Collaborative Africa Budget Reform Initiative

Putting aid on budget

Synthesis report

APRIL
2008

CONTENTS

BOXES

THE PUTTING AID ON BUDGET STUDY

The Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned a comprehensive study of putting aid on budget. The study has the following outputs:

- An **inception report** (Putting Aid On Budget Inception Report), which defines the issues and research methodology.
- **Ten country studies from Sub-Saharan Africa.** Of the ten country studies, Ghana, Mali, Mozambique, Rwanda and Uganda were studied in depth, and separate country reports are available. The experiences of Burkina Faso, Ethiopia, Kenya, South Africa and Tanzania were also reviewed and summary information is included in the Synthesis Report annexes. Findings from all ten countries are included in the Synthesis Report.
- A **literature review** (Putting Aid On Budget Literature Review), which: documents existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; reviews the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and documents relevant experiences of efforts to capture aid in government budgets, including desk reviews of some additional countries, including countries from outside Africa.
- A **synthesis report** (Putting Aid On Budget Synthesis Report), which draws on all the other study components to develop overall findings and recommendations.
- A **good practice note** (Good Practice Note: Using Country Budget Systems), which distils the lessons of the study and is aimed at donors as well as partner governments.

Full reference details are given in the bibliography.

The reports can be downloaded from the CABRI website at http://www.cabri-sbo.org

ACKNOWLEDGEMENTS

This report was jointly commissioned by the Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) and financed by the UK Department for International Development (DFID), with additional support from the Japan International Cooperation Agency (JICA) for the Putting Aid On Budget Literature Review. The report was prepared by an independent study team from Mokoro Ltd. The team was led by Stephen Lister and included: Mary Betley, Rupert Bladon, Rebecca Carter, Mailan Chiche, Alta Fölscher, Piet Lanser, Alex Warren-Rodriguez and Tim Williamson. Support to the study was provided by Philip Lister and Daniel Ross.

CABRI, SPA and the study team would like to express their gratitude to the senior government budget officials of Burkina Faso, Ethiopia, Kenya, Ghana, Mali, Mozambique, Rwanda, South Africa, Tanzania and Uganda for their valuable input into the study. CABRI, SPA and the study team would also particularly like to thank Aarti Shah and Neil Cole of CABRI for their valuable inputs, and Peter Dearden of DFID and Jiro Otsuka of JICA for their support during the study.

The report was prepared in consultation with aid agencies and other organisations, including: the African Development Bank (AfDB), the Asian Development Bank (AsDB), the German Federal Ministry for Economic Cooperation and Development (BMZ), the Canadian International Development Agency (CIDA), the Danish International Development Agency (Danida), DFID, the European Commission (EC), the German Agency for Technical Cooperation (GTZ), the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), Irish Aid, JICA, the Netherlands, the Norwegian Agency for Development Cooperation (Norad), the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC), the Public Expenditure and Financial Accountability (PEFA) Secretariat, the Swedish International Development Cooperation Agency (Sida), the United Nations Development Programme (UNDP) and the United States Agency for International Development (USAID). The cooperation and support of staff of these institutions is gratefully acknowledged.

LIST OF ACRONYMS

ACRONYM	DESCRIPTION
AAP	assessment and action plans
AfDB	African Development Bank
AsDB	Asian Development Bank
AIMS	aid information management system
AMP	Aid Management Platform (Ethiopia)
BF	basket funding
BS	budget support
BMZ	German Federal Ministry for Economic Cooperation and Development
CABRI	Collaborative Africa Budget Reform Initiative
CIDA	Canadian International Development Agency
CIPFA	Chartered Institute of Public Finance and Accountancy
CPIA	country policy and institutional assessment
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development (UK)
EC	European Commission
GBS	general budget support
GNI	gross national income
GTZ	German Agency for Technical Cooperation
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IDB	Inter-American Development Bank
IFAC	International Federation of Accountants
IFMIS	integrated financial management information system
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
JICA	Japan International Cooperation Agency
LGDP	Local Government Development Programme
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals

MDAs	ministries, departments and agencies
MDBS	multi-donor budget support
MTEF	medium-term expenditure framework
Norad	Norwegian Agency for Development Cooperation
OECD	Organisation for Economic Co-operation and Development
ODA	official development assistance
ODI	Overseas Development Institute
PBS	Protection of Basic Services (Ethiopia)
PEFA	Public Expenditure and Financial Accountability
PER	public expenditure review
PFM	public finance management
PIU	project implementation unit
PRS	poverty reduction strategy
PRSP	poverty reduction strategy paper
RDP	Reconstruction and Development Programme (South Africa)
SBS	sector budget support
SBAS	Strategic Budget Allocation System (Tanzania)
Sida	Swedish International Cooperation Agency
SPA	Strategic Partnership with Africa
SSA	Sub-Saharan Africa
STA	single treasury account
SWAp	sector wide approach
TA	technical assistance
TOR	terms of reference
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

1

INTRODUCTION

This chapter explains the objectives of this study, describes the study components that have fed into this Synthesis Report, and outlines the structure of the Synthesis Report.

1.1 Terms of reference (TOR)

The Paris Declaration has put the use of government systems at the centre of the international aid effectiveness agenda. Several of its indicators relate directly or indirectly to putting "aid on budget", which has thus gained prominence as a joint concern of governments and donors.

Against this background, the Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned the present study on putting aid on budget. In essence, the study's aim is:

> to produce outputs which will better equip governments in Sub-Saharan Africa to lead country-level processes to ensure external development assistance (aid) flows are properly reflected in national budget documents, ex ante (budget presented to legislature) and ex post (out-turn accounts).

While the study is particularly intended to help Sub-Saharan African (SSA) countries that receive substantial aid flows, its scope is broader. It is one of the first attempts to examine the issue of putting aid on budget in a more systematic way, drawing on evidence from a wide range of countries. The TOR required a literature review of existing good practice, a study of country practices in at least ten African countries, a more in-depth investigation of what works and what does not in some of the countries that were subject to case studies, and the preparation of a synthesis report and a good practice note based on the research results.

1.2 Approach and outputs

The study methodology is set out in the Putting Aid On Budget Inception Report and is strongly reflected in Chapter 2 of this report ("Basic concepts").

Case studies of ten SSA countries formed the core of the study. The Annex to this report (Summary of Country Study Findings) assembles the main findings from all ten countries, and is a separate publication. A standard factual analysis was conducted in all countries, with more in-depth studies carried out in five (those listed as Group B below). Free-standing reports on the Group B countries are also being published. These look more closely at the reasons behind the levels of aid capture that were found. (See the Bibliography[1] for details of all the study outputs.)

1 At the end of this report.

CASE STUDIES	
Group A	Group B
Burkina Faso	Ghana
Ethiopia	Mali
Kenya	Mozambique
South Africa	Rwanda
Tanzania	Uganda

The case studies did not involve a new quantitative survey. In each country, researchers assembled the best available information from existing sources[2] and focused especially on trying to explain the patterns of aid capture that were found. All the researchers were already familiar with the countries concerned, and they were assisted by the involvement of the senior budget officers linked to CABRI and key donor representatives. Drafts of the country findings were circulated to government and aid agency representatives for comment.

The research was supported by the Putting Aid On Budget Literature Review, which has been published separately. Box 1 shows the main requirements for the review and how they were addressed.

Box 1: The Putting Aid On Budget Literature Review

The Putting Aid On Budget Literature Review was required to:

- document existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets
  Section A looks at the international good practice guidance for putting aid on budget and documents the literature on: sound budgeting and financial management and the implications for aid management; the aid effectiveness consensus and the good practice principles for putting aid on budget; and how aid on budget is monitored.
- review the applicable policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets
  Section B provides illustrations of different donor approaches to putting aid on budget. The bilateral agencies covered are: Canada, Denmark, France, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, the United Kingdom and the United States. The multilateral organisations covered are: the African Development Bank (AfDB), the Asian Development Bank (AsDB) and the Inter-American Development Bank (IDB), the World Bank, the International Monetary Fund (IMF), the European Commission (EC) and the United Nations (UN).
- seek and document relevant experiences of efforts to capture aid in government budgets, focusing mainly on countries that were not case study countries in the main putting aid on budget consultancy, including countries from outside Africa
  Section C supplements the core case studies by profiling six other countries: the African region: Botswana and Senegal; the Asian region: Bangladesh and Vietnam; and the Latin American region: Bolivia and Nicaragua.

1.3 Structure of the Synthesis Report

An essential starting point is for there to be clarity about concepts and definitions. Chapter 2 ("Basic concepts") therefore highlights the multiple dimensions of "aid on budget", and the need for precision in the use of this and other terminology. This is closely linked to Chapter 3's ("Why should aid be on budget?") review of the rationale for putting aid on budget. This provides the context and criteria for assessing the quality of aid capture. Chapter 3 also notes the most relevant donor diagnostics, good practice guidance and targets.

2 See Chapter 4 for a discussion on available quantitative and standardised assessments.

As noted earlier, this study did not undertake a country-by-country quantitative survey. Nevertheless, Chapter 4 ("How much aid is on budget?") reviews the available evidence for the extent of aid capture at various stages in the budget process, and for the quality of the public finance management systems involved. This provides an essential background for the case studies.

Chapter 5 ("Approach to the case studies") explains the research methodology, including the choice of case study countries and the importance of understanding the perspectives and interests, and hence the incentives, of various stakeholders involved with aid and budgeting. The effective capture of aid on budget is more than a technical matter: it requires a good understanding of the institutional setting in which it takes place.

Chapter 6 ("Lessons from the case studies") highlights the main findings and conclusions from the country case studies. These are systematically presented, country by country, in the Annex (Summary of Country Study Findings), and Chapter 6 therefore focuses on the main factors that help or hinder efforts to ensure that aid is usefully captured during the budget cycle.

Finally, based on these findings, Chapter 7 ("Conclusions and recommendations") offers good practice recommendations for governments and aid agencies.

2

BASIC CONCEPTS

This chapter explains the concepts and terminology used throughout the report, identifies the different dimensions of "on budget", and draws attention to some common areas of confusion.

2.1 Introduction

Discussions about putting "aid on budget" are easily undermined by inconsistencies in the use of terms and concepts. The Putting Aid On Budget Literature Review highlights different interpretations among donors.[3] (See also the discussion in Chapter 5 of this report.) The review also notes that the lack of consensus on practical definitions was one of the main challenges facing the first survey on the implementation of the Paris Declaration. In this chapter, therefore, the principal concepts and definitions used in this study are explained.

2.2 Aid

For the purposes of this study, "aid" means official development assistance (ODA), as defined by the OECD's Development Assistance Committee (DAC).[4] ODA includes both grants and (soft) loans, as well as contributions in cash and in kind. Distinguishing between these different types of aid is important, as the use of particular forms of ODA affects the likelihood of aid being captured in budgets.

The relevant Paris Declaration indicators and targets cover all aid to the government sector. (See Box 2.)

Box 2: Paris Declaration commitments cover all aid to the government sector

The Paris Declaration commitment to putting aid on budget covers all aid that is disbursed for the government sector, regardless of how the aid is executed. The OECD provided the following definition of "disbursements for the government sector" that were monitored for the aid on budget targets for the 2006 Survey on Monitoring the Paris Declaration:

> The disbursement of ODA in the context of an agreement with the government sector including works, goods or services delegated or subcontracted by government to other entities (e.g. NGOs, private companies). The government sector is defined as: *administrations – ministries, departments, agencies or municipalities – authorised to receive revenue or undertake expenditures on behalf of central government.*

Source: OECD Development Assistance Committee, 2006b.

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3 For the sake of brevity the term "donor" is used to cover all aid agencies providing ODA, including ODA loans/credits as well as grants.

4 "Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 per cent]. In addition to financial flows, Technical Co-operation (q.v.) is included in aid. Grants, Loans and credits for military purposes are excluded." (Development Co-operation Directorate, DAC's Glossary, www.oecd.org.)

2.3 The different dimensions of "on budget"

The study is concerned with official government budgets. While at one level, it should be apparent from the budget documents whether aid has been incorporated or not, this is not entirely straightforward:

- Budgets may or may not show aid as a *source* of budget finance in general, and/or track the *use* of aid to particular expenditure lines.
- In either case, presentations may be highly aggregated or quite detailed.
- There may also be differences between the presentation of a budget ex ante (before expenditure takes place) and various ex post presentations. The final version of the budget typically takes account of adjustments during the year, and the record of actual expenditures against the budget may differ again.

Furthermore, there is rarely only one relevant budget:

- Budgets frequently appear in draft, final, and amended versions.
- There may be a multiplicity of government budgets. (This is typically the case in federal or other decentralised systems.)
- Even for a central government budget, there are numerous budget holders (and time lags before information reaches them).

In addition, budget documents need to be seen as punctuation marks in a continuing budget process. Aid may feature more or less effectively at different stages of the budget process. "Aid on budget" correspondingly has different dimensions. Box 3 defines the dimensions on which this study focuses.

Box 3: Different dimensions of on budget/capturing aid

Term	Definition
On plan	Programme and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget[a]	External financing, including programme and project financing, and its intended use are reported in the budget documentation.
On parliament (or "through budget")	External financing is included in the revenue and appropriations approved by parliament.
On treasury	External financing is disbursed into the main revenue funds of government and managed through government's systems.
On accounting	External financing is recorded and accounted for in government's accounting system, in line with government's classification system.
On audit	External financing is audited by government's auditing system.
On report	External financing is included in ex post reports by government.

Source: Putting Aid On Budget Inception Report.

a It should be clear from the context if "on budget" is meant in a more general sense than this precise definition. The term "on system" is also used for this wider sense.

This framework was applied in the country studies, and in the analysis of issues generally. It proved to be very helpful in clarifying the ambiguities which bedevil this subject, and it also provides the structure of country-by-country findings presented in the Annex to this report (Summary of Country Study Findings).

Box 3 is not exhaustive: there are other dimensions of government systems that may also be relevant. "On procurement" is an example. Externally financed expenditures may or may not follow the government's standard procurement procedures, and several of the country studies noted that the perceived quality of government procurement systems was also an important influence on the capture of aid in other dimensions.

2.4 Disbursement channels

When discussing the "on treasury" dimension, it is important to be precise about different possible disbursement channels for aid. Three main channels have been identified:

- Channel 1 is the normal channel used for government's own-funded expenditures. Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the ministries, departments or agencies (MDAs) responsible for budget execution. Note that Channel 1 funds may or may not be earmarked for specific expenditures.
- In Channel 2, external funds are provided directly to a particular MDA – most often a sector ministry,[5] and managed through special accounts outside of the regular government system. Thus, Channel 2 funds, although held by a government body, do not follow the normal government procedures.
- In Channel 3, expenditure is undertaken by the donor agency itself or by non-government agents on its behalf. Assets or services are delivered to the government in kind, but government does not handle the funds itself.

It is important to note that:

- Funds that are disbursed via government do not necessarily follow regular government channels, and may or may not be "on budget". This applies especially to Channel 2 funds, but can apply also to Channel 1.[6]
- Funds that are not disbursed via government (Channel 3) are often completely off budget, but this need not be the case. It is possible for these funds to be anticipated in government plans and to be recorded in government budgets and accounts.

2.5 Complex patterns of aid capture

Aid may be captured on some of the dimensions defined in Box 3 above, and not on others. There are many possible permutations, and the study's findings at country level reflect this complexity. Box 4 illustrates the pattern found in Tanzania.

2.6 Misconceptions to avoid

The discussion of bringing aid on budget is often confused by a misunderstanding of the issues. Five common areas of confusion are discussed below:

- "**Aid on budget" is not a synonym for budget support**. To quote the definition used in the OECD DAC evaluation of general budget support:

  > The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences [e.g. between general and sector budget support] then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality. (IDD & Associates, 2006)

  Thus, budget support is, by definition, on budget.[7] However, other aid modalities, including project aid, technical assistance and other forms of aid in kind can also be on budget.

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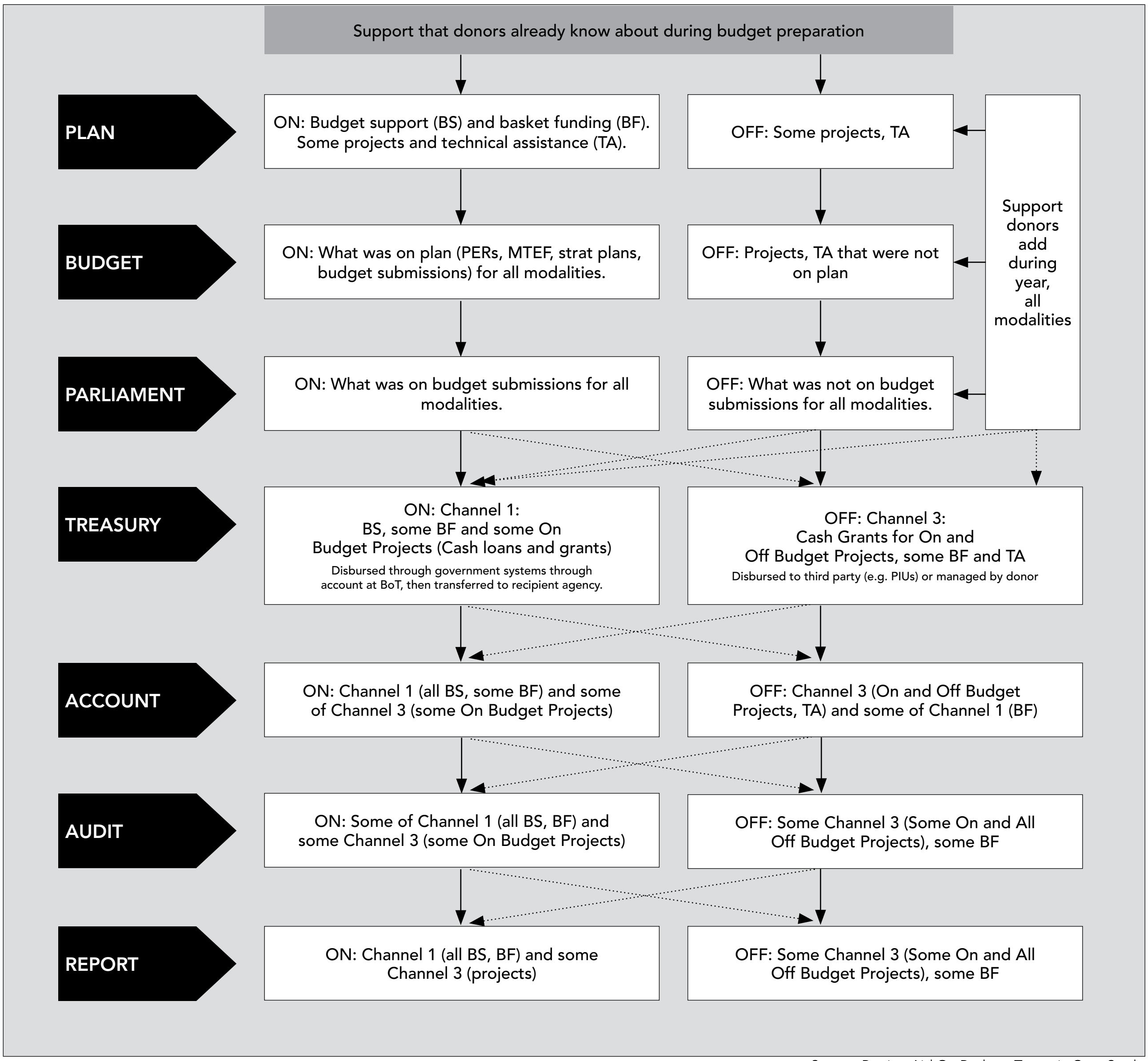
5 Channel 2 funds may be administered by a project implementation unit (PIU) under the control of government.
6 For example, UN system projects that follow "national execution" procedures are typically off treasury, and often also off budget in other relevant dimensions.
7 However, this study found examples where budget support was not made clearly visible in budget documents as a source of finance.

Box 4: Complex patterns of aid capture in Tanzania



Source: Putting Aid On Budget: Tanzania Case Study.

- Sector budget support, similarly, should be on budget by definition. But **the term "sector budget support" (SBS) is often used inaccurately**:
  - o Part of the standard definition of budget support (above) is that it is not linked to specific project activities. However, in some country cases, the term sector budget support is used to describe funding that is very tightly earmarked ex ante to specific budget lines.[8]
  - o Equally, sector budget support, by definition, uses government's own allocation, procurement and accounting systems. However, pooled funding arrangements that do not use regular government systems are often wrongly described as sector budget support.
- **The term sector wide approach (SWAp) is not synonymous with pooled funding (or basket funds)**. The discussion about whether aid is on budget needs to consider specific aid instruments. However, a SWAp is not itself a specific aid instrument but a way of working at sector level. A SWAp may be supported by a variety of aid instruments: a pooled donor fund is one possibility, but a SWAp may also

8 See Putting Aid On Budget: Mali Case Study and Putting Aid On Budget: Burkina Faso Case Study.

(and at the same time) be supported by other instruments, including projects and both general and sector budget support (OECD Development Assistance Committee, 2006b).

- **Projects are not necessarily off budget.** The use of parallel systems is a very common feature of externally funded projects, and bypassing country systems has often been part of the rationale for using the project modality. However, it is quite possible for project aid to be on budget at some or all of the stages of the budget cycle. It is therefore not at all helpful to imply that the use of parallel systems is an automatic feature of project aid.[9] Using project terminology in this way can easily reinforce the misconception that shifting to budget support is the only way to bring more aid on budget.
- **Putting aid on budget is not just a matter of donors informing governments about their aid disbursements.** There is a fundamental difference between reporting aid on budget (providing information that can be included in budget documents) and integrating aid on budget (actually using government systems at the different stages of the budget cycle). Reporting and integration are not mutually exclusive activities, but reporting will not necessarily result in the same benefits as can be achieved from integration. (See additional discussion in Chapter 5, especially Box 17.)

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9 Some of the country case studies provide examples of such usage. Thus the Ghana country study noted: "In Ghana, a project is considered to be a set of activities with a common objective managed by a project implementation unit and financed by resources which are kept in separate bank accounts (usually government-designated) not linked to the Consolidated Fund" (Putting Aid On Budget: Ghana Case Study). A similar usage was found in Mali. (Putting Aid On Budget: Mali Case Study).

3

WHY SHOULD AID BE ON BUDGET?

This chapter explains the rationale for putting aid on budget and notes the main international commitments that support putting aid on budget.

3.1 Introduction

Judging whether aid is usefully captured in the budget process requires an understanding of why capturing it is considered desirable. This chapter summarises the reasons given for putting aid on budget. These are rooted in internationally accepted standards of public finance management (PFM) that apply equally to rich and poor countries and to both domestic and external resources. They are reflected in many governments' PFM reform agendas, in criteria for assessing PFM systems, especially the Public Expenditure and Financial Accountability (PEFA) diagnostic and in international aid effectiveness commitments. (These are encapsulated in the Paris Declaration, to which developing country governments as well as their aid partners are signatories.)

3.2 Reasons for capturing aid[10]

The conventional wisdom about putting aid on budget draws on two interacting streams of thought – on public finance management, and on aid effectiveness. The underlying PFM arguments relate to the comprehensiveness, transparency and accountability of government financial activities. These are reinforced by aid effectiveness arguments for strengthening government systems.

Sound budgeting and financial management

There is general consensus that sound budgeting and financial management are based on the following principles:

- Budgets need to be *comprehensive* – include all revenues and expenditures – to enable governments to follow good macroeconomic management and promote allocative efficiency.
- Fiscal *transparency* – decision-makers have all relevant information – is a driving force for improving fiscal management.
- Transparency is also important to ensure *accountability* – decisions and their basis, results and costs are accessible, clear and communicated to the wider community – so that decision-makers are held responsible.

Aid constitutes a substantial share of public resources for many developing countries. How aid is managed is therefore an important determinant of overall public finance management. These good practice principles therefore imply that aid should be on budget.[11] If aid is not on budget then the budget cannot be comprehensive,

10 See the Putting Aid On Budget Literature Review for a fuller discussion.
11 Putting aid on budget as good practice was identified in the 1990s in public finance management seminal texts by Schick (1998), the World Bank (1998) and the International Monetary Fund (1998). See the Putting Aid On Budget Literature Review for further detail.

there cannot be full transparency of information and decision-makers cannot be held to account. Failure to capture aid has repercussions for the effectiveness of domestic resources (their allocation is less efficient if based only on a partial view) and often leads to unsustainable patterns of expenditure.

Aid effectiveness

It is in recipients' own interests to maximise aid effectiveness by combining aid effectively with domestic resources. And for their part, donors have both a developmental and a fiduciary interest in the quality of partner countries' public finance management. The OECD declared in 2006:

> Effective public finance management is crucial to countries making progress in reducing poverty. It is fundamental to both government performance and successful aid delivery. (OECD Development Assistance Committee, 2006b)

Both the Heavily Indebted Poor Countries (HIPC) initiative, focusing on the adequacy of government systems to allocate resources to pro-poor activities, and the poverty reduction strategy (PRS) approach, working to link priorities with domestic and external resources, have helped to focus attention on government strategic budgeting and allocative efficiency. As a result, donors have been paying more attention to the comprehensiveness and transparency of government budgets, and, as part of that, to what extent aid is and is not on budget.

One important aim of the PRS approach was to provide a framework for facilitating donor alignment with country priorities and facilitating donor use of country systems to deliver aid. Revised assessments of the effectiveness of aid in the 1990s concluded that inappropriate aid modalities had been part of the problem. Sometimes the non-capture of aid by the government accounting system was a direct consequence of donor financing arrangements when accountability to donors was ensured at the expense of transparency and accountability in the recipient country (International Monetary Fund, 1998). Donor coordination was also an issue, with the many donors and their numerous programmes and projects making it difficult to keep track of how much was being spent and on what. For governments, this was a distraction from management of their own resources and tended to undermine their capacity to formulate and implement coherent policies.

Hence, there is a general consensus today that effective aid relies on country ownership of strategy and country leadership of aid management. Good practice principles adopted at the Rome High Level Forum in 2003 and further developed at the Paris High Level Forum in 2005 are based on the principle of donor alignment with partner countries' strategies and systems in order to ensure this country ownership. Using country systems is seen as an important way of strengthening them. It is also seen as a way of seeking sustainability, as parallel systems often wither when external funding ceases.

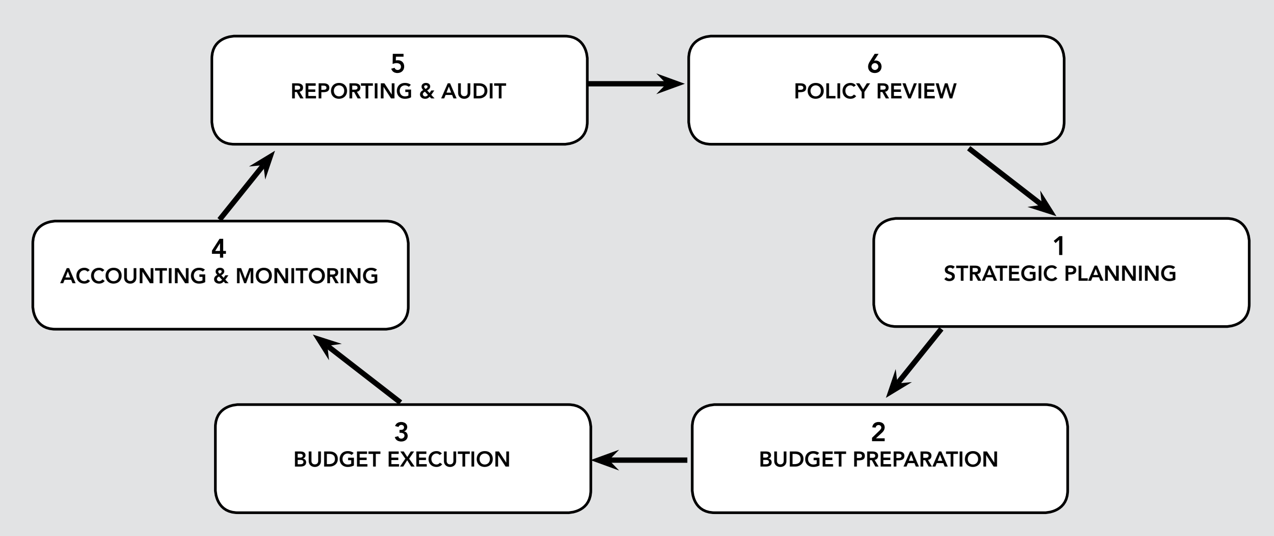
3.3 Aid and the budget cycle

As implied by the dimensions shown in Box 3, the alignment of aid with government systems should be seen in the context of the budget cycle. Aid may be (more or less) aligned with the government system during some stages of the budget cycle and not during others – as Box 4 illustrates in the case of Tanzania. And the rationale for aligning aid with the government systems is somewhat different for different parts of the cycle. (See Box 5.)

Whether capturing aid at any of these points will have the desired effects depends on:

- the quality of the information captured, in terms of its completeness, credibility (predictability), level of disaggregation and detail, and so on
- the ability to make use of the information, which will depend on its timeliness and accessibility (who has the information, and at what stage in the relevant process)
- the quality of the information and processes relating to non-aid resources. (The benefits of capturing aid are likely to be limited if the processes for managing domestic resources are dysfunctional.)

Box 5: Aid capture and the budget cycle



Stage	Relevance of capturing aid
1. Strategic planning	Resource mobilisation; macroeconomic discipline; integration of aid financed and government financed programmes; policy coherence; allocative efficiency.
2. Budget preparation	Resource mobilisation; fiscal discipline; integration of aid financed and government financed programmes; allocative efficiency; policy and spending coherence; spending capacity assessment; financial sustainability, including links between capital and forward recurrent spending; clarity on government's co-financing commitments; executive authorities' decisions on trade-offs informed by view of aid; scrutiny by parliament.
3. Budget execution	Timely aid disbursement, integrated cash flow projections; strengthening of operational planning; strengthening of procurement, commitment and payment systems, lower transaction costs; improved efficiency through coherent programme implementation.
4. Accounting and monitoring	Strengthened accounting systems; integrated financial information; monitoring of and accountability for aid disbursement; monitoring of aid transfers to lower level agencies; comprehensive and integrated monitoring of spending programmes to identify problems early.
5. Reporting and audit	Accountability for budget execution and achievement of policy results.
6. Policy review	Understanding aid effectiveness, and the contribution of aid to overall results (to feed into strategic planning).

3.4 International standards and targets

Standards for PFM

Under the PEFA initiative, a standardised PFM performance measurement framework was launched in June 2005.[12] The framework includes a set of high-level indicators (28 partner performance indicators and 3 donor performance indicators) which draw on a number of earlier assessment exercises and international standards. (See the Putting Aid On Budget Literature Review, Annex B, for further details.) The PEFA framework measures the operational performance of the PFM systems, processes and institutions against six core dimensions of PFM performance: credibility; comprehensiveness and transparency; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit.

12 "The Framework was developed between 2003 and 2005 through extensive consultations, including with the DAC Joint Venture on PFM, a group of African PFM experts, and government representatives from Eastern Europe and Central Asia. Comments were also received from practitioners within the World Bank, IMF, other PEFA partners, government agencies and professional organizations." (PEFA Secretariat, 2006a)

The full set of PEFA indicators is shown in Box 6, with the indicators of most direct relevance to putting aid on budget highlighted. However, none of these indicators addresses one dimension of putting aid on budget exclusively or precisely. They therefore need to be interpreted with care. (See further discussion in Chapter 4 below.)

Box 6: Overview of the PEFA indicator set

	A. PFM-outturns: Credibility of the budget
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
PI-4	Stock and monitoring of expenditure payment arrears
	B. Key cross-cutting issues: Comprehensiveness and transparency
PI-5	Classification of the budget
PI-6	Comprehensiveness of information included in budget documentation * NB: Coverage of aid funds or not does not explicitly enter this indicator.
PI-7	Extent of unreported government operations * NB: This is the key indicator of "capture" of donor funds in budgetary reports.
PI-8	Transparency of inter-governmental fiscal relations
PI-9	Oversight of aggregate fiscal risk from other public sector entities.
PI-10	Public access to key fiscal information
	C. Budget cycle
	C(i) Policy-based budgeting
PI-11	Orderliness and participation in the annual budget process
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
	C(ii) Predictability and control in budget execution
PI-13	Transparency of taxpayer obligations and liabilities
PI-14	Effectiveness of measures for taxpayer registration and tax assessment
PI-15	Effectiveness in collection of tax payments
PI-16	Predictability in the availability of funds for commitment of expenditures
PI-17	Recording and management of cash balances, debt and guarantees
PI-18	Effectiveness of payroll controls
PI-19	Competition, value for money and controls in procurement
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management
PI-21	Effectiveness of internal audit
	C(iii) Accounting, recording and reporting
PI-22	Timeliness and regularity of accounts reconciliation
PI-23	Availability of information on resources received by service delivery units
PI-24	Quality and timeliness of in-year budget reports
PI-25	Quality and timeliness of annual financial statements
	C(iv) External scrutiny and audit
PI-26	Scope, nature and follow-up of external audit
PI-27	Legislative scrutiny of the annual budget law
PI-28	Legislative scrutiny of external audit reports
	D. Donor practices
D-1	Predictability of direct budget support
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid
D-3	Proportion of aid that is managed by use of national procedures

Source: PEFA Secretariat, 2006a.

* These are the authors' comments.

Various PEFA indicators are directly relevant to the extent that they provide information about the degree to which aid is captured in the budget system; indicators may also be indirectly relevant for the light they shed on aspects of the underlying PFM system that affect the scope for bringing aid on budget, or the quality of its capture in the budget system. The particular relevance of each of the highlighted indicators is as follows:

Indicator		Relevance
PI-5	classification of the budget	on budget, on account
PI-6	comprehensiveness of information included in the budget documentation	on plan, on budget, on parliament
PI-7	capture of income and expenditure information for donor funded projects, even if they are not technically on budget or are managed outside of government's budget management and accounting system.	on budget, on account, on report
PI-27	legislative scrutiny of the annual budget law	on parliament
PI-28	legislative scrutiny of external audit reports	on parliament, on audit
D-1	predictability of direct budget support	on plan, on budget
D-2	degree to which donors provide financial information for budgeting and reporting on project and programme aid	on plan, on budget, on parliament, on audit, on report
D-3	proportion of aid funds that are managed by the use of national procedures	on budget, on treasury, on audit

Several of the other PEFA indicators also influence the potential benefits of putting aid on budget and donors' willingness to put aid on budget. (For example, PI-12 – multi-year perspective in fiscal planning, expenditure policy and budgeting – is highly relevant to the "on plan" dimension.) Moreover, the score for most indicators draws on several different sub-components. In some cases it may be worth highlighting specific sub-indicators, for example, component (i) of Indicator PI-7 does not relate to aid, but component (ii) focuses explicitly on the capture of aid in fiscal reports.

Relevant Paris Declaration commitments and targets

The Paris Declaration includes a wide range of reciprocal commitments by aid agencies and partner governments. These are relevant to putting aid on budget at all points of the budget cycle. (See Box 7.)

The Paris Declaration is supported by a set of 12 indicators with targets for 2010, developed to track and encourage progress against the broader set of partnership commitments. Three of these indicators are directly concerned with putting aid on budget. (See Box 8.)

Other international standards

There are other international standards and processes that are also focusing attention on putting aid on budget. The IMF Code and Manual of Good Practice on fiscal transparency (first introduced in 1998, with a revised version in April 2007) has new recommendations to strengthen the standard for reporting on external financing, calling for separate identification of aid in the budget.[13] Also relevant has been the work on the 2003 International Public Sector Accounting Standard (IPSAS) for cash-based financial reporting to develop mandatory and optional ("encouraged") disclosures on official development assistance. The cash-based standards are especially relevant to developing countries as the vast majority of their governments do not have accrual-based systems. (See also Box 30.)

13 "Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation" (International Monetary Fund, 2007b).

Chapter 4 provides a review of what is known about international performance against the key aid-on-budget indicators and targets described above.

Box 7: Paris Declaration commitments to putting aid on budget

Ownership

(14) Partner countries commit to:

- Exercise leadership in developing and implementing their national development strategies through broad consultative processes.
- Take the lead in coordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

(15) Donors commit to:

- Respect partner country leadership and help strengthen their capacity to exercise it.

Alignment

Donors align with partners' strategies

(16) Donors commit to:

- Base their overall support – country strategies, policy dialogues and development co-operation programmes – on partners' national development strategies and periodic reviews of progress in implementing these strategies (Indicator 3).

Donors use strengthened country systems

(21) Donors commit to:

- Use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures.
- Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.

Strengthen public financial management capacity

(25) Partners commit to:

- Publish timely, transparent and reliable reporting on budget execution.

(26) Donors commit to:

- Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules (Indicator 7).
- Rely, to the maximum extent possible, on transparent partner government budget and accounting mechanisms (Indicator 5).

Harmonisation

Donors implement common arrangements and simplify procedures

(32) Donors commit to:

- Implement, where feasible, common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. Increased use of programme-based aid modalities can contribute to this effect (Indicator 9).

Deliver effective aid in fragile states

(39) Donors commit to:

- Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.

Managing for results

(44) Partner countries commit to:

- Strengthen the linkages between national development strategies and annual and multi-annual budget process.

Mutual accountability

(48) Partner countries commit to:

- Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.

(49) Donors commit to:

- 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.

Source: Paris High Level Forum, 2005

Box 8: Paris Declaration indicators and targets for putting aid on budget

Indicator	Monitoring	Target
Indicator 3: Aid flows are aligned with national priorities	The gap between what was disbursed by donors for the government sector and what was actually recorded in the annual budget by government.	Halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget)
Indicator 5a: Use of country PFM systems	The volume of aid and the percentage of donors that uses a partner country PFM system as a percent of total aid provided to the government sector. Looks at the three components of a country's PFM procedures: i. national budget execution procedures ii. national financial reporting procedures iii. national auditing procedures.	Score 5+: all donors use partner countries PFM systems and a two-thirds reduction in the % of aid to the public sector not using partner countries PFM systems; Score 3.5–4.5: 90% all donors, and a one-third reduction[a]
Indicator 7: Aid is more predictable	The gap between aid scheduled and aid effectively disbursed and recorded in countries accounting systems. (Focuses specifically on in-year predictability of aid flows to the government sector.)	Halve the proportion of aid not disbursed within the fiscal year for which it was scheduled

Source: Paris High Level Forum, 2005; OECD Development Assistance Committee, 2006a.

a These are World Bank country policy and institutional assessment (CPIA) scores. (See Box 11.)

4

HOW MUCH AID IS ON BUDGET?

This chapter provides an overview of international efforts to monitor the proportion of aid that is on budget, and draws some tentative conclusions.

4.1 Introduction

This chapter assembles international data from various diagnostic instruments and surveys. It compares data for the ten main case study countries, plus some additional comparators. Some initial warnings are necessary: in most cases the data were not designed to permit international comparisons, and therefore need to be treated very cautiously; equally, there is a lack of reliable time series within countries; and the aid on budget case studies, and some observers, have highlighted further weaknesses in the main indicator set, from the 2006 Survey on Monitoring the Paris Declaration.

4.2 Survey on the implementation of the Paris Declaration

The 2006 Survey on Monitoring the Paris Declaration

The 2006 Survey on Monitoring the Paris Declaration reports on aid flows in 2005. Its data were collected from 34 self-selected countries and a comprehensive list of donor organisations covering 37 percent of the global aid programme (OECD, 2007a). Of the data available on country experiences of putting aid on budget, the Paris Declaration monitoring is the only quantified cross-country (and cross-donor) survey.

However, difficulties were experienced in relation to consistency in the application of definitions. The leeway that it allowed on the local application of definitions makes its data unreliable for comparisons across countries. The survey report recommends a more rigorous standardisation of measures for the next survey round (which is in 2008).[14] These problems have already undermined the possibility of reliable comparisons, even at the individual country level, between the 2006 and 2008 surveys on the indicators most relevant to putting aid on budget.

Country performance

Box 9 shows the monitoring data for the ten main case study countries. The survey was designed to set a baseline for measurement of progress on the Paris Declaration indicators; its reference year is 2005 (or the 2004/05 financial year, when the fiscal year does not match the calendar year). The survey's categories correspond only approximately to some of the on budget dimensions identified for the present study. Moreover, the way the baseline is assessed includes some upward biases:

- The indicator does not distinguish between over-recording and under-recording of aid in the budget. Moreover, the aid recorded as spent may not be the same (in its source or in its use) as the aid anticipated in the budget. This means that any similarity between ex ante and ex post totals may be coincidence.

14 See the Putting Aid On Budget Literature Review (especially its Box 8) for a full discussion.

- As the Putting Aid On Budget Literature Review describes, countries were allowed some latitude in interpreting definitions, and the survey's compilers themselves point out that this is likely to have biased scores upwards (notably in the criteria applied for the use of country systems).

Doubts about the reliability of the Paris Declaration data were reinforced by observations from several of the putting aid on budget country case studies:

- The reports for Ghana and Mali noted the lack of transparency in how the reported Paris Declaration scores were calculated; this makes it difficult to verify the scores, and will cause problems in ensuring within-country comparability between this survey and subsequent ones.
- For Uganda, it was reported by some donors, in particular the World Bank, that project aid used government budget execution systems. But this is not the case, and the survey generally seems to provide an over-optimistic assessment of aid capture. (See Putting Aid On Budget: Uganda Case Study, Box 7.)
- The Rwanda report highlights reservations (on the part of the Rwanda government as well as some donors) about how much aid is properly described as "aid to the government sector". This may make a large difference to the denominator in calculating the proportion of aid on budget, and could make a huge difference to some donors' scores.
- The South Africa study finds that aid is not systematically incorporated in the budget. However, the Paris Declaration survey's score for Indicator 3 is based on the fact that some aggregate information on past, current and expected forward flows into the Reconstruction and Development Programme (RDP) fund (a fund established at national level to receive aid flows) appears in a few tables in the Budget Review.

Donor performance

Box 10 shows selected donors' performance against Paris Declaration indicators 3, 5a and 7. These data are subject to the same caveats as the country performance data. Moreover, they are based on a (self-selected) subset of the countries to which these agencies provide aid, and therefore cannot be assumed to be representative of each agency's entire portfolio.

4.3 Consolidated data on PFM performance

Box 11 consolidates Paris Declaration monitoring scores with other PFM diagnostic scores for indicators that measure the extent of aid capture on budget. The data set includes Heavily Indebted Poor Countries (HIPC) assessment and action plans (AAPs), World Bank country policy and institutional assessments (CPIAs), Public Expenditure and Financial Accountability (PEFA) assessments, and the 2006 Survey on Monitoring the Paris Declaration.

Once again, caveats are required. The HIPC AAP scores provide comparisons between 2001 and 2004 assessments, but the indicators are much cruder and less transparent than the subsequent PEFA diagnostic. On the other hand, none of the PEFA indicators addresses the dimensions of putting aid on budget exclusively or precisely. Therefore they need to be interpreted with care, as detailed further in Annex B of the Putting Aid On Budget Literature Review. It is also important to note that cross-country comparison of PEFA indicators was never an objective of the framework.[15]

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15 The PEFA Report on Early Experience details why such a comparison is difficult:

- "Comparison between two countries only makes sense on indicators for which the compliance with scoring methodology is high in order to ensure consistency and adequate documentation for differences; on the current stock of reports that limits the countries for which such a comparison can be meaningfully taken.
- Comparison of a country's performance against relevant global and regional averages requires that assessments have taken place in a significant number of countries with comparable characteristics, which is not yet the case" (PEFA Secretariat, 2006b).

Box 9: Paris Declaration monitoring data for case study countries

Data for 2005		Burkina Faso	Ethiopia	Ghana	Kenya	Mali	Moz.	Rwanda	South Africa	Tanzania	Uganda
Core aid[a] reported to the DAC	US$m	688	1,333	1,147	793	714	1,326	545	759	1,543	1,126
Aid reported in 2006 survey[b]	US$m	593	1,288	1,047	667	625	1,267	571	583	1,433	1,088
Total budget support disbursed	US$m	168	356	296	65	124	337	198	0	573	391
	% of total aid	28%	28%	28%	10%	20%	27%	35%	0%	40%	36%
Total aid disbursed to government sector	US$m	531	1,048	946	456	557	1,133	554	351	1,294	854
On plan	% total disbursements	–	–	–	–	–	–	–	–	–	–
On budget	% of donor commitments reported in budget estimate	75%	74%	90%	67%	60%	77%	52%	69%	82%	89%
	% of donor disbursements reported in budget estimate	68%	74%	96%	91%	60%	83%	49%	71%	90%	79%
On parliament[c]	% total disbursements	68%	74%	96%	91%	60%	83%	49%	0%	90%	79%
On treasury	% total disbursements	44%	58%	69%	47%	32%	40%	37%	36%	76%	66%
On account	% total disbursements	50%	45%	61%	46%	29%	35%	40%	42%	61%	48%
On audit	% total disbursements	40%	32%	56%	49%	28%	33%	40%	36%	61%	66%
On report	% total disbursements	–	–	–	–	–	–	–	–	–	–

Source: 2006 Survey on Monitoring the Paris Declaration (OECD, 2007a).

a. "Core aid" matches closely the definition used in the 2006 Survey on Monitoring the Paris Declaration; it excludes debt reorganisation and humanitarian aid.

b. For the 2006 Survey on Monitoring the Paris Declaration the aid coverage by country ranged from 62 percent to 118 percent (survey report says differences could be due to aid from other donors, variations in timing of recording the flows and slight differences of definition) (OECD, 2007a).

c. On parliament scores are repeats of the on budget scores, on the basis that the country parliaments approve the national budget presented by the government, which includes the aid on budget. An exception is South Africa where aid is not approved (as part of the budget or separately) by parliament.

- The extent of capture of aid at the different dimensions of the budget could be either an "over" or "under" capture of aid. This is not shown by the percentages as presented above.
- On plan and on report dimensions were not assessed by the 2006 Survey on Monitoring the Paris Declaration.

Box 10: Donor ratios for relevant indicators for putting aid on budget

		Aggregate	AfDB	AsDB	Canada	Denmark	EC	France	Germany	IDB	Ireland	Japan	Netherlands	Norway	Sweden	UK	UN	US	World Bank
3. Aid flows aligned																			
Government budget estimates of aid flows as % of aid disbursed for the government sector	baseline ratio	88%	95%	88%	75%	47%	81%	52%	55%	60%	48%	68%	70%	56%	49%	84%	30%	90%	94%
	country average	42%	59%	62%	51%	47%	56%	43%	50%	48%	48%	30%	44%	57%	35%	45%	34%	30%	62%
5a. Use of country PFM systems																			
% aid flows disbursed for the government sector that use national PFM systems	baseline ratio	40%	33%	69%	42%	29%	40%	28%	35%	45%	90%	29%	71%	61%	47%	75%	18%	10%	42%
	country average	33%	28%	56%	35%	27%	38%	28%	28%	29%	90%	16%	60%	56%	40%	53%	15%	15%	36%
7. Aid is more predictable																			
Government acounts of disbursements as % of aid scheduled by donors for disbursement	baseline ratio	70%	56%	91%	73%	49%	65%	45%	75%	82%	72%	66%	65%	50%	54%	90%	32%	45%	68%
	country average	41%	52%	86%	42%	50%	49%	30%	48%	88%	63%	34%	52%	55%	48%	48%	18%	26%	63%

Source: 2006 Survey on Monitoring the Paris Declaration (OECD, 2007a) (From Putting Aid On Budget Literature Review, Table A5).

Notes:

- General note: The extent of capture of aid at the different dimensions of the budget could be either an “over” or “under” capture of aid. This is not shown by the percentages as presented above.
- The baseline ratio is a weighted average, based on each donor’s portfolio in the surveyed country. It is the 2006 Survey on Monitoring the Paris Declaration results for the base year of 2005. It is the aggregate value of the numerator divided by the aggregate value of the denominator; i.e. each country is weighted by the volume of the activity (OECD, 2007a).
- The country average is an unweighted average. It provides a comparative measure of the baseline irrespective of the volume of activity in each country; i.e., it gives equal weight to each country) (OECD, 2007a).
- The guidance for the 2006 Survey on Monitoring the Paris Declaration included encouragement to UN agencies to report both individually and collectively in completing the survey. In the survey report the UN information was reported in total for the UN.

Box 11: Consolidated country ratings

	Paris Declaration (2005)			PEFA Assessments (assessment carried out 2006 or 2007)[a]								HIPC AAP	CPIA
	Indicator 3: % aid flows reported on budget	Indicator 5a: % aid flows using country PFM	Indicator 7: % aid disbursed as scheduled	PI-5	PI-6	PI-7	PI-27	PI-28	D-1	D-2	D-3	Indicator 4 (2004 and scores in brackets for 2001)[b]	Indicator 13 (2006)[c]
				Budget		Oper-ations	Audit		Donor practices				
Averages	**88%**	**40%**	**70%**										**3.2**
Bangladesh	88%	53%	91%	C	C	D	D	C	B	C	B	n/a	3.0
Bolivia	71%	26%	63%	No assessment planned								A (A)	3.5
Botswana	n/a	n/a	n/a	Assessment draft report planned early 2008								n/a	n/a
Burkina Faso	68%	45%	92%	A	A	B+	B+	C+	A	C+	C	C (C)	4.0
Ethiopia	74%	45%	96%	A	B	D+	D+	C+	C	C	Unable to score	B (B)	4.0
Ghana	96%	62%	92%	B	C	A	C+	C+	C+	C	D	B (B)	4.0
Kenya	91%	47%	44%	C	B	C	D+	D+	D	D	D	n/a	3.5
Mali	60%	29%	71%	C	C	C+	B+	D	D	D+	D	B (B)	3.5
Mozambique	83%	36%	70%	B	B	C+	B+	C+	C+	D+	D	B (B)	3.5
Nicaragua	73%	44%	70%	Assessment completed December 2006, not publicly available								scores not given	4.0
Rwanda	49%	39%	66%	A	D	B	C+	D+	B+	D	D	B (B)	4.0
Senegal	89%	23%	69%	Assessment commenced 2007								B (B)	3.5
South Africa	71%	38%	44%	No assessment planned								n/a	n/a
Tanzania	90%	66%	70%	C	A	B	C+	C	A	C	C	B (B)	4.5
Uganda	79%	60%	84%	B	B	C	C+	D+	C+	D+	C	B (A)	4.0
Vietnam	81%	32%	78%	Assessment commenced 2008								n/a	4.0

Source: Putting Aid On Budget Literature Review, Table D3.

a. The PEFA indicators are: PI-5: Classification of the budget; PI-6: Comprehensiveness of information included in budget documentation; PI-7: Extent of unreported government operations; PI-28: Legislative scrutiny of the external audit reports; D-1: Predictability of Direct Budget Support; D-2: Financial information provided by donors for budgeting and reporting on project and programme aid; and D-3: Proportion of aid that is managed by use of national procedures.

b. HIPC assessment and action plans (AAPs) include assessment of the extent to which donor funds are included in central, state and local governments' budget(s) and/or fiscal reports. The definition of aid on budget used in the AAPs is broad (no disaggregation of aid on budget at different dimensions of the budget cycle and ex ante and ex post reporting by donors included in same indicator) and the AAP answers on the extent to which aid is on budget are not precise (general grades used of "all", "incomplete", "none"). (See Putting Aid On Budget Literature Review, Annex B, for more detail.)

c. These scores are taken from the 2006 results of the World Bank annual country policy and institutional assessment (CPIA) exercise, which covers the International Development Association (IDA) eligible countries. Indicator 13 is the quality of budgetary and financial management.

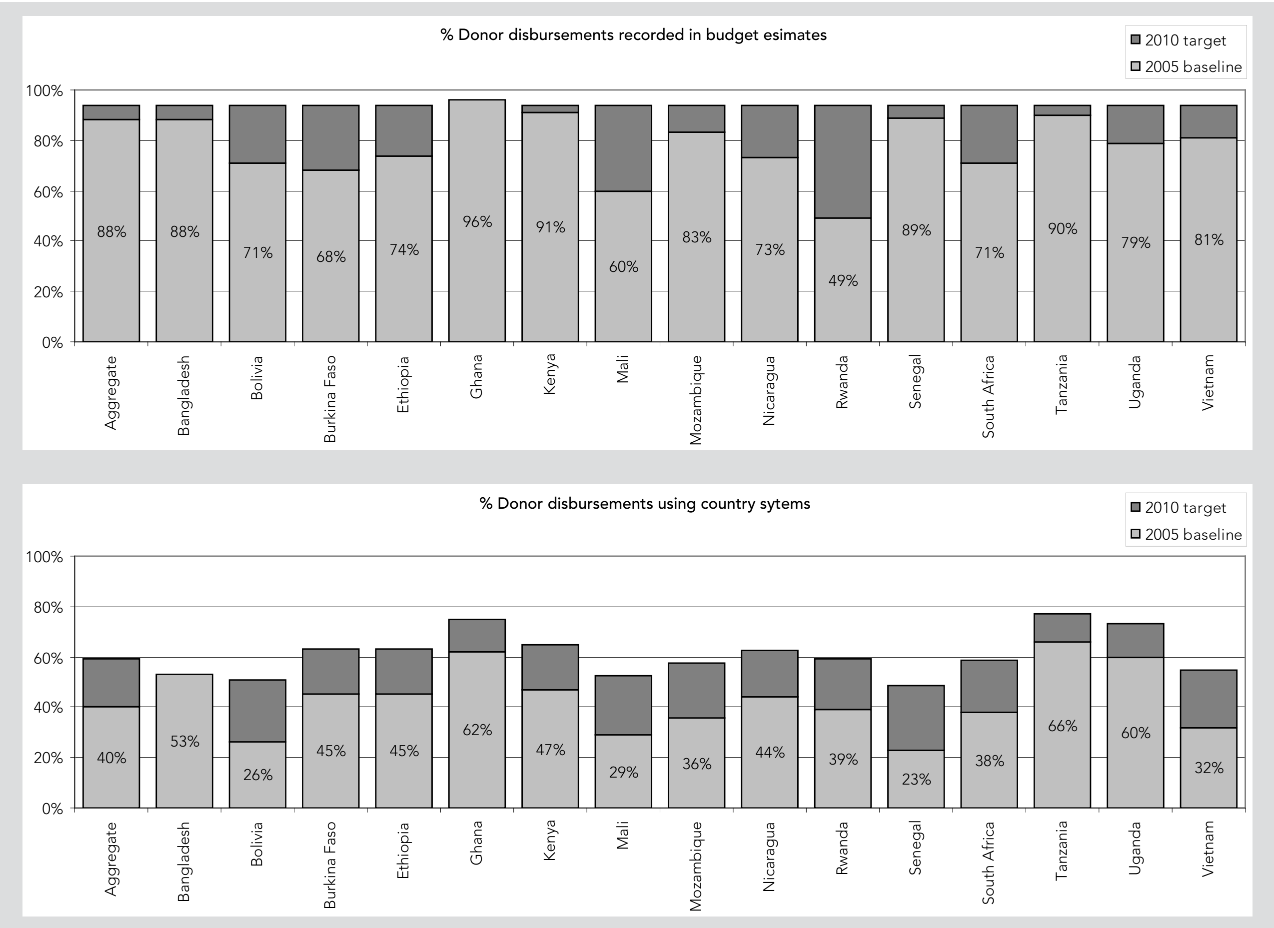
4.4 Conclusions from the data

Efforts to assess the extent of aid flow capture and the quality of that capture have become increasingly systematic. As detailed in the paragraphs above, there are major limitations in both the coverage and consistency of the data. However, it supports the following broad conclusions.

Large volumes of aid are (still) off budget

Box 12 shows the 2006 Survey on Monitoring the Paris Declaration findings (by country) for Paris Declaration indicators 3 and 5a. Results for Indicator 3 ("donor disbursements recorded in budget estimates") are in aggregate high (88 percent) and with a number of countries with over 80 percent of aid recorded on budget (Bangladesh, Ghana, Kenya, Mozambique, Senegal, Tanzania and Vietnam). However, both in aggregate and at country level, the survey results seem likely to overestimate the extent of aid capture. (See discussion under "Country performance" on page 16.) The survey's findings show that in fact there is much less aid using country systems than is captured in the budget documents.[16]

Box 12: Paris Declaration monitoring data: Country results for indicators 3 and 5a



Source: For the full set of detailed figures see the Putting Aid On Budget Literature Review, Annex A.

Notes:
The 2010 targets are set as follows:

- Indicator 3 target: Half the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).
- Indicator 5a target:
  - World Bank CPIA score 5+: all donors use partner countries' PFM systems and a two-thirds reduction in the % of aid to the public sector not using partner countries PFM systems;
  - CPIA Score 3.5–4.5: 90% all donors, and a one-third reduction.

16 The "using country systems" percentages in Box 12 are the average use of country systems of budget execution, financial reporting and audit; for separate estimates of each element, see Box 9.

Low scoring is also noticeable for the three donor performance indicators in the PEFA indicator set, which measure the predictability of direct budget support (D-1), the financial information provided by donors for budgeting and reporting on project and programme aid (D-2) and the proportion of aid that is managed by use of national procedures (D-3). D-2 and D-3 are especially relevant. The scores recorded against these criteria are almost without exception consistently low across the countries assessed (and for which the PEFA scores are available), as Box 13 shows. (See also Box 16, which shows the rank order of country ratings against the indicators shown in Box 13.)

Box 13: PEFA performance indicator scores across countries

INDICATOR		A	B+	B	C+	C	D+	D
B. Key cross-cutting issues: Comprehensiveness and transparency								
PI-5	Classification of the budget	6%	0%	35%	6%	53%	0%	0%
PI-6	Comprehensiveness of information included in budget documentation	16%	0%	47%	5%	26%	0%	5%
PI-7	Extent of unreported government operations	12%	6%	18%	18%	18%	24%	6%
C(iii). Accounting, recording and reporting								
PI-27	Legislative scrutiny of the annual budget law	0%	16%	0%	37%	11%	26%	11%
PI-28	Legislative scrutiny of external audit reports	0%	0%	6%	13%	25%	31%	25%
D. Donor practices								
D-1	Predictability of direct budget support	25%	0%	8%	17%	17%	17%	17%
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	14%	0%	0%	7%	21%	36%	21%
D-3	Proportion of aid that is managed by use of national procedures	0%	0%	8%	0%	42%	0%	50%
All	**Average of 31 indicators**	**10%**	**3%**	**14%**	**14%**	**22%**	**21%**	**17%**

Source: PEFA Secretariat, 2006b.

Note:
The country set for this data is Afghanistan, Bangladesh, Congo Brazzaville, Fiji, Ghana, Guatemala, Kyrgyz Republic, Lesotho, Malawi, Moldova, Mozambique, Panama, Papua New Guinea, Syria, Tanzania, Uganda, Zambia. Not all these reports are publicly available.

Levels of aid on budget are strongly driven by budget support aid (which, by definition, is on budget). In many cases, off budget proportions for other aid modalities still remain very high.

Budget support is by definition on budget. Therefore, when taking budget support as fully captured on budget, it is possible to infer the (limited) extent of capture of other modalities. Taking the example of Rwanda:

> 49% of total ODA provided to Rwanda in 2005 was recorded in the national budget. If one takes into account that budget support represents approximately 41%[17] of total ODA disbursed to Rwanda in 2005 and that budget support is 100% accounted for in the budget, this would imply that project support is very badly captured in the national budget. (Putting Aid On Budget: Rwanda Case Study)

The 2006 Survey on Monitoring the Paris Declaration captures the amount of aid provided as budget support, which makes it possible to calculate how much of the aid included in government budget estimates is additional to budget support. Box 14 uses the survey data to show what proportion of aid on budget is budget support, and how much other aid (*not* budget support) to the government sector is on budget. The data has been organised in order of percentage capture of other aid to the government sector on budget.[18] This is done in order to see whether the countries that receive a lot of budget support, are also good at putting their other (project) aid on budget. If anything, the opposite seems to be the case. The countries which have the lowest proportion of non-budget support (project) aid on budget include many of the largest recipients of budget support.

The extent of capture of other modalities on treasury is even weaker. As noted in Chapter 2, there are some countries where it is taken as axiomatic that projects are off treasury. (See discussion under "Misconceptions to avoid" on page 6 in Chapter 2.)

Large (and sometimes puzzling) differences in donor scores

The 2006 Survey on Monitoring the Paris Declaration reports that for the extent to which donors' disbursements are recorded in governments' budget estimates, the detailed figures reveal quite "striking differences" among donors that are involved in similar numbers and types of countries (OECD, 2007a). However, the limited consistency in the application of definitions, across both donors and countries, means that it is not possible to draw conclusions from this data.

Looking at the issue of disbursement according to schedule, the survey finds that a few of the major donors are substantial under- or over-disbursers, but concludes that it is unclear if there is an explanation related to the subset of surveyed countries where those agencies are involved.

Lack of strong correlation between aid on budget and scores for quality of public finance management

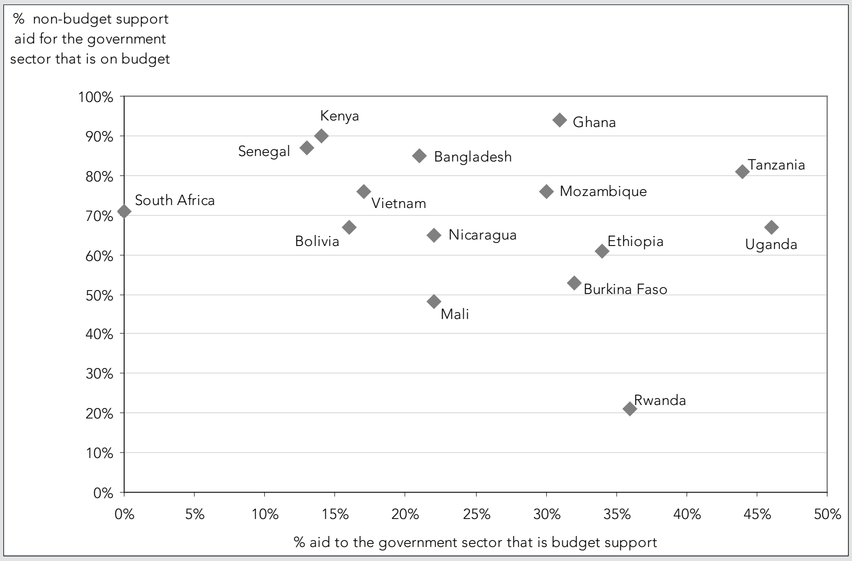
There is considerable variation in the use of country systems across countries and the correlation with the quality of the country PFM system. Also, the use being made of them by donors is rather weak.[19] (See Box 15.) Countries such as Bangladesh, Mozambique or Kenya – whose PFM systems are not too good, as captured by the World Bank's CPIA index – have achieved levels of aid capture on budget comparable to those of countries with better CPIA scorings on the quality of their PFM systems. On the other hand, countries such as Vietnam or Ethiopia, whose PFM systems are rated among the best of this group of countries, are among those with lower proportions of aid making use of national PFM systems.This suggests that factors other than the quality of systems are affecting donors' willingness to use them. (The country case studies suggest that the other factors involved may include political relationships and perceptions about countries' willingness to address PFM weaknesses.)

Quality is crucial

For aid effectiveness, it is very important to look behind the percentages and consider the quality of aid capture at different stages in the budget process. This is the main focus of the country case studies reviewed in Chapter 6.

17 Government of Rwanda source for budget support statistics, which records budget support at circa 6 percent more of total aid than as recorded by the 2006 Survey on Monitoring the Paris Declaration.
18 As discussed in the section on country performance in Chapter 4, these data are at the upper limits due to the methodological upward biases.
19 The 2006 Survey on Monitoring the Paris Declaration draws attention to this point (OECD, 2007a).

Box 14: Paris Declaration survey: Budget support and on budget data



	ODA			Aid disbursed for government sector				
	1	2	3	4	5	5(i)	5(ii)	6
	Total	Budget support	Other aid modalities	Total	Share recorded on budget			Share non budget support aid for government sector that is on budget
					Baseline ratio of aid on budget	*Budget support as share of aid for government sector*	*Proportion of baseline ratio (col.5) that is not budget support*	
	US$m	%	%	US$m	%	%	%	%
Rwanda	571	35%	65%	554	49%	*36%*	*13%*	21%
Mali	625	20%	80%	557	60%	*22%*	*38%*	48%
Burkina Faso	593	28%	72%	531	68%	*32%*	*36%*	53%
Ethiopia	1,288	28%	72%	1,048	74%	*34%*	*40%*	61%
Nicaragua	533	17%	83%	418	73%	*22%*	*51%*	65%
Bolivia	791	13%	87%	628	71%	*16%*	*55%*	67%
Uganda	1,088	36%	64%	854	79%	*46%*	*33%*	67%
South Africa	583	0%	100%	351	71%	*0%*	*71%*	71%
Mozambique	1,267	27%	73%	1,133	83%	*30%*	*53%*	76%
Vietnam	1,956	17%	83%	1,941	81%	*17%*	*64%*	76%
Tanzania	1,433	40%	60%	1,294	90%	*44%*	*46%*	81%
Bangladesh	1,837	16%	84%	1,414	88%	*21%*	*67%*	85%
Senegal	515	12%	88%	453	89%	*13%*	*76%*	87%
Kenya	667	10%	90%	456	91%	*14%*	*77%*	90%
Ghana	1,047	28%	72%	946	96%	*31%*	*65%*	94%

Source: OECD, 2007a; OECD, 2007b

Notes**:**

- ODA: Official development assistance (ODA) includes all transactions as defined in OECD-DAC Statistical Directives para. 35, including official transactions that: 1) are administered with the promotion of the economic development and welfare of developing countries as main objective; and 2) are concessional in character and convey a grant element of at least 25 percent. Excluded from the scope of the survey are: transactions made to beneficiaries not based in the country receiving ODA or to regional organisations; debt reorganisation/restructuring; and emergency and relief assistance.
- Aid disbursed for government sector: As reported by donors, the disbursement of ODA in the context of an agreement with the government sector administrations – ministries, departments, agencies or municipalities – authorised to receive revenue or undertake expenditures on behalf of central government including works, goods or services delegated or subcontracted by government to other entities (for example, NGOs and private companies).
- Total aid recorded on budget: Included in the budget estimate. As reported by government, ODA recorded in the annual budget as revenue or grants.

The data sources and calculations for each column of the data table above are:

1. Paris Declaration (PD) survey, table A.0: Aid reported in the 2006 survey.
2. PD survey, table A.9: Budget support as percentage of total aid reported.
3. Percentage of total aid reported that is not budget support.
4. PD survey, table A.3: Aid disbursed by donors for government sector.
5. PD survey, table A.3: Baseline ratio of aid disbursed by donors included in government budget estimates.
   5(i). Budget support as percentage of aid disbursed for government sector.
   5(ii). Proportion of baseline ratio (col.5) that is not budget support.
6. Percentage of non-budget support aid for government sector (calculated from PD survey, table A.3: Aid disbursed, minus PD survey, table A.9: Budget support) that is on budget (calculated from PD survey, table A.3: Aid on budget, minus PD survey, table A 9: Budget support).

Box 15: PFM quality versus the use of PFM systems

	Paris Declaration monitoring (2005 data)		CPIA
	Indicator 5a: % aid flows using country PFM	Rank on Indicator 5a	Indicator 13 (2006) [PFM quality]
Averages	**40%**		**3.20**
Tanzania	66%	1	4.50
Ghana	62%	2	4.00
Uganda	60%	3	4.00
Bangladesh	53%	4	3.00
Kenya	47%	5	3.50
Ethiopia	45%	6=	4.00
Burkina Faso	45%	6=	4.00
Nicaragua	44%	8	4.00
Rwanda	39%	9	4.00
Mozambique	36%	10	3.50
Vietnam	32%	11	4.00
Mali	29%	12	3.50
Bolivia	26%	13	3.50
Senegal	23%	14	3.50

Source: Selected data from Box 11 above.

4.5 Recommendations for monitoring aid on budget

Measuring the extent of aid using country systems at the various dimensions of "on budget" is complex. Recommendations for joint action by government and their aid partners are to strengthen the monitoring of the Paris Declaration commitments by:

- setting standardised and less flexible definitions at the international level
- monitoring the proportion of project aid that is on budget
- continuing the country-level focus on the use of government systems, and setting country-level targets for progress.

Box 16: Selected available PEFA scores in rank order

The PEFA framework rates PFM performance in participating countries using a total of 28 PFM indicators, Ratings for each of these indicators are made using an A to D scale ranking, where A is the highest score and D is the lowest. The aid on budget case study countries are highlighted, and analysis behind the scores is included in the case study reports.

The PEFA diagnostic is not designed to produce international league tables on PFM. Therefore, it is important not to read too much into these rankings. However, it is interesting that:

- for most of the indicators there is a spread of scores among the case studies, and the rankings are significantly different for different indicators. (This suggests some useful variety in the case study sample.)
- for indicators D-2 and D-3 (donor performance on providing information and using national procedures), scores for all the study countries are in the lower half of the range. (The same is true of Indicator PI-28: legislative scrutiny of external audit.)

PI-5 Classification of the budget		
Burkina Faso	**Apr 2007**	**A**
Ethiopia	**2007**	**A**
Rwanda	**Sept 2007**	**A**
Ukraine	Mar 2007	A
Ghana	**Jun 2006**	**B**
Mozambique	**Mar 2006**	**B**
Uganda	**Jul 2006**	**B**
Afghanistan	Dec 2005	C+
Zambia	Dec 2005	C+
Bangladesh	Jul 2007	C
Kenya	**Jul 2006**	**C**
Kyrgyz Republic	Jan 2006	C
Mali	**Mar 2007**	**C**
Moldova	Jun 2006	C
Tanzania	**Jun 2006**	**C**

PI-6 Comprehensiveness of information included in budget documentation		
Burkina Faso	**Apr 2007**	**A**
Moldova	Jun 2006	A
Tanzania	**Jun 2006**	**A**
Ukraine	Mar 2007	A
Ethiopia	**2007**	**B**
Kenya	**Jul 2006**	**B**
Kyrgyz Republic	Jan 2006	B
Mozambique	**Mar 2006**	**B**
Uganda	**Jul 2006**	**B**
Zambia	Dec 2005	B
Afghanistan	Dec 2005	C
Bangladesh	Jul 2007	C
Ghana	**Jun 2006**	**C**
Mali	**Mar 2007**	**C**
Rwanda	**Sep 2007**	**D**

PI-7 Extent of unreported government operations		
Ghana	**Jun 2006**	**A**
Burkina Faso	**Apr 2007**	**B+**
Moldova	Jun 2006	B+
Afghanistan	Dec 2005	B
Rwanda	**Sep 2007**	**B**
Tanzania	**Jun 2006**	**B**
Mali	**Mar 2007**	**C+**
Mozambique	**Mar 2006**	**C+**
Kenya	**Jul 2006**	**C**
Uganda	**Jul 2006**	**C**
Ethiopia	**2007**	**D+**
Ukraine	Mar 2007	D+
Zambia	Dec 2005	D+
Bangladesh	Jul 2007	D
Kyrgyz Republic	Jan 2006	no score

PI-27 Legislative scrutiny of the annual budget law		
Burkina Faso	**Apr 2007**	**B+**
Mali	**Mar 2007**	**B+**
Moldova	Jun2006	B+
Mozambique	**Mar 2006**	**B+**
Ukraine	Mar 2007	B+
Ghana	**Jun 2006**	**C+**
Rwanda	**Sep 2007**	**C+**
Tanzania	**Jun 2006**	**C+**
Uganda	**Jul 2006**	**C+**
Zambia	Dec 2005	C+
Ethiopia	**2007**	**D+**
Kenya	**Jul 2006**	**D+**
Kyrgyz Republic	Jan 2006	D+
Afghanistan	Dec 2005	D
Bangladesh	Jul 2007	D

PI-28 Legislative scrutiny of the external audit reports		
Burkina Faso	Apr 2007	C+
Ethiopia	**2007**	**C+**
Ghana	**Jun 2006**	**C+**
Mozambique	**Mar 2006**	**C+**
Zambia	Dec 2005	C+
Bangladesh	Jul 2007	C
Tanzania	**Jun 2006**	**C**
Kenya	**Jul 2006**	**D+**
Moldova	Jun 2006	D+
Rwanda	**Sep 2007**	**D+**
Uganda	**Jul 2006**	**D+**
Ukraine	Mar 2007	D+
Afghanistan	Dec 2005	D
Kyrgyz Republic	Jan 2006	D
Mali	**Mar 2007**	**D**

D-1 Predictability of direct budget support		
Afghanistan	Dec 2005	A
Burkina Faso	**Apr 2007**	**A**
Tanzania	**Jun 2006**	**A**
Rwanda	**Sep 2007**	**B+**
Bangladesh	Jul 2007	B
Ghana	**Jun 2006**	**C+**
Kyrgyz Republic	Jan 2006	C+
Mozambique	**Mar 2006**	**C+**
Uganda	**Jul 2006**	**C+**
Ethiopia	**2007**	**C**
Mali	**Mar 2007**	**D**
Kenya	**Jul 2006**	**D**
Zambia	Dec 2005	D
Moldova	Jun 2006	no score
Ukraine	Mar 2007	no score

D-2 Financial information provided by donors for budgeting and reporting on project and programme aid		
Burkina Faso	**Apr 2007**	**C+**
Bangladesh	Jul 2007	C
Ethiopia	**2007**	**C**
Ghana	**Jun 2006**	**C**
Tanzania	**Jun 2006**	**C**
Afghanistan	Dec 2005	D+
Mali	**Mar 2007**	**D+**
Mozambique	**Mar 2006**	**D+**
Uganda	**Jul 2006**	**D+**
Zambia	Dec 2005	D+
Kenya	**Jul 2006**	**D**
Moldova	Jun 2006	D
Rwanda	**Sep 2007**	**D**
Ukraine	Mar 2007	D
Kyrgyz Republic	Jan 2006	no score

D-3 Proportion of aid that is managed by use of national procedures		
Bangladesh	Jul 2007	B
Burkina Faso	**Apr 2007**	**C**
Tanzania	**Jun 2006**	**C**
Uganda	**Jul 2006**	**C**
Afghanistan	Dec 2005	D
Ghana	**Jun 2006**	**D**
Kenya	**Jul 2006**	**D**
Mali	**Mar 2007**	**D**
Moldova	Jun 2006	D
Mozambique	**Mar 2006**	**D**
Rwanda	**Sep 2007**	**D**
Ukraine	Mar 2007	D
Zambia	Dec 2005	D
Ethiopia	**2007**	**no score**
Kyrgyz Republic	Jan 2006	no score

Source: Individual country PEFA assessments.

Notes:
Afghanistan scores have been translated to the A–D ranking from the original 1–4 ranking used.

5

APPROACH TO THE CASE STUDIES

This chapter highlights the different perspectives of different agencies and stakeholders. It emphasises the importance of incentives to provide and use information, and the likely importance of the country context. The country cases were chosen to illustrate a range of such contexts.

5.1 Introduction

This chapter describes the study's approach to the case studies from two angles. First, it provides a brief overview of the perspectives and incentives on both sides of the aid relationship, as these are likely to influence whether and how country budget systems are used. The case studies are an exploration of how these factors interact in a particular country context. The second part of the chapter explains the rationale for the choice of case study countries, and the study's emphasis on the quality of aid capture.

5.2 Stakeholder perspectives and incentives for aid capture

The capture of aid in government budgets requires action by both governments and donors. Technical features of the budget process are relevant, but effective aid capture depends fundamentally on the perspectives of different actors and the incentives that motivate them.

Donor perspectives and incentives

Influence of aid instrument characteristics
Aid instrument characteristics have a strong influence on whether they are likely to be captured in budget documents and budget processes. Budget support is captured (at least in most dimensions) by definition.[20] Loans are more likely to be captured than grants, because of associated legal procedures and the need to anticipate the servicing of debt. Technical assistance and other forms of aid-in-kind are less likely to be captured, especially emergency aid, which is less likely to follow the budget cycle. And aid that is disbursed through non-government partners or to sub-national levels of government is also less likely to be captured than aid to the central government.

Influence of aid agency characteristics
Aid agencies have different mandates and report to different constituencies, and they operate with differing degrees of flexibility at country level. All these factors may constrain the aid instruments they use. Further, they have different perspectives on aid and different attitudes to risk, including the fiduciary risks associated with using government systems. Although the whole spectrum of aid agencies (along with partner governments) signed up to the Paris Declaration, there are significant differences in how it is interpreted. These different interpretations are explored in the Putting Aid On Budget Literature Review and briefly illustrated in Box 17 below.

20 However, this study found examples where budget support was not made clearly visible in budget documents as a source of finance. Late notification and unpredictable disbursement may also make it difficult to capture budget support on plan.

Box 17: Sharing information and using government systems

Among the donors, the differences in approaches to putting aid on budget can be plotted along a spectrum. At one end, there are donors that advocate supplying information on aid flows to the partner country so that it is “reported on” budget. At the other end there are donors that advocate ensuring aid is “integrated on” budget, with country systems used at each stage of the budget cycle.

An example of the first approach is set out by the Millennium Challenge Corporation (MCC). The MCC guidelines for fiscal transparency lay out requirements for reflection without requiring the use of country systems:

> MCC will require that, wherever possible, MCC Program activities are reflected in budget documents of the recipient country. … Reflecting the activity in budget documents does not necessarily mean that MCC resources are managed by existing public expenditure systems. (Millennium Challenge Corporation, 2006: 5)

An example at the other end of the spectrum is the Swedish International Development Cooperation Agency (Sida). Sida’s interpretation of the Paris Declaration commitment to put aid on budget is:

> In line with the Paris Declaration, Sida shall align to the maximum extent possible with national systems. (Sida, 2007: 27)

Reporting aid on budget and integrating aid on budget are not mutually exclusive activities but they are not substitutes either. Reporting aid on budget is a different activity from integrating aid on budget and reporting will not necessarily result in the same benefits as can be achieved from integration.

Source: Putting Aid On Budget Literature Review.

Differing interests and incentives within aid agencies and governments

The interests of staff working for aid agencies (as with most organisations) may pull in different directions. Headquarters’ attitudes to risks and the use of country systems may differ from the perspective of staff based in-country. And generalists’ priorities and preferences may differ from those of sector specialists. How these potential tensions affect the agency’s use of country systems will depend on procedures as well as policies, and, not least, on the personal incentives facing their staff. For example, a gap between policy and practice may emerge if there is an inconsistency between the policy and the short-term career incentives that motivate staff.

A similar pattern of conflicting interests and tensions applies on the government side. For example, finance ministries and sector ministries are likely to have a different perspective on the merits of funds channelled directly to sectors; central and local government bodies may have a similar divergence; project management units have an interest in perpetuating parallel systems. Box 18 illustrates the interplay between incentives on both donor and government sides.

Effects on incentives for putting aid on budget

The case studies prepared for this report illustrate some of these problems with bringing aid on budget originating from the conflict of interests and incentives that often exists within aid recipient governments. For example, the Mozambique case study reports how efforts to put aid on budget in that country have been hampered by government agencies’ (line ministries, provincial governments, districts, and so on) fear that reporting on budget all the aid they receive will reduce the amount of funding they obtain from the state budget. In other words, a concern that, as the true amount of total funding they manage becomes apparent, the Ministry of Finance might be tempted to reduce budget funding for these projects in the same amount as the aid they receive from donors. Box 19 describes similar perverse incentives in Ethiopia and Uganda arising from explicit attempts to factor aid into overall resource allocations; it also illustrates perverse incentives that can arise from the way budget deficit targets are defined.

The Mozambique country study also reports on how ongoing tensions between the two main Mozambican political parties, Frelimo and Renamo, hamper the quality and extent of parliamentary debates regarding the budget, including issues regarding aid funding of the budget. As discussed in Chapter 6 below, the political framework was found to be similarly important in many of the countries studied.

Box 18: Interlocking incentives in traditional aid

Incentives are to be found within both donor agencies and recipient governments that help to maintain and reproduce the vicious circles associated with limited country ownership of development efforts. Case studies of sectors in Mozambique, Tanzania and Uganda suggest the importance of the following:

- Within recipient governments, project modalities with parallel funding and management mechanisms generate multiple material and non-material benefits for the ministers and civil servants in whose sectors they are located, including salary top-ups, allowances, vehicles, training and travel opportunities, and prestige. Ministers, parliamentarians and local authorities are interested in the political credit they get for attracting a stand-alone project to a specific sector or area. The resource flows from a free-standing project are visible, reliable and relatively simple to control. The government officials at the sector or local-government level prefer to avoid the unpredictability, rigidities and reporting requirements associated with funding through the national budget, and the reduced control this implies. In addition, dealing with a single donor is simpler than dealing with several through a pooled-funding or budget support arrangement, where donors tend to "gang up" on the ministry in ways that reduce its discretion.
- Donor agencies, on the other hand, benefit from the visibility associated with separately managed and "branded" projects. They assist in defending the aid budget to their own parliamentary committees and audit authorities, and in defending the departmental budget within the agencies. In some agencies, it is still the case that staff promotion prospects are enhanced when a particular large project can be presented as the work of an individual or small team. In contrast, where more programmatic, multi-donor ventures are introduced, visibility is lost and the attribution of development results to the particular donor's support becomes problematic. This concern is especially pronounced when donor agencies are heavily concentrated in a particular field or when a donor is small relative to others in a field. Donor risk-aversion also favours free-standing projects. A standard assumption, which is not always borne out in practice, is that projects can be tightly managed, whereas using government systems to manage projects or programmes calls for a "leap of faith".

Source: Williamson and Kizilbash Agha, 2008 (reproduced from Booth et al, 2008).

Conclusion

Technical and legislative solutions will not work if they are not sufficiently aligned with the interests of those involved. The complexity of the systems being investigated – the number of interacting factors and interests across many different phases of the planning and budget cycle – makes it likely that general principles will need to be customised to particular country contexts.

5.3 The case studies

Choice of case study countries

Case studies were undertaken in ten Sub-Saharan African countries: Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, South Africa, Tanzania and Uganda. A factual analysis was conducted in all of them, with more in-depth studies in five of the countries: Ghana, Mali, Mozambique, Rwanda and Uganda.

This represents a good range of countries, both overall, and among the countries where more in-depth studies were carried out. The countries are from different geographical locations: Central Africa (Rwanda), East Africa (Ethiopia, Kenya, Tanzania and Uganda), Southern Africa (Mozambique and South Africa) and West Africa (Burkina Faso, Ghana and Mali). The countries have inherited distinct administrative and linguistic features, with the group including francophone and lusophone countries in addition to the anglophone ones. There is also a range of experiences of federalism and decentralisation. At one end of the spectrum, Ethiopia is a federal state with devolved regional and district governments. The other countries covered include unitary states that have implemented decentralisation to varying degrees; in several, further decentralisation is under way.

Box 19: Examples of perverse incentives

Ceilings and offsets: Both ministries, departments and agencies (MDAs) and aid agencies have an incentive not to report aid (fully) if they fear reporting will lead to a reduction in the allocation of domestic finances. This problem has been experienced in Ethiopia where grants to sub-national governments are adjusted to offset aid that flows directly to the sub-national level. More recently, Uganda decided that off budget aid should be included in medium-term expenditure framework (MTEF) ceilings, and experienced a similar problem of under-reporting. (The extent of under-reporting was revealed by a separate stock-taking of donor aid programmes. This highlights the importance of triangulating information when there may be perverse incentives.)

Previously the incentive in Uganda worked in the opposite direction: MDAs would exaggerate likely aid flows in order to maximise the allocation of counterpart funds.

Deficit targets: The (unintended) distortions generated by the domestic primary deficit target previously included in the IMF's macroeconomic and fiscal support programme to Mozambique is an interesting example of how differences in development agencies' mandates can undermine the process of bringing aid on budget. (See the Mozambique country study.) This indicator, which is typically used to monitor fiscal discipline and sustainability, in the past hindered efforts to increase aid capture on budget by creating incentives to under-report and misclassify aid to the government. There seem to have been two main dynamics:

- First, increases in aid tended to increase the value of the domestic primary fiscal balance, unless these funds were entirely devoted to investment. This gave the government a strong incentive to keep off budget any unexpected surge in externally funded spending that was not already factored into the IMF's domestic primary fiscal deficit target.
- Second, the primary deficit target created strong incentives to misclassify budget spending, reporting as investment expenditure the full value of donor-funded projects, even when a significant proportion of these funds was actually funding recurrent spending.

The IMF has since revised its approach to macroeconomic targets to avoid these particular perverse incentives.

Source: Putting aid on budget case studies.

Box 20: ODA: Basic data for the case study countries

	Average 2003–05		
	ODA[a] (US$ m)	**Aid / GNI (%)**	**Aid per capita (US$)**
South Africa	694.7	0.3	15.2
Kenya	812.7	4.0	24.3
Burkina Faso	653.0	12.6	51.0
Ghana	**1,696.2**	**13.0**	**78.3**
Mali	**715.0**	**13.1**	**54.6**
Tanzania	1,017.1	14.9	27.1
Uganda	**1,256.3**	**15.9**	**45.1**
Ethiopia	1,890.5	18.8	27.0
Mozambique	**1,251.8**	**21.9**	**64.4**
Rwanda	**502.6**	**25.9**	**56.5**

Source: OECD DAC international development assistance statistics (DAC Online, OECD.Stat.).

Note: Countries in **bold** are those for which free-standing country studies have been prepared.

a. ODA = total grants disbursed and loans extended

Importantly for this aid on budget study, the countries provide a spectrum of experience across the following dimensions in the area of development assistance:

- **Ratio of aid to gross national income**: South Africa has the lowest ratio of aid to gross national income (GNI) (0.3 percent). The other countries are all significantly aid dependent countries with eight of the ten countries averaging aid over 10 percent of GNI (only South Africa and Kenya record ratios below 10 percent). Mozambique and Rwanda are the most aid dependent, with ratios of 22 percent and 26 percent respectively. (See Box 20.)
- **Configurations of donors**: Different donors are active in different countries, although the World Bank and the European Commission (EC) tend to be among the large disbursers for most of the countries. All countries are recipients of aid from both bilateral and multilateral agencies. Some of the countries have very congested aid environments (for example, around 40 donors are active in both Mozambique and Uganda).
- **Types of aid modalities in use**: Countries have individual experiences of what share of ODA is provided through different aid modalities. At the same time there are some shared trends. In most of the countries most ODA is provided in the form of grants (for example, 84 percent of ODA in Rwanda, 75 percent in Kenya and 73 percent in Tanzania) while in South Africa, as a matter of government policy, all ODA to the general government sector is in the form of cash grants and technical assistance support. Another trend is the increasing use of budget support. Again with South Africa the exception, in all the other case study countries budget support has become an important aid modality in recent years. For example, general budget support was 26 percent of ODA in 2005 in Burkina Faso, 33 percent in Mali and 34 percent in Ghana.
- **Level of progress on aid management institutions and alignment and harmonisation agendas**: There are some (general) similarities among the countries in the embracing of the Heavily Indebted Poor Country (HIPC) and poverty reduction strategy paper (PRSP) approaches. All have reached HIPC completion point and most are on at least their second generation PRSP, with the exceptions of: Kenya, which did not meet the HIPC indebtedness threshold but has introduced a PRSP as a condition for access to new concessional lending from the IMF and the World Bank; and South Africa, which is not a highly indebted country and has not prepared a PRSP. Similarly, all the countries are involved in progressing alignment and harmonisation agendas, and as part of this all ten countries are taking part in the monitoring of progress on the Paris Declaration indicators. (See the 2006 Survey on Monitoring the Paris Declaration [OECD, 2007a] and the forthcoming survey, 2008.) The countries where detailed case studies were conducted also include several where concerted efforts to bring aid on budget offer scope for learning. For example, in Mozambique in 2005, several donors created a specific on-budget taskforce, and in Uganda, in 2006, a division of labour exercise was launched with one of its aims being to improve the alignment of donor engagement with the implementation of the Poverty Eradication Action Plan.
- **PFM reform programmes**: All the countries have ongoing PFM reform programmes, but with a range of different emphases and starting points.

Case study approach

The case studies did not involve a new quantitative survey. In each country, researchers assembled the best available information from existing sources and focused especially on trying to explain the patterns of aid capture that were found. The researchers were all already familiar with the countries concerned, and they were assisted by the involvement of the senior budget officers linked to CABRI and of key donor representatives.

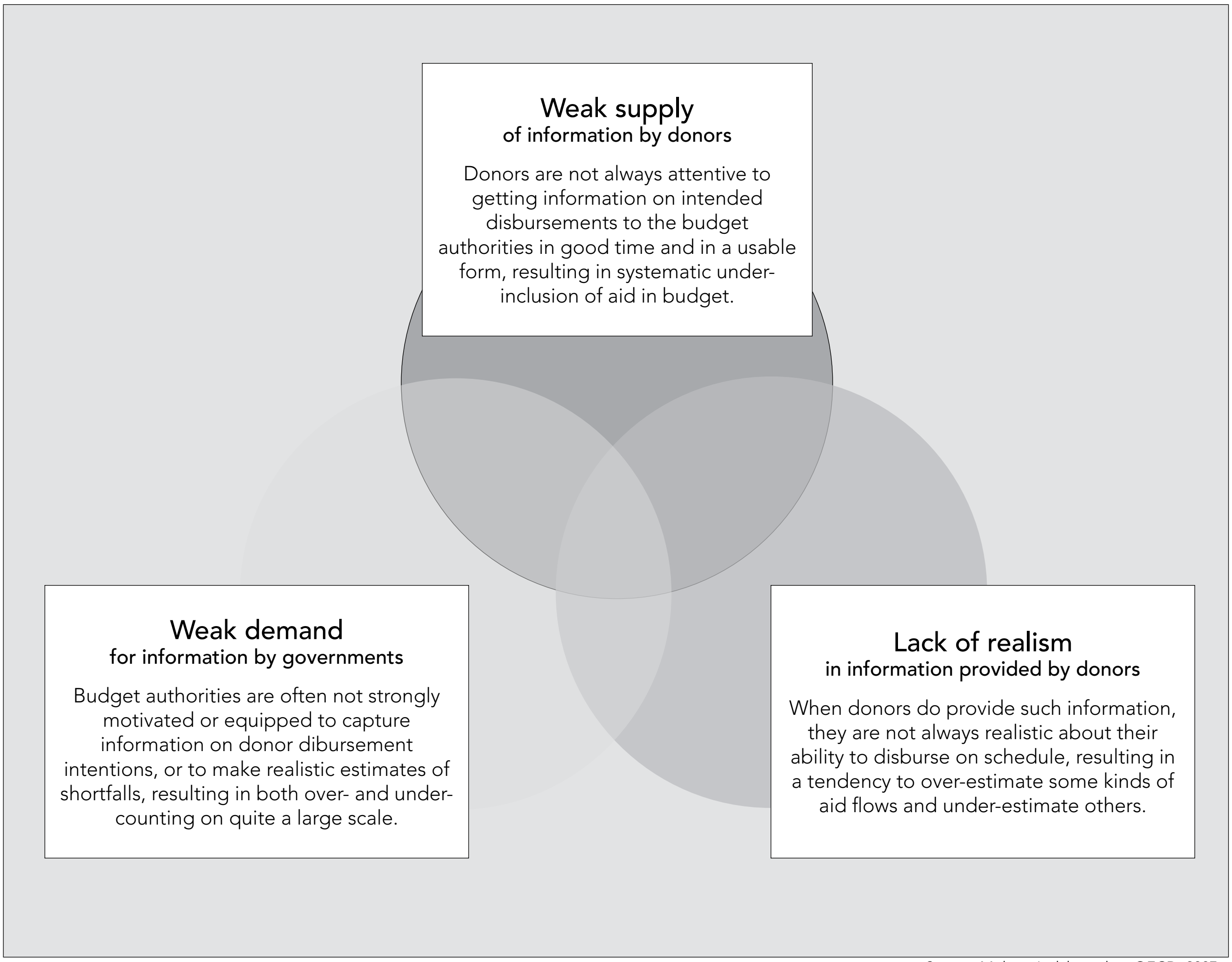
Researchers investigated the technical factors involved (notably the characteristics and the quality of public finance management systems) but also explored the interests and incentives involved on both sides of the aid relationship (in line with the discussion at the beginning of this chapter). Researchers considered the different dimensions or phases of aid on budget (Box 3), and for each phase tried to assess the quality of aid capture. They adopted the perspective that "putting aid on budget is the joint effect of donor and government practices, and where there is poor quality of aid capture, this is the compound effect of both donor and government shortcomings"(Putting Aid On Budget Literature Review: para. 51). Moreover, whether information is successfully captured depends on the demand for information as well as on the technical capacity to supply it.

The simultaneous attention to demand and supply, quality and incentives is illustrated in Box 21. It was also reflected in the reporting format adopted. For all ten countries, researchers prepared summary reports in a matrix format which, for each dimension of aid capture, considered:

- the evidence of capture (what is captured?)
- the quality of capture (how well? how useful?)
- explanations (why/why not?).

The resulting case study matrices are presented in full as the Annex to this report (Summary of Country Study Findings).

Box 21: Factors behind quality of aid capture in the budget



Source: Mokoro Ltd, based on OECD, 2007a.

As criteria of quality, researchers were asked to consider:

- the technical quality of information provided (its completeness, credibility, disaggregation and detail)
- timeliness and accessibility (Who has the information, and at what stage in the relevant process?)
- whether and how information was actually used (Does the information influence decisions and choices? Is there feedback to providers and does this influence future budget rounds?).

It was expected that the ability to make good use of information about aid would largely depend on the quality of the information and processes relating to non-aid resources.

6

LESSONS FROM THE CASE STUDIES

This chapter highlights findings from the case studies researched for this report. The principal findings from all ten African case studies are summarised in the Annex to this report (Summary of Country Study Findings), and separate reports have been published on five of the case studies. This chapter therefore focuses on the key findings that have wider relevance.

6.1 Introduction

Experience of putting aid on budget in ten African countries was specially researched for this report. This chapter highlights key findings that seemed especially relevant to the identification of future good practice. Findings are discussed under the headings of each dimension of aid capture. However, this is simply a convenience for the purposes of presentation. As the findings themselves will illustrate, there are many overlaps and interactions between the different dimensions. The practical relevance of each dimension is considered first, the main factors that influence the capture of aid are then noted, and finally the good (and bad) practices are identified. This is followed by a cross-cutting discussion of decentralisation.

6.2 Putting aid on plan

The relevance of putting aid on plan

Good practice calls for annual budgets to be guided by medium-term strategies. Where aid is a significant proportion of resources, it clearly needs to be factored into the government's medium-term plans. Being able to anticipate the aid that will augment or substitute for domestic budgetary resources in the coming budget year is a minimum requirement. Planners also need to take a view on the availability of aid and other resources over a much more extended horizon. The information requirements for the short and the medium term, and for different modalities, are different. Aid needs to be included (broadly) on the resource side, even if it can't be allocated (specifically) on the expenditure side. As the Uganda country report notes:

> … in the [PRSP] and strategic plans, the capture of aid in very general terms is largely appropriate. Project aid in the overall MTEF, which is presented by sector, is helpful in facilitating high level inter- and intra-sectoral decision making, whilst budget support is appropriately captured as a revenue only. (Putting Aid On Budget: Uganda Case Study)

Factoring aid into the planning process should influence the choices of both governments and donors. The Rwanda country report highlights the difference between a data collection exercise and a true planning exercise. The South Africa researcher noted a tendency for information about government plans to inform aid choices "rather than the reciprocal using of aid information to inform budgeting choices".

Factors influencing aid on plan

Quality of government planning process

To bring aid on plan in a meaningful way depends on the government itself having a meaningful planning system. Key elements of effective planning include a transparent planning process with a clear calendar, realistic costing of alternatives, and, ideally, a medium-term expenditure framework (MTEF) that sets annual budgets within a longer perspective. If there is not a credible government planning process, it is difficult to make systematic use of information that donors provide. For donors, it is easy to "align" with objectives that lack the discipline of prioritisation. In practice, the case study countries exhibit varying degrees of sophistication and discipline in their planning; MTEFs are at varying stages of development, and the quality of the plan–budget link may vary a lot among sectors.

Quality of capture also depends on the capacity to use the available information. This is a matter of systems as well as the ability of the people who staff them. A clear budget calendar is an obvious system element, since the timing of information greatly affects its utility. It is also important to have strong sector planning processes.

Poverty reduction strategy papers and sector approaches

A general finding is that poverty reduction strategy papers (PRSPs) have strengthened the common focus of government and donors, although PRSPs vary in their quality as planning documents. There are continuing efforts to link PRSPs to more disciplined MTEFs. Sector approaches have helped to strengthen sector planning and the focus on capturing aid at sector level. Indeed, aid is integrated successfully only when it is integrated well at sector level. Coordination belongs at the central level, but integration occurs at the sector level. If sector-level processes are weak, the capture of aid on plan and subsequently on budget will be ineffective.

Hence, sector approaches and sector working groups can be very important. Their role was highlighted, for example, in the country studies for Mozambique, Rwanda, Tanzania and Uganda. However, not all working groups were effective in including donor projects in sector planning and budgeting. In some cases their focus was exclusively on policy, or they lacked effective participation from the government or from key donors. Donors that did participate did not always provide useful information about their programmes. On the positive side, sector wide approaches (SWAps) were often found to have developed and supported technical analysis capacity as well as contributed to dialogue and the flow of information for planning purposes. It is a challenge to ensure that sector processes (including public expenditure reviews – PERs – in Uganda, Tanzania and Kenya) are equally owned by government and donors; and that sector processes are fully articulated with overall plan and budget. (Uganda is a strong example of this kind of articulation).

Bringing different modalities on plan

As with other dimensions there is a hierarchy among aid modalities in their likelihood of being captured on plan:

- In principle, general budget support (GBS) is fully integrated with domestic resources. In practice, even for GBS, the quality of capture on plan may be undermined by unpredictability. At the same time, budget support helps drive the capture of other modalities: the dialogue around GBS creates a demand for coherent medium-term planning documents, and also reinforces efforts to strengthen PFM generally (thereby influencing all modalities and dimensions).
- As already noted, sector approaches often mean that planning for the sector is more systematic. Like GBS, they provide a focus for government–donor dialogue that can improve the quality of planning. Sector budget support and pooled funds are usually very visible for planning purposes (though some pooled funds have followed parallel planning processes and, as discussed later, pooled funds may be off budget in many dimensions).
- Projects are more likely to be on plan if financed by loans than if financed by grants. Projects themselves take many forms. The planning (and financial) implications of large-scale infrastructure projects are quite different from smaller and more adaptable interventions. Separate "investment plans" and "development budgets" are traditional devices for bringing projects on plan and on budget, but may cause problems in disconnecting aid from domestic resources. (See further discussion below, especially Box 27.)
- The forms of aid least likely to be captured on plan are technical assistance and other in-kind aid (some in-kind aid is emergency in nature and therefore difficult to plan for in detail), and aid that is disbursed

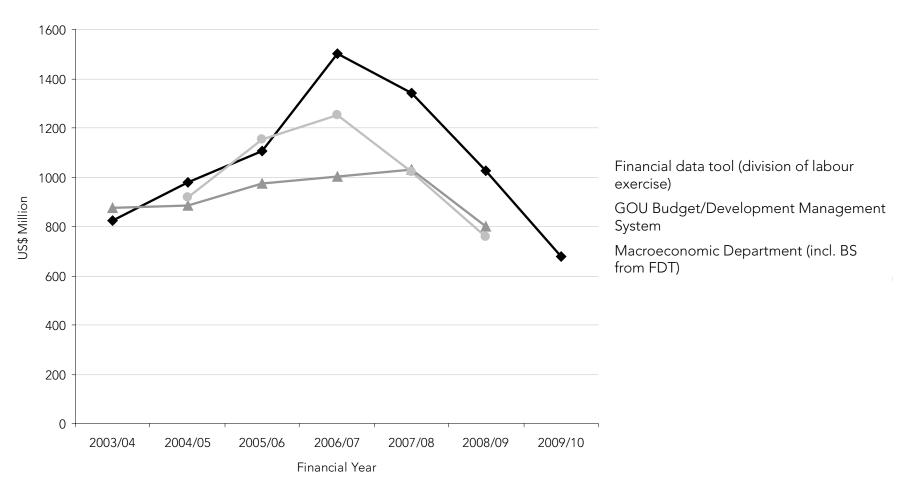
via non-government bodies. Aid provided directly to decentralised levels of government is also harder to capture.

The paradox of aid agency projections

There are systematic biases in the information provided by aid donors. They are very cautious about providing aid forecasts that are not based on firm commitments. This leads to a paradox. Donor projections of disbursements within the budget year tend to be too optimistic (because donors rarely meet their commitments in full[21]). At the same time, donor projections of aid over the medium term tend to be too pessimistic, because donors are unwilling to make projections above what they have formally committed to, even when they know that new projects and programmes are likely to appear. Box 22 uses Uganda to illustrate this problem.

Box 22: Paradoxical aid projections (Uganda illustration)

Donor aid projections typically overestimate short-term disbursements and underestimate medium-term aid flows. This paradox is well illustrated in Uganda. The Uganda case study notes:

> Quality of aid data: Aid data provided by donors is largely based on financial commitments, and donors are either unwilling or unable to provide medium-term estimates of aid other than what has been committed. This provides two problems. Firstly that aid data provided by sectors and by donor agencies for the budget year are usually fairly comprehensive, but over-optimistic – i.e. in aggregate not all donor commitments are realised. Secondly aid projections for the outer years usually underestimate future levels of aid, as existing commitments tail off over the medium term. The diagram below shows data compiled under the Division of Labour Exercise and the (undiscounted) Macroeconomic Department data compiled directly from donors. Both show a significant tailing off of aid over the medium term (2006/07 was the budget year).
>
> **Comparison of aid projections at the time of Uganda's 2006/07 budget**
>
> 
>
>
> At the aggregate level, for the purpose of macroeconomic management the Ministry of Finance tries to make realistic projections of aid, by discounting aid for the budget year in question (different discounts are used for budget support and projects), and making realistic projections of budget support (i.e. projecting it above committed levels) over the medium term. The latter is an inexact science, especially because of the lack of realism in aid data from donors and sectors.
>
> Meanwhile the allocations which appear in the Annual Budget – the Estimates of Revenue and Expenditure – are based on annual donor commitments, rather than the discounted numbers which appear in the Macroeconomic Framework and the MTEF. This is because it is difficult to predict which individual project or programme is likely to under-perform.

Source: Putting Aid On Budget: Uganda Case Study (diagram reproduced from ODI: 2007).

21 Even if committed funds are fully available, expenditure may fall short, especially if funds arrive late in the budget year.

Good practice considerations

Progress in strategic budgeting

The government's own progress in strategic budgeting is a key factor in bringing aid on plan. Although long-term planning has to address trade-offs between sectors, useful progress can be made at the sector level. Government leadership of the process is crucial. The principles of strategic budgeting are general, but where aid is prominent, it is important:

- not to take donor information at face value, but to use it as the basis for scenario planning – see Box 23
- to engage donors with a government-led planning process – see Box 24.

Box 23: Putting aid on plan: Realistic projections and scenario planning

A number of governments have recognised the biases and uncertainties in donor projections of their own aid flows – see Box 22 – and are responding by discounting estimates of short-term disbursements, and developing their own alternative scenarios of aid flows in the medium and long term.

Discounted budget estimates: The Rwanda study provides a good example and rationale for discounting:

> Because some projects have a poor record of project execution and in the past the Development Budget tended to be often "under-executed", expected project disbursements are discounted (at variable rates) in the budget preparation process by the Budget Department. Amounts included in the Development Budget are therefore often lower than the disbursement estimates provided by project coordinators (who, for opposite reasons, have shown in the past a tendency to overestimate expected disbursements). (Putting Aid On Budget: Rwanda Case Study)

Uganda has used discounted estimates of budget support disbursements, based on experience, to avoid authorising unfunded expenditures. Ghana also applies discounts.

Scenario planning: Several countries have published different funding scenarios for their PRSPs/ medium-term expenditure plans. Ethiopia describes different expenditure scenarios for different levels of donor funding. Mozambique's most recent PRSP is based on three expenditure scenarios. Because of the unpredictability of its budget support, Kenya does not include budget support in its main budget but only in an alternative scenario expenditure plan. In Tanzania, government and donors are working towards the joint definition of alternative scenarios.

Source: Putting aid on budget case studies for Rwanda, Ghana, Ethiopia, Mozambique, Kenya and Tanzania.

Box 24: Engaging donors in medium-term planning

Medium-term planning processes in Uganda, Tanzania and, recently, Kenya, seek to engage donors transparently in analysis and review linked to planning and budgeting. In Tanzania, for example:

> The planning and budgeting process structures require the participation of donors and other stakeholders in sector and thematic working groups. The wide use of sector SWAps supports the inclusion of aid in a more meaningful way on plan. The quality varies across sectors depending on how well structures work and the analytical capacity in the sector. (Putting Aid On Budget, Tanzania Case Study.)

A positive element in Uganda is the transparency of the process and the availability of sector and national budget framework papers to stakeholders in sector working groups and across government. Kenya also publishes all sector and national framework papers.

In all three countries, efforts are made to fit systematic public expenditure reviews into the planning and budgeting calendar.

The multi-donor budget support (MDBS) process in Ghana is another example of effective engagement between the government and donors (and a government-led process).

Engagement in such processes makes it more likely that information (in both directions) will be provided, queried and used.

Source: Putting aid on budget case studies for Uganda, Kenya, Tanzania and Ghana.

Drawbacks of fragmented planning and budgeting systems

Separate development budgets can be seen as a device for keeping aid on plan and on budget while deferring to aid agency wishes for their funds to be separately identified. Over time, however, "investment budgets" often degenerate into "aid budgets"; so that aid appears in the development budget even if it is financing recurrent costs. The disadvantages of dual budgeting are exacerbated when responsibilities for development and recurrent budgets are divided between separate planning and finance ministries. In many countries, some of the disadvantages of dual budgeting persist, but there is scope to mitigate them by adopting more integrated budget classifications, documents and processes. For example, in Rwanda, the recurrent/capital split is being mitigated by a new chart of accounts, and all ministry expenditure is being shown by ministry instead of in a separate development budget. (See also Box 27.)

6.3 Putting aid on budget

The relevance of putting aid on budget

Annual budgets are a universal management tool. The formal budget document is the basis of legislative authority for expenditure, and subsequently the basis for controlling budget disbursement and monitoring budget implementation. However, there may be deviations between a formally approved budget and what happens subsequently. The budget documents are only a starting point in discovering whether, and how well, aid is incorporated in the formulation, authorisation and implementation of government budgets.

Budgets should show the sources of finance for public spending as well as the details of expenditure. Both aspects are important in giving the legislature a full picture of the expenditure choices it is being asked to endorse. As noted in the discussion of bringing aid on plan, it is important to factor available aid resources into strategic planning at an early stage – before their detailed uses have been determined. In an annual budget document, the extent to which uses are specified will depend largely on the aid modality. Earmarked project funding may be tracked to specific expenditure items in the budget, while general budget support is treated in the same way as most domestic revenue – it is not tagged to specific expenditure items, but underpins the budget as a whole.

Factors influencing aid on budget

Incentives and disincentives for including aid on budget
On the donor side, the most common deterrents to putting aid on budget are the overall credibility of the budget, and the specific visibility of donor funds within it. *Credibility* is undermined by deviations between budgets and actual out-turns. (See Box 25.) The desire for *visibility* has a fiduciary aspect (as a means to show that funds have been used as agreed), but may also relate to an agency's broader need to be able to demonstrate results – that its aid has made a difference. Thus, government classifications which make it hard to identify different uses and different donors tend to discourage aid from coming on budget.

On the government side, there are differences among case study countries in their attitude towards incorporating aid on budget. Some proactive governments, such as Rwanda, take the view that aid should appear in the national budget only if meaningful national discretion is applied. Others, such as Ethiopia, have legislation which requires them to show all aid in the budget, even if it does not pass through government disbursement procedures. (And, as already noted in Chapter 5, MDAs may have an interest in protecting their discretion by keeping off the budget aid that their sectors receive directly.)

On the government side too, there are concerns about credibility (will promised donor funds arrive?) and practical concerns about compatibility of information systems (is donor information provided on time? and in a format compatible with the government budget – for example, in terms of detailed classification and time period?). Looking further ahead, will information for the ex ante budget be matched by timely information on actual expenditures?

In many cases it is clear that, while efforts to include aid could be quite onerous for both parties, the failure to include aid on budget did not have significant consequences for those directly involved. For example, there were cases where donor officials never checked whether their aid appeared in government budgets or not, implying that its inclusion in the budget or not made no practical difference to them.

Box 25: Deviations between budgets and actual spending

Credibility of budgets is recognised as a key criterion of effective public finance management (reflected in the first four PEFA indicators – see Box 6). In several of the case study countries, large deviations between approved budgets and actual out-turns have undermined donor confidence and provided a rationale for not putting aid on budget.

Budget discrepancies may occur in different ways:

- Cash may fall short, with the result that budgeted funds are not released. This is common in countries that have cash rationing systems, sometimes necessitated by macroeconomic instability, but often because fiscal forecasting is not reliable.
- The initially approved budget may be radically revised during implementation. Expenditure demand in some areas may be more than budgeted, resulting in funds being deviated from a budgeted area of spending to areas that experience shortfalls. The demand may be more on account of lack of discipline in budget execution, when activities are undertaken which were not in the plan, although they are not authorised by the budget and are not unforeseen or unavoidable. It may also be on account of changes in the external environment, such as natural disasters or other emergencies. Often, however, it is because budgeting itself did not estimate properly what the cost of programmes will be, or because changes to key cost drivers (such as salaries) take place out of step with the budget process.
- Some discrepancies may reflect the ways aid is managed. Budgeted aid funds may not arrive (with consequences for domestic counterpart funds as well), or government may fail to meet trigger conditions for their disbursement. Aid expenditures via Channels 2 and 3 may be under-recorded if aid agencies or project implementation units do not supply expenditure data on time and in compatible formats.

Source: Putting aid on budget case studies.

Approaches to different aid modalities
Different aid modalities tend to be treated differently in terms of efforts to incorporate them on budget. Loans and credits are likely to be incorporated, because of the need to budget for debt service, as well as legal stipulations. Budget support inherently has to be incorporated (though there are striking differences in the quality of information provided about budget support as a source of funds; in one case – Mali – it was not explicitly noted in the ex ante budget). In some countries (Ghana, Mali) being off budget is taken as an inherent characteristic of projects. In Mali's case this is partly a reflection of a francophone tradition that, in effect, excludes from the main budget any expenditure that is not also on treasury. Such restrictive assumptions are unhelpful as they preclude active consideration of how project aid might be brought on budget, and may simultaneously result in very restrictive interpretations of sector budget support. (See Box 26.)

Good practice considerations

Priorities for PFM reform
PFM reform programmes should seek to increase the willingness of partners to bring aid on budget by increasing the budget's credibility, as well as facilitating the practical process of incorporating aid in the budget. Key (interlocking) areas for PFM strengthening to bring aid on budget thus include:

- charts of accounts and budget classifications that enable sources and uses of funds to be clearly identified in the budget and monitored during budget execution
- measures to ensure discipline in budget management (so that there is close correspondence between budget and out-turns – see Box 25)
- a planning and budgeting calendar that shows when donor inputs are required, complemented by clear lines of communication within government and between government and aid agencies.

Box 26: "Sector Budget Support" in Mali

As discussed in Chapter 2, according to the standard definitions, one of the characteristics of budget support is that it is not linked to specific project activities. In Mali, however, this does not apply to the modality known as sector budget support. As described in the Mali case study:

> The recent increase in sectoral budget support has come about with the switch from pooled-funding arrangements to sector budget support, largely from donors who previously had contributed to the pooled-funding arrangements.
>
> The detailed tables by ministry include a line item separately identifying expenditures financed by sector budget support (separately for each separate donor providing sector budget support). Thus, through the relevant classification codes, it is possible to track the use (execution) of sector budget support by economic item.
>
> In theory, sector budget support should be planned in the same way as domestic resources, with the only difference being that the relevant sector ministries are supposed to achieve particular results in accordance with the accompanying sector policy matrix. In Mali, these resources are in practice treated differently to domestic resources; in effect, they are treated as if they were project resources since they are planned separately, their use is separately identified as line items and tracked in the budget, and in budget execution reports. Furthermore, the resources are directed towards particular purposes (e.g. training workshops), which may or may not be how these resources would have been used had they been planned together with the rest of the ministry's resources (as opposed to planned separately).

Although this approach does not conform to the generally accepted definition of budget support, it does suggest a mechanism by which project aid in Mali might be brought on budget.

Source: Putting Aid On Budget: Mali Case Study.

Joined-up budgeting – recurrent and development budgets

Separate development budgets may make aid more visible, but often at the expense of fragmenting the planning and budget system. Rwanda's reforms seek to integrate recurrent and development budgets in a way that still enables sources and uses of aid funds to be clearly identified. (See Box 27.)

Some other countries with dual budgets have not gone as far in integration as Rwanda plans to. However, even if development and recurrent budgets are presented separately, the links between them can be strengthened by applying a common classification system. Another important mitigation is to ensure that the same administrative unit prepares both budgets (at central and sector levels). This can reduce the problems of integrating project and programme aid into budgets.

Box 27: Integrating recurrent and development budgets: Rwanda's approach

Until the 2007 budget, all development projects were classified in the "development budget", using a specific economic classification which did not allow the separation of recurrent and capital expenditure. (75 percent of the development budget was externally financed.)

Major reforms in the budget presentation should start being implemented with the 2008 budget. Domestically and externally financed expenditures will be jointly presented under each ministry, instead of having a separate development budget covering donor projects. The same chart of accounts will be used to classify both domestically financed expenditures and donor projects.

The 2008 budget will start using the new chart of accounts which no longer provides for a separate "development budget", but clearly separates recurrent and capital expenditures. As a result, project expenditures will need to be classified according to the same chart of accounts as the rest of the budget, i.e. separating recurrent and capital expenditure.

The integration of projects into the national budget will also require training of project coordinators and line ministries to ensure that the new budget classification is applied appropriately to projects, and sub-dividing big, multi-sectoral projects into project components in order to ensure they are accounted for where they belong (sector, ministry, programme) instead of being lumped in one place.

Source: Putting Aid On Budget: Rwanda Case Study.

Showing how aid has been used

Keeping aid off budget is one strategy for an aid agency that wishes to ensure that its aid is separately identified and channelled to specific activities. However, such earmarking can be accommodated on budget if the budget codes are able to identify both the sources and the uses of funds in detail (and if the regular accounting system provides timely and credible reports in the same format).

For many donors, however, earmarking is not an end in itself. They have a broader concern that their aid should add to the total resources addressing particular objectives (for example, to achieve the Millennium Development Goals [MDG] for health or education). A number of countries have adopted broader tracking mechanisms which, in the context of dialogue with aid partners, help to demonstrate the focus and the additionality of aid, without requiring programmatic aid to be strictly earmarked to particular budget items. For example:

- In Uganda a notional Poverty Action Fund has been used to channel HIPC resources and budget support to priority sectors, and to identify budget lines that are protected from within-year budget cuts.[22]
- In Ethiopia, the Protection of Basic Services (PBS) project supplements federal grants to regions and districts, enabling them to maintain and expand primary health, education and other services. Aid agencies and the federal government jointly monitor the additionality of PBS funding, the fairness of sub-national allocations, and regional/district performance, but without compromising local authorities' discretion to manage their own budgets.
- In Tanzania, the Strategic Budget Allocation System (SBAS) links budget spending not to priority sectors in the poverty reduction strategy (PRS), but to priority outcomes.

These mechanisms bring more aid fully on budget while allowing for risk management regarding effectiveness and fiduciary concerns.

Making budget information more accessible

Information contained in the budget is often obscured by poor presentation. Country studies found that information on aid as a source of funding was often too highly aggregated to be checked. The division of information between recurrent and development budgets may make it difficult to see an overall picture (for example, at the sector or agency level). Budget documents may present masses of line item detail without analytical summaries or narrative explanation. Poor presentation frequently undermines the translation of strategic planning for aid into annual budgeting, and impairs the quality of capture of aid on budget.

6.4 Putting aid on parliament

The relevance of putting aid on parliament

The strict interpretation of putting aid on parliament is that external financing should be included in the revenue and appropriations approved by parliament. Parliament is legally responsible for authorising expenditure by the executive branch, and inclusion of aid within the appropriated budget signifies that the government should be accountable to parliament for aid-funded expenditure.

In practice, however, aid may be brought to parliament's attention in ways that fall short of formal appropriation. The country case studies therefore reviewed the overall role of parliaments in the budget process, checking the extent to which parliaments are informed about aid, and the extent to which aid is subject to parliamentary debate and review, even if not formal appropriation. Three levels of parliamentary involvement may be considered: at the level of the strategic framework for budgets, at the level of approving annual budgets and particular aid agreements, and at the level of reviewing audit reports. (See the discussion under "Putting aid on audit" on page 47.)

Factors influencing aid on parliament

Scope of parliamentary approvals

The case study countries varied in the extent to which external finance was incorporated, and made visible, in the budgets submitted for parliamentary approval. This partly reflected differences in legal frameworks, but also different degrees of diligence in following the legal requirements. Even in countries where parliament explicitly

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22 The Ghana multi-donor budget support (MDBS) has also been used very effectively to channel donor funds to addressing poverty reduction. See the 2007 evaluation of Ghana MDBS (Lawson et al, 2007).

does approve project aid (and is not simply informed about it), parliamentary discussion tends to be limited. In Rwanda's case, for example:

> Parliament approves the Budget Law as a whole, comprising budget support and the donor-financed projects presented in the development budget. The discussion in parliament nevertheless focuses on recurrent budget and on internally financed development budget. The only aid modality on which Parliament has a real say is therefore budget support. In practice, although the externally financed part of the budget goes to parliament, it only includes projects that have been signed already, therefore projects that parliament cannot modify. Regarding loans, as stated in Article 54 of the Law on State Finance and Property, each of them should be approved by parliament. Therefore, while the Minister of Finance is requested to approve all externally financed support, parliament approves only loans. (Putting Aid On Budget: Rwanda Case Study)

Quality of parliamentary review

The quality of parliamentary review was generally weak. This applies to all resources, and reflects weaknesses in the capacity and staffing of parliaments themselves, characteristically rushed timetables for review, poorly presented budget documents, and, often, a political environment in which proposals presented to parliament are not strongly contested (for example, because of strong party cohesion across the executive and parliament[23]). The Kenya researcher noted a general finding:

> Lack of parliamentary scrutiny of proposals regarding the use of external funding has less to do with transparency on the proposed use than with weak and even inappropriate engagement of parliament in the budget process, and weak capacity. (Putting Aid On Budget: Kenya Case Study)

Mozambique presents a similar scenario, where capacity constraints have limited the extent and quality of parliamentary debates on aid and the budget. The Mozambique case study argues that these problems have been heightened by the little attention that parliament has received from donor agencies in the past decade:

> ... the quality of both the approval and review of the budget and its accompanying documents is generally considered weak (see, for example, de Renzio and Sulemane, 2006). This is partly because parliament's lack of technical, human and financial resources undermines its ability to undertaking a thorough analysis and control of budget proposals and execution, including in its external component. While some donors are, directly or indirectly, supporting capacity building initiatives for the Mozambican parliament, the small size of these projects and parliament's very weak technical and human capabilities base suggest there is significant scope to work at this level and, this way, improve parliamentary oversight of the national budget, including in its external component. (Putting Aid On Budget: Mozambique Case Study)

Another important factor identified in the Mozambique country study is the political context in which parliamentary activities relating to the budget (such as budget approval, parliamentary expenditure control, and so on) take place:

> In addition to parliament's weak capacity, the "politicisation" and the underlying tensions between the (FRELIMO) government and the main opposition party, RENAMO, impede an in-depth and more objective examination by this chamber of the government's budget proposals and subsequent budgetary performance. Ultimately, these tensions end up by affecting the quality of parliamentary budget debates. (Putting Aid On Budget: Mozambique Case Study)

Good practice considerations

Reasons for weak parliamentary engagement in budgeting are deep-seated and not likely to be quickly transformed. Issues with whether and how aid is "on parliament" have little to do with how aid is managed, but rather with how the budget as a whole is managed. Nevertheless there is merit in:

- ensuring that legal requirements concerning parliament's role are observed by governments and donor partners alike

23 This is a factor in many donor country parliaments too.

- ensuring that parliament is informed about aid flows even in cases where it does not formally approve them
- strengthening the engagement of parliaments in the budget process generally, for example, by:
  - engaging parliament in the discussion of medium-term strategies
  - improving the accessibility[24] and transparency of the budget itself and of related documents
  - strengthening parliamentary procedures and staffing (for example, strengthening the staffing of specialist committees)
- supporting civil society efforts to hold governments accountable for public expenditure (which may include strengthening the role that political parties play in parliamentary budget processes)
- seeking accountability to donors in ways that complement, and do not undermine, governments' domestic accountability, including accountability to parliament.

6.5 Putting aid on treasury

The relevance of putting aid on treasury

Aid is on treasury when "external financing is disbursed into the main revenue funds of government and managed through government's systems" (definition in Box 3). The rationale for putting aid on treasury is to support government's financial management systems and capacity, to facilitate efficient cash management and reinforce financial discipline, and to facilitate aid capture on other dimensions. Not all funds channelled to government bodies are on treasury. (See the distinction between Channel 1 and Channel 2 disbursements, also explained in Chapter 2.) Equally, aid may be on budget without being on treasury. However, on treasury is a pivotal dimension, both because of its direct importance and because of its influence on other dimensions: thus, when aid is disbursed through the treasury system, the treasury has to be provided with necessary information to trigger disbursements, and this supports the on budget and on accounting dimensions too.

Factors influencing aid on treasury

Incentives and disincentives for including aid on treasury

Donors' reliance on treasury systems for disbursement of aid depends on their assessment of the financial risks involved, as well as the technical capacity of the treasury system to meet other donor requirements (which, as discussed under "on budget", may include the separate identification and earmarking of a donor's funds). Thus, many of the factors discussed under "on budget" are also relevant to the on treasury dimension. In addition, there are frequently concerns about the efficiency, not just the probity, of treasury disbursement procedures. MDAs, as well as donors, may prefer parallel disbursement systems if these are considered more likely to ensure (timely) delivery of funds to particular sectors or sub-national levels. In practice, concerns about public procurement standards act as a deterrent to putting aid on treasury, although aid can be, and frequently is, on treasury while following special donor procurement procedures.[25]

Approaches to different aid modalities

All forms of budget support are, by definition, on treasury. On the other hand, the case study countries included several where the use of treasury systems for project aid disbursements is minimal. As noted, this is treated almost as a matter of definition in Ghana, and as a corollary of the legal framework in the francophone countries. In Uganda, no system for Channel 1 disbursement by aid projects has been introduced. (This is despite the fact that, since 2003, parliament has legally approved project aid as part of the budget, and seems to reflect government's preoccupation with budget support as the preferred modality for incorporating aid fully into government systems.) Tanzania, in contrast, has deliberately created a channel to disburse project aid through the treasury system.

Several countries have made notable gains by bringing pooled sector funds on treasury that were formerly managed in parallel. This has been a focus of joint government–donor efforts to bring more aid on budget in Mozambique,

24 "Accessibility" implies user-friendliness and not just availability of documents.
25 South Africa's RDP fund provides a special case: funds disbursed through the RDP fund are thereby on treasury, but as they are not being disbursed through the central revenue fund, their procurement procedures can be specified in the aid agreement. More generally, earmarked aid that is on treasury may have special procurement stipulations attached.

and also in Tanzania. Pooled funds have also been moved on treasury in Burkina Faso and Mali. (See Box 26.) In Ethiopia, Channel 2 disbursements have largely given way to Channel 1 (with and without earmarking).

Good practice considerations

Priorities for PFM reform

The same features of PFM systems that are important for bringing aid on budget are also relevant to bringing aid on treasury. (See discussion under "Good practice considerations" on page 43.) In order for donors (and beneficiaries) to have confidence in treasury disbursement, it is particularly important to address both the discipline and the efficiency of treasury disbursement. Measures that have been effective in the case study countries include the strengthening of expenditure processing linked to reformed budget classifications, and capacity building. In some cases (for example, the SISTAFE system in Mozambique) the introduction of integrated financial management information system (IFMIS) modules has contributed to the strengthening of treasury systems.[26]

Across a range of countries, the introduction of single treasury accounts (STAs) and related efforts to strengthen bank account management have had a strong effect. The Mozambique country report provides an example. (See Box 28.) Ghana and Rwanda are among other countries pursuing similar reforms. In Uganda, as a separate measure, the government has required bank accounts for project aid to be held at the central bank, rather than commercial banks; this has improved information and supervision by the accountant general.

Box 28: Bringing aid on treasury through the single treasury account in Mozambique

The Mozambique government, together with its aid partners, has been working to merge all financial accounts into one single treasury account – Conta Única do Tesouro, CUT – and to bring all available sources of funding, both internal and external, under the umbrella of the Mozambican integrated budget and PFM system. Donor agencies that belong to the Programme Aid Partners group have agreed to disburse at least 60 percent of its development assistance to the government through the single treasury account system by 2009.

Since 2007 some of the larger sectoral common funds are now being managed through the CUT and are, therefore, on treasury. These include common funds in agriculture, health and education (as well as a fund that supports PFM reform!).

The establishment of the single treasury account has been instrumental in the process of putting aid on budget in Mozambique and bringing its associated PFM benefits. Its creation directly addresses one of the main causes behind the phenomenon of off budgets: the lack of transparency within the treasury system, which deters donors from using local public financial management systems. At the same time it is perhaps one of the most visible manifestations of the PFM benefits brought by aid capture on treasury, given the immediate benefits the government/treasury draws from having the number of accounts it uses for its treasury operations reduced to one.

Source: Putting Aid On Budget: Mozambique Case Study.

Donor practices

Donors can contribute to more effective aid capture on treasury in a variety of ways:

- by giving early attention to the design of disbursement procedures when preparing aid interventions, and taking account of the nuts and bolts of the partner country's PFM system when doing so
- by bringing existing pooled funds on treasury, and designing new pooled funds to be on treasury from the outset
- by improving the predictability and front-loading of budget support disbursements (to assist government's liquidity and cash-flow management).

26 However, the introduction of an IFMIS is not a panacea. Research reported in 2003 (Dorotinsky, 2003, cited in Parry, 2005) showed that for 34 IFMIS projects in 27 countries funded by the World Bank (at an average of US$12.3m per country): only 21 percent were successful; only 6 percent were regarded as likely to be sustainable; and, they took an average of seven years to complete.

6.6 Putting aid on accounting

The relevance of putting aid on accounting

Aid is on accounting when "external financing is recorded and accounted for in government's accounting system, in line with government's classification system" (definition in Box 3). Aid is not fully on accounting if special additional financial reports are stipulated. (See discussion under "Putting aid on report" on page 49.) The rationale for using the government accounting system as much as possible is to strengthen government financial systems, to minimise transaction costs and demands on government capacity, and to ensure that government accounts provide a comprehensive view of the government's finances.

Aid may simultaneously be on accounting and not on some other dimensions. For example, there are ways in which aid that is not on treasury, or not appropriated through the budget, may still be recorded in government accounts. However, there is valuable synergy if aid is on treasury as well as on accounting, since the need to justify treasury disbursements provides a strong incentive to keep government accounting records up to date. Credible and timely accounting for disbursements may be a crucial factor in aid agency willingness to use Channel 1.

Factors influencing aid on accounting

Incentives and disincentives for including aid on accounting

Whether aid is brought on accounting is largely a corollary of the incentives for being on treasury, but the incentive works in both directions, as reliable accounting is a prime concern in either case. Donor preferences are strongly influenced by the issues in budget classification and charts of accounts that have already been discussed, but a crucial factor is the ability of the government accounting system to deliver reliable and timely expenditure reports. In several of the case study countries, large backlogs in closing government accounts, as well as delays in reporting, have been a major problem, but impressive strides have been made in reducing backlogs and strengthening accounting systems as part of PFM reforms and capacity development.

Approaches to different aid modalities

Budget support is inherently on accounting, and its use gives donors a greater interest in the quality of government accounting as a whole. PFM reform programmes and conditions linked to HIPC and budget support have been instrumental in strengthening government accounting systems.

Government approaches to putting project aid on accounting are influenced by different legal traditions. Mali illustrates a francophone approach, where the responsibility of the financial controller is expressly limited to the accounting of funds that are on treasury; apart from budget support, aid funds are disbursed by project implementation units and accounted for separately, while producing consolidated accounts seems not to be a priority for government or donors. Tanzania has, more recently, made strenuous efforts to bring all modalities on accounting. It has arrangements whereby funds not on treasury are on account (because of pooled funds with parallel disbursement systems, but government accounting); the same mechanism can incorporate aid-in-kind into the accounts. (See Box 29.)

Good practice considerations

Since disbursement through treasury is not practical for all donors (or appropriate for all types of aid), mechanisms to record aid-in-kind in government accounts are a good practice. (See Box 29.) (Kenya also tries to capture aid-in-kind, in line with its financial legislation). More fundamentally, there has been a major contribution from the accounting reforms which have raised the speed and quality of government accounting in many countries.

For donors who are not disbursing through Channel 1, good practice requires the timely provision of expenditure information in formats that match the government's accounting classifications.

The key good practices for governments seeking to bring external funds on accounting are:

- to ensure that the accounting system provides a proper framework for reporting transactions, including those involving external funds
- capacity development to ensure the quality and timeliness of government accounts at all levels.

There are now internationally recognised accounting standards for aid which provide attainable standards for countries using cash-based accounting systems. (See Box 30.)

Box 29: Tanzania: Aid-in-kind and dummy entries

The following extracts from Tanzania guidelines illustrate an approach to recording aid-in-kind in the mainstream government accounting system:

Direct Disbursements to the Project and 'In Kind' Assistance
There are instances where donors disburse directly to the project or provide in-kind assistance (donor procurement, recruitment of consultants, project staff engaged at the donor office). […] The government is encouraging all donors to route their resources through the Exchequer. However, where direct disbursements occur, the procedure used to account for such transactions is as follows:

i. The donor disburses funds or provides goods or services directly to the project.
ii. The project then reports on the amounts, goods, services or equipment value received to the relevant MDA with relevant supporting evidence of the disbursements and purchases.
iii. The MDA raises a TFN 358 application form in the normal manner. However, since expenditure has in this case been already made, copies of payment vouchers and other supporting documents will be attached to the TFN 358 […].
iv. The Budget Division, upon satisfying itself, will grant a release warrant to the Accountant General.
v. The Accountant General will now issue a Dummy Exchequer Issue Notification (for record purposes only since there is no actual cash outflow) and such issuance will be recorded in the Integrated Financial Management System. At this stage, the expenditure will now have been incorporated in the government accounts.

Source: Government of Tanzania, 2005.

Box 30: Good practice: Follow international accounting standards for aid (IPSAS)

In 2003 the internationally recognised accounting standard, the International Public Sector Accounting Standard (IPSAS) for cash-based financial reporting was issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants. This is relevant to developing countries as the vast majority of their governments do not have accrual-based systems.

When this was adopted there were calls for an internationally accepted accounting standard for reporting external assistance. Since 2005, the IPSASB has undertaken a consultation process on exposure drafts to amend the cash-basis IPSAS to include additional required and encouraged disclosures for recipients of external assistance, issuing Exposure Draft (ED) 24 in 2005 and ED 32 in 2006. ED 32 proposes a split into mandatory and recommended disclosures under the cash basis of accounting.

The mandatory requirements include: "show separately total external assistance received in cash, show [aid-in-kind] i.e. payments made on government's behalf by a third party, break down by different providers, show grants and loans separately" and others.

Following field tests in 2007, the IPSASB approved IPSAS, Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance. The IPSAS (to be housed within the cash-basis IPSAS), is planned to be issued early in 2008. Full details are available from the IPSASB website: http://www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0067

Source: http://www.ifac.org/PublicSector/Board.

6.7 Putting aid on audit

The relevance of putting aid on audit

Aid is on audit when "external financing is audited by government's auditing system" (definition in Box 3). As with other dimensions, the country case studies looked beyond the formal question of whether aid is included within the scope of government audits and also considered the quality of auditing that takes place. Of course donors (and especially budget support donors) have an interest in the auditing of domestically financed expenditures as well. The rationale for using national audit systems is to conform to national lines of accountability and to support the strengthening of national systems.

Factors influencing aid on audit

Whether aid falls within the scope of the national audit process depends on the national legal framework, on the availability, in practice, of the records on which audits focus, and on the capacity of the audit bodies and the auditing process.

The national legal requirements for the audit of externally financed expenditures often exceed what actually occurs. For example, public finance legislation in Tanzania explicitly requires that all aid, whether paid in cash or in the form of goods and services, should be subject to audit by the controller and auditor-general. Kenyan legislation similarly requires that all donor-funded expenditure should be audited by the auditor-general. In practice, the scope of government audit is commonly limited to funds that are on budget and on accounting, so may implicitly exclude most aid (though budget support is inherently covered). In a number of cases auditors themselves have highlighted this as an anomaly. Thus:

- The Burkina Faso study noted that non-GBS ODA expenditures are not included in government accounts, and are therefore not regularly checked by the court of auditors. The court is aware of this. Recommendations made while checking the application of the financial management law of 2003 and repeated since are that "external funding processed by [the directorate for cooperation] should be sent to the treasury for accounting". This is scheduled for 2008.

- In Uganda, in the 2004/05 report the auditor-general states:

  > A scrutiny of the approved budget revealed that various projects received funding from un-appropriated sources/donors. From a sample tested $23,972,298.87 was disbursed to projects outside the approved budget. It appears therefore that information provided to parliament for approval is inadequate with regard to donor funded projects. (Putting Aid On Budget: Uganda Case Study)

Even where national audit offices do work that is of a high standard, they tend to be thinly resourced and limited in the volume of work they can manage; hence the proportion of funds/agencies subject to audit in a given year may be worryingly low. Auditors are further constrained by delays in the submission of accounts. As a consequence, their reports may be submitted late, and this contributes to a generally poor record of parliamentary follow-up of audit findings. (See also the discussion of parliamentary capacity in relation to putting aid on parliament on page 42.)

Against this background, audit arrangements are often the subject of special conditions attached to specific aid instruments. These may require an external audit, or an undertaking by the auditor-general to conduct (or to commission) a special audit.

Good practice considerations

Support to audit capacity

Support to the capacity of audit bodies is likely to be a long-term requirement, and could complement long-term action to strengthen parliamentary public accounts committees, as well as civil society demand for accountability. Direct support can be complemented by efforts to strengthen the demand for audit services. For example, the Uganda case study notes that, in the context of the move towards budget support, the auditor-general has benefited from significant institutional support in recent years, and also the timely preparation of audits has been a key focus of conditionality. This has helped underpin improvements in quality and timeliness of audit reports. Similar developments are taking place in Mozambique where, with the growth of budget support to the government, several donors have started supporting the administrative tribunal (the body responsible for external auditing) with various capacity building initiatives which have improved the scope and quality of its audit exercises on the budget, including its externally funded components.

Where special audits are to be commissioned, donors can avoid sidelining national audit authorities by involving them in the commissioning of audits. (In several countries, such involvement is required by law.) There is also scope for harmonisation of donor audit requirements (as happens through various forms of pooled funding).

Complementary approaches to fiduciary and other assurances sought by donors

Formal ex post audit is only one element of fiduciary assurance. Donors often seek much more immediate comfort about the use of their funds, and are concerned with wider questions about how well resources are used. Relevant complements include internal audit as an aspect of the control environment when funds are put on treasury, ongoing financial reports and reviews to verify the application (and in some cases the additionality) of aid funds, and diagnostic studies such as public expenditure reviews and public expenditure tracking surveys. There is thus a need to think broadly about the range of "audit" that may be required both for accountability and for monitoring and improving aid effectiveness, and to implement in ways that engage governments and harmonise donor efforts.

6.8 Putting aid on report

Relevance of putting aid on report

Under "on report" this study considered whether external financing is included in ex post reports by government (definition in Box 3). This dimension acknowledges that the monitoring of public expenditures involves a much wider range of (financial and other) reports than those provided by the formal accounting system. It is possible that aid which is not incorporated in the formal public accounts may nevertheless appear in such reports.

The definition of relevant reports is rather open-ended, but the study focused on reports which are owned by governments, and which are consolidated. In addition to the formal accounting records that are produced, there is potential for other reports (for example, budget execution reports, consolidated sector reports) to provide valuable management information and to integrate externally funded activities in the process. For example, such reports may provide additional detail on funds that, in budgeting terms, are disbursed as block grants to agencies or tiers of government.

Factors influencing aid on report

A general lack of strong government monitoring and evaluation systems means that monitoring and evaluation of aid is also incomplete. In-year reporting is often of poor quality, and, in some cases, government reluctance to share information limits its wider value. There are systematic efforts, in some cases (for example, Rwanda and Kenya) to produce systematic reports on aid at the national level or by ministry, but problems in government capacity to obtain, assemble and use such information are shown by persistent discrepancies between information assembled from different sources (such as country-assembled data versus aid flows reported to the OECD DAC). At the same time, the DAC harmonisation agenda has stimulated more efforts to supply and use relevant information on aid. Sector approaches and sector working groups have stimulated the preparation of sector-specific and general reports.

The most ambitious efforts are so-called aid information management systems (AIMS) – see the discussion in the Putting Aid On Budget Literature Review: paras 41–43 – of which the most conspicuous in the study's sample countries are the Aid Management Platform (AMP) in Ethiopia, and the ODAMOZ database in Mozambique. The latter is functioning as a useful adjunct to efforts to bring aid directly on budget – see Box 31 – but the AMP in Ethiopia, though more ambitious, is not yet operating as an effective shared resource between government and donors. In many cases (of which Rwanda and Tanzania were conspicuous examples) a multiplicity of expenditure, accounting and reporting databases have accumulated. However, weak linkages between these databases detract from the comprehensiveness and quality of reporting. This makes it difficult to link financial reports, to non-financial (activity, outputs, outcomes and impacts) reporting. Often the multiplicity of reports and databases reflects a fragmentation of responsibilities within government, and there is a need for rationalisation and streamlining of such reporting. There is a risk that reports, when available, do not reach domestic stakeholders, but are oriented primarily to the demands of external aid agencies.

Box 31: The ODAMOZ database in Mozambique

International development agencies have made efforts in Mozambique to systematically compile, report and publish information on the ODA projects they operate or support. This is now being reported on a regular basis in the ODAMOZ web-based database (see www.odamoz.org.mz), which includes detailed information for all projects funded by agents participating in this aid dissemination project and is an important source of ODA information for the government. Since 2006 this database is being managed by the Ministry of Planning and Development, whilst efforts are being made to encourage its use by both donors and government agencies (GOM/PAP, 2007c: Annex 4:14).

Whilst ODAMOZ has been an important step in improving information flows between donors and the government, worthy of being emulated by other countries, efforts to put *aid on budget* should not be seen as limited only to a process of greater information generation and sharing.

Source: Putting Aid On Budget: Mozambique Case Study.

Good practice considerations

Reporting has costs, and the quality of reports depends on reporters having a continuing incentive to provide timely and accurate information. Consolidated reports can add value by capturing more aid than is directly reflected in the government's financial management systems, especially if financial data can be linked to information on activities, outputs and outcomes. Incompatibility of reporting categories, timetables and formats is a continuing challenge. Donors need to adapt to government, classifications, currency, time periods and reporting timetables in order to increase the value of such reports. At the same time, demands for reporting should take account of capacity, and be linked to efforts to strengthen analytical capacity in particular.

6.9 Decentralisation

The case study countries show a variety of approaches to decentralisation. Ethiopia has a fully fledged federal system, with lower tiers mainly funded by non-earmarked transfers from the federal government. Uganda also has a highly developed intergovernmental transfer system, but based on much more tightly controlled specific–purpose grants. Several other countries (for example, Rwanda and Mozambique) have decentralisation reforms under way which aim to increase responsibilities and public expenditures at local levels, and are simultaneously urging aid agencies to channel local-level financial support through the government financial system.

In all cases, decentralisation poses a special challenge to bringing aid on budget. On the one hand, aid that its channelled to decentralised bodies or focused on specific geographical areas is often hard to capture for planning and budgeting purposes. On the other, one of the deterrents to bringing aid on budget is a fear that disbursement via central government (Channel 1) will not reach local levels fairly or efficiently. Mozambique is a prime example of this dilemma. Government and aid partners have worked to bring more aid on budget, through pooled sector funds; these efforts have been linked to the strengthening of financial management sub-systems and the introduction of a computerised financial management system. There has been substantial progress, but the delivery of resources to local level through the government system is still problematic.

The Uganda case study included a special review of decentralisation in the context of putting aid on budget. Its conclusions are summarised in Box 32. Both the Ethiopian[27] and Ugandan experiences show that, instead of creating parallel mechanisms through projects and basket funds, sector budget support can be channelled though a government's intergovernmental transfer system in support of local service delivery. This helps build local government budgetary and service delivery systems, and donor fiduciary concerns can be addressed through tracking resources via the transfer system, and building local systems. However, both cases benefited from a strong political support for decentralisation, and a capable central finance ministry able to ensure the efficient disbursement of grants to sub-national levels.

Box 32: Decentralised services on budget in Uganda

The Uganda case study demonstrates first, that capacity can effectively be built while using the intergovernmental transfer system and local government systems, even from a very weak starting point. It also demonstrates that strong government initiative has helped bring aid both on budget and on financial management systems in local governments – this has meant that off-budget pooled funds became far less prevalent in Uganda than other similarly aid dependent countries (for example, Tanzania and Mozambique).

The following lessons can be drawn:

- First is the importance of the government developing a clear and transparent fiscal transfer system, where grants to local governments are clearly identifiable in the budget.
- Second is the need to address donor fiduciary concerns directly by developing initiatives which ensure transfers are protected and can be tracked, while strengthening local government budgeting, accounting and reporting systems.
- Third, demanding capacity from local governments helps build capacity, and this can be done by enforcing existing systems, and providing explicit incentives through initiatives such as the Local Government Development Programme (LGDP) assessment.

Yet the study also shows that a fragmented government system can have a detrimental effect just like fragmented projects, and increase transaction costs. These costs need to be weighed up against the benefits of using earmarked sectoral transfers as a means of tracking resources to basic services.

Source: Putting Aid On Budget: Uganda Case Study.

27 See detail on page 42 on the Protection of Basic Services (PBS) project in Ethiopia.

7

CONCLUSIONS AND RECOMMENDATIONS

This chapter provides recommendations (for individual governments and donors, and for joint action). The recommendations focus on practical ways of strengthening aid effectiveness by bringing aid on budget.

7.1 Introduction

Overall, this study has found undoubted progress, achieved and under way, in bringing aid on budget, but there is still a lot of scope to improve the alignment and integration of external and domestic resources. This requires attention to the quality of capture on all dimensions as well as the volume of aid that is recorded in budget documents. Chapter 6 has identified many good practices (and some bad ones), related to each of the "on budget" dimensions considered by this study. This final chapter draws on them to present a coherent set of recommendations for governments and for donors, and for governments and donors acting jointly. It first considers the overall approach, and the scope for progress with different aid modalities.

7.2 Overall approach to improving aid capture

Drivers of progress in putting aid on budget

The country studies have highlighted the ways in which government and donors working together (especially if led by government) can make progress in strengthening effectiveness, including putting aid on budget. Often the dialogue around budget support and sector wide approaches (SWAps) is a valuable focus. (Hence, as noted, the most striking gains in bringing aid on budget have been through the use of budget support and by bringing pooled funds on budget.)

Improvements in PFM are a fundamental factor in bringing aid on budget. At a general level they can increase donor confidence in government systems, and support a virtuous circle in which the integration of aid in country systems strengthens those systems and encourages the further integration of aid. At a specific level, the nuts and bolts for integrating aid are the nuts and bolts of the PFM system.

There has been growing consensus on the characteristics of effective PFM, supported by many good practice guidelines and encapsulated in the Public Expenditure and Financial Accountability (PEFA) criteria. And – as all the country studies observe – the DAC harmonisation and alignment agenda, now embodied in the Paris Declaration, has had a galvanising effect on the efforts of donors and partner governments at country level.

At the same time, factors other than the quality of PFM are also important – as implied by the rather weak correlation between overall measures of PFM quality and the use of country budget systems. (See Box 15 and the associated discussion on page 23.) A recent study of donors' approaches to risk in the use of country systems explores both the financial and non-financial factors involved, and is also highly relevant to the issues discussed in this report. (Mokoro Ltd and CIPFA, 2008)

Where are the potential gains?

Budget support is automatically on budget in most if not all dimensions. For this and for other reasons it makes sense for partner countries to create favourable conditions for (general and sector) budget support, and to encourage donors to provide more of their aid in that form. There are risks attached to budget support, for recipients as well as donors, and it is in both sides' interest to design forms of budget support that mitigate these risks.

However, budget support has limits, and project aid has been growing. The problems associated with poorly integrated project aid still loom large. The bigger challenge, therefore, is to bring project aid on budget. (See Box 14.) The Rwanda study noted the challenges as follows:

> The shift to budget support clearly is and remains the most efficient and comprehensive way of "putting aid on budget". Nevertheless, a lot can be done to improve the way projects are integrated into the national planning, budgeting, accountability, accounting and auditing processes. Somehow the international pressure that has led some donors to shift to budget support has so far led to less concrete results in terms of shifting projects on budget. This may be partly linked to the complexity of the issue. In that respect, making sure aid is reflected on the budget is only a first step in the process. It is an essential step, since transparency will allow better planning, allocation, and accountability.
>
> Nevertheless it is essential for local donors and government to push the reflection further than mere data collection, in particular towards how to ensure project planning and pipeline is aligned to government priorities, how projects can be integrated into the single treasury account, and how project execution can pass through SMARTGOV [the financial management system] and abide by the Law on State Finance and Property. (Putting Aid On Budget: Rwanda Case Study)

Several countries have paid special attention to designing procedures for managing externally financed projects within government systems. (Tanzania is one example; Mali's so-called sector budget support – described in Box 26 – could be considered another.) In other cases, the integration of projects has been surprisingly neglected. The Uganda study notes:

> As well as appearing on the revenue budget, project aid may use government procurement systems, but no projects use the government's accounting systems. However, to date, a mechanism has not been developed through which project expenditures funded by donor aid can use either the automated accounting systems at central government, or a manual one.
>
> A key problem has been the fact that project-based budgetary systems have not changed over time to evolve with the MTEF and sectoral processes. This is largely because it was widely perceived that budget support would become the dominant modality, but project aid has remained and is now growing again. Another implication of this is the lack of thinking that has gone on with respect to how projects can use domestic budget execution systems. (Putting Aid On Budget: Uganda Case Study)

Priorities and sequencing

Different countries have different institutional settings, their governments have different preferences in how they relate to donors, and their PFM systems are at different stages of development and reform. Strategies for bringing aid on budget need to be tailored to these different circumstances. Relevant considerations include:

- Aid on budget issues are generally more important in more aid-dependent countries.[28]
- Sectors where substantial aid flows support public services merit more attention.
- Capacity everywhere (including aid agency capacity) is limited, and in any case technical solutions will not work unless incentives are right.
- Bringing aid on budget needs to be considered as part of an overall strategy for PFM, which will have a strong influence on the sequence of reforms.

28 On the on the hand, less aid-dependent countries, such as South Africa, tend to have stronger PFM systems. Therefore, while putting aid on budget in these countries may be less critical, it should also be easier, and donors should take advantage of this.

The analytical framework of this study, with its distinction between different dimensions of the budget system, may be a useful template in considering the choice and design of aid instruments. Chapter 6 has commented on which modalities are more/less likely to be captured on different dimensions. Often, the good practices it identifies have implications for the design of specific aid instruments as well as the broad choice of modalities. It is worth considering which dimensions are more important in a particular case, and whether disadvantages of non-capture in some dimensions can be mitigated on other ones. (For example, if it is not practical to put aid on budget or on treasury in a particular case, is it at least on plan and on report? Or, as in the case of Tanzania, bringing aid on account may mitigate failure to capture it on treasury.) Also, given that different donors have different preferences and constraints concerning modality and instrument design, can they focus on sectors and interventions that play to their strengths?

The Mozambique report exemplifies this way of thinking:

> It is necessary to reflect on the urgency and necessity of bringing all donor funds *on budget at all levels*, especially given the recentness of some of the key reforms undertaken in Mozambique in the sphere of public financial management, and the ongoing challenges that still need to be addressed. In some instances – for example, in the case of large infrastructure projects with a high development impact, such as the construction of roads, bridges or large water and energy infrastructures – the benefits of maintaining ODA off treasury (although not necessarily off plan or off budget) may outweigh the potential costs of processing these projects' funds through national PFM systems. This may be the case, for instance, if existing PFM systems are weak and unreliable and, thus, incapable of managing the funding and accounting requirements associated with this type of project with the reliability and quality necessary to ensure their timely undertaking. (Putting Aid On Budget: Mozambique Case Study)

7.3 Recommendations for governments

The PFM agenda

Bringing aid on budget should be seen as part of the overall PFM reform agenda. It should be addressed within the comprehensive, country-led programmes of PFM reform that are envisaged in the PEFA "strengthened approach" (Public Expenditure Working Group, 2005). It is important for governments to publicise their systems, highlight improvements, and make their procedural requirements known to donors.

The following PFM priorities are especially relevant to the integration of aid within country systems:

- Strengthen transparent medium-term expenditure planning (to bring aid on plan).
- Clear planning and budgeting calendar to integrate aid management with the planning and budgeting process.
- Better budget classification and presentation. (The newly approved IPSAS standards – see Box 30 – are relevant here.) Especially relevant improvements include:
    - accurate identification of recurrent and capital expenditures (but moving away from separate "recurrent" and "development" budgets)
    - "source" codes to allow tracking of donor funds if required
- Discipline in budget execution (which can be reinforced by many of the points which follow).
- Single treasury accounts (and strict control of government bank accounts).
- More timely reports and accounts.
- Transparent and efficient mechanisms for funding sub-national governments.
- More transparent budget documents:
    - to highlight plan/budget strategic links
    - to show aid sources of budget finance, and aggregate uses of aid
    - to facilitate more meaningful parliamentary review.

Strategies for aid management

Few countries have well articulated strategies for the management of aid (as opposed to its mobilisation). Often the responsibilities for aid management within government are poorly defined, and the lines of communication with donors are confused. Preferences for budget support may be stated, but there is little guidance on how donors should deliver other forms of aid in ways that use country systems. The interconnections between aid and PFM are not always recognised. Some countries have recognised the need for more explicit strategies: for example, Rwanda is in the process of developing an aid management manual to augment its 2006 aid policy; South Africa has such a manual; Ghana is preparing an aid strategy – see Box 33 – and so is Mozambique.

Explicit aid effectiveness strategies should:

- Link aid management strategy to strengthened public finance management reform (effectiveness of all resources). The link begins with the making of policy through the budget process, and continues through all the phases of the budget cycle.
- As part of this: address unclear and overlapping responsibilities for the coordination of planning and budgeting. (See the earlier comments on the integration of recurrent and development budgets and of the responsibilities for their preparation, and the need to avoid disconnecting aid management and budgeting responsibilities.)
- Use donor information as an input into scenario planning for the poverty reduction strategy papers (PRSPs)/medium-term expenditure plans, and use scenario planning as a basis for seeking longer-term aid commitment.
- Go beyond indication of preference for budget support modality, to specify good donor practices and standard government procedures for other modalities.
- Allow for dialogue about the use and the additionality of aid funds so as to reduce donor demand for earmarking and micro-management of donor funds. (See page 42 for the discussion on Ethiopia's Protection of Basic Services project and the Uganda Poverty Action Fund, and also the discussion on wider on audit approaches on page 48.)

Box 33: Ghana: Preparing a comprehensive aid strategy

The Ghana government is in the process of developing a comprehensive aid policy, known as the external resources mobilisation and management policy. It is currently at the Concept Note stage.

The strategy is in response to government and donor concerns expressed following the results of the 2006 Survey on Monitoring the Paris Declaration. This revealed:

- a lack of shared understanding between the government and development partners on the definitions and concepts related to aid effectiveness
- inconsistencies in reporting on activities financed by donor grants and loans, leading to substantial differences in the data available to the government and the development partners
- fragmentation of donor efforts (both loans and grants) due to the lack of the relevant policy provisions guiding allocation of foreign aid
- the lack of comprehensiveness of aid included in the budget
- uncoordinated provision of technical assistance.

There is also the recognition of a need for stronger government leadership and guidance for improving aid effectiveness.

In response to these needs, the objectives of the aid policy are twofold: (a) to increase the effectiveness of external resources to Ghana; and (b) to provide a basis on which the additional aid required by Ghana to meet its short- to mid-term investment needs can be mobilised.

The aid policy will include criteria, guidelines, and procedures for: the mobilisation of aid resources, procedures for handling different types of aid, aid reporting, and guidelines for improving sector policy frameworks. It will also specify the roles and responsibilities for aid management at all levels of government.

Source: Putting Aid On Budget: Ghana Case Study.

7.4 Recommendations for donors

The Paris Declaration commitment to increase the use of programme-based approaches should provide continued impetus for the greater integration of aid with government systems. Aid agencies should review their aid instruments designs, centrally and at country level, from the perspective of aligning and integrating with country systems along each of the dimensions reviewed in this study.

Agencies should in particular review the extent to which they use *regular* government systems. This requires investing in understanding the systems and procedures of specific recipients, and training aid agency staff accordingly. It is important to make the use of government systems a design consideration in the early stages of designing any intervention, not an afterthought.

Agencies should improve the medium-term predictability of their aid (an area in which there has been relatively little progress) and provide aid flow information that is linked to the government fiscal year, the government planning and budget calendar, and government budget classifications.

7.5 Recommendations for joint action

Working together, governments and their aid partners should:

- recognise the continuing importance of joint government–donor action (at general and sector level) to address the greater use of government systems
- incorporate "aid on budget" objectives within country-led public finance management strategies
- strengthen monitoring of the Paris Declaration commitments:
  - set standardised and less flexible definitions at international level
  - monitor the proportion of project aid that is on budget
  - continue the country-level focus on use of government systems, and set country-level targets for progress
- rationalise aid-related databases and collaborate in sharing information on all types of aid.

Jointly setting and monitoring standards and targets for the use of country budget systems is especially important, because there are few effective sanctions on donor performance, apart from donor peer pressure and the voluntary obligations of mutual accountability between donors and partner governments.

7.6 Next steps

Many steps can be taken in the short term, but a long-term perspective is required. As the Mozambique country study noted:

> Given its structural and overarching nature, the process of putting *aid on budget* is likely to require time and a long-term perspective from all parties involved, and a gradualist approach that takes into account the many interdependencies that exist between the various policy spheres if these objectives of bringing aid on budget at all levels of the budget cycle are to be achieved. (Putting Aid On Budget: Mozambique Case Study)

Many of the "good aid on budget practices" identified in this report are general good practices. It has been emphasised that putting aid on budget is a subset of a wider agenda for aid and public finance management. Pursuing aid on budget should not become a separate, fragmented chore; it should be incorporated in wider programmes for PFM strengthening, and included among the tasks of existing general and sector forums.

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Annexure

SUMMARY OF COUNTRY STUDY FINDINGS

CONTENTS

Boxes

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development [UK]
Danida	Danish International Development Agency
EC	European Commission
GAVI	Global Alliance for Vaccines and Immunisation
GBS	general budget support
GFATM	Global Fund for Aids, Tuberculosis and Malaria
HIPC	Heavily Indebted Poor Countries Initiative
IDA	International Development Association
IFMIS	integrated financial management and investment system
IMF	International Monetary Fund
IP	international partner
IT	information technology
MDA	ministries, departments and agencies
MTEF	medium-term expenditure framework
NGO	non-governmental organisation
ODA	official development assistance
OECD	Organisation of Economic Co-operation and Development
OECD DAC	OECD Development Assistance Committee
PEFA	Public Expenditure and Financial Accountability
PFM	public finance management
PIP	public investment programme
PIU	project implementation unit
PRSP	poverty reduction strategy paper
STA	single treasury account
SWAp	sector wide approach
SWG	sector working group
TA	technical assistance
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States of America
USAID	United States Agency for International Development
US$	United States Dollar

INTRODUCTION

The terms of reference for the Putting Aid On Budget study call for two types of country study: a set with a "lighter touch" and a more in-depth set. All the countries underwent "lighter touch" research: an initial factual scan of the country's situation regarding putting aid on budget and reflecting it in the financial accounts. The research in the other countries went further to understand what drives the identified country practices and the effects of efforts to improve aid transparency. The countries that only underwent the "lighter touch" research are classified as Group A. Group B countries underwent more in-depth research.

Group A	Group B
Burkina Faso	Ghana
Ethiopia	Mali
Kenya	Mozambique
South Africa	Rwanda
Tanzania	Uganda

Both overall and among the Group B countries, there is a good range of geographical locations, administrative/linguistic inheritance, and degrees of aid management and PFM sophistication. The Group B countries include several where concerted efforts to bring aid on budget offer scope for learning. The Group A countries include a number of large aid recipients and some with federal systems.

"Putting aid on budget" means capturing aid at different phases of the budget cycle. Box 1 defines the framework of related terms as they are used in the Putting Aid On Budget study.

Box 1: Different dimensions of on budget/capturing aid

Term	Definition
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 a government, and managed through the government's systems.
On accounting	External financing recorded and accounted for in a government's accounting system, in line with the government's classification system.
On audit	External financing audited by a government's auditing system.
On report	External financing included in ex post reports by a government.

* It should be clear from the context if 'on budget' is meant in a more general sense than this precise definition.

The country studies report on each of these dimensions.

Box 2: Structure of country study reports

Section A: Country context
The aim in this section is to identify the key characteristics relevant to aid on budget.

A1	A note on key information sources.
A2	Country institutions: structure of the government and the main institutions for planning, budgeting and budget implementation.
A3	Aid context: overview of aid flows, their importance, the aid modalities/instruments in use, and the main donors active.
A4	Institutions for aid management: government, donor and joint donor/government structures and procedures for aid management.
A5	Legal and practical framework for budgeting: legal requirements and actual practice, including the budget calendar, budget structure and classification, accounting and reports, any special provisions for the incorporation of aid, key weaknesses and any recent or pending reforms.

Section B: Evidence and assessment of capturing aid
This is the core of the study and the report. The matrix shows the structure of the study/reporting against each dimension of capturing aid. For Group B countries, there is additional work to assess the quality of capture, and especially to explore reasons for success or failure in capture.

	Dimension	Evidence of capture (What is captured?)	Quality of capture (How well? How useful?)	Explanations (Why/Why not?)
B1	On plan			
B2	On budget			
B3	On parliament			
B4	On treasury			
B5	On account			
B6	On audit			
B7	On report			

Section C: Reflections

- Identifiable patterns in the Section B findings, and possible explanations.
- Particular examples of good practice.
- Particular examples of bad practice or reforms that do not work.
- Possible recommendations (at country level or wider).
- Issues to be followed up in further work (especially where a fuller Group B report is to be prepared).

This annexure summarises Section B for each country from the country studies.

BURKINA FASO			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On plan	Programme and project aid is included in the various planning documents, the most significant of which is the PIP. This long-term programme is updated annually. The PRSP's Priority Actions Programme includes the PIP programmes and projects which have priority or strategic importance for the government.	Most commitments are taken into account. The 2006 Survey on Monitoring the Paris Declaration reports that disbursements are recorded at a rate of 92% of ODA over a three-year period. The Directorate General for Cooperation (*Direction Générale de la Coopération*) reports a slightly lower rate of 85%. This directorate passes information to the Directorate General for the Coordination and Assessment of Investments (*Direction Générale de la Coordination et de l'Evaluation des Investissements*), which is responsible for the PIP. All the data relate to ODA between governments. The ODA provided directly to the private sector, NGOs or civil society is not taken into account.	GBS is captured via the Finance Ministry's Permanent Secretariat for the Monitoring of Financial Policies and Programmes, which is also responsible for drawing up the overall MTEF, forming part of the planning. The Directorate General for Cooperation is responsible for the non-GBS ODA. It presides over the negotiations for loan and grant agreements, which include the government's own contributions. It takes part in bilateral deliberation processes that enable grants that do not have a government contribution to be monitored. Only aid by small and infrequent donors can therefore slip through the net, or aid kept quiet by connivance between the donor and the beneficiary structure.
On budget	All known aid is registered as receipts and expenses in the finance law for the government budget. In receipts, the budget does not distinguish between grants and loans. In expenses, programme and project aid is listed individually in the section relating to investments. The type of expenses is not specified, but is summarised in the single line: "Project expenses". GBS is mixed in with the government's own resources and cannot be tracked in this way, which is why the summary budget includes a special table listing GBS by IPs.	Most of the GBS is listed in the budget if it is brought to light in time. Undertakings carried out later in the year can be included by the Finance Minister, who is authorised to negotiate with any internal or external source of funding, in order to balance the government budget. In addition to the amounts known to be part of the plan, between 80% and 90% are estimated to be listed in the budget. Foreign aid is detailed by source of funding, by project and by beneficiary ministry. Simply designated as "Project expenses", there is no differentiation between personnel, operational and investment costs. The same is true of the government's own contribution, which is entered into the same section of the budget.	GBS is part of the budget by definition. Loans are resources taken out by the government and must be entered into the budget. Grants for investment projects requiring a part contribution from the government are entered in the budget together with the government contribution – a prerequisite for the government to make the money available. TA and grants that require no contribution from the government may be excluded from the budget, especially if they are managed directly by the donor without being moved via a national authorising officer.
On parliament	As the annual budget is voted on by the National Assembly, ODA is implicitly included. The National Assembly is not generally involved in drawing up agreements: that is the government's responsibility. But the National Assembly is kept abreast of such agreements insofar as it ratifies them.	Some agreements have been criticised for their high operating costs. The National Assembly emphasises the principle that ODA should be used for investments, especially reimbursable loans. The Burkina Faso country report for the joint evaluation of GBS[1] notes cases where the National Assembly requests amendment in favour of departments receiving little or no ODA before they will ratify an agreement.	From the perspective of the donors, ODA is mainly used to fund activities listed in the PRSP Priority Actions Programme. The PRSP is known to parliament, but its main frame of reference is the general interest. Given that social initiatives, including basic education and health, already receive significant amounts of foreign aid, the National Assembly tends to lean towards other areas, seeking inter-sectoral balance.

BURKINA FASO			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On treasury	All GBS passes through treasury by definition. Programme aid given in the form of pooled funds is either paid to a treasury account or to the Central Bank of West African States. Other programme and project aid does not generally pass through treasury, but is paid to accounts in the Central Bank of West African States or to local commercial banks for the part implemented in Burkina Faso.	Captured by definition.	Not applicable.
On account	GBS is entered in full alongside the government's own resources and is managed using the applicable national procedures. It is thus included in government accounting and consequently in the Budget Review Act. Non-GBS ODA is not taken into account in government accounting. Wherever possible, expenses are kept in shadow accounts and included as such in the Budget Review Act.	Non-GBS ODA disbursements are controlled and flagged if they pass via a national authorising officer. For other disbursements, the Directorate General for Cooperation relies on information provided by the donor or performance structure. Information is often patchy, and provided late. Joint efforts to improve this have been agreed on.	Some ODA is managed outside national systems. Information depends on whether the donor is forthcoming. Furthermore, accounting terms are not always compatible. There are several databases that use different classification systems. The Directorate General for Cooperation is in the process of changing its classification system, moving from the UNDP system to the OECD DAC system for greater harmonisation. The data is not yet fully digitised. The Directorate General for Cooperation is in the process of drawing up the Integrated System for External Finances (*Circuit Intégré des Finances Extérieurs*), which will have an interface enabling communication with the Integrated Expenditure System (*Circuit Informatisé de la Dépense*) and the integration of data in the national accounts.
On audit	The national accounts and the Budget Review Act are checked every year by the Court of Auditors before submission to the National Assembly. GBS is part of the national accounts by definition. The non-GBS ODA does not come with an opinion from the Court of Auditors and is usually checked by external auditing firms in accordance with the conditions set out in the agreements.	Non-GBS ODA expenses are not included in the national accounts, and are therefore not regularly checked by the Court of Auditors. The court is aware of this. It made recommendations while checking the application of the financial management law of 2003, and has repeated since that external funding processed by the Directorate General for Cooperation should be sent to the treasury for accounting. This is scheduled for 2008.	
On report	All ministries and their departments are required to produce annual activity reports, including their funding. There are annual PRSP and sector policy reviews at consultation level between the government and IPs. The most important report for all ODA is Development Cooperation, jointly published by the Directorate General for Cooperation and the UNDP. At international level, there are OECD DAC statistics and recently the 2006 Survey on Monitoring the Paris Declaration.	The Directorate General for Cooperation/UNDP report has often been published late, with missing data. Efforts for improvements have been agreed on. The 2005 report appeared in July 2007, a significant improvement. The various reports differ on various aspects, and are difficult to compare. The Directorate General for Cooperation/UNDP report is based on disbursements. The OECD DAC report is based on commitments. The classification systems also differ. The Directorate General for Cooperation /UNDP report is more comprehensive on international financial institutions data, while the OECD DAC report has more information about bilateral support.	The harmonisation and alignment processes started by the Rome Declaration and followed by the Paris Declaration have contributed to bolstering partner country ownership and development partner willingness to use national procedures and provide timely disbursement data.

ETHIOPIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On plan	Ethiopia's second-generation PRSP, the Plan for Accelerated and Sustained Development for the Elimination of Poverty, has now been costed for all sectors. It has been aligned with Ethiopia's Macroeconomic and Fiscal Framework – a three-year, rolling federal framework – for its lifespan (2005/06–2009/10). It is finalised in draft before January of each year, and is used as the basis of the annual budget. The budget is tabled by the federal government to the House of Peoples' Representatives in May. The costing for the Plan for Accelerated and Sustained Development for the Elimination of Poverty includes resources that have to be raised externally. As a second stage of the planning cycle, a PIP is also prepared, covering capital expenditure over a three-year period. In general, at federal level, planning processes take good account of external support, and there are joint sectoral reviews across some sectors (e.g. education). But there is no MTEF linking planning processes to expenditure forecasts and budgeting systems, and the Macroeconomic and Fiscal Framework only goes some way to providing the necessary linkages. Given the disconnects, items included at the planning phase might more easily not be captured in budgets, or vice versa. In general, the links between strategic planning and budget allocation are poor, a fact that was commented on in Ethiopia's PEFA assessment.	The lack of timeliness of information flows is problematic, limiting the extent to which donors are able to make predictable commitments to aid flows so that these in turn can be used meaningfully in government planning. Tangible commitments are usually only made on a year-on-year basis for most of the bilateral donors (the UK being a notable exception). This is one of the drivers behind the government of Ethiopia's move to cost the Plan for Accelerated and Sustained Development for the Elimination of Poverty using scenarios: different levels of plan intervention are predicated on varying degrees of donor commitment and support. The Macroeconomic and Fiscal Framework is often based on estimates of donor support rather than firm figures. Under the current arrangements, donors do not usually supply indicative figures until January (i.e. six months before the start of the financial year), and many donors supply this information even later. The government has attempted to change this, among other things, by seeking agreement at the Development Assistance Group that information should be supplied in September for the financial year starting in the following July, and by raising the issue at the High Level Forum (the forum where high-level dialogue takes place between Development Assistance Group members and the government). However, the Development Assistance Group believes that September is too early in the budget calendars of many donors for them to give firm commitments then. Given the complexity and uncertainties of Ethiopia's planning and budgeting systems, where sub-national budgets are dependent on a federal subsidy, there is the potential for serious knock-on effects. Evidence suggests, however, that in practice the federal commitments used for sub-national budget ceilings are predictable, even when budget support has been suspended. The reconciliation between costed plans for the Plan for Accelerated and Sustained Development for the Elimination of Poverty and disclosed receipts of aid is also problematic. There have been very large discrepancies between what the government has disclosed as the funds needed to operationalise the plan, and what donors say has been disbursed. Donor records apparently show more funds disbursed than are disclosed in government records.	Some of the reluctance around long-term commitments from donor partners is probably due to the perceived volatility of the domestic political situation in Ethiopia. Direct budget support arrangements were severely disrupted and then repackaged after the 2005 elections, and donors do not seem willing to commit beyond relatively near time horizons. It has also resulted in the design of aid modalities which, while they use Channel 1, are relatively inflexible, having pro-poor service delivery expenditure at the decentralised level as their target focus At sub-national level, the planning process has little meaning because of resource envelopes. In reality, discretion is very limited, and sub-national entities have to take on unfunded mandates, particularly at wereda (district administration) level.

ETHIOPIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On budget	The extent to which aid can be said to be on budget varies across aid modalities. The 2006 Survey on Monitoring the Paris Declaration puts aid on budget at 74%. Funding through the large strategic instruments is fully on budget – the Public Sector Capacity Building Programme, the Productive Safety Net Programme, and Protecting Basic Services. Loans are also shown. According to Ministry of Finance and Economic Development data, most bilateral support is through Channel 1 or Channel 2, and is captured. One item that is possibly not captured is free-standing TA that is provided not as part of donor projects (which do get captured) but as separate, self-contained interventions. An anomaly of the federal system, and an issue from time to time, is support at sub-regional level. Such support can be on budget and on treasury for a region, yet remain off budget or not reported at federal level. Some donors might use Channel 1 at sub-regional level, but not report such support at federal level, having set up their own reporting requirements. In theory this is not permitted (as agreements have to be ratified by the federal government), but it happens in practice, and is exacerbated by the modus operandi of particular donors (e.g. UNICEF). NGO support for sub-national entities has been subject to the same problems. In theory again, the government should know all about aid from any NGO, since each NGO has to get regional government approval for its operations. But in practice there have been instances where operations remain off budget. There are also some anomalies of funds being on budget at regional level but not at federal level (e.g. the Productive Safety Net Programme), which has implications for the achievement of PFM objectives for sub-national expenditure. Budgets at sub-national level take into account aid flows (e.g. Irish budget support in Tigray, Swedish support in Amhara).	Unreported aid at sub-national level is declining. The Ministry of Finance and Economic Development reports improvements in donor behaviour. Increasingly donors are moving towards Channel 1, meaning that more and more aid flows are captured, and flows that are not captured are the exception rather than the rule. What is clear is that the government is itself doing much to capture as much aid on budget as possible, evidenced by attempts to close out sub-national agreements that bypass the Ministry of Finance and Economic Development, and to get donors to commit to timely information on aid commitments and disbursements. (See under "On plan" above.) Information is credible in that it is generated in partnership – information is passed on by donors. Increasingly, the hope is that the Aid Management Platform can be used as a vehicle for this – with donors plugging intended support figures directly into the system. There are some issues about the accuracy of the data for aid-in-kind. It is not always possible to predict such aid properly, especially if it is linked to unforeseen events such as emergencies (e.g. flooding in Dire Dawa in 2006). The Central Accounts Department is ultimately responsible for disclosing all aid-in-kind that has actually been disbursed, but this is difficult to capture at budget stage.	More timely information from donors would improve the completeness of budget information. A move towards single treasury systems in sub-national jurisdictions and an improvement in what the government has termed "UN behaviour" are helping to reduce the chances of undisclosed aid at sub-national level. However, there are incentives for sub-national jurisdictions to leave such support off budget, account and report if in doing so they avoid apparently being penalised by offsets in the block grant. However, the federal government is adamant that offset mechanisms are needed, both to preserve equity between regions and to create disincentives for donors to upset the fine balance of the decentralised fiscal framework.
On parliament	Information about aid flows is included in the budget information pack which is presented to parliament as part of the overall budget approval process. An Appropriation Bill is approved, and this becomes the current year's Appropriation Proclamation. By implication, external aid flows are noted (otherwise, given Ethiopia's dependence on aid, the budgetary expenditure approved could not be financed). One view is that aid is not approved by parliament as such: parliament is informed about aid rather than actively considering aid agreements. The Ministry of Finance and Economic Development contested this view at the time of the Putting Aid on Budget study, stating that aid agreements, inclusion in the budget and the disbursement of funds are submitted for parliamentary approval.	There are doubts about the extent to which parliament engages in the process of approving aid. Anything more than a rubber stamping function is uncertain.	Parliamentarians do not understand their role or the institutional framework in which they operate. There have been similar gaps of understanding about the external audit. The regulatory framework allows for parliamentary bodies at federal and sub-national levels to scrutinise both the budget and budgetary out-turn, but in practice little time is given to this – especially at the sub-national level. There are also issues with the capacity of parliamentarians, and in particular whether there is an understanding of what the role of a parliamentarian is. This also impacts on the effectiveness of the external audit function.

ETHIOPIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On treasury	Many aid modalities are on treasury. Particularly notable is a move away from Channel 2 and Channel 3 support from most donors, towards Channel 1 – increasingly support is going through government treasury systems. For example: (i) Protecting Basic Services uses Channel 1 in Component 1, but Component 2 uses IDA procurement procedures and Component 4 is Channel 3. (ii) The Productive Safety Net Programme is coming on to Channel 1. The issues were around reporting rather than disbursement, but all funds go through treasury systems at federal and sub-national levels. At sub-national level, the Productive Safety Net Programme is not reported. (iii) Public Sector Capacity Building Programme support is also on treasury (although IDA procedures are used in procurement, once more). (iv) Sector support uses a variety of modalities, some of which use treasury mechanisms (but some of which are Channels 2 and 3). Only Channel 3 projects seem now to be totally off treasury, but these interventions are declining in number and importance. Data provided for the PEFA review shows a move to direct budget support by donors in the financial years 2003 and 2004, a trend that was only interrupted by difficulties associated with the election. However, some major donors (e.g. the US) still channel a lot of support though Channel 3. If amounts are budgeted, the use of bank accounts needs treasury approval. Bank account use is very strictly controlled. But some bank accounts – e.g. for support to government funds (road fund, etc.) – are not strictly speaking under the direct control of the government, even though the fund itself can be seen as an agency of the government, with appropriations authorised by parliament, etc.	In some instances, there have been incentives for sub-national jurisdictions not to disclose particular elements of support (particularly support going to sector bureaux) to avoid possible offset in the block grant. However, this is becoming increasingly difficult because reform processes are gradually implementing single treasury systems country wide. This, with rigorous control over bank accounts, means that any support going to sub-national sectors is usually being captured in treasury systems.	There are still incentives to maintain more traditional "stove-pipe" grants to sectors, particularly at the sub-national level. But a technical reform is making this loophole more difficult to use. It seems that individual donor behaviour as much as anything else is a factor here. There are a number of incentives for wanting to avoid using the government treasury systems: *Political* – This became particularly prominent after the 2005 elections, and relates to donor reluctance to being associated with what they see as a poor human rights record on the part of the government of Ethiopia. *Offset* – Offset of the block grant is explicitly made against donor support given to regions (e.g. regional budget support). This demonstrates the government's commitment to the principle of equity between regions and its belief that this is compromised by the use of distribution channels outside their own. But this has affected on budget and on treasury issues, because in the past donors have sought to give support to entities or programmes at sub-national level, avoiding core government disbursement and reporting systems. *Additionality* – The need to show that donor support has resulted in greater resources at sub-national level has heavily influenced the design of the Protecting Basic Services modality. But in the past donors appear to have been reluctant to trust government systems for this. *Systemic* – Donors have significant doubts about the efficiency of government systems to deliver support where it is needed, or – critically – about fiduciary issues, i.e. that funds will not be used for their intended purposes, or may even leak from the system. Recent progress in PFM reform has made this donor position less tenable.

ETHIOPIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On account	All Channel 1 funds use the government accounting system. Channel 3 support does not use the government accounting system, but there are regulations to ensure that reporting such activities follows government formats, which allows them to be put on report. Support to off budget funds, such as the fuel fund, the Ethiopian Roads Authority, etc., is also strictly speaking off account, as these entities have their own accounting systems. However, the initial disbursements will be on treasury and also on parliament, and fund information is reproduced as a form of note to the accounts. There has been a tendency to create hybrid funding channels, where money is directed similarly to Channel 1 funding, but with separate reporting requirements. But the current trend is increasingly to use government accounting systems.	The government accounting system allows for expenditure to be classified by source. The chart of accounts follows the Government Finance Statistics model. Coding allows expenditure to be identified both in terms of source of financing and detailed expenditure data (including all expenditure through sub-national jurisdictions). The IBEX (government accounting) system at both federal and sub-national levels appears to provide very concise information about both the sources of funds and their use. In the past, financial information has not always been timely, for both in-year reporting and the closing of accounts. At one stage there were four-year backlogs. Lack of timeliness was particularly an issue for the consolidated accounts showing federal and regional information, due to capacity constraints at the weakest weredas (district administrations). These issues have been resolved, mainly due to successful reform processes.	Steady progress in PFM reform is perhaps one critical reason why there has been a move towards Channel 1 support. The Decentralisation Support Activity Project, part of the government's Expenditure Management and Control Programme, has addressed a number of issues, including: (i) a new chart of accounts and coding structures; (ii) a move to double-entry bookkeeping; (iii) a move to single treasury accounting; and (iv) the integration of budget and accounting systems. As a result, accounting systems are more credible and produce more timely information. This has, for many donors, removed the impediment to considering Channel 1 funding modalities.
On audit	The audits of the federal Auditor General will, as a matter of course, pick up all Channel 1 support. Auditing activities under the Protecting Basic Services modality are doubly supported by the continuous audit process, where accounting firms appointed by the Auditor General audit the use of Protecting Basic Services monies to ensure additionality and that they were used for sub-national service delivery activities (rather than for other activities not related to direct service delivery, e.g. defence expenditure). This is a particular change in focus from that of traditional auditing, which usually looks only at the appropriateness of expenditure (and supporting systems of recording, etc.), plus, at best, gives some consideration to efficiency and effectiveness. All IDA funds (loans and grants) are subject to audit scrutiny through a process overseen by the Auditor General (although the Auditor General may appoint an executing agent). UN processes, such as National Execution Projects, are also subject to external audit by the Auditor General. There have been instances, both in audit fieldwork and in comments in audit reports, of the Auditor General picking up anomalies in the disclosure of aid (for instance, apparent discrepancies between food aid budgets and eventual out-turn).	There are a number of doubts about the quality of external audit processes in Ethiopia. First, there are issues about audit coverage and the respective mandates of the federal Auditor General and regional Auditors General. In practice, sub-national coverage of frontline expenditure – much of which will have been funded by loan or grant – is patchy (hence the need for continuous audit of Protecting Basic Services – in a sense, an attempt to bypass standard external auditing systems). While the disbursement of the block grant to regions (which will contain elements of foreign assistance) is audited by the federal Auditor General, the use of such monies falls under the control of regional Auditor Generals. But the regional Auditor Generals' external audit can be very limited indeed (sometimes, according to the regional PEFA, less than 30%), due to insufficient resources of their offices. And capacity development undertaken by the federal Auditor General is not mirrored in many of the regional offices (although Tigray and Oromiya came out of the regional PEFA assessment well, and Amhara, a region not covered by the assessment, has also a reputation for a strong office). Not only is methodology lacking, institutional frameworks are also weak. There is a widespread lack of understanding among the major stakeholders of the role of an Auditor General, resulting, among others, in poor parliamentary review and follow-up. Second, audit reports have not been timely. Backlogs have been severe, and the impact of audit reports, however good those reports might be, has been compromised because the information is out of date. Accounting reforms have now largely remedied this, and backlogs are about to be eliminated. Nevertheless, this issue has had an impact.	Audits have been delayed because of accounting backlogs rather than delays in the auditing function itself. This is gradually being remedied through the ongoing reforms. One area where Ethiopia's otherwise steadily impressive reform process has had no impact (and very little progress) is strengthening the institutional frameworks in which the Auditor General can operate (at both federal and sub-national levels). Parliamentarians, at federal and regional levels in particular, do not seem to fully understand audit processes, and are partially responsible for regional audit offices being, in the main, substantially under-resourced.

ETHIOPIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On report	Information about aid flows is produced by the Multilateral and Bilateral Aid Departments in the Ministry of Finance and Economic Development. This information is not usually available in the public domain. Information about the budget – which includes most aid flows – is available in the *Federal Negarit Gazeta*, the official government paper. However, there is no public access to the in-year budget execution reports. But the Ministry of Finance and Economic Development website provides quarterly information on in-year budget execution. The year-end financial statements prepared by the Ministry of Finance and Economic Development are not available in the public domain. Final accounts with audit reports from the federal Auditor General, while theoretically available to the public, are, in practice, in limited circulation. Some additional information is available to donors. Both the education and health sector development programmes produce periodic reports (which reflect all disbursement from donors, regardless of channels). Specific reporting is also available for the Public Sector Capacity Building Programme and for the Productive Safety Net Programme. The Protecting Basic Services programme also produces information on basic service spending, although this (particularly through the continuous audit process) seems to be for the benefit of donors.	There have long been discrepancies between government figures (produced in the government gazette, etc.) and those of the international community. The quality of capture could be improved if the Aid Management Platform was able to function properly, allowing each donor to input commitment and disbursement data directly. This information could be used by the Ministry of Finance and Economic Development at commitment for planning purposes, and could be triangulated when funds are disbursed. But the real advantage is that the platform is a transparent portal which effectively calls donors to account and can provide information in the public domain.	

KENYA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On plan	There is significant evidence that efforts are being made to include aid in spending plans: The Investment Plan of the Economic Recovery Strategy provides a comprehensive, own and development partner resource framework. At ministerial level, aid is supposed to be included in Ministerial Public Expenditure Reviews. In ministries that are significant recipients of aid and working towards a SWAp, there are integrated strategic plans supported by annual operational plans providing a framework for capturing aid on plan. Aid is also included in the SWG reports. Aid is included in District Development Plans, by project and by donor. Midway between the planning process and the budget are the Budget Outlook Paper and the Budget Strategy Paper. Aid is captured in these documents in the following ways: (i) It forms part of the fiscal framework and sector ceilings presented in the Budget Outlook Paper. At fiscal framework level, external grants and loans have a separate line. (ii) It is even more explicitly captured in the Budget Strategy Paper, at framework level and at the level of individual spending ceilings.	The quality and completeness of the information in instruments such as the Ministerial Public Expenditure Reviews differ across ministries. Even if information is captured, it is not always certain that there are substantive planning processes behind the documentation to ensure increased aid effectiveness. Recipients of high amounts of aid who have put SWAps and basket fund arrangements in , or are in the process of doing this, capture aid particularly well on plan. The narrative on aid flows in the Budget Strategy Paper could be more complete, particularly at ministry level.	Kenya has responded well to findings in the last few years that the government does not provide sufficient leadership in integrating aid in planning processes and instruments, and that there is a harmful separation between development and recurrent spending planning. The integration between development and recurrent spending, and donor and government funding, is the result of the government's desire to integrate planning instruments and put an effective budget preparation process in place. In ministries which receive high levels of aid, particularly conducive environments have been created (supported by significant TA) for integrated planning for government and development partner funding and the development and recurrent budgets. In ministries where aid information is weaker and the integration between sources of funding and the development and recurrent budgets is not effective, budgeting is still done in isolation from planning and in line with more historical approaches. New requirements by the Ministry of Finance, such as the Ministerial Public Expenditure Reviews and participation in the SWGs, are more a matter of compliance than drivers of reform at ministry level. One contributing factor is the separation of the Ministry of Finance and Ministry of Planning and Development at central level, which results in overlapping requirements, overburdening ministries.

KENYA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On budget	Aid is captured well on budget. According to the 2006 Survey on Monitoring the Paris Declaration, 91% of aid disbursed to the government was captured on budget. This is reflected by the AFRODAD report, which states that, recently, coverage of aid in the budget is much more complete. The government's own booklet on aid on the development budget for 2005/06 states that 87% of expected donor disbursements is reflected on the development budget. The External Resources Department and the Budget Supplies Department are confident that all aid is captured on budget, particularly because this is legally required. Aid is captured on budget in the following ways: In the *recurrent budget*, expected budget support flows are shown in an alternative funding scenario. Kenya as a rule does not include expected budget support in its main fiscal framework and budget. The recurrent budget estimates include an alternative scenario table, which shows how budget support would be used by sector, should it materialise. In the *development budget* estimates, significant detail on aid flows is presented. In the summary tables, aid is shown by ministry, whether it is loans or grants, and whether it is disbursed through the government or appropriated as Appropriations in Aid. It is also shown by development partner, by sector and by project or programme, by loan or grant and by appropriations in aid or flowing through the government system. Further detail is then provided for each ministry, where development budget expenditures are set out by budget head, by project or programme, and by economic classification against the source of funding.	The capture is quite comprehensive and detailed. The lack of narrative with budget documentation affects development partner funds as much as own revenue. The lack of integration of the recurrent and development budgets detracts from parliament's ability to view aid support in the context of overall spending.	The separate capture of budget support in the recurrent budget is on account of the unpredictability of these resources. When budget support was affected in 2004, the government made a budget rule not to include it in the first fiscal framework scenario, but to plan for it through a second scenario, reflected in the budget estimates but not explicitly voted. If the budget support does materialise, it is voted subsequently through an adjustment budget. The framework for capturing aid through the development budget has long been in place. In recent years the quality of the information has improved. The 2006 Survey on Monitoring the Paris Declaration offers several explanations for why aid disbursement is higher than aid planned on budget: in summary, it has more to do with donors adjusting plans during the year (partly on account of incompatible fiscal years) than with deliberately leaving aid off budget. "A range of factors explain the shortfall of aid recorded on budget in relation to aid disbursed to the government sector. On the government side, for many sectors clear and fully costed plans with which donors can align their assistance have not been developed. On the donor side, some donors are in the habit of spending funds directly without informing the government, and of failing to consult the budget estimates and as a result sometimes providing excessive aid to particular projects. Both practices are bound to reduce the proportion of aid to government which is reported in the budget. In addition, reporting procedures are not strictly followed, and there are inconsistencies between government and donor approaches, and mismatched fiscal years. As a result, both the government and donors fail to account adequately for aid resources."[2] These views are reflected in the Kenya External Resources Policy. The separation of the recurrent and development budgets is long-standing practice. In recent years, the development budget has been coordinated from the same department in the Ministry of Finance as the recurrent budget: the introduction of Ministerial Public Expenditure Reviews and SWGs, where spending on the two budgets is treated more coherently, has improved practice.

KENYA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On parliament	Aid to the government is appropriated by parliament by law (the Constitution and the External Loans and Credit Act), whether it flows through government systems or not. When it flows through government systems it is appropriated as revenue. When it flows through separate systems it is appropriated as Appropriations in Aid.	Even though aggregated and disaggregated information on the allocation of external resources is provided, there is little evidence of a strong engagement by parliament on the alignment of those resources with national priorities and on whether they are likely to be used efficiently, transparently and economically for the purposes for which they are allocated.	Lack of parliamentary scrutiny of proposals on the use of external funding has less to do with transparency on the proposed use than with parliament's weak and even inappropriate engagement in the budget process, and weak capacity. Before 2005/06, when the classification reforms were introduced, strategic engagement on aid allocation against national priorities would have been difficult given the opaqueness of allocations. While there is room for improvement – especially the programmatic presentation of expenditure – parliament now has much better information to work with, including information on aid disbursement and use in the past. The Human Rights Commission in Kenya has noted that a key weakness in the budget system is that a significant part of spending escapes proper scrutiny.
On treasury	Aid in Kenya is disbursed through two channels: (i) government systems (Channel 1); or (ii) parallel structures, such as PIUs and sector financial management agents or through donors themselves (Channel 3). There is no evidence of aid being disbursed through Channel 2, i.e. through accounts that are within the control of the government but not under treasury control or direct scrutiny. Budget support is provided through Channel 1. Programme support, in the form of loans, grants and TA, is provided through Channels 1 and 3. Project support, in the form of loans, grants and TA, is provided through Channels 1 and 3.	The Kenya External Resources Policy document notes that Kenya's reported utilisation of aid has been low (30% to 40% on average). This is related to the poor predictability of disbursements from donors. The PEFA score (2006 assessment) in this regard is a D.	Poor predictability is related to pre-disbursement and disbursement constraints. The government's inability to meet agreed conditions, inadequate counterpart funds, and changes in development partner conditionality mid-stream, have all added to low predictability. Low levels of development partner trust in government financial management and procurement systems have contributed to the establishment of parallel structures to manage aid, including financial management systems and procurement systems.
On account	Aid that is appropriated as revenue and flows through the treasury system is accounted for by government systems at ministry or district levels and reported to the Accountant General, where it is consolidated into the government accounts (Channel 1). Aid that is appropriated as Appropriations in Aid is not accounted for through government systems at the level of ministries (Channel 3). However, since the government needs to report to parliament on all appropriations, Appropriations in Aid is captured at central level by the Accountant General (through the External Resources Department and the Budget Supplies Department in the Ministry of Finance), and consolidated in the government accounts against approved expenditure.	There are significant problems with both Channels 1 and 2. For aid that is disbursed under Channel 1 (treasury system), weak and incomplete use of the new IFMIS and weaknesses in the various systems established by departments to record commitments, receipts and payments affect aid as much as it does the government's own spending. Also, reports are very often late, leading to regulations not to disburse ministries' allocations unless reports are received on time. For aid that is disbursed as Channel 3 (parallel systems), weaknesses in line ministry information systems and district-level information systems contribute to poor reporting by parallel structures on aid disbursement and use. This causes significant problems for the Ministry of Finance in compiling government accounts against approved expenditure.	Weak professional capacity for financial management in the public sector contributes to the weak implementation of financial management reforms, such as the IFMIS. However, even where capacity is stronger, such as in the Ministry of Finance, the old custom-developed system for recording payments and accounting for expenditures in order to produce reports to the Accountant General is still preferred over the IFMIS. This points to weaknesses in the system's development and/or implementation programmes. Weak financial management discipline in turn contributes to the timeliness of reports. Weak reporting on Appropriations in Aid expenditure is related to parallel implementation units and/or donors not adhering to government deadlines for reporting on expenditure, and weak capacity (both human resource and information systems) in ministries to ensure reports are provided on time for inclusion in ministries' reports to the Accountant General.

KENYA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On audit	The OECD DAC report shows that funds that are disbursed through government systems are generally audited by the Auditor General. An exception is GAVI: though GAVI's support is not disbursed through government systems, it is reported to be audited by the Auditor General. The mandate of the Auditor General requires that all donor fund expenditure be audited by the Auditor General. Funds that are disbursed through Channel 3 are audited independently.	Audits of donor expenditure undertaken by the Kenya National Audit Office, similar to audits of domestic revenue expenditure, are, on average, 13 months late (PEFA 2006). The audits are also limited to transaction auditing and do not in all respects comply with international good practice. In addition, parliamentary follow-up on audits is weak.	Capacity in the National Audit Office is not enough to meet the Auditor General's mandate. Bottlenecks hamper efforts to reduce the backlog. By law, audit reports must be filed six to seven months after the end of the financial year, which is not enough time, given capacity.
On report	Aid is captured in government financial statements insofar as it was captured on account. In budget documentation, aid is reported on for the year before the current year and the current year itself (i.e. two years before the budget year). Aid inflows and progress against development projects are reported (with varying coverage) in the Ministerial Public Expenditure Reviews and the SWGs. For sectors that have SWAps, quarterly reports against the operational plans include reporting on aid. In the Quarterly Budget Reviews, aid revenues are reported on aggregate across government, disaggregated by aid modality. There is also a table that specifies spending under the development budget by ministry for the year to date. In addition, aid and progress against development budget spending is also reported by ministries to the Ministry of Planning and Development within the Monitoring and Evaluation System.	While aid disbursements and spending are reported on through various means, currently there is no source for a comprehensive picture – for all aid modalities, by donor, by ministry, and for all relevant channels of disbursement. There is also a lack of non-financial information in reporting on the disbursement and utilisation of aid. Apart from the Ministerial Public Expenditure Reviews, SWG reports and SWAp reports, there are very few explanatory notes accompanying reporting on aid. And the former two instruments are both weak on this. The implementation of the Kenya Joint Assistance Strategy, with annual reports, and the Kenya External Resources Policy, with consolidated reporting, will be helpful.	The fragmentation of responsibilities for planning between the Ministry of Planning and Development and the Ministry of Finance has contributed to fragmented (and duplicated) reporting. Weak PFM and aid information systems at ministry and central levels also contribute to incomplete reporting on aid. Different reporting instruments have so far focused on aid information for different reasons, none of which was explicitly to manage aid better and more transparently. It is only now with the Kenya Joint Assistance Strategy and the Kenya External Resources Policy that there is progress on this. Analytical capacity constraints affect the usefulness of reporting on aid (and government domestic spending).

SOUTH AFRICA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On plan	There is little evidence that aid is captured on what would be considered pure planning instruments. The main planning instrument in the public sector is the strategic plan. But the strategic plans of many national and provincial departments that receive aid do not reflect any references to the aid received, although some do, such as the Department of Environmental Affairs and Tourism. Another important instrument is the annual budget submission, although this is a combined planning and budgeting tool. At national and provincial levels, the submission requires a table that details ODA received. However, in the narratives and programme plans no reference is made to aid. The SWAp in the national Department of Water Affairs and Forestry does have a separate strategic document for its Masibambane programme, which is a joint plan for external and domestic revenue. However, the 2006/07 strategic plan does not make any reference to the programme, although the 2006/07 strategic plan and the Masibambane documents share the same strategic framework. Nevertheless, Masibambane provides an example of a department that has a strategic framework for ODA.	Capturing external funding in budget submissions meets a minimum requirement for putting aid on plan, but the quality and completeness of the information is doubtful, and it is not integrated with planning for domestic revenue. The integration of external and domestic financing in the Masibambane programme sets good practice standards for sectors that receive significant external funding.	On the surface, the Treasury Regulations – which frame the format, content and process for strategic plans and planning – do not require external funding to be integrated at the planning phase. The more in-depth explanation for the poor integration of aid on plan has to do with the misconception of the status of ODA in the South African context. The policy – as expressed by the provisions for aid management in the Public Finance Management Act – is that aid, even when disbursed to the government, is extra-budgetary and too unpredictable (and insignificant?) to be included in the MTEF. The aid management system is well coordinated by the government and among donors, and monitoring information and strategic oversight are centralised, but it runs largely separately from the core planning and budgeting system. It is, however, aligned to the government's Programme of Action and departmental priorities. Most of the linkages are for using information from the aid management system to inform aid choices, rather than the reciprocal use of aid information to inform budgeting choices. This is true at national coordination and departmental strategic levels: donors consult strategic plans to inform their spending choices, rather than much of the aid activity being integrated into the plans and budgets themselves. Another impediment is the lack of strategic planning capacity in many departments. It is also doubtful that departments disclose full information on the support they receive, fearing that it may affect their allocations negatively, or that they would have less discretion over the use of the funds. Donors benefit somewhat from this weak integration: they are much better able to set their own agendas, or choose from strategic frameworks those activities which align with their priorities. They are not pushed to consider departmental priorities. On the other hand, departments, particularly those who receive significant aid (either in terms of volume or added value), are not pushed to consider their strategies and budgeting in relation to aid.

SOUTH AFRICA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On budget	There is no reference to aid at national or provincial levels, other than information on past, current and expected forward flows into the Reconstruction and Development Fund (established at national level to receive aid flows) in aggregate in some tables in the Budget Review. By dividing this number by the aid disbursed to central government, the 2006 Survey on Monitoring the Paris Declaration determined Indicator 3.	The capture is not effective. It aggregates all flows into the Reconstruction and Development Fund into one number, which, further, differs from the fund's audited outcomes published in the budget information. The difference can only be explained by tracing the history of aid reporting back to the 2003 Budget Review. There a separate table shows that the number for foreign grants and assistance under the Reconstruction and Development Fund consists of the financial flows (equal to the audited number) plus technical cooperation managed by donors. This is also the only budget review that offers a brief summary on aid flows, including mentioning a few high profile projects. The capture provides no effective information, e.g. who will be using the aid, what for, with what consequences, or what kind of aid it is. The 2008 MTEF guidelines set out the expected issues and information required for the 2008 budget submissions, and for the first time mention that the integration of ODA into plans and budgets is an issue.	Aid forms such a small proportion of the budget (less than 1%) that it does not feature significantly in central agency processes, including the budget office and parliament. Central agency processes are congested already, and have to manage, absorb and use large amounts of information: aid is easy to ignore. Although aid information is provided in the budget submissions, it does not get published because the quality is poor and the coverage too weak to be meaningful. However, aid can be a considerable proportion of a department's discretionary funds, if (i) social security spending and other more rigid items are taken out of the budget; and (ii) it is taken into account that aid is not spread across all departments and provinces but focused in a few. It then becomes important for the department and the relevant treasury and legislature to get a good picture of the aid that is being disbursed and what for. Although both the International Development Coordination Unit and the Public Finance and Budget Coordination units at the National Treasury have processes and mechanisms in place for their individual purposes, there is very little communication between these units – both a symptom and a contributing cause of the separation of planning and budgeting for aid flows from planning and budgeting for domestic revenue. While the International Development Coordination Unit makes use of the outputs of the other divisions (the MTEF) to update its strategic framework for aid, the divisions are not in turn recipients of information from the International Development Coordination Unit. The cause of this disconnect is not institutional structure: the International Development Coordination Unit is part of the Budget Coordination Unit. Rather, it lies in the present status accorded to aid in public finances.
On parliament	Aid is not approved as part of the budget, or separately, by parliament. The president signs off on aid agreements. Parliament is informed either through the National Treasury or the Department of Foreign Affairs when framework agreements with donors are concluded, but it does not receive any information on individual programmes or projects within the agreements, unless a committee asks for it. Nor do any of the provincial parliaments. All international agreements have to be submitted to parliament for notice purposes.	Aid is not approved as part of the budget, or separately, by parliament.	All aid, even when managed through government systems, is defined as extra-budgetary in terms of the Public Finance Management Act. There is no GBS.

SOUTH AFRICA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On treasury	Aid in South Africa flows through two channels. ODA in the form of grants or TA is regarded as a donation to the government. In principle, all grants have to be paid into the Reconstruction and Development Fund (Channel 1). In practice, this is the case for grants for which the government takes responsibility for the financial management. The accounting officer (usually the director general) has to approve and is accountable for the grant, and the chief financial officer (a position created in terms of the Treasury Regulations) has to keep a register of all grants. Most donations that are not cash grants are TA managed by the donor. Some agreements make funds available for the activities of the implementing agency, but these funds are not channelled through the Reconstruction and Development Fund: the donor takes responsibility for their financial management. The accounting officer still has responsibility for the project itself – e.g. for project effectiveness. In these cases (Channel 3), the donation is managed through a third party, such as either a PIU, or a trust which manages all donor funds on behalf of the department (e.g. in the Department of Education in Limpopo), or by the donor agency itself.	According to the 2006 Survey on Monitoring the Paris Declaration, 36% of aid disbursed to general government uses Channel 1. Of the three largest donors, DFID and USAID use Channel 3 exclusively, while the EC uses both Channel 1 and 3, with 42% of its aid going through Channel 1. Donors who use the Reconstruction and Development Fund mechanism complain of long delays in getting projects off the ground, compromising their strategic relevance. This is not necessarily because aid disbursements from the centre to the line are unpredictable: the process gets delayed in the bureaucracy, often at recipient level. If followed correctly, the process takes approximately five working days. But development partners do not always deposit funds on time or notify the International Development Coordination Unit or recipient department of the transfer, or the recipient department does not request the funds on time. The Reconstruction and Development Fund annual report and the Development Cooperation Information System database (at project level) give an overview of funds received and disbursed. However, it is not easy to trace when the finds were supposed to be disbursed (unless individual project agreements and operational plans are traced), which leaves the accountability grey.	When donors and/or implementation agencies choose not to use the Reconstruction and Development Fund mechanism (which automatically means disbursement through central treasury controlled mechanisms and financial management by the implementing agency), it is for one or a combination of the following reasons: (i) There are real or perceived delays associated with the procedures that need to be followed for disbursement through the Reconstruction and Development Fund. (ii) The recipient department's financial management capacity is too weak. (iii) The donor is constrained by its own rules and regulations to use government systems. (iv) The recipient department prefers a third party to manage the project overall, because it perceives it to offer more value or perceives its own overall management capacity to be too weak. Also, in principle the procedures for transferring donor funds from the Reconstruction and Development Fund to the implementing agency, should take about a week. But the Reconstruction and Development Fund mechanism entails having project managers that are not necessarily dedicated staff, but manage the donor-funded project (or donor-funded activities within a larger programme) along with another portfolio of work. This in itself may cause delays. A dedicated unit for managing funds comes with additional implementation capacity.

SOUTH AFRICA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On account	All funds paid into the Reconstruction and Development Fund account are managed through government systems, following standardised accounting procedures and according to common accounting standards. Funds that are managed through Channel 3, however, are not on account. Funds that are not disbursed through Channel 1, are accounted for by third party or donor systems.	Because German Technical Cooperation reportedly does not use Channel 1 for disbursement and execution, but does for financial reporting (which would imply using government's accounting systems), the percentage is higher for on account than for on treasury, i.e. 41%. Generally donors will use government accounting systems in departments that have the capacity for the financial management of the funds. Using government systems is effective insofar as it provides timely and credible information on spending. However, not using government systems (or the Reconstruction and Development Fund channel) because of perceived weaknesses in PFM capacity, has the same drawbacks as elsewhere. First, parallel delivery systems that provide services in the short term, but do not offer sustainable solutions. And second, whether funds are on account or not (but more for those which are not on account), financial reports on how funds were used rarely reach domestic stakeholders beyond the agency concerned and perhaps the International Development Coordination Unit, compromising accountability.	Whether funds are on account or not is a function of whether Channel 1 or Channel 3 is used for disbursement. Perhaps the question is not why projects are not on account, but why being on account or not makes them effective or ineffective? In the South African context, arguably, a project's effectiveness is less to do with immediate or direct outputs and outcomes than with whether it builds the capacity of the government to utilise its own domestic revenue effectively. A careful judgement must be made about the trade-offs between using government systems or alternative PFM systems. Mechanisms such as PIUs weaken long-term capacity building for PFM in countries that are aid dependent and have weak institutions. In South Africa, the issue is not so much PFM systems but service delivery systems. If a project is managed through a PIU but delivers services innovatively and builds delivery capacity in a government department, provides good project and financial management and more timely disbursement and implementation mechanisms, would it not be beneficial to use a PIU? The issue is perhaps not how projects and fund flows are managed, but how PIUs go about their substantive business: in parallel or working through departmental staff and institutions. This demonstrates why the Paris Declaration principles should not be applied blindly to South Africa. The values and intent behind the directives are more important than policy prescriptions. The real questions are: What added value do donors bring? What is the most effective way to extract that value efficiently?
On audit	The use of funds that are disbursed through Channel 1 must by law (the Reconstruction and Development Fund Act) be audited by the Auditor General. This includes both the financial records and statements of the Reconstruction and Development Fund, and the financial records and statements of the spending agency to which funds have been disbursed. Channel 3 funds may be audited by the Auditor General in terms of the Auditor General's mandate, but can also be audited by third party auditors or the donor's auditors. This is determined by the funding agreement regulating the donor's activities in South Africa, and individual project agreements.	All Channel 1 funds are audited as required. The 2006 Survey on Monitoring the Paris Declaration suggests that some Channel 3 funds are also audited: 44% of funds disbursed as ODA to general government are audited through country audit systems.	Whether funds are on audit is largely a function of whether Channel 1 or Channel 3 is selected, and whether, if Channel 3, the donor or department chooses to be audited by the Auditor General or not. Departments and donors may choose to have funds audited by the Auditor General because of the possible economies of scale if the audit is done by a credible auditor already familiar with departmental organisation and weaknesses.

SOUTH AFRICA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On report	The Reconstruction and Development Fund Act and the Treasury Regulations require that foreign assistance received in cash and in kind is reported in departments' annual reports, whether it is received through the Reconstruction and Development Fund or not. Reports refer to foreign assistance received, and the attached annual financial statements record the assistance separately at aggregate and project levels. Consultancies are reported separately, no matter what the source of the funding. The Reconstruction and Development Fund also publishes an annual report, which includes an overview of the main recipients of aid and what it is for, and a detailed statement on transfers to recipient agencies. The fund is not obligated to report on how those transfers were used by recipient agencies: by law that is the obligation of the accounting officers of the agencies. Financial and performance reports are provided to donors, either by departments or third party implementing agents. Substantial project or programme reporting is not easily accessible for stakeholders: the only evidence of this is the Masibambane reports (water sector). While the International Development Coordination Unit is generally part of the reporting process, the reports are not commonly available.	Departments' annual financial statements provide a high-level comprehensive overview of ODA received. However, annual reports themselves do not report on the effectiveness and efficiency of aid spending, as they do for domestic revenue, however incompletely. None of the annual reports scrutinised complied in full with Treasury Regulations requirements, and are thus not as effective as they might be. Parliamentary committees scrutinise annual reports. Transparency is lacking around the review and evaluation reports that are prepared for donors (in principle for both donors and the government). These are not commonly publicly available. However, the International Development Coordination Unit has launched a study to establish a database which will contain all reviews, evaluations and good practices.	The annual report and financial statement formats are prescribed by the Treasury Regulations. That departments – even the National Treasury – under-report against these formal requirements is accepted practice. Parliamentary committees do not demand fuller reporting. Other institutions such as the International Development Coordination Unit could also play a role, as it is within the responsibilities of the National Treasury to enforce the Public Finance Management Act and the Treasury Regulations. Enforcing them more fully is particularly important for departments and provinces where foreign aid is more significant, either as a percentage of total budget or in terms of its added value. Reasons for under-reporting on aid: Some departments argue that funds that do not come through the Reconstruction and Development Fund are not their financial responsibility and therefore they do not report on them. Departments do not necessarily have the correct amount to report if the aid is in kind, as they have to get the information from the development partner. Unless the funds flow through the government system, they are usually reported in the currency of the donor. Departments then have difficulty in reporting in rand as they are not sure which exchange rate to use.

TANZANIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On plan	*Mkukuta*: Aid inflows are included in the financing framework for this top-level strategic plan, Tanzania's PRSP, with a breakdown between loans and grants and aid modalities. The role of donors is discussed as well. *Sector strategic plans*: Similarly, aid is included in the financing framework for sector strategic plans. *Cross-sector MTEF*: The cross-sector MTEF is published before the budget and is the result of the top-down planning for the fiscal framework. Aid is included in this at aggregate level on the revenue side (by modality and budget). Tanzania is introducing scenario planning in terms of the Joint Assistance Strategy for Tanzania: in MTEFs and Budget Digests in future, different levels of aid will likely correspond with different scenarios. The degree to which this will be captured on plan and fed through to budget allocations is still unclear. *Sector Public Expenditure Reviews (PERs)*: PERs are the review and forward planning mechanism used in Tanzania, bridging strategic plans, reviews of past performance, and forward costing and allocations. Aid inflows are discussed to a significant level of detail in sector PERs. This discussion includes not only a reflection of the degree of donor inflows, but also issues around the management of donor flows (e.g. late disbursements, high reporting requirements, non-compliance with reporting requirements). Donor funds are mostly reflected on the income side of both recurrent and development budgets (almost exclusively the development budget), by donor. The expenditure side is discussed in a consolidated manner. Earmarked donor funds are not discussed, except in project discussions. *Budget submissions as set out in the Budget Guidelines*: Aid other than budget support is included in the budget submissions to a great level of detail. MDAs and local authorities need to provide donor funding information by project through the project tables and the project data form. Aid is also discussed on aggregate across all MDAs and local authorities in Volume 1 of the Guidelines.	Overall, aid is included on plan in Tanzania. That is particularly true for sectors that have SWAps in place (such as education, health and water), where technical analysis capacity has been developed and is supported. However, the separation between different aid modalities (i.e. pooled funding versus sector budget support) and their accompanying different structures makes the process and the outcome less streamlined than it could be. In the education sector, the pooled-funding arrangement development partners have felt that the PER process, through which they feed into the budget process, receives insufficient attention from government officials, which lowers the quality of the integration of aid. In the PERs themselves, on the recurrent side, where donor funds are also included, specifically in sector support and pooled-funding arrangements, donor fund revenues are not covered explicitly enough: it is difficult to track where the funds come from, how they are disbursed and where problems are. It is very difficult, if not impossible, to reconcile amounts across documents and even within documents between recurrent and development expenditure, and local and foreign financed expenditure. It is not clear from the documents whether the split between recurrent and development refers to what is on the recurrent and what is on the development budget (because it differs from the budget books themselves), or whether it refers to an economic classification across the budgets.	Tanzanian planning and budgeting structures require the participation of donors and other stakeholders in sector and thematic working groups. The wide use of SWAps supports the inclusion of aid in a more meaningful way on plan. The quality varies, depending on how well structures work and the analytical capacity in a sector. How well all aid is originally included on budget depends on the reliability of donor aid projections: in quarterly budget execution reports across modalities, not all aid that is actually disbursed was on plan and budget, and not all aid that was on plan and budget was disbursed. Central guidance is lacking on how aid should be included in PERs, and on how to construct tables that make the distribution of aid across and within budgets clear. The requirements for the inclusion of information on aid in the budget submissions are met to a meaningful level of detail: however, the information can only be used effectively if there is enough capacity to analyse it in the budget allocation process.

TANZANIA

Dimension	Evidence of capture (What is captured?)	Quality of capture (How well? How useful?)	Explanations (Why/why not?)
On budget	According to the 2006 Survey on Monitoring the Paris Declaration, 90% of aid disbursed is captured on budget. However, a recent study found that 88% of aid in the government's aid flows database is captured on budget.[3] *Budget Digest (macro-level supporting document for budget)*: Development inflows to the government are reflected on the resource side of the fiscal framework, broken down by project loans and grants (grouped), programme loans and grants (grouped), basket support loans and basket support grants (not grouped), HIPC relief, and the Multilateral Debt Relief Initiative. Project-related donor inflows are also reflected on the expenditure side, in the development budget, where project expenditure is broken down into domestically funded and foreign funded. The fiscal framework is given from 14 years before the budget year (2006/07) to a second outer projection year (2008/09). *Ministry and regional budgets*: Aid is not reflected in the recurrent ministry budget or regional budget estimates. This is to be expected. General and sector budget support registers on the revenue side of the overall fiscal framework. Aid is included in the development budget, by project and by donor, and with a note about whether it is a grant or a loan. Tanzania is introducing scenario planning in its planning and budgeting for aid. At this stage it is unclear to what degree this would influence how aid is captured on budget.	Overall, general and programme budget support and basket funds are captured well, TA and project support less well. Almost all support to central government is captured, but capture of project support directly to districts is not as complete. It is difficult to reconcile the overall level of aid captured in the fiscal framework with aid as reflected in the lower levels of expenditure (ministries and regions). It seems that foreign financed development expenditure equals programme budget support, basket funds and project expenditure. How programme budget support is reflected is uncertain. There is more detail on aid in the development budget on the expenditure side: it can be isolated by ministry and main programme. However, the classification structure of the development budget does not allow for consistent classification with the recurrent budget, limiting analysis. It is by project only.	The shift to budget support since 2001 has improved capture in the budget at aggregate level. The creation of basket funds for sector wide reform programmes (health, education, local government reform and public sector reform) has had a similar effect. The Joint Assistance Strategy for Tanzania is likely, over time, to increase the proportion of funds that flow through budget support. The creation by the Ministry of Finance in 2001 of a database on aid inflows has increased budget coverage of support. A 2002 request to donors to either switch to government systems or improve reporting on project support increased the coverage in the budget of project support. The donor-government partnership in Tanzania has been less able to agree on institutional arrangements for managing TA, compared to other aid modalities. The government has clearly stated its attitude at Consultative Group meetings and on other occasions: budget support is the preferred modality. The government's attitude to sector basket funding is a bit ambiguous: while the Ministry of Finance strongly argues for budget support, line ministries are more interested in sector basket funding, and even project support – these modalities provide line ministries with more influence than budget support. Why is there difficulty in reconciling aid data? The formats of recurrent estimates do not lend themselves to reflecting where earmarked aid support goes in the budget. One would not expect budget support to be reflected on the expenditure side necessarily (although it may assist the government to get more budget support if it can be tracked), but the programme budget support that seems to be in the recurrent budget disappears between the fiscal framework and the allocations. One of the reasons for project aid in particular not being captured on budget – despite being on plan – is because the Ministry of Finance does not put projects which fall outside of MDA ceilings on budget.[4]
On parliament	Aid that is reflected in the budget estimates is voted by parliament. In Tanzania, a distinction is made between the budget estimates and the approved budget, although there is rarely any difference between the two.	Parliament is involved in the budget process in two phases. Before the budget estimates are finalised, ministerial budget proposals are presented to parliamentary committees for discussion. The Ministry of Finance can incorporate comments from the committees in the final estimates. In the second phase, parliament votes the estimates into appropriations. In principle, parliament is also involved in the PER process, but this involvement is still relatively weak.	The relatively weak involvement of parliament can be attributed to political factors (strong party cohesion across the executive and parliament) and capacity factors.

TANZANIA

Dimension	Evidence of capture (What is captured?)	Quality of capture (How well? How useful?)	Explanations (Why/why not?)
On treasury	According to the 2006 Survey on Monitoring the Paris Declaration, 76% of disbursed aid is on treasury (i.e. disbursed through the exchequer system) – in other words, Channel 1. The remainder uses Channel 3 (parallel implementation mechanisms, such as project implementation units – there are 56 such units in Tanzania). The literature provides only one case of evidence of the possible use of Channel 2 (disbursements directly to the bank accounts of government units) in the form of direct disbursements to local authorities and government units.[5] It is unclear, however, whether these are to project management units at these levels (or some parallel structure) which operate commercial bank accounts, or into accounts operated by the units.	The Budget Execution reports show differences in the predictability of disbursement by aid modality. Although the scale of the differences is not consistent through the year (budget support is front-loaded, for example), the best performance is usually on the multilateral debt relief fund (93% in quarter 1 of 2006/07), and the second best performance (improving from lows in the first half of the decade) is on budget support funds (73% in quarter 1 of 2006/07). The worst performance is on basket support funds (26% in quarter 1 of 2006/07), with projects also being poor (50% in quarter 1 of 2006/07). The PERs reviewed refer to the efficiency of different disbursement mechanisms. There are delays if funds are disbursed through the exchequer system. There is, however, evidence in older documents that delays have been experienced in the transfer of funds from sector ministries to districts, where projects are implemented.	The increased use of budget support, programme budget support and basket fund modalities has increased the percentage of aid that is disbursed through the treasury system. Project aid disbursement is still quite low, although the channel has been created to disburse project aid through the treasury system. Delays in the disbursement of donor funds through the exchequer system often have to do with non-performance of programmes and projects against reporting requirements or performance targets, rather than delays inherent in the system. Across reports, there is also evidence of delays in donor procedures on disbursements. The delays in project disbursements are attributed both to delays in capturing disbursements (because they occur outside of the exchequer system) and to actual delays in disbursements on account of reporting requirements, slower spending than expected, or donor delays. As the percentage of donor funds disbursed through the exchequer system has increased, more funds are flowing through sector ministries to projects at local level, rather than directly from the donors to the districts. Ministries are sometimes slow to disburse.
On account	According to the 2006 Survey on Monitoring the Paris Declaration, 60.1% of disbursed aid to the government sector used country accounting systems. This means that not all Channel 1 funds use country accounting systems. Some donors, however, do not disburse through the exchequer, but use country accounting systems (i.e. Channel 3 funds, accounted for through country accounting systems). 53% of aid on the aid flow database is registered on government accounts, whether through the C Channel (cash disbursed through the Bank of Tanzania – i.e. Channel 1) or the D Channel (the contribution of goods and services paid for through parallel arrangements – i.e. Channel 3).[6] See the table below.[7]	Overall documents, such as the Public Expenditure and Financial Accountability Report, note improvements in the quality of capture of financial information over the last years, but also that there are still shortcomings in the accuracy and timeliness of financial reporting.	The introduction of an IFMIS and its roll-out to the local level of government has increased confidence in the reliability of capture in government's accounting systems. The discrepancy in the use by Channel 1 and Channel 3 funds of country accounting systems is explained by two mechanisms. First, basket support funds (such as the health fund) are disbursed through the exchequer system (through an account at the Bank of Tanzania), but their use is accounted for outside of the government systems through parallel administrative arrangements (although these are somewhat embedded in ministries). Second, at the same time, there is a mechanism for funds to be disbursed outside of the exchequer system, but still to be accounted for in the account of the government of Tanzania. Donor regulations also explain some of the discrepancy: some donors cannot disburse cash through government systems (and therefore use Channel 3), but still use government accounting systems via the mechanism described above. Central and satellite treasuries are responsible for payments, and the Office of the Accountant General for maintaining the accounts. However, sector ministries and local governments are responsible for the rest of the steps in the expenditure management process. This means that treasuries and the Accountant General rely on the timeliness and documentation of other parties. It is therefore understandable, given the unevenness of capacity, that there are still problems with the timeliness and accuracy of accounts. The further roll-out of the IFMIS and related capacity building will help address these issues.

Gap between national budget estimates, disbursements and aid flows

Fiscal Year	(i) National Budget Estimates	(ii) Disbursements Captured in the Exchequer System	(A) Disbursement Captured in the Exchequer as % of Budget Estimates [(ii)/ (i)]	(iii) Disbursements Captured in the Aid Flows Database	(B) Aid Flows Database as % of Budget Estimates [(iii)/ (i)]	(C) Funds Captured in Exchequer System as % Aid Flow Database [(ii)/ (iii)]
1999/00	214,943	67,606	31.5%	317,231	147.6%	21.3%
2000/01	275,476	137,559	49.9%	457,611	166.1%	30.1%
2001/02	302,272	125,010	41.4%	424,198	140.3%	29.5%
2002/03	624,465	328,321	52.6%	504,054	80.7%	65.1%
2003/04	667,349	475,642	71.3%	622,942	93.3%	76.4%
2004/05	857,885	631,966	73.7%	986,046	114.9%	64.1%
Average	490,398	294,351	53.4%	552,014	123.8%	53.3%

Source: *TAS Implementation Report FY 2002/03-2004/05*

TANZANIA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On audit	Approximately the same percentage of aid that is on account is audited through government systems. Again, however, there are more funds on account than audited, and vice versa, reflecting donor regulations and trust in the government's audit systems.	The Public Expenditure and Financial Accountability Report notes recent improvements in the timeliness of government auditing processes, but still notes concerns with the compliance of audit procedures and scope with international standards, and with the weakness of parliamentary processes in following through on audit findings.	The relatively low level of aid on audit, compared to what is on budget and on parliament, reflects donor regulations and lower trust in the quality of audits for the time being. For example, there are a few donors for whom more funds are on account than on audit: particularly Denmark. The discrepancy between what is on Channel 1 and Channel 3, what is on account or not, and what is on audit or not, also lies in basket funds: the health basket fund agreement, for example, requires funds to be disbursed through the exchequer, accounted for by the basket fund administrative arrangements, and audited by the government (contracting independent auditors if required). This accounts for basket fund countries (Sweden, the Netherlands, the UK, etc.) having more funds on audit than on account. The concerns about government audits are that the legal requirements are lagging behind international good practices and that the Auditor General's office lacks capacity. Both these aspects are receiving attention in reform programmes.
On report	Strategic performance reporting: The Mkukuta framework includes monitoring of indicators and an annual implementation report, mostly at the activity and output levels. While aid financial flows on the revenue side do not receive much attention, the framework does provide regular updates on what aid is used for. Budget execution and financial reports: Aid is reflected at aggregate level in government financial statements by type of flow and modality. It is discussed in some detail in the quarterly budget execution reports published by the Ministry of Finance, more so on the revenue side (where the predictability of disbursements by modality receives great attention) than on the expenditure side. There are aggregate revenue and expenditure performance tables, where aid disbursement performance is reflected by modality. At sector level: The reporting mechanisms of SWAps include an in-depth discussion of aid flows on the revenue and expenditure sides. The annual PER exercise also includes a significant review aspect, particularly of financial flows. Aid, however, is mostly reviewed on the revenue side: the expenditure discussions do not distinguish between aid and locally financed expenditure. By aid modality: The annual GBS review report provides an overview of aid inflows and reports against the performance assessment framework on the use of aid, particularly GBS. Project-level reporting is not public and depends on the particular project arrangements.	The 2006 GBS review and other reports note that reporting is weaker than it could be: there is no reporting against the Strategic Budget Allocation System (the system used in budget preparation to link allocations to PRSP, MTEF and budget clusters).	Tanzania, like many countries which receive high levels of aid, has a very complex reporting architecture. The reasons for this are: (i) the variety of reporting requirements that go with a high number of different donor agreements; (ii) the proliferation of planning instruments; and (iii) the lack of streamlining of the country's own financial and policy performance reporting mechanisms. The latter is also related to institutional complexity around the management of expenditure (different agencies, different budgets). The streamlining of donor mechanisms, if translated into reporting mechanisms, will assist in reducing the complexity. The integration of dialogue mechanisms is starting to bear fruit insofar as the 2006 GBS review drew on Mkukuta reporting as analytical input. The relatively weak reflection of aid on the expenditure side of budget execution reports is symptomatic of the weaker reflection of expenditure overall. Expenditure is not reflected by ministry or by region, only by aggregate economic category of spending. There are a number of expenditure, accounting and reporting databases in use. However, weak linkages between them detract from the comprehensiveness and quality of reporting. There are, for example, weak links between the Strategic Budget and Allocation System, PlanREP (recording and reporting on development projects), the IFMIS and RIMKU (reporting on Mkukuta indicators) databases. This makes it difficult to link financial reports to non-financial (activity, outputs, outcomes and impacts) reports.

GROUP B CASE STUDY COUNTRIES

GHANA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On plan	At overall strategic level, the Growth and Poverty Reduction Strategy (2006–09) includes externally financed grants and credits, including budget support grants/credits and programme/project grants/credits. Under the auspices of the MTEF, each MDA produces one or more budget volumes setting out the details of budget estimates for programmes and activities for the coming budget year. For each activity, the estimates set out the type of funds (e.g. Consolidated Fund, Internally Generated Funds, HIPC funds, or development partner funds), the source of funds (including identifying individual donors), authorisation (e.g. national budget), responsible institution and sector. Donor funds normally apply to the items for services (i.e. goods and services) and investment. These MDA MTEF volumes are the main link between budgets and plans. In addition, for the most important spending sectors in which external financing is most prominent, annual joint government–donor sector reviews are held: broad strategic investment plans for the sector are discussed, culminating in the preparation of the sector's annual Programme of Work.	While the Growth and Poverty Reduction Strategy is intended to be the guiding principle for prioritising investments, it is insufficiently detailed to enable MDAs to plan their detailed investment programmes.[8] Also, in practice it is not clear how operational the MTEF is, in particular the degree of attention given to these detailed estimates when scrutinising, approving and implementing budgets. There seems to be a disconnect between plans in the MTEF and the implementation of the budget. For example, there are significant variances between budget plans and actual budget out-turns. This reflects, in part, the large number of activities, which makes it difficult for parliament and others to see how resources are allocated towards specific government policies. Until recently, the MTEF contained more than 17,000 activities. The number of activities was reduced to 45 standard activities in preparation for the 2007 budget (and 2007–09 MTEF).	The disconnect between MTEF activities and the budget reflects both: (i) capacity constraints at MDAs to plan and fully cost out activities; and (ii) the current lack of a mechanism to link activities to resources during budget implementation. The current classification system used by the Controller and Accountant General does not include the activity codes, so reporting on expenditures may not be done on the basis of planned activities. Individual MDA MTEF estimates are not comprehensive, since the items for personal emoluments and administrations (both personnel-related), being less discretionary in practice, are not prioritised in line with the items for services (goods and services) and investment.

GHANA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On budget	The government of Ghana's annual budget documentation comprises: (i) the Appropriations Act; (ii) the Budget Statement (containing the minister's budget speech); and (iii) separate volumes containing the annual estimates for each MDA. (See "On plan" above.) The Appropriations Act and the appendices in the Budget Statement include tables showing planned disbursements of loans and grants. Specifically, the budget documents include details of: (i) budget support; and (ii) external project assistance for projects administered through PIUs in MDAs. In the 2007 Budget Statement, planned disbursements of externally financed expenditures for the coming budget year are shown by economic item (personal emoluments, administration, services and investment) and by MDA. For the two forward MTEF years (and for the coming budget year), planned disbursements of external finance are shown by MDA. As indicated under "On plan", in the more detailed MDA volumes of estimates, the type (grant/credit), source (which donor) and amount of financing is identified for each activity. The budget documents do not include: (i) externally financed project resources through which donors provide finance directly to non-public sector institutions, such as local or external NGOs; and (ii) aid-in-kind, which is thought to be relatively small.	There are differences between the figures for projected external resource flows in the budget and for projected disbursements in donor reports. This is partly because the budget does not capture some categories of resources (e.g. direct financing). (See "Evidence of capture".) External disbursements included in the 2007 Budget Statement (for 2006 actual disbursements) were in aggregate 94% of the data presented in June to the Consultative Group on disbursements for 2006. For 2007, the aggregate gap between the government and donors on planned disbursements is 93%. In some cases there are also differences in disaggregated data between government (as reflected in the budget) and donor sources, in part because of differences in expected disbursement timings and in the status of some projections (differences in what information is considered official projections). The Ministry of Finance and Economic Planning is undertaking further analysis of these differences and the explanation for them.	There has been considerable progress in recent years in coverage of donor flows in the budget, due to considerable work by the joint government–donor institutional infrastructure, specifically the Multi-Donor Budget Support Group, and as part of Consultative Group preparations. In particular, the discussions on planned disbursements of external resources have led to improvements in the availability of reliable information on external finance in the budget.
On parliament	Parliament approves the Appropriations Bill, which then becomes the Appropriations Act. The Appropriations Act consists of: (i) a summary table showing appropriated expenditures by MDA and source of funds (Consolidated Fund, internally generated funds, HIPC funds, and donor funds); and (ii) detailed expenditures by head/sub-head and economic item, across the four sources of funds. The Budget Statement and the supplementary MDA volumes are presented to parliament as part of the budget submission, but are not appropriated as such (i.e. they do not form part of the Appropriations Act).	Parliament's review of budgeted external allocations in aggregate represents a maximum of 93% of total projected aid disbursements as reported by donors.[9] But, as parliament tends to focus mainly on Consolidated Fund resources, there is likely to be less detailed scrutiny of other external resources.	While the parliamentary Finance Committee takes an active role in scrutinising the budget proposals, its work is hampered by: (i) excessive detail in budget information for individual MDAs;[10] and (ii) the lack of recent trends (previous year's actual, current year's estimates, and next year's budget plans) shown side by side for MDA expenditures. Improving the presentation of the budget, (particularly of MDA budgets) – to show the links between strategic policies and budget allocations and how these expenditures have evolved over time – would go a long way towards improving the quality of parliamentary debate.
On treasury	The following are paid into the Consolidated Fund and disbursed together with domestic revenues: (i) budget support grants; and (ii) budget support credits. Project funds (grants and credits) are disbursed either directly by the donor or through separate bank accounts, which are not linked to the Consolidated Fund.	In practice, less than 35% of external finance (i.e. only budget support) uses the treasury and other national procedures. Donors providing project support use their own procedures. The main development partners giving budget support (those giving more than US$10 million in 2006) include the World Bank, the UK, the AfDB, the EC, the Netherlands, Canada and Germany.	The Ministry of Finance and Economic Planning is working to establish an STA and from there to consolidate government resources. This system could eventually include donor funds, currently held in separate bank accounts. Some donors are reportedly reluctant to put their funds through government systems without stronger fiduciary controls: the large deviations between budgeted and actual expenditures and weak capacities for internal/external audit are likely to be important factors.

GHANA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On account	All funds paid into the Consolidated Fund, specifically budget support (both general and sector) are recorded and accounted for by the Controller and Accountant General using a combination of a paper-based system and the developing IFMIS, known as the Budget and Public Expenditure Management System. Thus budget support, general and sector, is accounted for in this way. In addition, sectors operating SWAps prepare consolidated fiscal accounts and thus may be considered to account for their resources in a way similar to the Consolidated Fund.	An estimated 50% of total aid resources were accounted for using national procedures in 2006. However, as this figure assumes 100% coverage of pooled funds, it represents the maximum level possible, and the actual percentage is likely to be considerably lower. As accounts are consolidated in the STA, the system could eventually include donor funds currently held in separate bank accounts, which would then potentially increase the aid on account.	The Controller and Accountant General could improve the comprehensiveness of their monthly budget execution reports by including donor project aid. The Controller and Accountant General indicates that such data are available by MDA, so it would be possible to include it in terms of the same classification as for domestic finance.
On audit	The Ghana Audit Service audits central government's annual final accounts (Consolidated Fund) and a selection of issues for MDAs (on an adverse opinion basis), contained in two separate audit volumes. As indicated under "On account", terms of external finance, the Consolidated Fund (and thus the audit of the annual financial statement) includes budget support (both multi-donor budget support and sector support). The volume on MDAs looks at specific expenditure compliance issues for resources considered to be in the public accounts (mainly Consolidated Fund, but also internally generated funds and externally financed expenditures) for individual MDAs. As part of the multi-donor budget support common framework agreement, external audits, termed "special flows audits", may be carried out; these are carried out by private sector auditors. The first of these audit reports came out in 2004, and the second is currently in draft form. Pooled funds are required to be audited "by the Ghana Audit Service" (i.e. either by the Ghana Audit Service itself or by an auditor appointed by the Ghana Audit Service) and are paid for with external funds.	While both audit volumes are sent to parliament and are subsequently available to interested parties, a lack of resources means that they only cover a (relatively small) portion of the Ghana Audit Service's mandate, which includes annual audits of all MDAs, metropolitan, municipal, and district assemblies, statutory funds and public corporations. Taking the definition of "on audit" to include those funds which the Ghana Audit Service is mandated to audit, directly or through an appointed/approved external auditor, this would include: (i) those external resources which are part of the Consolidated Fund (i.e. budget support); and (ii) pooled funds whose auditor is approved by the Auditor General. Using data for 2006, it is estimated that up to 50% of total aid resources were accounted for using national procedures. However, this figure represents the maximum level possible, as it assumes 100% coverage of pooled funds, and the actual percentage is likely to be considerably lower.	Weaknesses in audit, both internal and external, can undermine the effectiveness of oversight of the use of public funds. Since the internal audit function is relatively new, it cannot be expected to be operating at maximum effectiveness. While the quality of external audits submitted to parliament is reasonable, the timeliness and coverage of these audits is weaker. Limited resources and capacities (even with the practice of supplementing Ghana Audit Service staff with private sector auditors to cover specific audits in the service's mandate) prevent the Ghana Audit Service from covering its statutory mandate in full. In particular, most of the accounts and financial statements for public boards, corporations and statutory institutions lag behind by several years. The audits of MDA accounts tend to be carried out selectively, based on an adverse opinion. Follow-up on the findings of the Auditor General, particularly where the accounts are qualified, needs to strengthened. Capacity constraints will be difficult to overcome in the short term, particularly given the limited resources available for external audit and the wide mandate. The available resources need to be prioritised to where the greatest possible gains and maximum impact can be achieved.

GHANA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/why not?)**
On report	Reporting on the budget consists of monthly expenditure reports from the Controller and Accountant General, and the annual financial statement. As indicated under "On account", these cover the Consolidated Fund (which comprises government domestic expenditures for MDAs, and HIPC funds by MDA). Thus, they include budget support grants and credits. In addition, the 2007 Budget Statement includes information on the disbursement of external resources (project/programme assistance) for the previous year in a number of appendices, including: (i) disbursements of project loans and grants by creditor/donor and MDA; (ii) details of project/programme loans by donor, title of project, date of loan, original currency, amount in original currency and US$ equivalent, maturity, interest rate, and percentage grant element; (iii) details of project/programme grants by donor, title, date, original currency, and amount in original currency and US$ equivalent.	Taking "on report" to include data on actual disbursements provided in: (i) Controller and Accountant General budget execution reports (Consolidated Fund, specifically budget support); (ii) the following year's Budget Statement (the majority of project funds); and (iii) MDA consolidated reports from pooled funds. (In 2006 around 93% of external aid resources were captured in fiscal reports.) In recent years, considerable progress has been made in capturing more information on donor resources in fiscal reports. In order to broaden the budget's reporting, the government is also taking steps to include information on all loans and grant agreements in the Budget Statement. A comparison of the Budget Statements for 2004, 2005 and 2006 indicates significantly greater coverage of donor flows in recent years, particularly grants. Progress is being made with execution reports. In the 2005 Annual Report and Financial Statement, disbursements of grants by individual donor were included for the first time. Work is also continuing with the Controller and Accountant General to include flows of external assistance in regular (quarterly/monthly) Controller and Accountant General reports. Since donor funds are only partially reported (grants included in the Controller and Accountant General report represent about half of the amount estimated by the Aid and Debt Management Division), together with Consolidated Fund funds, retained internally generated resources, and HIPC resources, there is not a single source for reporting on total government fiscal operations. This hampers effective oversight of the use of public resources. Monthly and quarterly disbursement information, particularly for project/programme loans, is available to Ministry of Finance and Economic Planning and thus could be reported on in the Controller and Accountant General reports. The data infrastructure is in place to produce comprehensive reports; however, there needs to be a clear commitment from both development partners and the government to provide and include this information. This is an area that Controller and Accountant General is currently working to improve. With this development, the Controller and Accountant General reports are expected, over time, to encompass revenue and expenditure information on externally funded projects (including donor project aid) and retained internally generated funds.	There are weaknesses in information flows both between the government and donors and across government aid management institutions themselves, leading to difficulties in reconciliations between aid flows captured and/or reported by IPs, the Aid and Debt Management Division, External Resources Management and MDAs. This is due partly to weaknesses in co-ordination across divisions and across MDAs, and partly to differences in the status of definitions of assistance, particularly when a projection is considered to be official.

MALI			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On plan	*GBS* – In theory, GBS is planned in the same way as domestic resources. But as they are not reflected in Mali's budget documentation, it is difficult to determine how these funds are treated in practice. *Sector budget support* – In theory, sector budget support should also be planned in the same way as domestic resources, with the difference that the relevant sector ministries are supposed to achieve particular results in accordance with the accompanying sector policy matrix. In practice in Mali, these resources are treated differently to domestic resources: in effect, they are treated as if they were project resources. They are planned separately, and their use is separately identified (as line items) and tracked in the budget and in budget execution reports. Furthermore, they are directed at particular purposes (e.g. training workshops), which may or may not be how they would have been used had they been planned together with the rest of the ministry's resources. *Project assistance* – With the separation between the recurrent and investment planning processes, project assistance resources, as part of the Special Investment Budget (*Budget Spécial d'Investissement*), are planned separately from recurrent resources. To the extent that investment expenditures are financed by external resources (the vast majority are), these appear in the Special Investment Budget, and the planning/management arrangements tend to be planned in conjunction with the relevant donor(s) (rather than as part of a programmatic approach).	Assuming that in practice GBS is indistinguishable from domestic resources, around 22% of total aid disbursements[11] are estimated to be included in national planning procedures. The Special Investment Budget contains details of externally financed projects by ministry and by programme. While the information is reasonably comprehensive for projects financed by external loans, it is somewhat less so for projects financed by grants. In practice, the budget incorporates mainly known commitments for programmes covered by underlying government/donor agreements. Operations funded by grants and carried out directly between donors, NGOs (relating to government operations) and beneficiaries, without passing through the Ministry of Economy and Finance (*Ministère de l'Economie et des Finances*), tend not to be captured. These are estimated by the Ministry of Economy and Finance to be relatively small, but may be more than 10% of the total value of grants. In terms of moves towards planning budgetary resources as a whole, the policy basis for the budget has improved in recent years through: (i) the introduction of the Medium-Term Budgetary Framework (*Cadre Budgétaire à Moyen Terme*), (ii) the beginnings of the preparation of sector expenditure strategies, and (iii) the preparation of budget programmes and inclusion in an annex to the state budget (*Budget d'Etat*).	Strategic budgeting is in the early stages. Only health and education have a full medium-term sector strategy. There are limited capacities at line ministry level for costing activities and for linking policy objectives and resource allocations. At the same time, the lack of early Cabinet involvement in the setting of strategic budget parameters and limited analytical capacities to cost strategies constrain the government's ability to use the budget as a strategic tool to implement its medium-term policies, including those in the PRSP (*Cadre Stratégique pour la Croissance et la Réduction de la Pauvreté*).

MALI

Dimension	Evidence of capture (What is captured?)	Quality of capture (How well? How useful?)	Explanations (Why/Why not?)
On budget	The annual Budget Law (*Loi de Finances*) includes two types of external aid resources: (i) externally funded project resources (both loan and grant-financed); and (ii) sector budget support (currently, all grant-financed). Details of project resources (expenditure type, activities financed, and sector) are included in the Special Investment Budget, while just the totals for external grant and loan-financed project assistance are shown in the main annual Budget Law document. In the wider state budget, domestic and externally financed Special Investment Budget resources are shown by sector ministry. The budget documents – the state budget (including the annual Budget Law), and the accompanying Special Investment Budget – do not include: (i) externally financed project resources in which donors provide finance directly to non-public sector institutions, such as NGOs (either domestic or external NGOs); (ii) grant-financed GBS; and (iii) credit /loan-financed budget support (at present, only GBS – not sector budget support – is financed by credits/loans). That is, the budget does not account for residual aid (any aid outside budget support and project aid). Nor does it include spending outside Mali, or aid that is not delivered by the government sector (e.g. by NGOs).	In terms of completeness of coverage of budget support: • *In the annual Budget Law*, grant-financed sector budget support (in practice, all of sector budget support) is shown as a source of funding (under receipts). The planned use of what is termed sector budget support is shown (as earmarked funding) under individual sector ministries. Grant-financed GBS is not included as a source of funding (under receipts). The use of these resources is not included under expenditures. But they are included in ex post reporting, and there is thus a difference between the appropriated budget and the executed budget. This situation is catered for in the Organic Budget Law: if the receipts turn out to be more than expected (e.g. through additional grant-financed budget support) the Minister of Economy and Finance can increase the open credits by decree up to the amount of the additional receipts. But the fact that these additional resources are not appropriated by the National Assembly (e.g. through a supplementary budget) undermines the transparency and accountability of their planned use – there is no explicit (external) mechanism to ensure that the prioritisation of these resources is in line with overall government objectives. • *Credit-financed GBS* is included implicitly as a source of financing the deficit, along with reserves – although the exact split between reserves and budget support is not given, nor are details of the budget support. The use of these resources is implicitly included as part of general expenditures and, in line with the norm for budget support, the funds are not earmarked. A comparison of the information in the annual Budget Law with that from donors shows that in 2005 external disbursements included in the budget were 40% lower than the information on disbursements furnished by donors, and more than 25% lower in 2006. For 2007, the gap between the government and donors on planned disbursements is 33%. The actual gap for individual projects could be larger. Sector budget support shown by ministry in the state budget is classified in accordance with the government's classification system. Projected expenditures in the Special Investment Budget are shown in accordance with its own classification (project numbers). Information on disbursements of the previous year's sector budget support and project assistance is included in the annual Budget Law/state budget and the Special Investment Budget, respectively. Timeliness of information on planned disbursements is an issue. In line with the budget cycle, reliable information on projected external resources needs to be received by May, but often is not received until September or later. This applies both to budget support and to project aid, and can adversely affect both the completeness of the information and the efficiency of the budget process.	The main direct reason for the less comprehensive capture of external disbursements is the exclusion of GBS (both grant- and loan-financed). It is possible that the Ministry of Economy and Finance receives information on grant-financed support too late to be included in the budget documents. At the same time, project aid is not predictable, and its timing is not aligned with the budget process, nor is the timing for disbursements aligned among donors As for loan-financed GBS, the annual Budget Law does not include a breakdown of the components of deficit financing as a rule.

MALI

Dimension	Evidence of capture (What is captured?)	Quality of capture (How well? How useful?)	Explanations (Why/Why not?)
On parliament	The National Assembly votes on the appropriations in the annual Budget Law, which includes detailed information on sector budget support (both receipts and programmed expenditure use), and aggregate figures for externally financed project assistance. There is no information on GBS in the annual Budget Law. Accompanying information for the National Assembly includes details on project expenditures. The annual Budget Law includes the national budget (*Budget National*) for the line ministries, the regional budgets (*Budgets Régionaux*), the subsidies to public enterprises and earmarked funds (*Budgets Annexes, Comptes, et Fonds Spéciaux*), and the investment budget (Special Investment Budget). Accompanying the budget as information is the Medium-Term Budgetary Framework and the budget programmes, found in the state budget. The National Assembly also approves the annual Budget Execution Law (*Loi de Règlement*).	The allocations of project assistance and sector budget support in the annual Budget Law which the National Assembly scrutinises represent around 80% of total aid disbursements.[12] The National Assembly (through the Finance Commission) has at least two months to scrutinise the annual Budget Law. There are concerns about the quality of the National Assembly's debate, which is focused relatively narrowly on the annual line item appropriations. The Finance Commission does not appear to examine in detail the broader sectoral context, including the appropriateness of, and consistency with, the objectives and activities in the Medium-Term Budgetary Framework and the budget programmes. The extent to which the commission examines the planned use of external resources is not clear.	While the National Assembly is given sufficient time to debate the draft annual Budget Law, its technical financial management capacities are insufficient to explore in detail the use of all resources for sector programmes nor the implications for meeting sectoral objectives. According to the PEFA assessment, besides the delays in receiving the annual Budget Execution Law, limited capacities for reviewing audited accounts contribute to weaknesses in the National Assembly's ex post review. The National Assembly's scrutiny of the annual Budget Execution Law has been hindered by delays in the submission of certified accounts by the Section des Comptes, an audit institution which is a branch of the Supreme Court. However, the recent clearing of the institution's backlog will potentially allow the National Assembly to exercise its external scrutiny role more actively More broadly, it is possible that, with the relative youth of the country's democracy, there is still limited demand from the public for greater transparency and accountability on public expenditures.
On treasury	Public expenditures are channelled through two types of account: (i) those accounts linked to (and controlled by) the STA at the Central Bank of West African States (*Banque Centrale des États de l'Afrique de l'Ouest*) – these include domestic funds, GBS and sector budget support; and (ii) those accounts in commercial banks opened and managed by PIUs or other government agencies outside of the treasury's control – these include project resources. In general, only budget support operations may be considered to pass through the treasury system. Outside of budget support (e.g. Poverty Reduction Support Credits and IMF support) there is limited use of the treasury for external finance. The pooled funds use separate government-designated accounts, but these are not linked to treasury accounts. Project funds, managed through PIUs, may use government or non-government accounts, but these are not linked to treasury accounts.	In 2006, around 33% of external finance (i.e. only budget support) used the treasury and other national procedures – an increase from 26% in 2005. Donors providing project support use their own procedures. The main development partners giving budget support (based on those giving more than US$10 million in 2006) include the AfDB, the EC, France, the Netherlands, and Sweden (with Canada from 2007). The lack of predictability of the disbursements of sector budget support by some donors (particularly with the variable tranche) is a problem: it leads to cash management issues for the treasury and challenges in addressing sectoral programme objectives.	Hesitation by donors to use the treasury account for budget execution is partly a question of confidence in the PFM system. Perceived weaknesses in external audit are likely to be an important factor. From the government side, the lack of predictability of disbursements of budget support, particularly sector budget support, is of significant concern and has become a cash management issue for the treasury. This unpredictability, which often relates to the second, performance-related tranche of sector budget support, could be linked to weaknesses in the setting of budget support result indicators, some of which may be outside of the agencies' control. Perceived weaknesses in external audit are also an important factor. The recent introduction of the Office of the Auditor General (*Bureau du Vérificateur Général*) has provided an additional potential source of external oversight, although clarity on its role and coordination with the Supreme Court's audit institution remain important issues.

MALI			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On account	Accounting systems in francophone countries are typically specified formally by a decree; in Mali, the regulations are contained in a law. In the francophone system, two separate types of accounting are carried out: (i) The Financial Controller (*Contrôleur Financier*) in the Department of Financial Controllers (*Direction Nationale de Contrôle Financière*) accounts for annual Budget Law resources executed through the treasury (including domestic resources, GBS in the annual Budget Law,[13] and sector budget support) through the execution stage of issuance of a payment order (*ordonnancement*). (ii) Public accountants in the treasury (in the Department of National Treasury and Public Accountants [*Direction Nationale du Trésor et de la Comptabilité Publique*]) account for the final stage of budget execution, the payment stage. According to Mali's Organic Budget Law, in common with other francophone systems, the remit of the Financial Controller is limited to expenditures in the annual Budget Law; thus, only budget support and domestic resources are subject to the Financial Controller's control and accounting.	All budget support follows national budget execution procedures in line with domestic resources. It is estimated that around 40% of total aid resources were accounted for using national procedures in 2006.[14] Accounting for resources outside of the annual Budget Law (e.g. Special Investment Budget resources) is carried out separately by PIU accountants and recorded in separate reports. Preparing consolidated accounts (e.g. for pooled funds) is not undertaken; this practice does not appear to be a priority for the government or IPs.	The emphasis in the Malian (and other francophone) budget systems on compliance with the relevant laws and procedures is an important factor, since budget execution procedures as set out in the law are limited to treasury funds shown in the annual Budget Law.
On audit	External scrutiny of public resources is the primary responsibility of the Supreme Court's audit institution. Each year, the institution is required to examine the annual Budget Execution Law and certify that the treasury's accounts (*comptes de gestion*) and the Budget Department's accounts (*comptes administratifs*) are fully compatible. Following its review, the institution issues a report on the execution of the annual Budget Law, together with a general declaration of conformity of the accounts. In principle, the annual Budget Execution Law can only be presented to the National Assembly for adoption once the institution has issued this declaration of conformity. Otherwise, any audits carried out on projects (i.e. those in the Special Investment Budget) do not involve the Supreme Court's audit institution, and the institution is not a regular recipient of these reports.	The proportion of aid resources subject to external scrutiny through the Supreme Court's audit institution was just under 70% in 2004 (the most recent report).[15] The institution faces a significant backlog of annual Budget Execution Laws to audit, undermining the effectiveness of its reviews. The annual Budget Execution Laws from 1999–2004 were particularly delayed.	External scrutiny in terms of external audit is weak in Mali and is a concern for both the external auditor and for development partners. One of the primary concerns is the lack of human and material resources for the Supreme Court's audit institution: only 15 magistrates annually audit all institutions receiving public money (including entities at both central and local levels), amounting to approximately 89 institutions. The limited capacity has resulted in delays in submitting the annual Budget Execution Law to the National Assembly, with the 2004 annual Budget Execution Law report the most recent to have been submitted. The review of the 2005 annual Budget Execution Law is only expected by the end of the year. Part of the reason for limited capacities is that the Supreme Court's audit institution is not financially independent – it is one among competing chambers of the Supreme Court, and must rely on the Supreme Court for its funding. In addition, there is a constitutional limit on the number of Supreme Court magistrates.

MALI			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On report	The Ministry of Economy and Finance produces four types of budget execution reports: (i) quarterly budget execution reports by the Financial Controller covering the execution stages up to the submission of the payment order (*ordonnancement*); (ii) monthly and quarterly treasury balances, setting out the bank balances and thus covering the payment stage; (iii) the consolidated annual financial statement, in the form of the annual Budget Execution Law, which is intended to reconcile the two forms of accounting information; and (iv) quarterly and annual Special Investment Budget reports on project resources as part of the Special Investment Budget. In addition, the treasury produces the consolidated fiscal table (*Tableau des Opérations Financières de l'Etat*), which provides a fiscal overview, including details of the deficit and its financing. Thus, for budget resources operating through national systems, reporting is separated between execution stages up to *ordonnancement* under the responsibility of the Financial Controller on the one hand and *paiement*, reported by the treasury as part of bank reconciliations, on the other. This separation is reflected in the annual accounts, which comprise: (i) the Budget Department's accounts, providing details of revenues and expenditures by sector ministries up to, and including, the submission of the payment order (*ordonnancement*), prepared by the Budget Department; and (ii) the treasury's accounts, which show the account balances and transactions – at the encashment stage for revenues and the cash payment stage for expenditures. The 2004 annual Budget Execution Law included grant-financed budget support, shown as "exceptional receipts" (while showing a 0 in the corresponding planned/budgeted [i.e. annual Budget Law] column), indicating that these resources went through the treasury system but were not planned explicitly beforehand: this is the basis for reporting on budget support in the consolidated fiscal table.	Overall, the proportion of total aid resources included in the normal budget reporting process is estimated to be around 90%.[16] However, according to the PEFA assessment, there are significant weaknesses with in-year and end-year reporting, including the lack of comprehensiveness of the data for budget execution (the data do not include the payment stage), and significant delays in the production of these reports. Preparing consolidated accounts (e.g. for pooled funds) is not undertaken; this practice does not appear to be a priority for the government or IPs. In principle, the shift in aid modality from pooled funds to sector budget support should lead to increased transparency of reporting in the annual Budget Execution Law, particularly since sector budget support funds are explicitly shown in the budget documents by individual ministries. The 2005 annual Budget Execution Law should confirm this. The 2004 annual Budget Execution Law refers to the period before the move to sector budget support.	The strong emphasis on control common to francophone countries, with the separation of responsibilities for the first three stages of budget execution from the payment stage, leads to an overemphasis on the financial accounting side at the expense of budget management, focusing on budget outcomes.

MOZAMBIQUE			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On plan	The Mozambican PRSP, the PARPA-II, which is the government's main instrument for strategic planning, includes in its macroeconomic scenario three projections of the expected resource envelope, based on variations of external ODA flows made available to Mozambique. The government's macroeconomic framework model includes three spreadsheets with reasonably detailed projections of expected aid flows to Mozambique, including those disbursed to the government, over a three-year period. The public version of Mozambique's Medium-Term Fiscal Framework also includes a breakdown of medium-term programmed investment expenditure, by source of finance, over a three-year period. It distinguishes between internal and external sources, the latter corresponding to aid funding to the government. The government also incorporates information on expected aid disbursements at lower levels of planning, including at sector and provincial levels.	The information on external funding currently presented in the Medium-Term Fiscal Framework and macroeconomic framework is still limited, as a result of: (i) donors' difficulties in supplying such information and their inability to define multi-year aid commitments for all their programmes in Mozambique; and (ii) coordination and communication problems between the Ministry of Finance and the Ministry of Planning and Development on one side, and line ministries and provincial governments on the other, as well as the weak integration of planning instruments at various levels of government.	A key factor behind the considerable success in this sphere is the reasonably strong dialogue, at various levels, between the government and donors. This is evidenced in the numerous formal and informal institutional arrangements that have emerged over the past decade. The ODAMOZ database of aid-funded projects has detailed information on all projects funded by the donors participating in this aid dissemination initiative and is an important source of information for the government.

MOZAMBIQUE

Dimension	Evidence of capture (What is captured?)	Quality of capture (How well? How useful?)	Explanations (Why/Why not?)
On budget	66% of ODA by Programme Aid Partner group of donors (which includes most of the main international development agencies operating in Mozambique) was reported on budget in 2006. By specific donor, this percentage was particularly low for countries such as Germany (44%), Italy (42%), Spain (29%), Portugal (13%) and Denmark (6%). Other donors were better reported: the World Bank (100%), Belgium (97%), Ireland (94%), Sweden (90%), the Netherlands (89%), the UK (87%), France (84%) and Finland (83%). While no recent data on aid on budget exists for donors outside the Programme Aid Partners group (such as the UN agencies, USAID or the new vertical global funds), available evidence suggests that their aid is significantly less well captured on budget.	The budget presented to parliament gives a breakdown of investment expenditure by source of funding, distinguishing between internal and external sources, with the latter corresponding to ODA-financed government expenditure. However, there is no detailed breakdown of the exact source (i.e. donor) of the funding. Similarly, the section in the budget that presents resource availability also indicates government resources originating from grants and loans, but with no detailed breakdown of their exact source or nature (e.g. GBS, common funds financing, project aid, etc.). The government has committed to improving the quality and detail of the information it reports on resource availability. The Ministry of Finance collects far more information on ODA funding than that reported in the budget document, suggesting there is significant scope to improve the quality and detail of information on ODA funding of government programmes in the budget and its accompanying document. There are also concerns about the quality of the information on external funding for investment projects which is included in the budgets passed on by line ministries to the Ministry of Finance during the budget preparation process. For example, the recent government audit of the water sector finds very important discrepancies between the reported values of externally funded investment projects included in the 2005 budget and the actual or real funding available for these same projects – largely reflecting miscalculations due to incorrect foreign exchange rates.	In the past, efforts to bring aid on budget were hindered by the (unintended) distortions generated by the inclusion of a domestic primary deficit target in the IMF's macroeconomic and fiscal support programme to the government. Other factors: *Individual donors' decisions* – e.g. Denmark's decision not to disburse three-quarters of their committed GBS funding in response to audits carried out in various Danida-funded projects, which were felt to reveal cases of serious mismanagement, if not directly corrupt practices. *Difficulties that donors sometimes have in providing reliable and timely information* on their aid programmes in Mozambique and accurate schedules of their expected aid disbursements. *Donors' choice of aid modality*, which largely predetermines the degree to which they can report aid on budget at this and other levels of the budget cycle: (i) Some countries disburse a large proportion of their aid to government through NGOs, which are then responsible for implementing these funds and associated projects within the government sectors in which they operate, adding another actor to the aid implementation process, and further hurdles for bringing aid on budget. (ii) Other agencies, such as most agencies operating within the UN system, largely base their aid to the government on the provision of TA, often financed by third-party agencies, which can sometimes be difficult to incorporate in the budget formulation process. (iii) A key driver behind the growing volumes of aid on budget in Mozambique has been donors' increasing use of programmatic aid modalities.

MOZAMBIQUE			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On parliament	The Assembly of the Republic has no legal authority to approve aid to the government. What it does approve is the national budget. Inasmuch as the government's budget proposal incorporates, as part of its resource base, expected aid disbursements, the Assembly of the Republic plays an indirect role in debating and sanctioning the use that the government makes of that aid. Similarly, the fact that budget performance, including the use of external resources, is also examined by the Assembly of the Republic, implies that parliament indirectly plays a role in assessing the use that government makes of development aid. This budget review process takes place twice a year during the debates organised to examine both the government's budget execution report – *Relatorio de Execução do Orçamento*, and the implementation of the government's annual social and economic plan – *Balanço do PES*.	The quality of both the review and approval of the budget and its accompanying documents is generally considered weak.[17]	Parliament's lack of technical, human and financial resources undermines its ability to thoroughly analyse and control budget proposals and execution, including its ODA component. In addition, the underlying tensions between the (FRELIMO) government and the main opposition party (RENAMO) affect the quality of parliamentary budget debates, impeding in-depth and objective examinations of the government's budget proposals and subsequent budgetary performance.

MOZAMBIQUE			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On treasury	During the last decade, bringing aid on treasury has been at the centre of much of donors' and the government's efforts to bring aid on budget. Improving aid on treasury has been one of the main objectives of the donor–government on/off budget taskforce created in 2005 to increase the use of local planning, budgeting and PFM systems to manage aid-related funding. The overall capture of aid on treasury for the Programme Aid Partners group of donors in 2006 is estimated at 43% of their actual aid to government. As with ODA on budget, there is considerable variability in the Programme Aid Partners group regarding the extent to which they make use of the government treasury and payments system. Donor countries or agencies such as Belgium, DFID, Finland, the Netherlands and Ireland currently disburse most of their aid into the treasury – this share is above 75% for all five. Others in the group, however, have been particularly slow in meeting the Programme Aid Partners target of 45%, especially Spain (19%), Portugal (13%) and Denmark (6%), although for Denmark this appears to be related to its concerns over the use the government was making of its aid funds. Outside the Programme Aid Partners group, progress in using treasury systems has been significantly slower, with the share of aid processed through these systems over total aid to the government estimated at 14.3% for Japan, just over 1% for UN agencies and 0% for USAID and funds from GAVI. The GFATM is as an exception among the non-Programme Aid Partners donor group – all of its funds to the government are disbursed through the treasury system.	Direct expenditure execution through the STA (known as CUT) system is still limited, and almost non-existent for projects. Estimates for 2006 suggest that only 4.3% of budget transactions (corresponding to 2.7% of total budget expenditure) were directly executed through the Integrated System for State Financial Management (e-SISTAFE). The system still cannot manage multi-currency operations, which has long been identified as an important impediment in bringing aid on treasury. In addition, there are still many agencies, namely at district level, that cannot operate the Integrated System for State Financial Management to execute their budgeted funds, since they do not have the required facilities – regular electricity supply, IT systems or local banking facilities. Similarly, the system cannot manage all components of the budget, undermining efforts to bring all payments, including ODA funding, through the treasury system. Finally, not all client and contractors'/suppliers' bank accounts have been included in the system. As result, a large proportion of the government's financial transactions continue to be undertaken under the old system of payments by cheque. There is still significant work to be done by both donors and the government to achieve the Performance Assistance Framework indicator of having at least 60% of ODA channelled through the STA by 2009 – approximately US$900 million.	*Past constraints* (i) In the past, a key factor deterring donors and recipient government agencies alike from using the central treasury and payments system was the lack of reliability, timeliness, flexibility and transparency of the Mozambican PFM system and the associated liquidity problems that frequently affected the central treasury. (ii) In addition, the way the treasury was originally conceived made it burdensome and costly to process foreign currency payments for imports of goods and services, which were often an important component of these aid/development projects. Disbursing and managing aid through the central treasury and payments system came at the cost of reducing the effectiveness of donor-funded projects. *Ongoing constraint* Some donor agencies are barred by their governments from using the local PFM systems, or, similarly, their own financial management rules are not fully compatible with those of the Mozambican government. *Drivers of capturing aid on treasury* (i) As with efforts to capture aid on budget, capturing aid on treasury also appears to have been driven, to a considerable extent, by the growing use of programmatic modalities of aid disbursement and management by donor agencies in Mozambique. (ii) The Integrated System for State Financial Management PFM reform package has allowed the government to address some of the problems constraining PFM operations and has thus facilitated the process of bringing aid on budget at treasury, public accounting and procurement system levels. (iii) The government has been working to merge all financial accounts into one STA, and to bring all sources of funding – internal and external – under the umbrella of the government integrated budget and PFM system. This has helped to bring order and clarity to the treasury and thus increase its transparency, encouraging donors to disburse their funds through the treasury, and government agencies to rely on these systems more willingly.

MOZAMBIQUE			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On account	No precise and comprehensive estimates exist on the volume of aid currently being processed through the Mozambican accounting system. By definition, all donor funds disbursed as GBS are processed using accounting systems and are therefore captured on account. Also most aid funds channelled through common funding schemes in agriculture, education and health have been disbursed through the STA system since 2007.		The stringent documentary requirements associated with the *duodécimo* system of advance payments, combined with difficulties that government agencies often had with meeting these requirements on time and the numerous problems of mismanagement and poor accounting, have led many donors to opt, altogether, for parallel (consequently, off budget) accounting arrangements in their dealings with government agencies. Reforms being undertaken under the Integrated System for State Financial Management reform package are seen as instrumental in encouraging donors to bring aid on budget, also at the accounting level. The reforms are leading to the simplification of documentary and accounting procedures. A key precondition for success in this sphere is strong internal control and audit systems, in particular for warranting that the roll-out of the Integrated System for State Financial Management and direct budget execution translate into concrete increases in the degree of aid captured on account.
On audit	*Internal audit functions* – At present the Inspector General of Finance (*Inspecção Geral de Finanças*) carries out periodic internal audits of government policy and administrative systems. These have included exercises that have examined existing PFM practices and systems, and in some cases have included detailed assessments of systems and mechanisms in place within the PFM framework to manage aid funding. *External audit functions* – The government's General Account Report (*Conta Geral do Estado*) has been submitted to the Mozambican Administrative Tribunal for its external audit since 2004. This external audit exercise includes an exhaustive analysis of the use made by the government of external sources of funding for each of the main priority sectors, with a full section of the report devoted to this purpose. Since 2005, this analysis is not limited to ODA funding included in the budget (aid captured on budget): the Administrative Tribunal now also audits financial information received from the government on externally funded investment projects directly executed by donor agencies or line ministries and which do not appear in the government budget. This external audit is a legal document and fully available to the public. According to the OECD,[18] in 2005 32.9% of aid was captured by the Administrative Tribunal's annual external audit of the 2005 General Account Report. With a few exceptions (e.g. Canada, Germany, GFATM), the degree of aid captured on audit follows similar patterns to the other dimensions.	The 2007 Joint Review considers that there have been considerable improvements in the ability of the Inspector General of Finance to fulfil its role of internal auditor. Furthermore, the number of internal audits this agency undertook in 2006 is more than double those undertaken in 2005. However, beyond this specific institution, the national internal control system – in the form of the various Internal Control Units established throughout the Mozambican public administration – remains weak, mainly as a result of lack of financial and human resources. In its review of the work undertaken by the Administrative Tribunal, the 2007 Joint Review reports that important steps have been taken to improve the external audit sub-system: (i) The Administrative Tribunal has recently concluded its Corporate Plan for 2007–10. (ii) There has also been a substantial increase in its external audit activities – the number of financial audits increased by 148% between 2005 and 2006; 55 audits were undertaken, for the first time, at the district level; and the number of audit pronouncements undertaken by the tribunal has grown from 11 in 2005 to 45 in 2006. (iii) Furthermore, in 2006 the tribunal was able to submit its audit report of the 2005 General Account Report to the National Assembly within the time limit established by law.	The Joint Review makes a call to improve the dialogue between the government and the Administrative Tribunal in order to solve the critical points repeatedly brought up in the tribunal reports. This review also finds that the work undertaken by the Administrative Tribunal continues to present important delays and that its reports on the General Account Report are only made public after a lengthy legal process, reducing the transparency of this audit exercise.

MOZAMBIQUE			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On report	The government has been working to improve its reporting on budget execution of external financing. The National Directorate for Public Accounts is now producing up to four quarterly Budget Execution Reports and the annual consolidated financial statement – the General Account Report. Both documents report on budget execution levels for externally funded investment projects, as accounted for by the Mozambican National Budget Directorate. The Budget Execution Reports follow a similar structure to that used in the budget document, in terms of how information is organised and presented – for instance, investment projects are presented by source of funding, according to the organic classifier, including whether investment is internally or externally funded. According to the OECD, in 2005 aid capture on official financial reporting instruments reached almost 35% of total aid. The shares for most countries were similar. Only three agencies had more than 70% of their aid included in these financial reporting exercises: Ireland (73.7%), the UK (78.6%) and the GFATM (100%).	Execution levels reported in these documents for the external component of investment refer only to externally funded projects registered in the budget and processed through the public accounts system. A very significant number of externally funded investment projects are thus left out. The 2007 Joint Review reports considerable improvements in the quality of the budget execution reports, particularly in relation to: the new format; the transparency of information; and timely submission. Further improvements are expected as the volume of budget expenditure directly executed through the Integrated System for State Financial Management's direct budget execution module increases. In this respect, it is noteworthy that in 2006 the Budget Execution Report was produced on the basis of information generated by this system. Nevertheless, greater effort needs to be put into increasing the amount of information presented using the functional and programmatic classifier in order to increase the usefulness of these reports for government agencies and other stakeholders. The 2006 PEFA report on Mozambique finds that the General Account Report "is prepared on a regular basis. The detail of information in relation to revenue, expenditure, bank balances and financial assets may not always be complete but the omissions are not so significant as to undermine its utility. The level of detail on income and expenditure could be much higher than it actually is and is expected to be expanded with the new classification system for the Integrated System for State Financial Management. Since 2004, the General Account Report has been submitted for external audit within five months of the end of the fiscal year. The statements have been presented in a consistent manner over the last few years with some disclosure of accounting standards used, but there are points of inconsistency with international standards".[19]	

RWANDA			
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On plan	The current draft Economic Development and Poverty Reduction Strategy includes one financing scenario, which has projections of budget support and project support for 2008–12. Only two sectors have developed costed medium-term strategies: health and education.	*Budget support* – Commitments are captured relatively well in the macroeconomic framework, which itself defines the resource envelope on which the budget ceilings are based for the three following years and sets the framework for the 2008–12 Economic Development and Poverty Reduction Strategy. *Project support* – The PIP is supposed to provide information to prepare the macroeconomic framework. Expected disbursements from projects for the next five years are collected in the PIP. In theory, the PIP should be the investment leg of the MTEF, but in practice the two processes still lack coordination. *District level* – Many projects are implemented (negotiated at central government level or carried out by NGOs) for which districts have difficulty collecting information. Guidance has been provided to districts that all projects within the district must be forced to report to the district administration on their activities and budget for the coming year. Projects that fail to do so should not be authorised to work in the district. In order to improve collaboration between district authorities and donors, NGOs and other organisations active in the district, a consultative forum for all partners has been put in place, under the leadership of the Ministry of Local Government, Good Governance, Community Development and Social Affairs – the Joint Action Forum.	Most donors are unable to give indicative commitments over a five-year period: the financing framework of the Economic Development and Poverty Reduction Strategy and the estimated financing gap are therefore based on estimates made by the Macro Department in the Ministry of Finance and Economic Planning. *Budget support* – Mainly due to the coordination process set up around budget support and the nature of the instrument, data on expected budget support disbursement are of better quality than data on expected project aid. *Project support* – Project documents are not always made available in time to the team in charge of updating the PIP (in budget and planning departments in the Macro Department in the Ministry of Finance and Economic Planning), and "*PIP fiches projet*" are often either not completed or not completed appropriately by project coordinators. *The cluster system (SWGs)* – In theory, by providing for joint donor–government discussion at sector or sub-sector level, the cluster system could be the channel through which both parties ensure that donor projects are adequately taken into account in sectoral planning and budgeting. But the system has often not completely met this objective. The main reasons are the functioning of the cluster itself (some donors do not participate actively, discussions focus exclusively on specific policy issues), and lack of information on the donor side. For example, the Ministry of Gender and Promotion of Women outlined the difficulty in including in their annual plan and budget certain UN projects, simply because they are informed of the UN support after the beginning of the year.

RWANDA

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On budget	According to OECD DAC data, 49% of total ODA provided to Rwanda in 2005 was recorded in the national budget. Taking into account that budget support represents approximately 41% of total ODA disbursed to Rwanda in 2005, and that budget support is 100% accounted for in the budget, the implication is that project support is very badly captured. The draft PEFA Report (Sept 2007) scores indicator PI-7 (ii) (income/expenditure information on donor-funded projects which is included in fiscal reports) with a B. It estimates the proportion of donor project disbursement off budget at 66%, by comparing data entered in the Development Assistance Database and in the National Budget Law for 2005. It estimates that of the 66%, a substantial amount is support to NGOs, which should not be included in the national budget because of the absence of significant control by government on how these funds are used.	Budget ceilings sent out by the Macro Department in the Ministry of Finance and Economic Planning, in the Budget Call Circular, cover both development and recurrent expenditures. Data collection on project support is much more time consuming for the Macro Department in the Ministry of Finance and Economic Planning departments and line ministries. Moreover, preparing the externally financed part of the development budget is merely a data collection exercise, aimed at providing information to update the macroeconomic framework. Nevertheless, this does not provide any flexibility on sector allocation of ODA during the budget preparation process. Projects included in the development budget have already been signed: the choice of sector allocation has already been made in another context. Until the 2007 budget, all development projects were classified in the development budget using a specific economic classification which did not allow the separation of recurrent and capital expenditure. The 2008 budget will start using the new chart of accounts, which no longer provides for a separate development budget, but clearly separates recurrent and capital expenditure. Projects' expenditure will need to be classified according to this same chart of accounts, i.e. separating recurrent and capital expenditure. Districts' budgets – Districts receive direct support from donors, in the form of budget support or projects, which is (in theory) shown in districts' budgets but does not yet appear in the National Budget Law. A summary of districts' budgets is expected to be annexed to the 2008 National Budget Law.	The PEFA report gives Rwanda a score of D to indicator D-2 for financial information provided by donors for budgeting and reporting on project and programme aid. *Timeliness* – Donors often do not provide information on planned disbursements on time to be included in the budget (i.e. before July of the previous year for inclusion in the current year's budget). Less than half of donors provide budget estimates for disbursements three months before the new financial year (PEFA report, p.90). *Comprehensiveness* – Some donors provide very little information on project support to the budget department. In general, for multilateral donors, the problem is less acute, since most projects prepare a plan and budget document which provide enough information to update the PIP. *Reliability of projections* – Because some projects have a poor record of project execution and in the past the development budget tended to be under-executed, in the budget preparation process the Budget Department discounts (at variable rates) expected project disbursements. *Quality of classification* – Donor-financed projects have been following functional and programmatic classifications since they were introduced in 2000. But projects are not divided into sub-components: cross-programme, cross-sector or cross-ministry projects are not presented under the specific programme, sector or ministry to which they contribute, but appear in the budget as one entity under the programme, sector and ministry to which they contribute most. This does not allow an accurate overview of which sectors and programmes the development budget contributes to. *Districts' budgets* – One of the Common Development Fund's objectives was to coordinate and consolidate support to investment in districts – from government transfers or from donors. So far – contrary to the government's aid policy – the vast majority of donor support to districts still bypasses the Common Development Fund and goes directly to districts.
On parliament	Parliament approves the Budget Law as a whole, which comprises budget support and the donor-financed projects presented in the development budget. By law, each loan must be approved by parliament. While the Minister of Finance approves all externally financed support, parliament approves only loans.	The discussion in parliament focuses on recurrent budget and on internally financed development budget. The only aid modality on which parliament has a real say is budget support.	Although the externally financed part of the budget goes to parliament, it only includes projects that have been signed already – projects that parliament cannot modify.

RWANDA			
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On treasury	*Single treasury account* – The Law on State Finance and Property states in its article 7 that "For effective management of the Budget in the central Government, a consolidated fund shall be established, which constitutes all revenues and other public monies, including earmarked revenues of extra budgetary funds and external loans and grants received in general" and that "The Minister [of Finance] […] shall be the chief manager of the revenues and expenditures in the Central Government consolidated fund"; and in its article 63 that "All raised or received central Government money shall be credited into a single Treasury account in the National Bank of Rwanda" (the same is required from local governments in articles 8 and 64). *Budget financial management system* – At present, the bulk of development budget expenditures, financed from external sources, are not reflected in the government's budget management system. In many cases, these expenditures are not even known to the financial officer of the concerned line ministry, as the information is often not provided by the project manager. Most project-related transactions are made directly from individual project bank accounts, which are outside the control of the treasury. Project managers, therefore, do not need or use the SMARTGOV system to process their payment requests, let alone their commitments.	So far only budget support actually flows through government's STA. Most donor-funded projects are managed by PIUs and operate separate bank accounts, which receive funds both from the treasury and directly from donors. But little or no accounting or bank reconciliation information is provided back to the Macro Department in the Ministry of Finance and Economic Planning. The 2002 Report on the Public Sector Bank Accounts lists 1,468 bank accounts opened in the name of various government institutions. Since early 2001, the Macro Department in the Ministry of Finance and Economic Planning has prepared a cash budget for all ministries after the budget has been approved for use by ministries, provinces and agencies. However, uncertainties about the release of external financing – in particular budget support, which accounts for a substantial proportion of budget resources – have impacted negatively on the accuracy of the cash management plans. Following the signing of the Partnership Framework on Budget Support, budget support donors have attempted front-loading their disbursements in the first quarter of the year to ease government cash-flow management.	The introduction of the STA in the Organic Budget Law and the government's efforts to effect these provisions represent a significant step in the normalisation of the treasury management system. Nevertheless, the bulk of development expenditure is externally financed and does not pass through the treasury system. The IMF's view is that, given the major improvements in banking services in Rwanda, there seems to be little justification for maintaining separate commercial bank accounts for projects. With the improvements in SMARTGOV, particularly its installation in most line ministries and provinces, the Budget Unit is examining ways to extend its functionality to enable all project transactions to be recorded. One of the options is to require project managers to submit monthly accounts to their line ministry's financial management unit, which would then record them in SMARTGOV. The project managers could be progressively required to submit commitment and payment order requests to be processed through SMARTGOV in the same way as recurrent expenditures. This would allow payments to continue to be made out of individual project accounts where necessary, in accordance with particular project financing agreements.
On account	The first comprehensive government accounts and financial report will be produced in 2007, covering 2006.	The new chart of accounts provides for recording expenditures on all projects currently included in the development budget, and classifying expenditures per type and source of funding (loan, grant, externally financed).	The Law on State Finance and Property and the Manual of Policies and Procedures for Financial Management and Accounting provide that the financial reports must include a bank reconciliation statement. This is an incentive for the Budget Agency to report on revenue that was not budgeted for, in particular donor projects that provide funds to government accounts but were not included in the budget. Over the medium term, this should provide for progressively better coverage of externally financed projects in the development budget.

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On audit	The Office of the Auditor General of State Finances audits government projects and programmes, both internally and externally financed. The Office of the Auditor General's report on 2005 indicates that 19 projects and programmes were audited, such as the Multi-sectoral HIV/AIDS Project (MAP) and the Dairy Cattle Development Support Project (PADEBL), both financed by the World Bank.	The Office of the Auditor General was created by law in 1998. In its capacity as the country's supreme audit institution, the Office of the Auditor General has the authority to conduct an audit of all government finances and to report to parliament on the government's stewardship and management of public funds. In 2003, the Macro Department in the Ministry of Finance and Economic Planning attempted to submit a draft set of consolidated financial statements for the 2002 financial year for annual audit, but a number of inconsistencies prevented them from being audited. The Office of the Auditor General noted that among the shortcomings were the absence of: (i) an opening balance and accounting reports from budget institutions; (ii) a bank reconciliation statement on the main treasury account; and (iii) information on balances on government bank accounts outside the control of the treasury. The Office of the Auditor General prepared a review of these accounts and made a number of written recommendations for improvement. It prepared separate audit reports for selected line ministries and associated agencies, which were submitted to parliament together in 2003. In addition to Office of the Auditor General audits, projects' annual financial statements are audited by private auditing firms. The audit reports, with letters documenting the auditors' findings, are submitted to government, and copies are provided to the relevant donor.	The PEFA report (indicator PI-26) indicates that the Office of the Auditor General lacks human capacity, in numbers and skills.

RWANDA			
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On report	The Law on State Finance and Property requires the Ministry of Finance to prepare monthly, quarterly and six-monthly reports on revenue and expenditure. Quarterly reports are submitted to Cabinet, and six-monthly reports to the Chambers of Deputies. Since 2006, the Central Projects and External Finance Bureau has prepared quarterly development budget execution reports. In January 2007, the bureau produced its first annual development budget execution report. These reports analyse project disbursements per project and per donor.	Over the past years, financial reports on the execution of donor projects (Central Projects and External Finance Bureau reports) have been late and are rarely comprehensive. In the absence of reliable reports, the Budget Department uses information from project bank accounts, as a proxy for expenditure data, when preparing budget execution reports. To prepare the monthly "flash reports" (fiscal reports), the Macro Department in Ministry of Finance and Economic Planning collects information from bank accounts at the National Bank of Rwanda (Banque Nationale du Rwanda) to supplement/reconcile gaps in revenue and expenditure information. One of the reasons given by the PEFA report for a C score on indicator PI-7 (ii) (income/expenditure information on donor-funded projects which is included in fiscal reports) is that "flash reports" are generated and disseminated without reporting on development spending funded by donors. *Non-financial reporting* – It is not clear whether ministries include donor-funded projects' achievements in their annual reports or not (report on implementation of annual action plan, report on performance contracts for districts). There is no systematic or specific reporting by ministries or districts on the performance of donor-funded projects.	Reporting on and analysis of project implementation, achievements, and performance is the responsibility of the Central Projects and External Finance Bureau in the Macro Department in the Ministry of Finance and Economic Planning. Ministries often do not receive the relevant information from project coordinators. The PEFA report notes (indicator D-2) that quarterly reports are not produced by donors within two months of end of quarter for at least 50% of externally financed projects in the budget. Some donors mention commendable efforts by the Central Projects and External Finance Bureau to develop and disseminate a standard reporting format for donors, to be completed every quarter. These efforts overlap with Development Assistance Database reporting requirements and efforts to strengthen the coverage of development budget execution in SMARTGOV, but they have facilitated significant improvements in the timeliness and quality of the bureau's reports over the past year. However, donors also mention the need to re-think the format of reports on development budget execution. There is a need for more synthetic summary tables and for a cross check between Central Projects and External Finance Bureau data and Development Assistance Database data to separate what has been put on the budget and what has been kept out. This is necessary in order to assess if projects are not on the budget because of (i) lack of information; (ii) lack of a linkage between the Development Assistance Database and the development budget; or (iii) the government's deliberate decision.

UGANDA			
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On plan	Aid is mentioned in government strategic plans only in very general and aggregated terms. The Poverty Eradication Action Plan includes a long-term expenditure framework which incorporates aid projections. Sector strategic plans and their associated financing strategies vary in the degree to which aid is explicitly incorporated. Projections for project and programme aid are integrated into the three-year macroeconomic framework, and projections for sector project aid are provided to agencies in the MTEF and form part of budget ceilings. Aid projections are also incorporated in sector Budget Framework Papers, which are prepared by SWGs. A three-year PIP sets out project allocations in the development budget over the medium term, and associated donor financing.	In the Poverty Eradication Action Plan and strategic plans, the capture of aid in very general terms is largely appropriate. Project aid in the overall MTEF, which is presented by sector, is helpful in facilitating high-level inter- and intra-sectoral decision making, while budget support is appropriately captured as a revenue only. However, aid information in sector Budget Framework Papers is more haphazard. Aid captured in the PIP, despite being comprehensive and consistent with the MTEF (covering three years), is not presented in a way that facilitates strategic resource allocation, as it is just a list of projects implemented by administrative units. Aid data provided by sectors and donor agencies for the budget year is over-optimistic; and projections for the outer years usually underestimate future levels of aid as existing commitments tail off over the medium term. The Ministry of Financial Planning and Economic Development counters this by (i) discounting aid for the budget year (different discounts are used for budget support and projects), and (ii) making realistic projections of budget support (i.e. projecting it above committed levels) over the medium term. The process is transparent, and sector and national budget framework papers are easily available to stakeholders in SWGs and across government.	The financial aid data provided by donors and for inclusion in the PIP and MTEF is largely based on financial commitments. The numbers for the budget year are over-optimistic because donors rarely meet their commitments in full. Aid tails off over the medium term because donors are unwilling to make projections above what they have formally committed to, even though they know that new projects and programmes are likely to appear. Data is well presented in the national Budget Framework Paper, largely because the Ministry of Financial Planning and Economic Development has established capacity and a clear and simple system for summarising the information from sector Budget Framework Papers. Sector Budget Framework Papers are less well presented, as a result of the variable capacity of SWGs and the vague guidelines provided by the Ministry of Financial Planning and Economic Development in the Budget Call Circular, which can be interpreted in different ways. In addition, many line ministry planning departments have little incentive to keep effective track of the performance of different projects.

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On budget	Aid is captured in the annual budget documentation at three levels: *The budget speech* provides a summary of the MTEF and macroeconomic framework, incorporates on-budget programme, and incorporates project aid to government. *The Estimates of Revenue and Expenditure* are the detailed annual budget estimates, and include the summary tables from the budget speech plus detailed information of project aid in the development budget estimates. The development budget is presented by project and line item in terms of local allocations, donor-funded allocations and in total. The funding sources are also presented – either the government budget or the specific donor. *Ministerial policy statements* are prepared by line ministries and also capture project aid in a similar way to Budget Framework Papers. They also often append the relevant extracts from the draft annual budget estimates for the recurrent and development budget, and therefore include aid.	All project aid to government spending votes is supposed to be captured in the annual budget by law, but in practice there are gaps in most sectors, and estimates show that this may be up to a third. Other project aid is legitimately off budget – for example, aid to NGOs and parastatals. The allocations which appear in the annual budget are based on annual donor commitments rather than the discounted numbers which appear in the macroeconomic framework and MTEF, because it is difficult to predict which individual project or programme is likely to under-perform. The data in the budget estimates are largely administrative, with separate recurrent and development budgets, making it difficult to get a picture of overall aid and domestic government spending. Presentation of the data in ministerial policy statements like the Budget Framework Papers is not standardised. These issues relate to overall budget presentation – aid is well integrated in terms of structure and process. The timing of final aid data is problematic: donors often provide final information late in the budget process, making it difficult to compare and reconcile it with the sector-level data provided in budget submissions.	Aid has been integrated into budget/MTEF ceilings. This means that any increases in project aid result in a reduction in domestic budget allocations to keep a sector within the ceiling. The rationale is to improve allocative efficiency by encouraging (i) budgetary decisions on the basis of overall resources to the sector; and (ii) an examination of how sectors should be financed. However, to avoid the risk of reduced government domestic budget funding, sectors have perverse incentives (i) not to disclose all the projects for which they are receiving donor funds; and (ii) to underestimate the level of this donor funding. This is exacerbated by the fact that the budget processes and the Development Management System rely on aid data generated by sector ministries themselves. The Macroeconomic Department of the Ministry of Financial Planning and Economic Development attempted to improve aid data by collecting it directly from donors, but the timing of this data makes it difficult to reconcile with that generated from line ministries. No modality for doing reconciliation has been established: the data for macro projections and for the annual budget and PIP remain unreconciled. In recent years, little attention has been given to how the annual budget and ministerial policy statements are presented: the focus has been on Budget Framework Papers and the MTEF – the strategic phase of the budget process.
On parliament	In the budget process and PFM cycle, parliament has three main stages of engagement, and aid is incorporated in documentation in all these stages: First, it reviews and makes recommendations to the executive on the contents of the National Budget Framework. Second, it deliberates on and approves the national budget. The focus of parliamentary discussion on the annual budget estimates are Ministerial Policy Statements. The relevant Sectoral Sessional Committees review the budget and report to the Budget Committee. Third, the Central and Local Government Public Accounts Committees review the Auditor General's reports. Since 2003 and the adoption of the Public Financial and Accountability Act, project aid has formally been voted on by parliament, forming part of the annual appropriations. Previously, project aid had only been provided to inform the budget process. In addition, parliament is responsible for approving loans and guarantees, case by case. Parliament's Economic Committee takes the lead in this.	The budget process provides a sound basis for parliament to scrutinise aid and the budget, and the relevant parliamentary committees are relatively active. However, there are issues with the information presented to parliament and parliament's capacity to scrutinise that information. While the national Budget Framework Paper and the presentation of aid within it provides a fairly useful basis for parliament to comment on the executive's proposals for inter-sectoral allocations, this usefulness is limited by the quality of the aid data. The way information is presented in Ministerial Policy Statements and the Annual Budget Estimates is the more limiting factor for parliamentary decision making and accountability. It is difficult for parliamentarians to see what project aid will be spent on by the different spending agencies. Parliament's Public Accounts Committee only reviews the audits of projects in the Auditor General's report – a minority of projects – despite the fact that they vote on the related expenditures.	The problems are the way information is presented and its quality. Although far from being strong, the existence of a parliamentary Budget Office does help in the quality of scrutiny by parliamentarians, and the introduction of multi-party politics has added vigour to the discussions. The Public Accounts Committee does not discuss project expenditures in full because government accounts and the Auditor General's reports do not capture all project aid.

UGANDA

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On treasury	All programme aid, including GBS and sector budget support, is disbursed through the Consolidated Fund using the treasury system in its entirety. Beyond monitoring disbursements to the Consolidated Fund, there is no tracking of programme aid through the accounting system, as any earmarking is notional. Although project aid forms part of the Consolidated Fund, it does not use treasury systems during budget execution. Recently, all accounts for donor projects to government were transferred to the Bank of Uganda: this has improved information on aid flows (as well as liquidity management in the public sector). The accounts fall under the supervision of the Accountant General, and are managed by their respective government spending agencies. Spending agencies are required to forward requests for the disbursement of funds to the Accountant General, who forwards the request to donors. Most major donors, but not all, respect this.	Annual disbursements for general and sector budget support have become increasingly predictable. Some budget support is notionally earmarked to the Poverty Action Fund. The main commitment the government makes with respect to the Poverty Action Fund is to ensure that budget disbursements are at least 95% of budgeted amounts for Poverty Action Fund programmes. However, the funding sources are not tracked to specific expenditure lines. Disbursements of programme aid to the Consolidated Fund are reported on in Budget Performance reports. The predictability of disbursements of project aid through parallel systems is difficult to assess. But the unpredictability of project aid is evident – the Ministry of Financial Planning and Economic Development sees fit to apply a discount factor to programme aid at the time of budgeting. The Bank of Uganda and the ministry are now able to track disbursements to and outflows from project accounts, as part of liquidity management. There is no fully reconciled statement of budgeted project aid, aid disbursed and aid used.	Programme aid is by definition on treasury. The movement of project accounts into the Bank of Uganda was largely motivated by a desire to improve liquidity management, as the government had substantial idle balances in commercial accounts.
On account	Debt relief and budget support in all its forms use government accounting systems in full, and expenditures funded by budget support are covered in the accounts of central and local governments. While programme aid appears in the revenue budget, activities funded by programme aid are not separately identifiable on the expenditure side, as programme aid is only notionally earmarked. Project aid may use government procurement systems, but projects at central government level do not and cannot use the government's accounting systems. Many projects submit their accounts for audit late or use different (donor) financial years, which complicates the accounting cycle and prevents spending agencies from preparing consolidated project accounts for a given financial year. This means that spending agencies' annual accounts prepared for audit do not cover project aid. Some project aid uses local government accounting systems (which are manual) but kept in separate bank accounts.	As with the budget and treasury, expenditures financed by programme aid are automatically covered by the government accounting system. Programme aid is not, however, tracked to specific expenditures. There is little or no capture of project aid in the government accounting system. It does not appear in the annual financial statements of the spending agency concerned, although separate project accounts (usually using the donor system) will be prepared.	Although the accounting system allows the tracking of expenditures by source, this is not done, as any earmarking of budget support to expenditures (via the Performance Assistance Framework or sectors) is only notional. To date there has been no mechanism to capture donor project funding in the government accounting system, although a project management module is being developed for the automated IFMIS, which will be able to manage donor funds. This is a symptom of the prior focus on the shift towards budget support and away from projects – aligning projects to government systems was not a priority. Although project accounts are prepared, donor systems and financial years are often used. Ministries and agencies do not (and are probably unable to) prepare consolidated annual financial statements which include donor project funding.

UGANDA			
Dimension	**Evidence of capture (What is captured?)**	**Quality of capture (How well? How useful?)**	**Explanations (Why/Why not?)**
On audit	Debt relief and budget support in all its forms are covered in the overall report of the Auditor General – in terms of the audits of both central government votes and local governments. The Auditor General audits donor project accounts individually, and since 2004/05 offers opinions on these projects, presented in an annual report. Where relevant, this covers project aid. In 2003/04, the Auditor General was only able to audit two-thirds of donor-funded project accounts: none of these formed part of the annual report.	Audit reports submitted to parliament are limited to financial information, although some of the project reports may involve an element of value for money. As the government becomes increasingly timely with the preparation of its accounts, so the Auditor General has been increasingly timely with the auditing. Access to audit reports is good – reports to parliament are in the public domain and available on the website, as are some agency-specific accounts. There are specific problems with project aid and the coverage of projects: (i) the number of projects audited; and (ii) the fact that not all aid is included in the budget.	The coverage of donor projects is limited by the number of project accounts available for audit and whether donors have supported an audit of those funds endorsed by the Auditor General. The timing of the submission of accounts for audited projects means that the Auditor General is usually unable to include them in the annual report. Although the capacity of the Office of the Auditor General is limited for carrying out substantive audits, the Auditor General is increasingly interested in capturing project support, and has been raising issues relating to the incompleteness of the budget and accounts in recent annual reports.
On report	GBS and sector budget support are fully on treasury, on account and on report, and any weaknesses are symptomatic of general government financial management and accounting systems. In addition to the annual financial statements of spending agencies, the following are the main vehicles for reporting on aid: *Project reporting system* – As early as 2000, the Office of the Prime Minister attempted to introduce a project reporting system which included financial information on aid, but it did not take off. *Budget performance reports* – Budget performance reports, prepared every six months, provide aggregate information on disbursements relating to grants and loans, projects and budget support. In addition, budget support disbursements are broken down by donor. *Annual development cooperation reports* – Each year, the Aid Liaison Department of the Ministry of Finance prepares a development cooperation report, which attempts to provide comprehensive data on aid disbursements for the financial year. *Sector annual performance reports* – Some sectors, as part of their SWAps, table annual sector performance reports at their joint reviews. These set out the overall performance of a sector, including aid.	The project reporting system has suffered from compliance problems, and has not resulted in consolidated performance information. Budget performance reports provide aggregate aid information in a useful way. But project information is not broken down into sectors, spending agencies or projects, and only reflects disbursements and not expenditures. Annual development cooperation reports provide useful comparative information over time and across sectors/donors, but they take a long time to produce and are subject to the data limitations of the Development Management System. Sector performance reports could be an important vehicle for the discussion of aid performance, but they focus more on performance against policy objectives, rather than on financial information and aid. The only formally audited statements of aid are the annual financial statements. All other aid reporting is not audited, although past figures may have been subject to audit.	The ineffectiveness of the project reporting system was largely due to the fact that spending agencies had little or no incentive to comply with the requirements, which were burdensome. There is usually a stronger incentive to report to donors directly, which contributes to fragmented reporting, with different institutions demanding reports. The lack of expenditure reporting overall reflects shortcomings in budget reporting and not in aid management. In terms of projects, the absence of a functioning project-based reporting system (beyond the commitment control system) means that consolidation is difficult, although information on disbursements and expenditures should be available from Bank of Uganda data.

Notes to country case studies

1 IDD & Associates (2006). *Evaluation of General Budget Support: Synthesis Report*. May 2006. London: DFID.

2 Monitoring Survey Kenya Report (2007), p. 16–4.

3 Chijorica, Marcellina, and Swai, Tobias (2007). Integrating Aid into the Budgeting Mechanism of the Government of Tanzania. Report for the Embassy of Japan, Dar es Salaam.

4 Chijorica, Marcellina, and Swai, Tobias (2007). Integrating Aid into the Budgeting Mechanism of the Government of Tanzania. Report for the Embassy of Japan, Dar es Salaam.

5 Chijorica, Marcellina, and Swai, Tobias (2007). Integrating Aid into the Budgeting Mechanism of the Government of Tanzania. Report for the Embassy of Japan, Dar es Salaam.

6 Chijorica, Marcellina, and Swai, Tobias (2007). Integrating Aid into the Budgeting Mechanism of the Government of Tanzania. Report for the Embassy of Japan, Dar es Salaam.

7 Chijorica, Marcellina, and Swai, Tobias (2007). Integrating Aid into the Budgeting Mechanism of the Government of Tanzania. Report for the Embassy of Japan, Dar es Salaam, p. 3.

8 GPRS I, covering 2003–05, and GPRS II, covering 2006–09, differ in terms of their priorities. GPRS II focuses more on wealth creation and enhancing growth in the population's disposable income in order to double the size of the economy and to raise Ghana's per capita income to middle income level by 2015. GPRS I focused more on macro stabilisation and poverty reduction measures.

9 Comparing 2007 appropriations with planned disbursements as reported by IPs. Given that these comparisons are based on aggregate figures, 93% represents a maximum convergence between the two sources; when looking at disaggregated data, the actual correspondence between appropriations and disbursements is likely to be less.

10 The budget documents for each MDA can run to several volumes. There is limited strategic policy context included with the budget estimates; the volumes consist primarily of large quantities of numbers against, until recently, a very large number of activities.

11 Based on 2006 disbursements from information provided by donor sources.

12 Based on total 2006 disbursements from information provided by donor sources.

13 Implicitly GBS, both loan financed and in theory grant financed.

14 Using data from the Consolidated Fiscal Table.

15 Taking total budget support and Special Investment Budget included in the 2004 annual Budget Execution Law as a proportion of aid resources reported by donors.

16 Taking into account any national budget report (including the 2006 Consolidated Fiscal Table, on which this estimate is based).

17 For example, de Renzio, Paolo and Sulemane, José (2006). *Integrating Reporting of PRS and Budget Implementation: The Mozambican Case*. London: Overseas Development Institute (ODI).

18 OECD (2007). *2006 Survey on Monitoring the Paris Declaration. Country Chapters: Mozambique*. Development Assistance Committee (DAC). Paris: OECD.

19 Lawson, A. et al. (2006). *Assessment of Public Finance Management in Mozambique 2004/05*. Final Report. Current status of PFM systems and processes, overview of reforms and perspectives for 2006. (March 2006). SAL and ODI.