

# Putting aid on budget

Good practice note:  
Using country budget systems

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## THE PUTTING AID ON BUDGET STUDY

In early 2007, the Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned a study of "putting aid on budget".<sup>a</sup>

The outputs from the study were:

- An **Inception Report** which defined the issues and research methodology.
- Ten **Case Studies** from sub-Saharan Africa. 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 findings from all ten countries are included in the Synthesis Report.
- A **Literature Review**, which (a) documented existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; (b) reviewed the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and (c) documented 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**, which drew on all the other study components to develop overall findings and recommendations.
- This **Good Practice Note**, which distils lessons of the study and is aimed at donors as well as partner governments.

Details of all the reports are in the Bibliography. They can be downloaded from the CABRI website at <http://www.cabri-sbo.org/>.

The study focused mainly on country-by-country perspectives, but the Literature Review includes a review and summaries of donor practices.

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# CONTENTS

Acronyms and abbreviations	vi
<b>1. Introduction</b>	<b>1</b>
1.1 International commitments on using country budget systems	1
1.2 What is the Good Practice Note?	3
1.3 Key messages	3
<b>2. Key concepts and the reasons for using country budget systems</b>	<b>5</b>
2.1 Why use country budget systems?	5
2.2 Use of country budget systems throughout the budget cycle	6
2.3 Other key concepts	6
2.4 Misconceptions to avoid	7
2.5 Understanding institutions and incentives	8
<b>3. Issues and good practices for using country budget systems</b>	<b>12</b>
3.1 Putting aid on plan	12
3.2 Putting aid on budget	14
3.3 Putting aid on parliament	18
3.4 Putting aid on treasury	19
3.5 Putting aid on accounting	21
3.6 Putting aid on audit	22
3.7 Putting aid on report	23
3.8 Using and supporting decentralised budget systems	24
<b>4. How governments and donors can move forward</b>	<b>26</b>
4.1 Overall approach to improving aid capture	26
4.2 Tailor strategies to different circumstances	27
4.3 Recommendations for governments	28
4.4 Recommendations for donors	30
4.5 Recommendations for joint action	30
4.6 Next steps: A long-term perspective and a wider agenda	31
Bibliography	32

# BOXES

Box 1: Paris Declaration commitments on use of country systems	1
Box 2: Agreed subset of indicators and targets for monitoring the implementation of the Paris Declaration	2
Box 3: Different dimensions of “on budget”/capturing aid	6
Box 4: Paris Declaration commitments cover all aid to the government sector	7
Box 5: Sharing information and using government systems	10
Box 6: Interlocking incentives in traditional aid	10
Box 7: Factors behind quality of aid capture in the budget	11
Box 8: Paradoxical aid projections in Uganda	13
Box 9: Engaging donors in medium-term planning in Uganda, Tanzania and Kenya	14
Box 10: Putting aid on plan: Realistic projections and scenario planning	15
Box 11: Deviations between budgets and actual spending	16
Box 12: Tracking expenditures through charts of accounts and budget classification	16
Box 13: Integrating recurrent and development budgets in Rwanda	17
Box 14: Showing broadly how aid contributes to expenditure priorities	18
Box 15: Bringing aid on treasury through the single treasury account in Mozambique	20
Box 16: International accounting standards for aid (IPSAS)	21
Box 17: Aid-in-kind and dummy entries in Tanzania	22
Box 18: The ODAMOZ database in Mozambique	24
Box 19: Good practice in Uganda for bringing decentralised services on budget	25
Box 20: Preparing a comprehensive aid strategy in Ghana	29
Box 21: The Netherlands’ in-depth focus on country systems	30



## ACRONYMS AND ABBREVIATIONS

<b>ACRONYM</b>	<b>DESCRIPTION</b>
CABRI	Collaborative Africa Budget Reform Initiative
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development (UK)
HIPC	Heavily Indebted Poor Countries
IFMIS	integrated financial management information system
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MCC	Millennium Challenge Corporation
MDAs	ministries, departments and agencies
MDG	Millennium Development Goal
MTEF	medium-term expenditure framework
OECD	Organisation for Economic Cooperation and Development
ODA	official development assistance
PEFA	Public Expenditure and Financial Accountability
PFM	public finance management
PRSP	Poverty Reduction Strategy Paper
SPA	Strategic Partnership with Africa
Sida	Swedish International Development Cooperation Agency
SWAp	sector wide approach

# 1

## INTRODUCTION

This section gives an overview of the Good Practice Note. As background, it looks at commitments by donors and partner countries on the use of country systems as set out in the Paris Declaration. Then it discusses the origins and purpose of the Good Practice Note, summarising its key messages and setting out its structure.

### 1.1 International commitments on using country systems

The Paris Declaration includes interlocking commitments by donors and partner countries to move energetically towards the greater use of country systems in the delivery of aid.

#### Box 1. Paris Declaration commitments on use of country systems

<b>Ownership</b>
(14) Partner countries commit to: <ul style="list-style-type: none"><li>• Exercise leadership in developing and implementing their national development strategies through broad consultative processes.</li><li>• 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.</li></ul> (15) Donors commit to: <ul style="list-style-type: none"><li>• Respect partner country leadership and help strengthen their capacity to exercise it.</li></ul>
<b>Alignment</b>
<b>Donors align with partners' strategies</b> (16) Donors commit to: <ul style="list-style-type: none"><li>• Base their overall support – country strategies, policy dialogues and development cooperation programmes – on partners' national development strategies and periodic reviews of progress in implementing these strategies (Indicator 3).</li></ul>
<b>Donors use strengthened country systems</b> (21) Donors commit to: <ul style="list-style-type: none"><li>• 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.</li><li>• Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.</li></ul>
<b>Strengthen public financial management capacity</b> (25) Partners commit to: <ul style="list-style-type: none"><li>• Publish timely, transparent and reliable reporting on budget execution.</li></ul> (26) Donors commit to: <ul style="list-style-type: none"><li>• Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules.</li><li>• Rely to the maximum extent possible on transparent partner government budget and accounting mechanisms.</li></ul>

## Box 1 continued

Harmonisation
<p><b>Donors implement common arrangements and simplify procedures</b></p> <p>(32) Donors commit to:</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p><b>Deliver effective aid in fragile states</b></p> <p>(39) Donors commit to:</p> <ul style="list-style-type: none"> <li>• Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.</li> </ul>
Managing for Results
<p>(44) Partner countries commit to:</p> <ul style="list-style-type: none"> <li>• Strengthen the linkages between national development strategies and annual and multi-annual budget process.</li> </ul>
Mutual Accountability
<p>(48) Partner countries commit to:</p> <ul style="list-style-type: none"> <li>• Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.</li> </ul> <p>(49) Donors commit to:</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>

Monitoring the implementation of the Paris Declaration has focused on a subset of agreed indicators and associated targets. Several of these relate to specific aspects of the use of country budget systems.

## Box 2. Agreed subset of indicators and targets for monitoring the implementation of the Paris Declaration

Indicator	Monitoring	Target
Indicator 3: Aid flows are aligned on 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 percent reported on budget).
Indicator 5a: Use of country public finance management (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 percentage of aid to the public sector not using partner countries PFM systems.  Score 3.5–4.5: 90 percent all donors, and a one-third reduction.
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 Declaration on Aid Effectiveness, and Monitoring the Paris Declaration on Aid Effectiveness (High Level Forum 2005, and OECD DAC 2006a).



These indicators and targets are valuable, but should not distract attention from the broad commitments and objectives behind them.

International data on the use of country budget systems shows that:

- Large volumes of aid still bypass country budget systems in many important dimensions.
- Budget support accounts for a significant proportion of the aid that uses country systems; hence, the off budget proportion of other modalities is often very high.
- There are large (and sometimes puzzling) differences between aid agencies in their use of country systems.
- There is not a strong correlation between the use of country systems and ratings for the quality of PFM.

The Putting Aid on Budget Synthesis Report<sup>1</sup> gives a detailed review of the 2006 Survey on Monitoring the Paris Declaration and the Public Expenditure and Financial Accountability (PEFA) data.

## 1.2 What is the Good Practice Note?

The purpose of the Putting Aid on Budget study was “to better equip governments to lead processes for bringing aid on budget”. But progress requires action by both governments and donors, with joint monitoring and mutual accountability for the underlying Paris Declaration commitments. This Good Practice Note distils the lessons of the Putting Aid on Budget study.

The background work for the Good Practice Note focused mainly on experiences at country level. But aid agencies at headquarters level also need to review their policies and practices on the use of country budget systems.

The Putting Aid on Budget Good Practice Note:

- is aimed at aid agencies and partner governments
- focuses on using country budget systems
- provides guidance on how aid can make more, and more effective, use of country budget systems in all phases of the budget cycle
- identifies scope for immediate actions
- identifies some areas for further analysis and monitoring.

There are four main sections:

1. Introduction
2. Key concepts and the reasons for using country budget systems
3. Issues and good practices for using country budget systems
4. How governments and donors can move forward

## 1.3 Key messages

- Take a broad view of country systems over the entire budget cycle.
- Look beyond the recording of aid in budget documents and consider how it can be integrated into country budget processes, from planning through to budget preparation, expenditure, accounting and audit.
- Using country systems is relevant for all aid modalities – not only budget support. Bringing project aid on budget is a particular challenge. Governments should specify good donor practices and standard government procedures for managing project aid.
- Progress in using country budget systems is not just about the quantity of aid that is incorporated in country systems: the quality of the processes for incorporating aid is crucial.

- “On treasury” – the disbursement of aid using the government’s regular financial management system is a pivotal dimension of using country budget systems.
- Develop an understanding of the institutional framework and the incentives for and against using country systems from both the government and the donor side of the aid relationship.
- Incremental progress is possible, but ensure that safeguards and compromises do not undermine the desired benefits.
- Aid management is bound up with PFM. Most of the good practices for using country budget systems draw on the general principles of good PFM. Make a stronger link between partner countries’ strategies for increasing the effectiveness of aid and their strategies for strengthening PFM.
- Progress in using country budget systems for putting aid on budget is most evident where government and donors work together under government leadership.

## 2

# KEY CONCEPTS AND THE REASONS FOR USING COUNTRY BUDGET SYSTEMS

This section sets out the reasons for using country budget systems, discusses relevant concepts and misconceptions, and considers the influence of institutional frameworks and incentives on donors and governments.

## 2.1 Why use country budget systems?

### 2.1.1 Country ownership and leadership

The Paris Declaration commitments (see Box 1) reflect a consensus that aid effectiveness depends on country ownership of strategy and country leadership of aid management. Good practice principles adopted at the High Level Forum in Rome 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 effective country ownership. Using country systems is seen as an important way of strengthening them. It is also seen as a way of ensuring sustainability, since parallel activities often wither when external funding ceases.

### 2.1.2 Sound public finance management

Underlying this, there is a consensus about the ingredients of effective PFM. Strengthening PFM is not an end in itself, but a means to strengthen the delivery of public services. The basic principles of sound budgeting and financial management apply equally to developing and developed countries.

- 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 is a substantial share of public resources for many developing countries, and therefore how well aid is managed is an important factor in how well overall public finances are managed. These good practice principles imply that aid should use country budget systems.

### 2.1.3 Standards of public finance management – the PEFA indicators

Through the initiative on Public Expenditure and Financial Accountability, a standard set of PFM performance indicators has been developed, the Public Financial Management Performance Measurement Framework.<sup>2</sup>

The PEFA indicators:

- encapsulate the consensus principles about good PFM systems
- provide a way to monitor progress in strengthening PFM at country level.

The PEFA indicators are relevant to bringing aid “on system” in several ways.

- Some of the indicators (including the three indicators of donor performance) shed light on the extent to which aid is captured by country systems at various stages in the budget cycle.
- Almost all the indicators are relevant for donors considering whether different components of country systems are strong enough to handle aid funds.
- Periodic PEFA monitoring should track medium-term progress in the strengthening of country PFM systems.

## 2.2 Use of country budget systems throughout the budget cycle

The PEFA indicator set recognises the links from planning to budgeting and between the different stages of the budget cycle. The Putting Aid on Budget study distinguishes between seven dimensions or budget cycle stages.

### 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	External financing, including programme and project financing, and its intended use are reported in the budget documentation
On parliament	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 the government’s accounting system, in line with the government’s classification system
On audit	External financing is audited by the government’s auditing system
On report	External financing is included in ex post reports by government

Source: Putting Aid on Budget Inception Report (Mokoro Ltd 2007a).

It should be clear from the context if “on budget” is meant in a more general sense than this precise definition. In this Good Practice Note, the term “on system” is also used to refer generally to the use of country budget systems in the management of aid.

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 (even if they are on system in other respects). The use of country procurement systems is separately monitored under the Paris Declaration (Indicator 5a). The Putting Aid on Budget study noted that the perceived quality of government procurement systems was often an important influence on the capture of aid in other dimensions.

## 2.3 Other key concepts

### 2.3.1 Sources and uses

Budget documents should clearly show both **sources** (the financing of the budget) and **uses** of budget finance (the allocation of expenditures). Rational medium-term planning requires a comprehensive view of financing sources at the planning stage of the cycle, i.e. some years ahead of the annual budget.

### 2.3.2 Disbursement channels

When discussing the “on treasury” dimension, it is important to be precise about different possible disbursement channels for aid.

Three main channels can be distinguished:

- Channel 1 is the normal channel used for the government's own-funded expenditures. Channel 1 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 aid funds in Channel 1 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, and managed through special accounts outside of the regular government system. Channel 2 funds may be administered by a project implementation unit under the control of the government. 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 the government does not handle the funds itself.

Thus: 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 funds. For example, United Nations system projects that follow "national execution" procedures are typically off treasury, and often also off system in other relevant dimensions.

Funds that are not disbursed via government (Channel 3) are often completely off system, but this need not be the case. It is possible for such funds to be anticipated in government plans and to be recorded in government budgets and accounts.

## 2.4 Misconceptions to avoid

The Paris Declaration commitments cover all aid to the government sector. (See Box 4.) However, discussion of bringing aid on budget is often confused by misunderstandings. The following paragraphs clarify five such confusions.

### Box 4: Paris Declaration commitments cover all aid to the government sector

The Paris Declaration commitment to put aid on budget covers all aid that is disbursed for the government sector, however the aid is executed.

The Organisation for Economic Cooperation and Development (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 [official development assistance (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. [non-government organisations], 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". (Monitoring the Paris Declaration on Aid Effectiveness: Definitions and Guidance)<sup>a</sup>

a OECD DAC 2006a.

#### 2.4.1 "Aid on budget" is not a synonym for budget support

To quote the definition used in the OECD Development Assistance Committee (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. (Evaluation of General Budget Support: Synthesis Report<sup>3</sup>)

Thus, budget support is, by definition, on budget. (However, the Putting Aid on Budget study found examples where budget support was not made clearly visible in budget documents as a source of finance.) Other aid modalities, including project aid, technical assistance and other forms of aid-in-kind can also be on budget.

#### **2.4.2 “Sector budget support”, similarly, should be on budget by definition. But the term “sector budget support” is often used inaccurately.**

Part of the standard definition of budget support (see ¶2.4.1) 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. The Putting Aid on Budget study described such cases in Mali and Burkina Faso.

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.

#### **2.4.3 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, but 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 (and at the same time) be supported by other instruments, including projects and both general and sector budget support. (DAC Guidelines and Reference Series: Harmonising Donor Practices for Effective Aid Delivery<sup>4</sup>)

#### **2.4.4 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 very unhelpful to imply that the use of parallel systems is an automatic feature of project aid.

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<sup>5</sup>)

A similar usage was found in Mali. (Putting Aid on Budget Mali Case Study<sup>6</sup>) 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.

#### **2.4.5 Bringing aid on budget is not just about donors providing information to governments.**

As explained below (see Box 5), some aid agencies emphasise reporting their aid to governments, while others aspire to integrate their aid with other government resources throughout the budget cycle. However, reporting aid on budget is not the same as making full use of country budget systems, and reporting will not necessarily result in the same benefits as can be achieved from integration.

## **2.5 Understanding institutions and incentives**

Putting aid on budget is not just a technical matter. The behaviour of those involved, on both the government and the donor side, will depend on the institutional framework they are in and the incentives they face. Different elements of government have different perspectives. On the donor side, different constraints affect different types of aid and different aid agencies.

### **2.5.1 Influence of aid instrument characteristics**

For the purposes of this Good Practice Note, “aid” means official development assistance, as defined by the

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4 OECD DAC 2006b.

5 Betley 2008.

6 Betley 2008.

OECD's DAC:

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 percent]. In addition to financial flows, Technical Cooperation (q.v.) is included in aid. Grants, Loans and credits for military purposes are excluded. (DAC Glossary<sup>7</sup>)

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, since the use of particular forms of ODA affects the likelihood of aid being captured in budget systems:

- **Budget support** is captured (in most dimensions) by definition. However, the Putting Aid on Budget study found examples where budget support was not made clearly visible as a source of finance in budget documents. Late notification and unpredictable disbursement may also make it difficult to capture budget support on plan.
- **Loans** are more likely to be captured than **grants** because of the associated legal procedures and the need to anticipate debt service.
- **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.)
- **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 central government.

## 2.5.2 Influence of aid agency characteristics

Aid agencies have different mandates, report to different constituencies, and 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. (See Box 5.) These different interpretations are explored in the Putting Aid on Budget Literature Review.<sup>8</sup>

## 2.5.3 Mixed incentives for using country budget systems

Donors have bypassed country budget systems over many years due to a range of frustrations:

- Beneficiary governments were not transparent and accountable in their use of donor funds.
- Funds did not reach the intended projects.
- Funds were diverted for corrupt purposes.
- Donor country parliaments demanded greater accountability.

However, the experience of using parallel systems to manage projects has also been unsatisfactory:

- The parallel structures further debilitated government systems by drawing away key staff and resources.
- Donors pursued uncoordinated development agendas.
- Projects could not in themselves address the poor policy and institutional environment that undermined them.
- Projects' sustainability was undermined by the lack of government ownership and provision for their maintenance and operating budgets.

The pendulum has now swung back with the recognition of the need to better integrate aid with beneficiary government policies, budgets, and financial procedures. However, the risks of using country systems have not disappeared and donors' worries are still legitimate, and interests on the government side also pull in two directions.

## Box 5: Sharing information and using government systems

Among 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's (MCC) guidelines for fiscal transparency, which 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." (Fiscal Accountability Guidelines<sup>b</sup>)

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

"In line with the Paris Declaration, Sida shall align to the maximum extent possible with national systems." (Public Finance Management in Development Cooperation<sup>c</sup>)

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

<sup>b</sup> Millennium Challenge Corporation 2006  
<sup>c</sup> Sida 2007

Source: Putting Aid on Budget Literature Review (Mokoro Ltd 2007b).

## Box 6: 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 programme calls for a "leap of faith".

Source: Building Blocks or Stumbling Blocks? The Effectiveness of New Approaches to Aid Delivery at the Sector Level (Williamson and Kizilbash Agha 2008, reproduced from Booth et al 2008).



## 2.5.4 Information supply and demand, and quality

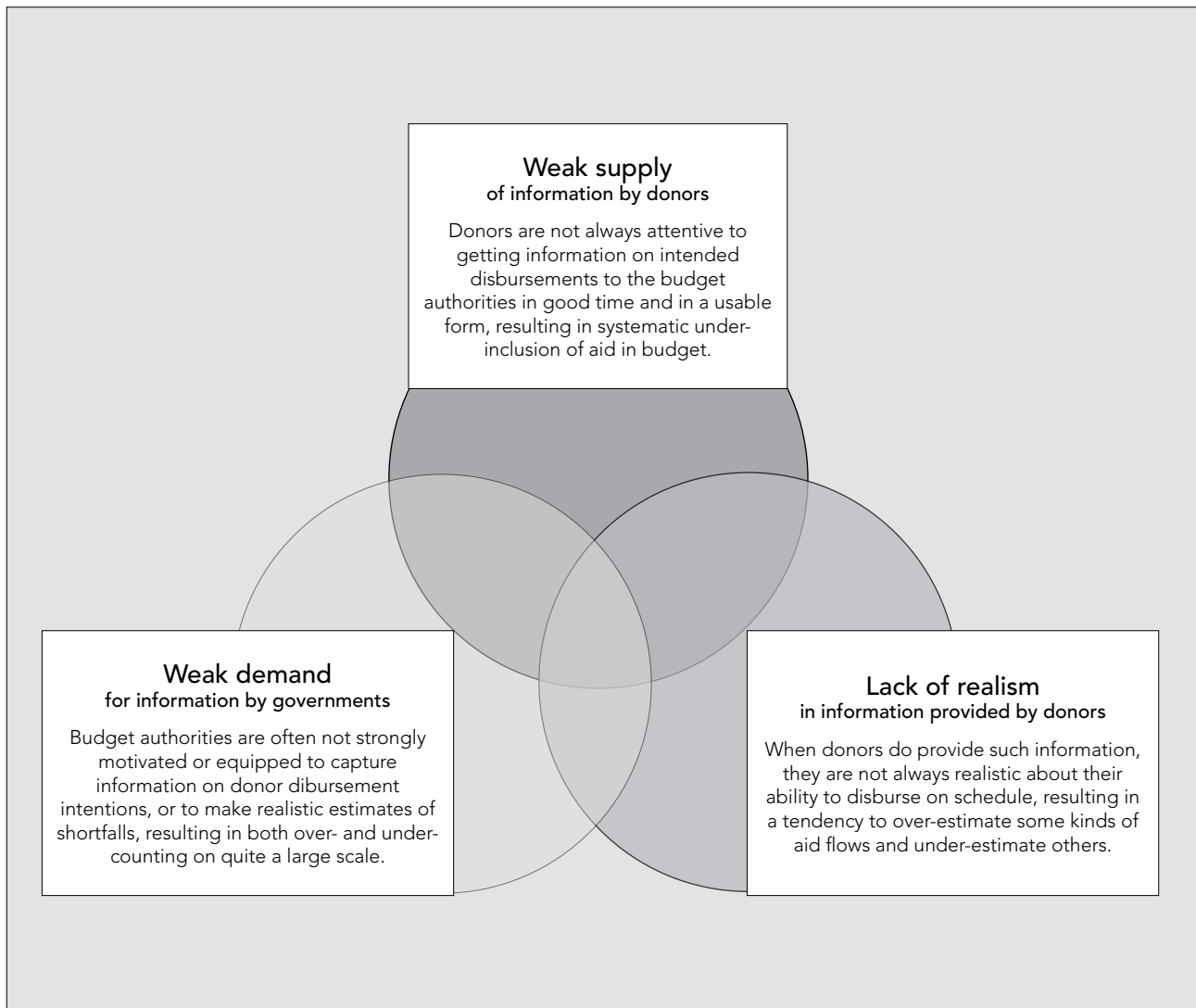
These mixed incentives on both sides of the aid relationship help to explain the weaknesses in the supply of and demand for information. (See Box 7.) The same incentives may result in distortions to information. For example, sector ministries and donors may be reluctant to disclose aid provided directly to the sector if they fear that allocations of other resources will be reduced as a result. Hence, it is always important to consider the quality of the information that is fed into the budget process at its different stages.

### What defines quality information?

- **Technical:** Is it complete? Is it credible? To what level is it disaggregated? How much detail is there?
- **Timeliness and accessibility:** Who has the information, and at what stage in the process?
- **Whether and how information is actually used:** Does the information influence decisions and choices? Is there feedback to providers and does this influence future budget rounds?

The Putting Aid on Budget study confirmed that the ability to make good use of information about aid largely depends on the quality of the information and processes relating to non-aid resources. Thus, bringing aid on budget should be treated as part of wider PFM reforms.

### Box 7: Factors behind quality of aid capture in the budget



Source: Putting Aid on Budget Synthesis Report, Mokoro Ltd 2008a (based on OECD 2007).

# 3

## ISSUES AND GOOD PRACTICES FOR USING COUNTRY BUDGET SYSTEMS

This section of the Good Practice Note reviews each of the dimensions of “on budget”/capturing aid, and offers some good practices for using and supporting country budget systems, both in each dimension and through connections between the dimensions. But precise good practice choices need to be decided in the context of the specific country. Issues of prioritisation and sequencing are covered in Section 4.

The different budget system dimensions (see Box 3) are:

- on plan
- on budget
- on parliament
- on treasury
- on accounting
- on audit
- on report

### 3.1 Putting aid on plan

“On plan” programme and project aid spending is integrated into spending agencies’ strategic planning and supporting documentation for policy intentions behind the budget submissions.

#### 3.1.1 Overview

Good practice calls for annual budgets to be guided by medium-term strategies. Especially where it is a significant proportion of resources, aid 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 medium term and for different modalities are different. At the stages of policy formulation and expenditure planning, aid needs to be included (broadly) on the resource side, even if its allocation to specific expenditures has not yet been determined.

Bringing aid on plan in a useful way depends on how meaningful the government’s own planning system is. The key elements of effective planning include: a transparent planning process with a clear calendar; the 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 for governments to make systematic use of information that donors provide
- it is easy for donors to “align” with objectives that lack the discipline of prioritisation.

Dual budgeting systems, with separate recurrent and development budgets, are an obstacle to coherent planning and budgeting in many aid-dependent countries. Ironically, development budgets were, in large part, a way of putting aid on budget, but have led to the substantial distortion and fragmentation of public expenditure management. (See ¶3.2.4 and Box 13.)

### Box 8: Paradoxical aid projections in Uganda

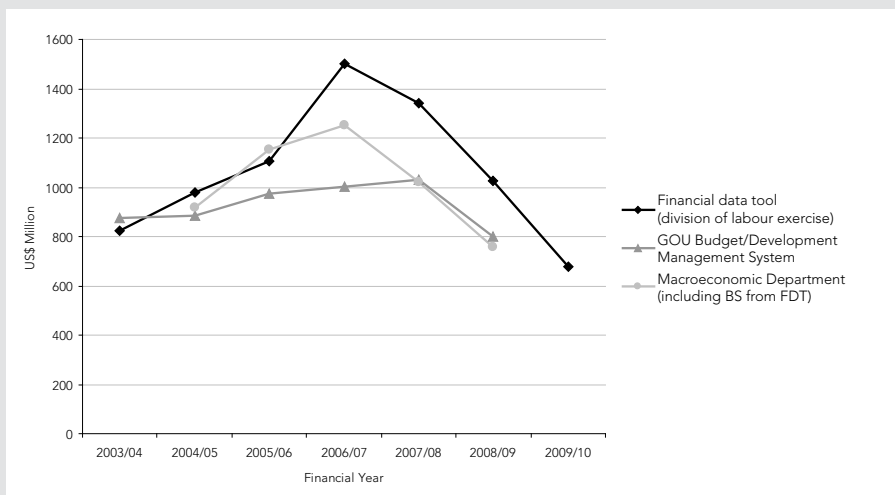
**Quality of Aid Data:** Aid data provided by donors is largely based on financial commitments, and donors are either unwilling or unable to provide medium-term estimates of aid other than what has been committed. This provides two problems.

Firstly, that aid data provided by sectors and by donor agencies for the budget year is 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



Source: Interim Report on the Uganda Division of Labour Exercise (ODI 2007).

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 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 (Williamson 2008).

### 3.1.1.1 *The paradox of aid agency projections*

Donor aid projections typically overestimate short-term disbursements and underestimate medium-term aid flows. Projections within the budget year tend to be too optimistic. Donors rarely meet their commitments in full. (Even if committed funds are fully available, expenditure may fall short, especially if funds arrive late in the budget year.) At the same time, projections over the medium term tend to be too pessimistic. 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.

### 3.1.2 Good practice: Engage donors in government-led strategic budgeting

The government's own progress in strategic budgeting is a key factor in bringing aid on plan.

Governments cannot allocate resources efficiently without a whole budget perspective that enables them to address trade-offs between sectors. The role of the central ministry of finance/planning is crucial. At the same time, many key inputs into strategic planning take place at sector level, so there needs to be good articulation between central and sectoral processes.

Government leadership of the strategic planning process is crucial, and it is important that the finance/planning function is closely involved. The principles of strategic budgeting apply generally, but where aid is prominent, it is particularly important to:

- engage donors in a government-led medium-term planning process (see Box 9)
- not take donor information at face value, but use it as the basis for realistic projections and scenario planning (see Box 10.)

### 3.1.3 Good practice: 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 8), and respond by discounting estimates of short-term disbursements, and developing their own alternative scenarios of aid flows in the medium and long term.

## Box 9: Engaging donors in medium-term planning in Uganda, Tanzania and Kenya

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 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.

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 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 Synthesis Report (Mokoro Ltd 2008a).

## 3.2 Putting aid on budget

"On budget" external financing, including programme and project financing, and its intended use are reported in the budget documentation.

### 3.2.1 Overview

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

Budget documents may be assessed for how clearly they show aid as a source of finance, and, where appropriate, as the earmarked source of finance for particular expenditures. Quality considerations include the level of detail and accuracy of the information. But the most important consideration is whether the incorporation of aid in the budget documents contributes to an effective budgeting process.

### Box 10: Putting aid on plan: Realistic projections and scenario planning

#### 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.)

**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 poverty reduction strategy papers (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.

#### Longer term aid commitments

Scenario planning does not in itself address a fundamental inconsistency in donor behaviour: donors collectively aspire to support long-term objectives (the Millennium Development Goals (MDGs)) which require substantial recurrent expenditures as well as investments, yet donor financing instruments are individual and short-term in nature.

Government and donors in **Tanzania** have been considering alternatives such as:

- donors providing a collective commitment on aggregate for aid flows over the medium term and nominating a donor of last resort (for instance the World Bank)
- establishing a Stabilisation Fund which would provide funds if aid flows are lower than expected (such a fund is being introduced in Mozambique).

Some individual donors (e.g. the European Commission) have also been considering new aid instruments which would provide predictable funding over the medium term.

Source: Putting Aid on Budget Synthesis Report (Mokoro Ltd 2008a).

### 3.2.2 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 spending. (See Box 11.)
- **Visibility** has a fiduciary aspect. It helps to show that funds have been used as agreed. But an agency's desire for visibility may also relate to a broader need to be able to demonstrate results – that its aid has made a difference. Government classifications which make it hard to identify different uses and different donors tend to discourage aid from coming on budget.

### Box 11: Deviations between budgets and actual spending

Credibility of budgets is recognised as a key criterion of effective PFM, reflected in the first four PEFA indicators. 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 Synthesis Report (Mokoro Ltd 2008a).

### Box 12: Tracking expenditures through charts of accounts and budget classifications

A good budget classification system should be able to generate useful management information as well as facilitating expenditure control.

Computerised budget and accounting systems can speed up the processing of such information. They can provide budget and expenditure summaries and analyses along functional, programmatic as well as administrative classifications. It is also possible to code expenditures according to the source of funds. Reports on earmarked donor funding can then be generated directly by the government's own accounting system.

Earmarking still has drawbacks: it reduces the flexibility of the budget, especially if it is used as a way to make donor priorities override the government's. But if donor funds have to be tracked, it is better to do so through the government budget system than in a parallel system.

The risk of distortion and disruption is greater if donor driven expenditures are inserted into the budget at the last minute. There are three good practice remedies:

- Make sure that donor funds are committed early in the planning process (well ahead of the budget year), so that they fit into a coherent overall expenditure framework.
- Focus the dialogue with donors on overall expenditure plans.
- Use improved budget classifications to support better reporting and analysis on the quality of public expenditures as a whole, not simply to track individual donors' funds. (See Box 14.)

### 3.2.3 Good practice: Strengthen public finance management reform

PFM reform programmes should seek to increase partners' willingness to bring aid on budget by increasing the budget's credibility as well as by facilitating the practical process of incorporating aid in the budget.

#### Key (interlocking) areas for strengthening PFM to bring aid on budget:

- charts of accounts and budget classifications that enable the sources and uses of funds to be clearly identified in the budget and monitored during budget execution (see Box 12)
- measures to ensure discipline in budget management (so that there is close correspondence between budget and out-turns (see Box 11)
- a planning and budgeting calendar that shows when donor inputs are required, complemented by clear lines of communication within the government and between the government and aid agencies.

All these reforms are essential for strengthening the domestic PFM system. Their role in encouraging the integration of aid is secondary.

### 3.2.4 Good practice: Integrate recurrent and development budgets

Development budgets often originated as a way to make donor (and investment) funds visible on the budget. However, from being part of the solution they became part of the problem. They can distort the budget and the budget process, and accentuate fragmented government planning.

- Negative experiences with dual budgeting demonstrate the need for coherence in planning (and therefore aid coordination) on the government side. It helps if the same people are managing both the recurrent and the development budget for each sector/agency.
- Part of the distortion of dual budgeting happens when the development budget becomes an aid budget, with aid-funded recurrent costs and technical assistance misleadingly included in what is nominally an investment budget. Donors need to be transparent in their financing of recurrent costs, and realistic about the likely duration of such financing.

#### Box 13: Integrating recurrent and development budgets in Rwanda

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 (Chiche 2008).

### 3.2.5 Good practice: Show broadly how aid has been used

Keeping aid off budget is one strategy for an aid agency that wants 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). (See Box 12.) The potential damage to the budget system is reduced if earmarked aid first enters the budget system upstream, in the planning phase.

But for many donors earmarking is not an end in itself. They have a broader concern that their aid should add to the total resources for addressing particular objectives (such as to achieve the MDGs for health or education). A number of countries have adopted broader tracking mechanisms which, in the context of dialogue with aid partners, help to show the focus of aid and its contribution to expenditure priorities without requiring programmatic aid to be strictly earmarked to particular budget items.

#### Box 14: Showing broadly how aid contributes to expenditure priorities

In **Uganda** a notional Poverty Action Fund has been used to channel Heavily Indebted Poor Countries (HIPC) resources and budget support to priority sectors and to identify budget lines that are protected from within-year budget cuts.

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 links budget spending not to priority sectors in the poverty reduction strategy, but to priority outcomes.

These mechanisms show how aid complements domestic resources. They help to bring more aid fully on budget by reducing the risks perceived by donors without undermining government ownership or introducing the damaging effects of earmarking.

#### 3.2.6 Good practice: Make budget information more accessible to internal and external audiences

Budget information is often hard to digest, and this can undermine the quality of intra-governmental, parliamentary and public debate. Nowadays, the internet makes it much easier to publish budgets and information on expenditures. However, the budget is often voluminous and presented at a level of detail which may be necessary for administration but obscures strategic themes and purposes.

Increase transparency with, for example, additional documents and summaries that show:

- how the budget reflects the development strategy
- how the annual budget fits into medium-term plans
- how external finance is being used (see Box 14.)

### 3.3 Putting aid on parliament

**"On parliament"** external financing is included in the revenue and appropriations approved by parliament.

#### 3.3.1 Overview

One of the principal arguments for using country budget systems is to strengthen national institutions' accountability for the use of resources. In many countries which receive aid, parliament is a weak link in the chain of national accountability.

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 in the appropriated budget signifies that the executive should be accountable to parliament for aid-funded expenditure. In practice, however, aid is often brought to parliament's attention in ways that fall short of formal appropriation.



Three levels of parliamentary involvement may be considered:

- reviewing the strategic framework for budgets
- approving annual budgets and particular aid agreements
- reviewing audit reports.

It is usually a legal requirement for loans to have parliamentary approval, and loans are therefore more likely than grants to be on budget.

### 3.3.2 Good practice: Help to strengthen parliament's role in the budget system

The reasons for weak parliamentary engagement in budgeting are deep-seated, and quick transformation is not likely. 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 the following:

- Ensure that the legal requirements concerning parliament's role are observed. Donors should make it a condition that their aid instruments obey the legal requirements of the recipient country.
- Ensure that parliament is well informed about aid flows even if it does not formally approve them. (See ¶3.2.6.)
- Strengthen parliament's engagement in the budget process generally, such as by:
  - engaging parliament in the discussion of medium-term strategies
  - improving the accessibility and transparency of the budget itself, and of related documents
  - strengthening parliamentary procedures and staffing (such as strengthening the staffing of specialist committees.)
- Support civil society efforts to hold governments accountable for public expenditure (including strengthening the role that political parties play in parliamentary budget processes.)
- Seek accountability to donors in ways that complement – and do not undermine – the government's domestic accountability, including its accountability to parliament.

## 3.4 Putting aid on treasury

"On treasury" external financing is disbursed into the main revenue funds of government and managed through government's systems.

### 3.4.1 Overview

The rationale for putting aid on treasury is to:

- support the government's financial management systems and capacity
- facilitate efficient cash management and reinforce financial discipline
- facilitate aid capture on other budget system dimensions.

Not all external financing channelled to government bodies is on treasury. For example, Channel 1 funds are disbursed via regular government procedures to the MDAs responsible for budget execution, while Channel 2 funds are disbursed directly to a particular MDA and managed outside of the regular government system. (See ¶3.7.) Equally, aid may be on budget without being on treasury.

"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 the necessary information to trigger disbursements, and this supports the "on budget" and "on accounting" dimensions too. At the same time, it reinforces financial discipline.

Both donors and government agencies have incentives to keep aid off treasury and beyond the immediate control of the central authorities in order to boost their own control of these resources. (See Box 6.) There may also be a more legitimate fear that disbursements via treasury will not reach service delivery levels efficiently.

#### 3.4.1.1 *Dealing with government procurement systems*

Donors often point to the quality of government procurement systems as a reason for their caution about putting aid on treasury. But it is possible to disburse external funds through the treasury system while applying additional procurement safeguards for externally funded expenditures (for example, by specifying internationally acceptable tender procedures and monitoring these procedures, which may include prior approval of large contracts). Strengthening procurement should, in any case, be a priority for PFM reform programmes.

### 3.4.2 Good practice: Disciplined and efficient treasury disbursement

The same features of PFM systems that are important for bringing aid on budget are also relevant to bringing aid on treasury. For donors (and beneficiaries) to have confidence in the treasury system, 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 strengthening expenditure processing linked to reformed budget classifications and capacity building.

#### 3.4.2.1 *Integrated financial management information systems*

In some countries, the introduction of integrated financial management information systems (IFMIS) modules has contributed to the strengthening of treasury systems, for example the SISTAFE system in Mozambique. However, IFMISs do not always provide a solution. Research reported in 2004 showed that for 34 IFMIS projects in 27 countries (funded by the World Bank at an average of US\$12.3 million per country), only 21 percent were successful and only 6 percent were regarded as likely to be sustainable, and they took an average of 7 years to complete.

#### 3.4.2.2 *Single treasury accounts and other bank account management measures*

Across a range of countries, the introduction of single treasury accounts and related efforts to strengthen bank account management have had a strong effect. Mozambique is an example. (See Box 15.) 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 at commercial banks. This has improved information and supervision by the Accountant General.

### Box 15: 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 who 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 biggest difficulty for the CUT has been in coping with multiple currencies.

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 (Warren-Rodriguez 2007).

### 3.4.3 Good practice for donors

- **Remove unintended or unnecessary obstacles** to the use of country budget systems by reviewing donor headquarters' requirements and guidelines on the use of country budget systems.

- **Give attention early on to the design of disbursement procedures** when preparing aid interventions, and take the nuts and bolts of the partner country's PFM system into account.
- **Bring existing pooled funds on treasury**, and design new pooled funds to be on treasury from the outset.
- **Improve the predictability and frontloading of budget support disbursements** in order to assist the government's liquidity and cash-flow management.

### 3.5 Putting aid on accounting

"On accounting" external financing is recorded and accounted for in the government's accounting system, in line with the government's classification system.

#### 3.5.1 Overview

Aid is not fully "on accounting" if donors demand special additional financial reports. (See ¶3.7.) The rationale for using government accounting systems as much as possible is to:

- strengthen the government's financial systems
- minimise transaction costs and demands on government capacity
- ensure that government accounts provide a comprehensive view of the government's finances.

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

#### 3.5.2 Good practice: Provide a proper reporting framework

Ensure that the government accounting system provides a proper framework for reporting transactions, including those involving external funds.

#### 3.5.3 Good practice: Develop accounting capacity

Develop capacity to ensure the quality and timeliness of government accounts at all levels.

#### 3.5.4 Good practice: Follow international accounting standards for aid

### Box 16: International Public Sector Accounting Standards for Aid (IPSAS)

In 2003, 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 (International Public Sector Accounting Standards Board 2006). This is relevant to developing countries, as the vast majority of these governments do not have accrual-based systems.

When IPSAS was adopted, there were calls for an internationally accepted accounting standard for reporting external assistance. Since 2005, the IPSASB has facilitated a consultation process on amending the IPSAS for cash-based financial reporting to include additional disclosures for recipients of external assistance. The board issued Exposure Draft (ED) 24 in 2005 and ED 32 in 2006.

ED 32 proposes separate mandatory and recommended disclosures. Mandatory disclosures 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".

Following field tests in 2007, the IPSASB approved the disclosure requirements, and they were published in January 2008 as Disclosure Requirements for Recipients of External Assistance within the Cash Basis IPSAS – Financial Reporting Under the Cash Basis of Accounting.

### 3.5.5 Good practice: Record aid-in-kind

Since disbursement through treasury is not feasible for all donors or appropriate for all types of aid, mechanisms to record aid-in-kind in government accounts are a good practice. Tanzania's approach to recording aid-in-kind in the mainstream government accounting system is illustrated in Box 17. Kenya also tries to capture aid-in-kind, in line with its financial legislation.

#### Box 17: Aid-in-kind and dummy entries in Tanzania

##### 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:

- v. The donor disburses funds or provides goods or services directly to the project.
- vi. 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.
- vii. 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 [...].
- viii. The Budget Division, upon satisfying itself, will grant a release warrant to the Accountant General.
- ix. 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: A Practical Guide to Using the Government of Tanzania Exchequer System (Government of Tanzania 2005).

### 3.5.6 Good practice: Provide donor expenditure information

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. (See ¶3.7.)

## 3.6 Putting aid on audit

"On audit" external financing is audited by the government's auditing system.

### 3.6.1 Overview

The rationale for using government audit systems is to:

- conform to national lines of accountability
- support the strengthening of national systems.

Including aid within the scope of government audits is the issue here, but an equal concern is the quality of those audits. Donors (and especially budget support donors) have an interest in how a government audits its domestically financed expenditures as well as the aid it receives. A precondition for audit is the submission of timely accounts. Weak government audit capacity and delays in the completion of government accounts are two main reasons why donors may seek separate audit of their funds.

### 3.6.2 Good practice: Support audit capacity

Supporting the capacity of audit bodies is likely to be a long-term requirement. This kind of support could complement both long-term action to strengthen parliamentary public accounts committees as well as civil society demands for accountability. Direct support can be complemented by efforts to strengthen the demand for audit services.

In **Uganda**, in the context of the move towards budget support, the Auditor General has benefited from significant institutional support in recent years. Also, the timely preparation of audits has been a key focus of conditionality.

This has helped underpin improvements in the quality and timeliness of audit reports.

Similar developments are taking place in **Mozambique**. With the growth of budget support, several donors have started supporting the Administrative Tribunal (the body responsible for external auditing.) Various capacity building initiatives have improved the scope and quality of the tribunal's audit exercises on the budget, including the externally funded components.

### 3.6.3 Good practice: Involve governments in commissioning special audits

Where special audits are to be commissioned, donors can avoid sidelining national audit authorities by involving them in commissioning the audits. In several countries, such involvement is required by law.

### 3.6.4 Good practice: Harmonise audit requirements

There is also scope for harmonising audit requirements between donors, as happens through various forms of pooled funding.

### 3.6.5 Good practice: Complement fiduciary and other assurances

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. (See Box 14.)

Complements to fiduciary and other assurances 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
- diagnostic studies, such as public expenditure reviews and public expenditure tracking surveys.

Think broadly about the range of "audits" that may be required, both for accountability and for monitoring and improving aid effectiveness. Implement these audits in ways that engage governments and harmonise donor efforts.

## 3.7 Putting aid on report

"On report" external financing is included in ex post reports by government.

### 3.7.1 Overview

The "on report" dimension of the budget system acknowledges that monitoring public expenditures involves a much wider range of (financial and other) reports than those provided by the formal government accounts. Aid which is not formally incorporated in government accounts may appear in such reports.

The definition of relevant reports is rather open-ended. The Putting Aid on Budget study focused on reports that are owned by governments, and which are consolidated. Budget execution reports and consolidated sector reports, for example, can provide valuable management information and integrate externally funded activities in the process. Such reports may provide additional detail on funds that, in budgeting terms, are disbursed as block grants to agencies or tiers of government. Reports which link financial data to other dimensions of performance are highly relevant to the Paris Declaration's commitments to managing for results. (See Box 1.)

### 3.7.2 Good practice: Consolidate reports

Reporting has costs, and the quality of reports depends on ongoing incentives 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. Consolidated reports may usefully bring together information:

- across sectors (especially where a sector cuts across ministerial portfolios)
- across central and decentralised tiers of government
- across disbursement channels (see ¶2.3.2).

### 3.7.3 Good practice: Adapt to government systems

The incompatibility of reporting systems is a continuing challenge. Donors need to adapt to government classifications, currency, time periods and reporting timetables to increase the value of reports. In addition, donor demands for reporting should take account of government capacity and be linked to efforts to strengthen the government's analytical capacity in particular.

### 3.7.4 Good practice: Coherent and disciplined dealings with donors

On the government side, there is a need for coherence and discipline in dealings with donors.

There is often confusion and duplication when:

- separate planning and finance departments seek overlapping information in different formats
- sector ministry efforts are not coordinated with the centre's
- aid coordination functions are disconnected from the budget function (which can happen both at the central level and in sector ministries).

### 3.7.5 Good practice: Rationalise databases

The Putting Aid on Budget study found that there are often too many databases and that they are poorly linked. There is scope for rationalisation: governments should lay down clear channels of communication, both within government and between donors and government agencies. Databases which focus on aid can be useful (see Box 18), but, as with integrated financial management information systems (see ¶3.4.2), they are not in themselves a solution to bringing aid on budget. They may improve the sharing of information, but this is only a first step towards integrating aid in country systems.

## Box 18: 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](http://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.

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 (Warren-Rodríguez 2007).

## 3.8 Using and supporting decentralised budget systems

In all cases, decentralisation poses a special challenge to bringing aid on budget. On the one hand, aid that is 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 funds disbursed via central government (Channel 1) will not reach local levels fairly or efficiently.

**Mozambique** is a prime example of this dilemma. The 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.

In a federal system, such as in **Ethiopia**, aid may be on budget at some levels of government and not others. For example, some special purpose grants from the federal government to regions appear in the federal budget, but not in the regional budget.

## Box 19: Good practice in Uganda for bringing decentralised services on budget

The Uganda case demonstrates firstly that capacity can effectively be built whilst 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 (e.g. Tanzania, Mozambique.)

The following lessons can be drawn:

- Firstly 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.
- Secondly is the need to address donor fiduciary concerns directly by developing initiatives which ensure transfers are protected and can be tracked, whilst strengthening local government budgeting, accounting and reporting systems.
- Thirdly 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 assessment.

Yet it 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 (Williamson 2008).

## 4

# HOW GOVERNMENTS AND DONORS CAN MOVE FORWARD

This section looks at the experience of using and strengthening country budget systems. It recapitulates the good practices already identified, but in the context of how governments and donors, individually and together, can make progress in the spirit of the Paris Declaration. It also suggests how to identify priorities for progress in individual partner countries and by individual donors.

### 4.1 Overall approach to improving aid capture

#### 4.1.1 What drives progress in putting aid on budget?

- **Using budget support and bringing pooled funds on budget**

The Putting Aid on Budget case studies highlighted how government and donors working together (especially if led by government) can strengthen the effectiveness of aid, including by putting aid on budget. Often the dialogue around budget support and SWAps is a valuable focus. Accordingly, the most striking gains in bringing aid on budget have been through the use of budget support and by bringing pooled funds on budget.

- **Improving public finance management**

Improvements in PFM are a fundamental factor in bringing aid on budget. At a general level, they can increase donor confidence in government systems. They can 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.

#### 4.1.2 Challenges to progress

##### 4.1.2.1 *Budget support is automatically on budget*

Budget support is automatically on budget in most, if not all, dimensions. For this and 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. Thus, it is in both sides' interests to design forms of budget support that mitigate these risks. This includes seeking a balance of complementary general and sector budget support operations. (See ¶2.4.2.)

##### 4.1.2.2 *The challenge of bringing project aid on budget*

However, budget support has limits, and project aid has been growing. And the problems associated with poorly integrated project aid still loom large. The bigger challenge, therefore, is to bring project aid on budget.



The **Rwanda** case 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<sup>9</sup>)

Several countries have paid special attention to designing procedures for managing externally financed projects within government systems. Tanzania is a leading example. In other cases, the integration of projects has been surprisingly neglected.

The **Uganda** case 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<sup>10</sup>)

The neglect of the project modality by both donors and governments is also a reflection of the conflicting incentives (see Box 6) which still militate against the use of country systems. Any strategy for strengthening the use of country systems should begin by identifying the obstacles that need to be overcome.

## 4.2 Tailor strategies to different circumstances

Different countries have different institutional settings, their governments have different preferences for how they relate to donors, and their PFM systems are at different stages of development and reform.

Take the following into account:

- Bringing aid on budget is generally more of an issue in more aid-dependent countries. On the other hand, less aid-dependent countries, such as South Africa, tend to have stronger PFM systems. While putting aid on budget in these countries may be less critical, it should also be easier, and donors can take advantage of this.
- 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 part of an overall strategy for PFM, which will have a strong influence on the sequence of reforms.

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9 Chiche 2008.  
10 Williamson 2008.

The analytical framework for the Putting Aid on Budget study should be a useful template for choosing and designing aid instruments, especially the distinctions it provides between different dimensions of country budget systems and different channels of disbursement. (See Section 2.)

Consider which dimensions are more important in a particular case, and whether the disadvantages of non-capture in some dimensions can be mitigated in others.

The **Mozambique** case study provides an example of this approach:

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 PFM, 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 projects with the reliability and quality necessary to ensure their timely undertaking. (Putting Aid on Budget Mozambique Case Study<sup>11</sup>)

## 4.3 Recommendations for governments

### 4.3.1 The public finance management agenda

Bringing aid on budget – in the broad sense of maximising the use of country budget systems – should be seen as part of an overall PFM reform agenda. Bringing aid on budget should be addressed within the comprehensive, country-led programmes of PFM reform that are envisaged in the PEFA “Strengthened Approach”.<sup>12</sup> It is important for governments to publicise their systems, highlight improvements, and make their procedural requirements known to donors.

#### PFM priorities for integrating aid in country systems:

- Strengthen **transparent medium-term expenditure planning** (to bring aid “on plan”.)
- Set a **clear planning and budgeting calendar** to integrate aid management with the planning and budgeting process.
- Provide **better budget classification and presentation**, especially accurate identification of recurrent and capital expenditures (but moving away from separate “recurrent” and “development” budgets (see Box 13), and source codes to allow tracking of donor funds if required (see Box 12). The newly approved IPSAS standards are relevant here. (See Box 16.)
- Exercise **discipline in budget execution** (which can be reinforced by many of the points which follow).
- Establish **single treasury accounts**, and **strict control of government bank accounts**. (See Box 15.)
- Provide **more timely reports and accounts**.
- Establish **transparent and efficient mechanisms for funding sub-national governments**. (See Box 19.)
- Provide **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
  - to promote better public understanding in both donor and recipient countries.

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11 Warren-Rodríguez 2007.

12 Public Expenditure Working Group 2005.

### 4.3.2 Strategies for managing aid

Few countries have well articulated strategies for managing aid (as opposed to for mobilising it). Often the responsibilities for aid management within the 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: **Rwanda** is in the process of developing an aid management manual to augment its 2006 Aid Policy; **South Africa** has such a manual; and **Ghana** is preparing an aid strategy (see Box 20), as is **Mozambique**.

#### 4.3.2.1 Aid effectiveness strategies

- Link the aid management strategy to strengthened PFM reform, and hence the effectiveness of all resources. The link begins with making policy through the budget process, and continues through all the phases of the budget cycle.
- Address unclear and overlapping responsibilities for the coordination of planning and budgeting (See ¶3.2.4 and Box 13.)
- Go beyond indicating a preference for the budget support modality to specify good donor practices and standard government procedures for other modalities.
- Allow for strategic dialogue about the use and additionality of aid funds in order to reduce donor demands for earmarking and micro-management. (See Box 9, Box 10 and Box 14.)

### Box 20: Preparing a comprehensive aid strategy in Ghana

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 Paris Declaration survey. 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 two-fold: (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 (Betley 2008).

## 4.4 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 into government systems. Aid agencies should review the design of their aid instruments, centrally and at country level, from the perspective of aligning and integrating them with country systems along each of the dimensions highlighted in this Good Practice Note.

Aid 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. (See Box 21.)

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

Overall, most donors need to be more serious in ensuring that their headquarters' commitment to the use of country systems is translated into practice at country level.

### Box 21: The Netherlands' in-depth focus on country systems

Donor approaches are varied by the level of detail to which they unpack the concept of "aid on budget" and how they measure the degree of their alignment with country systems. The Netherlands Ministry of Foreign Affairs has developed a systematic approach to this. The central-level procedural guide or Track Record is the key assessment tool for country staff in selecting the most appropriate choice of aid modalities in partner countries and is a good example of guidance that (a) encourages use of country systems, (b) differentiates between different on-budget dimensions.

The Netherlands' longstanding commitment to partner country-led approaches to poverty reduction translates operationally into "on budget where possible, off budget where necessary". The Track Record outlines that "alignment" means coordination and integration with the policy and budget process(es) of the partner country and that this can be achieved at several levels: an aid modality can be "on plan", "on budget" and "on treasury".

Under the Netherlands definition:

- *fully aligned modalities* are always fully on plan, on budget and on treasury
- *partially aligned modalities* are on plan and to the largest extent possible also on budget, although they are not on treasury
- *non-aligned modalities* are to the extent possible on plan and, if possible, also to a limited extent on budget.

The Netherlands also provides an example of good practice in its provision of regular country level PFM training for its staff.

Source: Track Record User Guide (DEK 2007).

## 4.5 Recommendations for joint action

- Recognise the continuing importance of joint government-donor action (at general and sector level) to address the increased use of government systems. A starting point for such action is to reach a common understanding on concepts and terminology for the different elements of country budget systems and different aid instruments.
- Incorporate objectives and set specific targets for the greater use of country budget systems within country-led PFM strategies, and within joint aid effectiveness strategies.
- Strengthen monitoring of the Paris Declaration commitments both internationally and at country level. This should include monitoring the proportions of project aid that use different elements of country systems.
- Rationalise aid-related databases and collaborate in sharing information on all types of aid.

## 4.6 Next steps: A long-term perspective and a wider agenda

Many steps can be taken in the short term, but a long-term perspective is required.

As the **Mozambique** country study notes:

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<sup>13</sup>)

Many of the good practices for bringing aid on budget identified in this Good Practice Note are general good practices. Using country budget systems is part of a wider agenda for aid and PFM. Bringing aid on budget should not become a separate, fragmented chore: it should be incorporated in wider programmes for strengthening PFM, and included in the tasks of existing general and sector forums for dialogue between country governments and their aid partners.

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13 Warren-Rodríguez 2007.

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