveness issues highlighted in the Paris Declaration and the Accra Agenda for Action. For example, there is likely to be considerable overlap with good practices emerging from the workstreams on transparency, on the use of country systems, and on conditionality.

Assessment Framework

The case studies do not pretend to carry out a full-fledged evaluation of predictability issues, but it is useful to set out a framework for analysis in terms that will allow cautious examination of plausible interactions, based on available evidence. The assessment of donor and government practices to improve the predictability of aid is therefore based on a logical chain of effects that are expected to lead towards better aid predictability and subsequently enhanced aid effectiveness. Figure A1 below sets out the overall framework for the analysis. Table A1 and Table A2 reproduce the main guiding questions from the Assessment Framework for analysing the initial situation (level zero in Figure A1 below), and then assessing donor, government and joint practices to address predictability.

Figure A1 Conceptual chain of effects



The questions shown, and the indicators suggested, are not exhaustive, but the structure of the enquiry is important. At Level Zero there is systematic attention to the predictability of PFM management in general, and then of how it is influenced by aid. At subsequent levels, there is systematic analysis of the main elements of predictability – transparency, on the one hand, and reliability and volatility on the other.

Table A1 Analysis of predictability in country (level 0)

	Issues posed by lack of predictability of aid or of national processes	Country level predictability <i>What is the status of predictability in country? What is the country doing to enhance the level of predictability and mitigate the effects of uncertainty and unpredictability?</i>	Aid predictability <i>What is the status of aid predictability in country? What are donors doing to minimize and mitigate the effects of unpredictability of aid?</i>
Long term	e.g. ability to plan for longer objectives	(a) Has the country developed costed 3 to 5 year strategies (at national or sector level)? (b) Do these strategies include different scenarios about levels of external assistance or domestic revenue?	(a) How many donors provide three to five year estimates of future aid flows? (b) How many donors provide clear criteria by which allocation of ODA among countries is decided? (c) Trends in ODA as a % of GDP. (d) Comparison between long term commitments and actual support (as measured by donors / as measured by government).
Medium term	e.g. ability to make sustainable recurrent cost commitments	(a) Has the country developed an MTEF? (PEFA indicator PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting. (i) Preparation of multi-year fiscal forecasts and functional allocations). (b) To what degree is the MTEF a useful tool to enhance medium term planning, to what degree is it related to the annual budget? (c) Existence and quality of costed sector plans and SWAps.	(a) How many donors have binding multi-year programming of country assistance, how many years do these cover, how often are they updated, are they “rolling”? (b) How many donors provide non binding information on future aid flows (three years)? (c) Number of budget support donors who provide support through multi-year programmes (how many years, rolling or not, need for annual approval by Parliament/board)? (d) Difference between donor medium-term forecasts of future aid flows and actual (as measured by donors). (e) Difference between forecasts of future aid flows included in MTEF and actual (as measured by governments).

	Issues posed by lack of predictability of aid or of national processes	Country level predictability <i>What is the status of predictability in country?</i> <i>What is the country doing to enhance the level of predictability and mitigate the effects of uncertainty and unpredictability?</i>	Aid predictability <i>What is the status of aid predictability in country?</i> <i>What are donors doing to minimize and mitigate the effects of unpredictability of aid?</i>
Short term	e.g. ability for Parliament to hold government accountable based on transparent and comprehensive budget law	<ul style="list-style-type: none"> (a) PEFA Indicator PI-11 (i) existence and adherence to a fixed budget calendar and (iii) timely budget approval by the legislature. (b) Existence of a Ministry of Finance or Central Bank strategy for smoothing expenditure patterns. 	<ul style="list-style-type: none"> (a) Paris Declaration indicator 7: differentiating donor and government perspectives (Actual disbursements for fiscal year against planned – as measured by donor; actual disbursements for fiscal year against planned in budget law – as measured by government). (b) Paris Declaration indicator 3: proportion of aid appearing in budget law. (c) PEFA indicator PI-7. Extent of unreported government operations (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports. (d) PEFA indicator D-2 Financial information provided by donors for budgeting and reporting on project and programme aid (i) Completeness and timeliness of budget estimates by donors for project support. (e) Difference between donor pledges and government estimates. (f) Proportion of sector funding that is earmarked, and rigidity of earmarking. (g) Country specific indicators if available.

	Issues posed by lack of predictability of aid or of national processes	Country level predictability <i>What is the status of predictability in country?</i> <i>What is the country doing to enhance the level of predictability and mitigate the effects of uncertainty and unpredictability?</i>	Aid predictability <i>What is the status of aid predictability in country?</i> <i>What are donors doing to minimize and mitigate the effects of unpredictability of aid?</i>
In year	e.g. predictability of transfers to service delivery entities	<p>(a) Budget execution (PEFA indicator PI-1 Aggregate expenditure out-turn compared to original approved budget; PI-2 Composition of expenditure out-turn compared to original approved budget; PI-3 Aggregate revenue out-turn compared to original approved budget)</p> <p>(b) Budget execution at lower levels (PEFA indicator PI-8. Transparency of Inter-Governmental Fiscal Relations (ii) Timeliness of reliable information to Sub National (SN) governments on their allocations from central government for the coming year; PI-4. Stock and monitoring of expenditure payment arrears. (i) Stock of expenditure payment arrears; PI-16 Predictability in the availability of funds for commitment of expenditures ; (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment; (iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of line ministries (LMs)).</p>	<p>(a) Difference between donor-measured actual and actual reported by government (in budget execution report or in public accounts)</p> <p>(b) Budget execution ratio (development budget/externally financed projects)</p> <p>(c) PEFA indicator D-1 Predictability of Direct Budget Support (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the Government submitting its budget proposals to the legislature (or equivalent approving body); (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)</p> <p>(d) PEFA indicator D-2 Financial information provided by donors for budgeting and reporting on project and programme aid (ii) Frequency and coverage of reporting by donors on actual donor flows for project support.</p> <p>(e) Analysis of delays in project implementation (if available)</p> <p>(f) Country-specific indicators if available.</p>

Table A2 Assessing the effectiveness of donor/government practices (or joint initiatives) to improve predictability

	Transparency	Reliability and volatility	External factors and comments
Donor And Joint initiatives	<p><i>How do donor practices contribute to:</i></p> <p>(a) Availability of information to recipient government: is it transmitted to relevant stakeholders, is it transmitted officially, is it documented</p> <p>(b) Timeliness of provision of information: is information provided in time for government planning/budgeting/cash management; does it cover the number of years needed (for long and medium term)</p> <p>(c) Coverage of information: does it cover the whole of aid to government sector from each donor? Does it cover all aid modalities?</p> <p>(d) Quality of information: is it provided with adequate degree of detail (per sector and aid modality in the medium term, per government budget classification in the short term and regarding actual disbursements), does it include an indicative timing for disbursement forecasts (for short term and in year)</p>	<p><i>How do donor practices contribute to:</i></p> <p>(a) Timeliness of disbursements compared to plans:</p> <ul style="list-style-type: none"> • Minimizing risks of delays (e.g. simplifying procedures, using country systems) • Enhancing the quality of disbursement plans <p>(b) Reliability of commitments to predict actual disbursements:</p> <ul style="list-style-type: none"> • minimizing the gap between initial commitments and actual disbursements? • Enhancing the quality of forecasts/commitments • Enhancing the reliability of forecasts (e.g. by developing multi year country programmes, by signing multi year projects/programmes, by minimizing risk of decrease of aid allocated to country) • Clarifying the conditions for disbursements and the framework for evaluating performance • Clarifying the rules on which disbursements are based • Improving the designs of projects and programmes so that legitimate concerns about fiduciary standards or result-orientation do not have an un-necessary cost to predictability • Minimizing the impact of lower than expected disbursements (e.g. by making sure they take place the following year or by avoiding traceability or earmarking requirements) <p>(c) Minimizing risks of aid delay/suspension/surge</p>	<p>E.g.</p> <ul style="list-style-type: none"> • Constraints faced at country level (from HQ-related issues; from existing country processes) • Cases where actions are necessary but not sufficient (additional steps or scale required to ensure an effect; issue with use of information in addition to supply of information)

	Transparency	Reliability and volatility	External factors and comments
Recipient government	<p><i>How do government practices contribute to:</i></p> <p>(a) Clarify needs:</p> <ul style="list-style-type: none"> • Are government needs in terms of information and timing on future aid flows clear? • Are government needs in terms of future aid flows (to meet development objectives) clear? <p>(b) Developing efficient mechanisms for collecting information on aid forecasts and actual disbursements (e.g. streamlining information requests, ensuring they are in line with needs)</p> <p>(c) Enhance the transparency of information on future and actual aid flows</p> <ul style="list-style-type: none"> • Presentation in national budget • Presentation in national accounts • Transmission of information to relevant stakeholders (between line ministries and ministry of finance, between different levels of government, to parliament/civil society) 	<p><i>How do government practices contribute to:</i></p> <p>(a) Enhancing the timeliness of disbursements</p> <ul style="list-style-type: none"> • Of aid • Of funds to lower levels of government <p>(b) Enhancing the reliability of commitment data included in the budget</p> <ul style="list-style-type: none"> • For aid • For overall government budget <p>(c) Minimize the risk of disruptions in aid disbursements</p> <ul style="list-style-type: none"> • In relation to conditionality • In relation to project implementation <p>(d) Minimizing the volatility of funding</p> <ul style="list-style-type: none"> • From donors • To lower levels of government 	<p>E.g.</p> <ul style="list-style-type: none"> • wider institutional constraints in-country; • complementary actions that are necessary for aid predictability measures to be effective

Annex B Aid Unpredictability and its Costs

The following extracts illustrate the findings about aid unpredictability and its costs as reported in the literature. (This Annex is reproduced from the Assessment Framework.)

How unpredictable is aid?

*Difference between commitments and disbursements*³³

- “the predictive power of donors’ commitments tends to be lower in poorer and in more aid-dependent countries” (Bulir and Hamann 2003)
- “In our dataset, sub-Saharan African countries received 1 percent of GDP more in disbursements on an annual basis than had been committed by donors during 1990–2005, although the magnitude of excess disbursements has declined in recent years. By contrast, countries in the Middle East, Latin America and transition economies typically received less disbursements than were originally committed... During 1990–2005, on average annual aid disbursements deviated by 3.4 percent of GDP from aid commitments in Sub-Saharan Africa. However, there has been a positive trend, with a decline in absolute deviations from 4.4 percent on average during 1990-1997 to 2.8 percent during 1998--2005, the numbers remain large. Other regions also show deviations of disbursements and commitments in a range of 1.7–2.4 percent of GDP on average during 1990–2005.” (Celasun and Walliser 2007, p11)
- “On average, actual aid delivery falls short of promises by more than 40 percent, in particular in the poorest countries. Furthermore, there is little evidence that aid predictability improved recently. While promises of future aid became more predictable in the 1980s as compared to the 1970s, the trend stopped in the 1990s and indeed in 1999-2001 disbursements fell short of commitments by more than 50 percent ... In other words, donors promised one-half more than they disbursed. Indeed, in 1999-2001, the last period for which aid commitments are available, the commitment-to-disbursement ratio was at its highest level for 20 years. Moreover, we find evidence that the increase in the commitment-to disbursement ratio was driven by larger commitments During 1999-2001 commitments increased by about 4 percent, while disbursements declined by some 5 percent as compared to 1995-98... While countries at the upper end of the income scale have on average received as much aid as promised, countries at the lower end of the income scale have received only about 50 percent of promised aid.” (Bulir and Hamann 2005, p10)
- “The Survey series is beginning to provide additional evidence about the predictability of donors’ intentions, as this year it was possible to compare 2008 outturn with previously reported intentions. The good news is that overall outturn was estimated to some 104% of the reported intentions in last year’s survey, indicating a modest conservatism in donors’ predictions. The less good news is that there are large, mostly mutually offsetting variations in predictability, up and down, for several reporting donors, which will need to be investigated in more detail for next year’s Survey, where it is intended to begin to publish donor-specific predictability ratios.” (OECD DAC 2009a)

Aid volatility compared to other macro variables

- “ODA is much more volatile than major macro variables: five times as volatile as GDP and three times as volatile as exports for the average recipient. ODA typically magnifies real business cycles in recipient countries...” (Kharas 2008 p1)

³³ Note that a difference between commitments and disbursements is not absolute proof of unpredictability, since a shortfall is predictable if it results from a failure to fulfil conditions known in advance.

- “Aid is substantially more volatile than fiscal revenue and this relative volatility increases with the degree of aid dependency as measured by the aid-to-revenue ratio... shortfalls in aid tend to coincide with shortfalls in domestic revenue (an indirect measure of the procyclicality of aid) and that countries that suffer from revenue volatility also exhibit higher volatility in aid receipts, perhaps because both revenue and aid fluctuations are driven by domestic policy instability.” (Bulir and Hamann 2003)

What are the costs of (volatility and) unpredictability?³⁴

Impact on growth

- “Aid volatility has a significant negative impact on growth. This effect is robust across different country groups and different specifications in the growth equation. Moreover, aid flows only have a significant positive effect on economic growth after conditioning on the negative impact of uncertainty.” (Lensink and Morrissey 2000)

Impact on allocative efficiency and progress toward the MDGs

- “aid is frequently much less predictable than domestic revenue sources, and much aid that is disbursed is not included in public budgets and accounts. Partner governments’ task of deploying scarce resources effectively is extraordinarily difficult if a significant part of public resources is unpredictable and/or non-transparent. Naturally, this matters most to the poorest countries, which are the most aid-dependent. To achieve the MDGs, governments will need to plan consistently for the medium and long term and to optimise resource allocations within and across sectors. ... Reasonable predictability of budget implementation is necessary so that budget holders can utilize resources efficiently in service delivery and so that the planning and budgeting process itself is credible.” (OECD DAC 2006a)
- “More predictable aid... would improve recipient countries’ ability to plan for aid flows and allow them to more effectively execute the activities financed with such aid. Low predictability, by contrast, is costly by requiring adjustments to government consumption and investment plans, with potentially harmful effects on the objectives attached to the spending of aid resources” (Celasun and Walliser 2007 p1)
- “Low predictability generates the need for governments to adjust their spending plans in response to “aid surprises” and thus has inherent destabilizing characteristics... Aid-dependent low-income country normally cannot access international capital markets to smooth government spending and buffer “aid shocks” resulting from low predictability... ” (Celasun and Walliser 2007 p3)
- “Countries do not use excess disbursement for additional spending but instead save them or use them for higher recurrent spending. Domestic investment does not recover the spending lost during times of aid shortfalls when disbursements exceed projections. ...The inability to steadily implement domestic investments may have important repercussions for governments’ growth objectives and represent a permanent loss of output associated with low budget aid predictability.” (Celasun and Walliser 2007 p24-25)
- “The expenditure programmes designed to meet [the MDGs] envisage a substantial growth in the size of the public sector and entail expenditures that would be difficult to scale down rapidly if required, on political grounds if not otherwise. For this reason, even when the public expenditure profiles advocated by donors are consistent with their own long-term preferences, recipient governments may be reluctant to scale up expenditure as far or as fast

³⁴ As several of these quotes show, the literature often conflates volatility and unpredictability; nevertheless the consequences are real.

as donors would wish, unless donors can make credible commitments to provide predictable long-term support." (O'Connell et al 2008 p2)

Impact on Public Finance Management

- "Aid predictability is generally recognised to be an important factor in the ability of countries to manage public finances and undertake realistic planning for development." (OECD DAC 2007a p21)
- "danger of a low-level equilibrium: countries, budgeting prudently within a sound medium-term fiscal framework, will discount pledges of assistance; donors will see few funding gaps, this in turn will cause pledges and commitments to fall." (Eifert and Gelb 2008 p2068)

Cost in terms of aid value

- "The deadweight loss associated with aid volatility is between 15 and 20 percent of the total value of aid in recent years. At current aid levels, this loss is about \$16 billion. From the average recipient's perspective, the deadweight loss is about 1.9 percent of GDP. Volatility costs between \$0.07 and \$0.28 per dollar of aid, depending on the donor." (Kharas 2008 p1)

Annex C Paris & Accra Commitments on Predictability and Progress in Implementation

PD and AAA commitments that relate to predictability

Reproduced below are the Paris and Accra commitments that relate, directly and indirectly, to predictability (emphasis added).

Paris Declaration 2005

Donors commit to:

- ...**Draw conditions, whenever possible, from a partner’s national development strategy** or its annual review of progress in implementing this strategy.
- ...**Link funding to a single framework of conditions** and/or a manageable set of indicators derived from the national development strategy.
- ...**Adopt harmonised performance assessment frameworks** for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets.
- ...**Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion** according to agreed schedules
- ...**Provide timely, transparent and comprehensive information on aid flows** so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.
- Partner countries commit to:
- ...Translate these national development strategies into prioritised results-oriented operational programmes as expressed in **medium-term expenditure frameworks** and annual budgets
- ...Strengthen the linkages between national development strategies and annual and **multi-annual budget processes**.

Accra Agenda for Action 2008

We will take the following actions to improve the predictability of aid:

- a) Developing countries will strengthen budget planning processes for managing domestic and external resources and will improve the linkages between expenditures and results over the medium term.
- b) Beginning now, **donors will provide full and timely information on annual commitments and actual disbursements** so that developing countries are in a position to accurately record all aid flows in their budget estimates and their accounting systems.
- c) Beginning now, **donors will provide developing countries with regular and timely information on their rolling three- to five-year forward expenditure and/or implementation plans, with at least indicative resource allocations** that developing countries can integrate in their medium-term planning and macroeconomic frameworks. Donors will address any constraints to providing such information.
- d) Developing countries and donors will **work together at the international level on ways of further improving the medium-term predictability of aid, including by developing tools to measure it**.

We ... will continue to change the nature of conditionality by taking the following actions:

- a) Donors will work with developing countries to agree on a **limited set of mutually agreed conditions based on national development strategies**. ...

- b) Beginning now, **donors and developing countries will regularly make public all conditions** linked to disbursements.
- c) Developing countries and donors will **work together at the international level to review, document and disseminate good practices on conditionality ...**

Monitoring of commitments through the Paris Declaration evaluations

Relevant indicators

The Paris Declaration Indicators 3 and 7 address predictability.

Indicator 3: Aid flows are aligned on national priorities / Aid flows are accurately recorded in country budgets

What is measured: The total volume of aid recorded in countries' annual budgets [as per recipient country measurement] as a percentage of donors' disbursements [as per donor country disbursement records].

Objective: The objective is to improve transparency and accountability by encouraging partner countries and donors to accurately record aid as much as possible in the national budget, thereby allowing scrutiny by parliaments.

Target: Halve the gap — halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).

Indicator 7: Aid is more predictable within the year it is scheduled.

What is measured: Percent of aid disbursements [as per recipient country measurement] released according to agreed schedules [as per donor country plans] in annual or multi-year frameworks.

Objective: The objective is two-fold. First and foremost, to encourage disbursements of funds within the year they are scheduled. Second, to encourage accurate recording of disbursements by partner authorities. Both objectives require strong co-operation between donors and partner authorities.

Target: Halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.

What the indicators measure (and don't measure)

These indicators focus exclusively on short term (annual) predictability, on the reliability component (indicator 7) and on the transparency component (indicators 3 and 7). A number of the other dimensions of predictability have not been captured, including:

- long-term predictability (reliability and transparency of aid 5 years+)
- medium-term predictability (reliability and transparency of aid 1-3 years)
- in-year predictability (within year reliability and transparency of aid commitments and disbursements)

Papers from the World Bank (World Bank 2009a) and from Germany (Eckardt 2009) have pointed out potential inconsistencies in indicators 3 and 7, derived from the fact that a mixture of donor and recipient perspectives is used in arriving at the indicator scores.

In practice, the data collected by the PD monitoring surveys do allow separate analysis of commitments and disbursements as recorded by donors and of expectations and on-budget expenditures as recorded by partner governments. The headline indicator scores provide a broad indication that predictability remains a problem, but disaggregation is necessary in order to

understand what lies behind movements in the indicators and to interpret progress towards the PD targets. (Volume IV: Aid Predictability – Donor Profiles)

In addition there are concerns on the quality of the data collected through the Paris Declaration surveys. Therefore results should be interpreted with caution, in particular the comparisons across the years of the survey or between countries.

Findings from the Paris Declaration evaluations

Three rounds of monitoring of the implementation of the Paris Declaration have been completed (2006, 2008, 2011). Volume IV: Aid Predictability – Donor Profiles provides detailed information on the performance on indicators 3 and 7. Here is a brief summary:

After five years of implementing the Paris Declaration commitments, the results are disappointing.

The 2008 Survey (2007 data) reported minimal progress (48% aid flows recorded in the government budget and 47% aid recorded as disbursed). The 2008 Survey Report optimistically concluded from this that indicators 3 and 7 required efforts (with considerable acceleration of change in the majority of countries needed) but were “within reach”.

However, the 2011 Survey shows no progress on indicator 3 and 7 on average³⁵ for the 32 countries in the Survey:

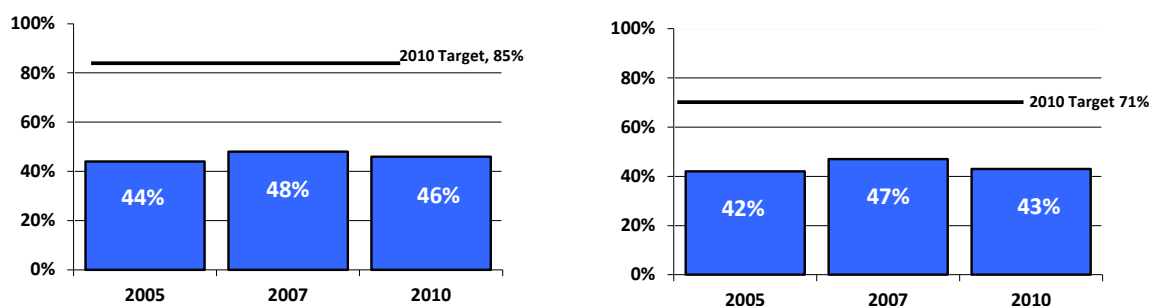
- the average aid flows recorded in government budgets at the country level compared with donors’ data slid back to 46% (and for all 78 countries participating in the 2011 Survey the average performance is only 41%);
- the average aid recorded by governments as disbursed compared with donors’ schedules at the country-level has fallen to 43% (and for all 78 countries the average performance is 37%).³⁶

³⁵ The global values for indicators 3 and 7 are an un-weighted average of all of the individual donor-partner country calculations. According to OECD: “*These individual calculations address the challenge presented by over- and under-estimation by inverting the numerator and denominator to ensure that the ratio presented is always less than or equal to 100%. This offers a more realistic – albeit un-weighted – indicator of progress*” (OECD 2011: 112)..

³⁶ When more aid is recorded by government on budget than is reported by donors or when government accounts record more disbursed aid than the donor scheduled, the ratio is inverted to avoid cancelling out of under- and over- results (OECD, 2011b: 74).

Figure 1 Paris Declaration indicators 3 and 7 average performance in 32 Countries

% aid for the government sector recorded on budget (indicator 3) % aid for the government sector recorded as disbursed as scheduled (indicator 7)



Source: OECD 2011b: 48, 74.

The Surveys have reported discrepancies in both directions as budgets both under-estimated and over-estimated aid flows. The overriding trend is that in most countries, governments captured only a fraction of all aid. Similarly the Survey finds patterns of both under- and over-recording of aid in government accounts compared with donor disbursement schedules.

There are large variances in performance at the aggregate level in individual countries and by each donor. However, the aggregate data should be treated with caution because:

- The Survey is designed to track country-level efforts not donor worldwide efforts: the donor aggregate data comes from diverse country contexts; the coverage of data individual donors' aid programmes can vary significantly across the Surveys; also it may understate efforts of donors' providing aid through delegated or joint funding mechanisms (OECD 2011b: 27, 99).
- At the country level over- and under- performance of aid on budget and aid predictability cancel each other out (*Ibid.*: 112).