Briefing Paper

aidinfo

Because ending poverty counts

a Development Initiative

Show me the money: IATI and aid traceability[1]

The International Aid Transparency Initiative (IATI) is an initiative by a group of donors, who account for half of global aid, which aims to make aid more transparent by providing more and better information about aid in a form that is useful and accessible to a wide range of stakeholders. Launched at the Accra High Level Forum on Aid Effectiveness in September 2008, IATI aims to agree common information standards applicable to all aid flows. This briefing note by the aidinfo team considers how IATI could make aid flows traceable, in the sense that citizens would be able to follow aid from the original donor through the delivery chain to the intended beneficiary.

International development is often characterised by long delivery chains: several donors might contribute to a multi-donor trust fund, which contracts an international NGO, which in turn uses a local NGO partner which hires local contractors to deliver services. Being able to track aid throughout this implementation chain is central to achieving transparency, and to improving accountability and effectiveness. To achieve this, the aidinfo team believes that the IATI standard should include a mechanism to enable aid flows to be traced from one organisation to another; and above a *de minimis* threshold it should include detailed information about individual transactions and geographical locations.

Since some donors do not systematically collect and report some of this information at present, this

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Why traceability matters

We would like to tell you the story of $150m going up in smoke," said the young villager. "We heard on the radio that there was going to be a reconstruction programme in our region to help us rebuild our houses after coming back from exile, and we were very pleased."

This was the summer of 2002. The village was in a remote part of Bamiyan province, in Afghanistan's central highlands, and several hours' drive from the provincial capital - utterly cut off from the world. UN agencies and NGOs were rushing to provide "quick impact" projects to help Afghan citizens in the aftermath of war. $150m could have transformed the lives of the inhabitants of villages like this one.

But it was not to be, as the young man explained. "After many months, very little had happened. We may be illiterate, but we are not stupid. So we went to find out what was going on. And this is what we discovered: the money was received by an agency in Geneva, who took 20 per cent and subcontracted the job to another agency in Washington DC, who also took 20 per cent. Again it was subcontracted and another 20 per cent was taken; and this happened again when the money arrived in Kabul. By this time there was very little money left; but enough for someone to buy wood in western Iran and have it shipped by a shipping cartel owned by a provincial governor at five times the cost of regular transportation. Eventually some wooden beams reached our villages. But the beams were too large and heavy for the mud walls that we can build. So all we could do was chop them up and use them for firewood."

Clare Lockhart, "The Failed State We're In", Prospect Magazine, May 29 2008.

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[1] *This is a position paper by the aidinfo team at Development Initiatives; it is not a paper by the IATI Secretariat.*

will require some additional effort and perhaps some additional investment. This note acknowledges that additional work may be needed, but argues that the substantial benefits derived from publishing this data will significantly outweigh the potential costs.

Southern stakeholders have universally emphasised the importance they attach to being able to follow the money through the aid system to the point of service delivery; so including traceability in IATI is a key part of meeting the expectations of developing countries from greater aid transparency. Many of the most significant benefits of aid transparency – such as improving accountability of service providers, reducing corruption and waste, improving coordination, and demonstrating to taxpayers how their money has been used – depend on the inclusion of an effective mechanism to enable aid to be traced.

Background: diverse users, common needs

Since 2008 aidinfo has documented the needs of dozens of people and organisations who use aid information, including parliamentarians, finance ministries, line ministries, donor staff, academics, NGOs, community organisations and individual citizens. To our knowledge this has been the first ever effort to find out from potential users of better aid information what information they need to meet their purposes. The details of our research are published on the aidinfo website and summarized in the October 2009 aidinfo use cases synthesis paper.

We found that there are many different users who want access to better aid information for a wide variety of reasons. Although their purposes vary, their core requirements for information are remarkably common. The users we spoke to require a combination of:

a. more timely data

b. more detailed and accurate information about future aid flows

c. information that can be compared across donors

d. complete and accurate data

e. consistent data and definitions

f. the ability to reconcile disbursements with commitments

g. information about the form in which aid is delivered (e.g. in kind, technical assistance, cash)

h. disaggregation to specific geographic location (eg village, district, constituency)

i. more detail about each activity, including purpose and background analysis

j. information in a form that is easy to access and use with minimal cost and effort and which is common across donors.

Within these common needs, there are nuances of different priorities between users. At the risk of generalising a little, many northern researchers, policymakers and NGOs are particularly interested in *allocation*: they want to see how aid is distributed across countries and sectors, and whether donor promises are being kept. By contrast, in developing countries many governments, parliamentarians, firms and civil society organisations are primarily interested in *execution*: they want to know in what form the aid is given, which people, organisations and communities are expected to benefit, and how (and when) the aid moves through the system from one organisation to the next until it reaches the intended beneficiaries.

This note focuses particularly on how IATI can provide the information which would address the priorities identified by southern stakeholders for more information. Unfortunately, because of their history and institutional foundations, the current aid reporting systems are not primarily designed to

meet the needs of citizens in developing countries. This means that meeting these priorities would require a little more effort on the part of donors than meeting the requirements mainly of northern stakeholders. We believe that the significant benefits justify making this effort.

1. Traceability

By "traceability" we mean the ability to follow aid from the original donor through the delivery chain to the intended beneficiary. International development is often characterised by long delivery chains: several donors might contribute to a multi-donor trust fund, which contracts an international NGO, which in turn uses a local NGO partner which hires contractors to deliver services.

What about aid that is delivered through government systems? In 2008, donors reported that less than half of total Official Development Assistance (ODA) used the government as the channel of delivery.[2] Even where the government is listed as the channel of delivery, a lot of this aid is not "on budget" in the sense of using government systems for execution, accounting and accountability to parliament and citizens.[3] That means that the substantial majority of aid cannot be accounted for through government budget systems.

From the broader perspective of increasing accountability, more aid should be "on budget". In this case, it should be sufficient for IATI to make it possible to trace the money to the point where it arrives in the government accounts. This will enable stakeholders to satisfy themselves that the money delivered by donors to the government is properly reflected in the government budget, and accounted for within the government system. But where aid cannot be put on budget (even if the channel of delivery is listed as government) IATI should enable citizens and parliamentarians to be able to monitor the execution of that spending by following the money through the delivery chain. The principle should be that all aid should either be on budget, in which case it should be accountable to the extent made possible by the systems of the recipient government, or where aid is not on budget, it should be properly accountable to citizens by enabling them to follow the money through the chain of execution.

The IATI standards can make this accountability possible. Technically a system of traceability is quite straightforward, provided there is cooperation across the aid system to implement it. Donors would need to implement a universal tagging system (a universal numbering system is quite common in other contexts: think of bar codes on consumer goods or ISBN numbers on books). To make the money traceable, organisations which publish details of their spending through IATI would include both an "origin" code and a "destination" code. This would introduce a kind of double-entry bookkeeping in aid, so that each expenditure item has a corresponding source of funds. Because these transactions would be published electronically in a common format, they could subsequently be reconciled automatically, enabling the money to be followed through the delivery chain.

Most organisations which are funded by several sources already have to keep track of the source of funds for each item of spending, as they need this information to report to their donors. IATI would mean that they would need to keep this information systematically and to publish it with details of their spending.

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[2] In 2008, 49% of total ODA in the DAC CRS database lists government as the channel of delivery.

[3] See Paris Declaration Monitoring Survey; and *Putting Aid On Budget*, Mokoro (2008).

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1.1 Advantages of traceability

The advantages of traceability are:

a. it enhances accountability of all of the organisations in the delivery chain – at the moment, transactions costs and overheads are not known, and it is not possible to find out if there is inefficiency, waste, or even corruption by the organisations that deliver aid;

b. it allows donors to see where their resources are in the delivery chain. Currently donors rely on reports and submission of accounts to verify that their funding has been received and used as intended. Traceability through IATI would reduce the need for manual monitoring by donors, and reduce manual reporting by grantees;

c. it is needed to avoid multiple reporting of aid – at present, several organisations may publish details of their spending, and it is not possible to tell whether this is the same money passing from one to another (multiple reporting of the same money has been a big problem for some country aid management systems);

d. it is needed to avoid multiple funding of the same activities – for example, without traceability an executing agency can attribute the same activity to two separate donors;

e. it enables taxpayers in donor countries to see where their money is going and how it has been used; it gives them confidence that it has not been lost to corruption or ended up in a Swiss bank account; Bill Gates has remarked: "if you can track the grants to the purchase of the commodity and the commodity getting delivered, then you can make quite sure the money's not being diverted."

f. it enables everyone to know how much has been received by each government organisation in developing countries (in turn, enabling domestic budget accountability). There is no way to do that from current figures for aid outflows;

g. it is essential to increase accountability to citizens and civil society in developing countries; it enables community organisations to track and report on whether the organisation at the end of the chain is delivering in their community, and report their experiences back to funders, helping to close the feedback loop;

h. it can be used to monitor whether donors adhere to their promises – traceability would provide a simple way to track aid committed for a particular initiative and prevent double counting;

i. it would provide a clearer picture of how much aid actually arrives in developing countries, and where it goes, than is possible from the current statistics which measure only aid outflows from donors;

j. As set out in the Accra Agenda for Action, aid effectiveness requires accountability to and ownership of not just donors and developing country governments but also citizens, parliamentarians and civil society in developing countries. This is their most important priority for aid transparency.

1.2 Challenges and solutions for traceability

The main challenges of traceability are:

a. it would require every organisation that implements the IATI standard to adopt a common, IATI-wide system of unique identifiers.
(This is technically simple but requires international cooperation to put it in place; precedents include consumer bar codes and ISBN numbers);

b.   organisations would need to publish the origin, as well as destination, of the funds.
(Many aid agencies receive funds from a single fund, or a small number of sources. Organisations that receive funds from many sources normally already keep track of the source of the money for their spending, because they are required to report to different donors. These organisations will benefit from having a simple way to report this, and they and their funders will be able to move to automatic monitoring of grants and compliance);

c.   reporting requirements would need to be passed on to implementing organisations, such as NGOs and contractors.
(Complying with IATI would become a condition of receiving a contract or securing a grant from an IATI-compliant organisation. The advantage of having an international standard like IATI is that these implementing agents, who are already having to report a lot of information to their funders in many different ways, would have a single international standard to comply with, instead of multiple reporting standards for different organisations);

d.   Some small organisations, particularly community-based organisations in developing countries, might not have the capacity to record and publish this information.
(A simple principle is that where an organisation does not have capacity to publish data according to the IATI standard, the next organisation up the delivery chain – which has given the grant or let the contract – should do so on its behalf);

e.   some organisations may have a strong vested interest in avoiding the transparency that traceability implies, since it entails public disclosure of overhead and administration costs, and exposes inefficiency and corruption.
(This is true: but it points to why traceability is important as a way to improve aid effectiveness.);

f.   lots of aid goes to recipient governments
(At present, most aid does not go through the systems of recipient governments: less than half of aid uses government as a channel of delivery, and much of this is not executed through the budget. The principle should be that all aid is either on budget, in which case it should be traceable through IATI to the point at which it arrives into the government budget and then be accountable through the budget system, or it is not on budget in which case it should be fully traceable through IATI).

2.   Geographical information

When aid money is spent by a donor, or an organisation acting on its behalf, on a good or service in an identifiable place, the IATI records for that spending could include a geographical reference in a standardised form. Examples of expenditure than can be geo-coded include the location of a bridge, road, school, well or clinic, the locations of schools whose teachers are paid salaries by donors, and the locations of towns and villages in which people receive safety net payments.

Our analysis of the DAC CRS database suggests that *at least* 25 percent of aid can be geo-coded, either because the CRS records already include sub-national geographic information or because the expenditure is for specific physical items which can be geographically identified, such as infrastructure spending.

There are existing international standards for describing the location of a point (for example, the latitude and longitude of a well) and the boundaries of an area (for example, the catchment area of a safety net programme) which can be adopted by IATI.

2.1   Advantages of geographical location coding

The advantages of geo-coding are:

a. it enables communities to identify projects and programmes that are intended to serve them, and so enables them to increase accountability for those resources;

b. some partner governments already ask for aid information to be disaggregated into geographic regions (for their own internal fiscal management) – so donors are already having to provide sub-national geographic information; it will be simpler for everyone if this is recorded and published in a standardized form as a matter of course;

c. it provides an organising framework for coordination among donors to avoid duplication and increase synergies;

d. it provides vital information for government, private sector and non-profit complementary investments (e.g. decisions about where to build a new clinic, or to invest in social marketing);

e. it makes possible the use of new technologies such as plotting activities on Google Maps. For example, this might enable websites to be developed which enable users of services (eg clinics, roads, schools) to give feedback about them, or allow visitors to a town to see which services they helped to pay for through their donations.

f. it enables a link to be made between public services and aid financing – for example, if users provide feedback via SMS about which water points are not working, it would be possible to trace those water points back to the aid project which installed them;

g. it enables more detailed analysis of aid impact (e.g. by comparing geographical data on disease prevalence with aid programmes); and this in turn leads to more effective aid programmes.

2.2 Challenges of geographical location coding

The main challenges of geo-coding are:

a. donors rarely implement projects themselves: they usually implement through other organisations.
(in practice, the donor would make reporting of geographical details of activities part of the terms of the contract or grant to the implementing agency, as part of the reporting of progress);

b. some aid (e.g. sectoral support to government to pay for teachers' salaries) cannot be attributed to a particular physical location.
(these types of expenditure would be excluded from the requirement to geo-code);

c. donors do not for the most part collect geographical information in their own systems at present, so they would have to adapt their management information systems and procedures to collect and record more information than now.
(some donors have begun to collect this information, though often it is held in text format rather than in a structured form which enable it to be used easily. Donors will eventually need to respond to requests for more detailed geographic information to be collected and published, especially as electronic mapping applications are more widely used, so it will be helpful to them to agree a common international format and definition for this information from the outset).

3. Transaction level data

To enable effective monitoring of the execution of aid programmes the IATI standard should entail the publication of details of the amounts, dates and payees of each transaction above a *de minimis* threshold, as well as summary figures.

A recent example from the UK highlights the importance of transaction-level data: the publication of the expenses claimed by Members of Parliament. The House of Commons authorities had wanted to publish only totals in categories (accommodation, entertaining, etc). But they were required under Freedom of Information legislation to publish the details of the transactions themselves, and it was these details that showed that MPs had abused the system (for example, by switching the home on which they were claiming allowances). While MPs themselves may have preferred that the embarrassing details had remained private, nobody in the UK now argues that the information should not have been made public, that it was too much information to be useful, nor that it has been abused or misrepresented. As a result of the publication of these transaction details, new rules and systems are being put in place for MPs expenses: and this would not have happened if the summary totals alone had been publicly available. There is a widespread consensus now that if the details of this spending had been publicly available all along, MPs would have exercised better judgment about their claims, and the authorities would have been more careful to apply sensible rules.

These kinds of details are also important for ensuring that development assistance is well spent. For example, in March 2010 the report of the United Nations Somalia Monitoring Group found that as much as half the food aid sent to Somalia is diverted from the intended beneficiaries to a web of corrupt contractors, Islamist militants and local United Nations staff members. This report was compiled on the basis of internal information about the contracts. If the details of each contract and each transaction had been publicly available from the outset, it would not have been possible for these abuses to have taken place: transparency would pre-empt a good deal of this kind of abuse. The publication of broad summary totals for each project does not provide sufficient information to enable this kind of accountability or to prevent abuse.

3.1   Advantages of transaction level data

The advantages of transaction level data are:

a. the details matter – for example, Central Banks need details for foreign currency and liquidity management; finance ministries need it to manage cash flows;

b. publication of the individual transactions greatly reduces the scope for corruption;

c. transaction data are needed to compare commitments and disbursements, which is a recurring theme of user needs;

d. donors all have this information in their accounting system already so they are not being asked to collect anything new;

e. in the case of official aid agencies, in many jurisdictions taxpayers are already entitled to ask for this information (e.g. under Freedom of Information legislation); by providing it pro-actively, aid agencies may be able to avoid the administrative costs of supplying the information manually in many ways in response to *ad hoc* requests;

f. this information will help to increase the accountability and effectiveness of implementing partners.

3.2   Challenges of transaction level data

The challenges of reporting transaction level data are:

a. there may be some transactions that should be private for reasons of commercial confidentiality, protection of personal information, or security;

(these would need to be excluded: existing exemptions from Freedom of Information legislation can be used to define which transactions should be kept confidential);

b.   some aid agencies may have inherited a culture of secrecy which can create institutional obstacles to publishing information unless the agency is convinced that there is a need for outsiders to know; and they may be worried that some of the details are embarrassing; *(the improvements in aid effectiveness that follow from transparency are sufficiently persuasive to encourage aid agencies to open up this information; it may indeed be the case that some of the details are embarrassing, but part of the purpose of transparency is to make aid agencies more effective. In general, the knowledge that this information will be automatically published will make it less likely that these kinds of embarrassment occur in future)*

c.   some aid agencies may not have a convenient link between their information reporting and their financial management system, so although they have transaction level data it may not be easy for them to publish it; *(there are technical solutions which will make this possible; and over time as systems are upgraded or replaced, the need for publication can be included as part of the specification of the system)*

d.   it will be a lot of data – perhaps too much for people to handle *(there will be a lot of data, but it will be in a common electronic format so it will be easy to summarise and aggregate for people who want summary figures rather than details, with an option to drill down to the detail for those who want it).*

Conclusions

A large number of stakeholders – especially those from developing countries – have told aidinfo that they want more information to enable them to monitor the execution of aid programmes. To improve services and increase accountability they want information about how the aid has been used, where, when, for what purpose, and through which organisations.

Donors' systems have not generally been designed to report aid information at this level of detail, though much of the information is available internally within donor systems. Existing systems have mainly focused on reporting information that complies with DAC guidelines, which are designed to meet the needs of users in the global north, especially helping donors to ensure that they live up to their aid commitments. Providing more detailed information of the kind needed to enable citizens of developing countries to increase accountability will require some changes to donor procedures and systems to gather and report the information needed.

As this note sets out, there would be significant benefits from enabling aid to be traced through the system, including the publication of geographic detail and transaction level data. This note has identified the main challenges to doing so, and explained how they can be addressed.

We therefore recommend that, to meet the priority needs of southern stakeholders to monitor the execution of aid programmes, IATI should include mechanisms for aid traceability and geocoding, and publication of transaction level data.

Written by aidinfo @ Development Initiatives
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