Safeguarding the Interests of the People:

Parliaments and Aid Effectiveness

TABLE OF CONTENTS

Introduction	3
Why Should Parliamentarians Be Concerned About Aid Flows?	5
Diagram 1: Donor And Partner Country Institutions And Aid Management	8
What Makes Aid Managment Effective? An International Debate	. 11
How Aid Delivery Affects Parliamentary Oversight	. 15
How Is Aid Managed? The Aid Management Cycle	20
Diagram 2: The Aid Management Cycle in Current Practice	21
How Do Parliaments Ensure Better Aid Management?	. 23
Diagram 3: A More Accountable Aid Management Cycle	. 24
Bringing Aid On Budget	26
Diagram 4: Aid Capture In The Budget Cycle	. 28
Parliaments And Aid Effectivness: Emerging Good Practices	. 31
Summary And Way Forward	39



Introduction

"If we have a team of two donor country parliamentarians, well informed, backed with documents, meeting with a team of partner country parliamentarians to check where donor funding has actually gone, we will come closer to the answers. They will work to capture the answers to all the right questions: how much was spent? What was done? And what were the mechanisms involved? Any discrepancies in these answers can then be raised with the Minister of Finance at home. In the name of transparency, these results should be presented in a press conference providing citizens across the globe with the information they've been asking for. Ideally, participating MPs would then travel to the donor country and discuss future ODA priorities for their country along with donor MPs and Donor Development Agencies." -Ben Turok, MP South Africa, 2009

This publication is the result of cooperation between the Association of European Parliamentarians for Africa (AWEPA) and Mokoro Consulting in early 2009. It was written upon completion of the first phase of the programme Engaging Parliamentarians in the Aid Effectiveness Debate, which was co-funded by the Swedish International Development Cooperation Agency (SIDA) and the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) on behalf of the Government of the Federal Repub-

lic of Germany. The content of the booklet draws upon AWEPA's experience over the past year in supporting and monitoring parliamentary involvement in the OECD-led (Organisation for Economic Co-operation and Development) reform of the international aid architecture. It has been drafted at the request of African parliamentarians from across the continent, who have made it a priority to become more involved in this process- a process from which they have often been marginalized or overlooked.

It aims to give those new to the subject an overview of the technical background of aid delivery, bring to light what is expected of partner country parliamentarians as a result of their government's commitment to the 2005 Paris Declaration and the 2008 Accra Agenda for Action (AAA), and open the doors for proactive parliamentarians to make a difference in effective aid delivery.

It is also hoped that this booklet will set parliamentarians in Europe and Africa alike on the path towards the realisation of the vision outlined by Professor Turok (MP South



Africa) above, in which joint parliamentary teams work together to uncover the endemic mysteries surrounding the aid process. Engaged, proactive parliamentarians are a necessary prerequisite for a reform programme of this scale and scope. Just how parliamentarians fit into this context and what they can do within it is the story that the pages to follow will serve to unpack.

Why Should Parliamentarians Be Concerned About Aid Flows?

In recent years, the topic of aid effectiveness has become a subject of intense international debate resulting in a variety of international commitments for reform. The last decade of the twentieth century brought the realisation that, despite billions of dollars spent by various donors, far too little progress had been made in ensuring growth, development and poverty reduction in aid-receiving nations. Country ownership of aid, the use of country systems and the strengthening of partner country accountability systems are at the heart of new approaches to aid management. This includes recognising that aid cannot bypass parliaments if it is to be effective, and that both donor agencies and partner governments should be accountable to their respective parliaments.

Oversight is the parliamentary function at the heart of modern democracies. It is the function whereby members of parliamentary assemblies, as the representatives of the people, ensure that the power of the state is used in line with the mandate from and in the interests of the people. A central aspect of the duty of oversight is scrutiny of the nation's expenditures. Parliaments approve how much money can be raised from citizens in taxes, how these funds should be spent, and for which pur-

This booklet makes a clear distinction between the executive and legislative branch of government. The executive branch of government comprises the political and civil apparatus which implements the country's laws. Parliaments pass these laws and oversee their implementation. Country constitutions stipulate how these institutions are structured and how state power should be shared between them and the courts. However, despite differences between countries, the underlying separation of powers, as set out here, still holds.

poses. As laws and public policies are implemented through the spending of public resources, oversight of a nation's budget is the most important tool that parliamentarians have at their disposal in order to keep the executive in check. Keeping an eye on government's programmes and spending is also the most important way in which parliamentarians can ensure that their country realises its growth and development potential.

In developing economies and democracies, however, there are more stakeholders involved in public spending than just national institutions. Public goods and services like health care, education, roads, clean water and protection are funded not only through the taxes that citizens pay, but also through funds provided by external donors.

In order to use these external resources, the executive usually enters into contracts – or aid agreements – with the donors to spend resources provided by them. Donors include multilateral institutions, countries, international funds and non-governmental organisations. Usually donors are foreign.

Executive use of donor funds can dilute parliamentarians' ability to hold it to account for the commitments made to its citizens, unless positive steps are taken to bring this spending into the fold of oversight by parliaments.

The availability of external funding to implement government policies weakens the incentive for executives to pay attention to domestic stakeholders, such as parliaments. Over a period of time, aid can, therefore, undermine domestic accountability systems, potentially leading to less effective states and lower achievement of development objectives. This is particularly true of highly aid dependent countries.

There are other reasons why oversight of aid by partner parliaments is important. For example:

1. If aid is overseen by partner country parliaments it is likely to be more transparent at the country level. Transparency is important to ensure accountability – decisions and their basis, results and costs are accessible, clear and communicated to the wider community – so that decision-makers can be held responsible. Accountable decision-makers are likely to make better choices.

2. If parliament does not have oversight of aid, the incentive is weaker for government to assess aid flows fully when planning its own budget. Aid is most ef-

fective when it does not undermine the effective and efficient use of domestic resources and domestic macroeconomic management. In order to develop sound fiscal policies and allocate resources well, governments need to have a comprehensive picture of resource flows including donor resources. Moreover, the administration of donor funds uses scarce state capacity. State capacity is funded by citizens' money. Because public officials may spend more time administering aid rather than domestic resources, it is important that parliament oversees how much aid comes into the country and where it will be spent.

3. Parliaments are there to ensure that the government does not borrow more than it can afford in the long term, and oversee whether the money is put to effective use. When aid money is provided as loans, parliamentarians should have oversight. Sometimes, donors do not provide funds as grants, but lend money which needs to be repaid, usually with interest, even if at better terms than on the open market. In such cases, the executive is

entering into contracts with third parties in which citizens' money is being spent in advance. It is important that parliament knows about these contracts prior to finalization in order to ensure positive results.

Despite good reasons for parliamentary oversight of aid at country level, their involvement is not a straightforward matter. The democratic oversight of aid is complex. The diagram below sets out the multifacted governance relationships that affect the quality of aid spending. It is a simplified diagram: in reality, different types of aid from various sources show variation on this outline. Yet, it is useful for distinguishing the roles fulfilled by stakeholders in both partner country government structures and donor structures.

Diagram 1: Donor and Partner Country Institutions and Aid Management

The further away from delivery of aid in current practice, the more isolated the institution

Donor parliament Approve funds

for use by donor agencies through appropiate ministry. Review actual spending and, in some cases. performance in case of multilaterals, this role performed by its board.

Donor supreme audit institution Regulatory audit of aid spending. For some countries occasional performance

audits.

Donor Executive

Operating through donor agency allocates funds from aid budget to country negotiates agreement with partner country executives

- disburses funds manages contract with country or imlements contract, including collecting of
- financial and non-financial performance information. depending on the terms of contract.

Delivery of aid Manages funded goods and services

Third parties such as consultancy firms

Contracted by donor, or by country, or jointly to implement aid programme.

Partner Country **Partner Country** Executive **Parliament**

Negotiates

and agrees

aid contract

with donor

government.

or less) or

contract.

contract.

depending

on terms of

implements

contract (more

Limited involvement in oversight of aid spending. Mostly through its approval and oversight of development budget, but budget has incomplete coverage of aid spending and information on implementation often lacking.

Partner country supreme audit institution Rarely audits

aid spending: only if required by country legislation or allowed by aid agreement.

The diagram highlights the fact that:

- While aid funds are awarded by the citizens of donating countries, these citizens have only weak oversight of how well these funds are used through their parliaments. This is true for bilateral aid, but even truer for aid flows which are managed through multilateral institutions.
- Often, much aid is not overseen by partner country parliaments. This may be because the country legal framework does not require all forms of aid to go through parliament, because, in practice, parliaments are side-stepped, or because they lack the capacity to engage with aid allocations and use.

This means that oversight of aid spending is far too easily confined to the narrow application of the contractual arrangements between partner country government executives and donor governments or aid agencies (multilateral institutions). Such asymmetrical oversight practices - confined to the two contracting parties in aid agreements – is

not sufficient under the framework of the 2005 Paris Declaration on Aid Effectiveness and 2008 Accra Agenda for Action.

This booklet, therefore, starts from the premise that oversight of aid flows by domestic parliaments is essential, but that its realisation will require new ways of operating for donors and partner executives, as well as the political will of partner country parliaments themselves. This booklet:

- Examines the ways in which the importance of a parliamentary action is reflected in the commitments made by both donors and partner governments in the international declarations pertaining to aid effectiveness:
- Discusses the various forms of aid and the aid management cycle;
- Looks at how the differences in the way in which aid is delivered affect parliamentarians' ability to oversee aid funds;
- Explores how parliaments can use their powers to oversee aid and reflects on emerging good practices;
- Sheds light on the requirements for the establishment of effective oversight of aid



from donors, partner governments and parliaments.

The booklet is primarily aimed at parliamentarians in aid recipient countries, but also serves to outline some of the crucial steps needed for the realization of the Paris Declaration and AAA for the international aid community, as this pertains to parliamentary involvement.

What Makes Aid Managment Effective? An International Debate

In the late 1990s, the issue of aid effectiveness began to take centre-stage in development. It became clear that how aid was delivered affected whether aid was reducing poverty and contributing to sustainable development. It was clear that the traditional mechanisms used to deliver aid – often a one-way relationship where the donor provides aid on its terms – imposed costs on partner countries, had often resulted in non-sustainable activities and undermined the development of effective states in the long term.

Aid effectiveness was presented as an issue of international concern in 2002 at the International Conference on Financing for Development in Monterrey, Mexico. This Conference resulted in the Monterrey Consensus, in which the international community agreed to increase its funding for development but acknowledged that the effective use of aid was critical for the achievement of the Millennium Development Goals.

A key cause of the high cost of aid for partner countries could be traced to the fact that individual donors followed their own processes and agendas. In 2003, donor agencies committed to work with developing countries to better coordinate their activities at the Rome High Level Forum, resulting in the Rome Declaration on Harmonisation.

The Millennium Development Goals include a set of eight goals and associated targets agreed upon by 192 countries in 2000 which aimed to halve world poverty by 2015. It includes the goals of reducing poverty and hunger, achieving universal education, gender equality, child health, environmental sustainability and global partnership and to combat HIV/AIDS.

Underlying the aid effectiveness debate and the commitments made was a new vision of aid delivery, which saw the relationship between donor and recipient countries as a partnership between donor and partner countries. This new paradigm was elaborated in the 2005 meeting in Paris which resulted in the Paris Declaration on Aid Effectiveness, a more comprehensive attempt to change the way donor and developing countries do business together, based on principles of partnership (see Box 1 for an elaboration of the Paris Declaration).



The role of partner country parliaments in improving the effectiveness of aid flows in reducing poverty and fostering development is clearly stated in the Paris Declaration as it recommends that:

- Partner countries commit to strengthen the role of their parliaments in development strategies and budgets;
- Donor countries commit to providing timely, transparent and comprehensive information to enable partner country executives to provide comprehensive budget reports to their citizens and legislatures.

In addition, by requiring that donors align their support with partner country strategies and use strengthened country systems, the Paris Declaration makes it clear that the use of partner countries' budget management systems is a key component in improving aid effectiveness. Because parliamentary oversight is an integral part of making budget management systems effective, these commitments entail an additional, implicit, role for and commitment to partner country parliaments.

Box 1: What Did Donors and Partner Country Executives Agree to in the Paris Declaration?

The following partnership commitments are at the centre of the Paris Declaration:

- Ownership: Partner countries exercise effective leadership over their development policies and strategies and coordinating development actions. Here, partner countries commit to developing prioritised strategies and exercising leadership of aid management, while at the same time, donors are asked to respect this leadership.
- Alignment: Donors base their overall support on partner countries' national development strategies, institutions and procedures. This includes donors' commitment to align with partner country strategies, to use strengthened country systems including systems to allocate, disburse, spend and account for public money and to avoid the creation of parallel structures in the implementation of aid programmes. Partner countries commit to strengthen their systems so that they are effective, accountable and transparent.
- Harmonisation: Donor countries operate in ways which are more harmonised, transparent and collectively effective. This includes the commitment that donors will implement common arrangements and simplify procedures; dividing labour amongst themselves at the country level and providing effective aid to fragile states.

• Managing for Results: Both donor and partner countries commit themselves to manage aid in a way which will deliver results and to implement common frameworks for assessing these results.

• Mutual Accountability: Partner countries commit to strengthening parliaments' role in development strategies and budgets and donors commit to providing timely, transparent and comprehensive information on aid flows to enable partner countries to present comprehensive budget reports to their legislatures and citizens.

A set of 12 indicators to measure progress in implementing the Declaration were agreed upon, together with a commitment to regularly measure progress.

In 2008, the Third High Level Forum in Accra, Ghana built on the Paris Declaration. The Forum found that while there had been progress, this progress was not being made quickly enough to realize the Millennium Goals and that it was necessary to accelerate the pace of change. It was recognised that progress would accellerate, in part, through the inclusion of a broader base of stakeholders, including members of civil society, local governments and parlia-

ments. For the first time, parliamentarians were asked to contribute their perspective to the debate, and were active participants in each of the Forum's roundtables. To this end, a series of further commitments were made and captured in the **Accra Agenda for Action**, all of which were related to core issues in the Paris Declaration.

These further commitments are highly explicit in their acknowledgement of the key role of parliaments in aid management and ensuring the evolution of effective states. Action on the part of parliaments is seen as a critical component of all three areas focused upon in the agenda including: (i) increasing country ownership, (ii) building more effective and inclusive partnerships for development and (iii) delivering and accounting for development results. The AAA, like the Paris Declaration, acknowledges that it is important to ensure that mutual accountability relationships between donors and governments complement the domestic accountability relationships between governments and their citizens.

The Accra Agenda for Action

"We will engage in open and inclusive dialogue on development policies. We acknowledge the critical role and responsibility of parliaments in ensuring country ownership of development processes."

"We will be accountable to each other and to our respective parliaments and governing bodies for these outcomes"

"Donors will support efforts to increase the capacity of ... parliaments...to take an active role in dialogue on development policy and on the role of aid in contributing to countries' development"

Accra Agenda for Action,

September 2009

The Agenda acknowledges explicitly:

- Parliamentarians' role in preparing and monitoring national development policies and plans;
- The role of parliaments in holding their governments to account for the results of development spending;
- The need to build parliamentary capacity.

In addition, partner country governments committed to facilitating parliamentary oversight by disclosing revenues, budgets, expenditures, procurement and audits. At the same time, donors committed to disclose regular, detailed and timely information on the volume, allocation and, when available, results of development expenditure to enable more accurate budget, accounting, and auditing in partner countries.

In conclusion, the aid effectiveness agenda – as expressed through the Paris Declaration and the AAA – reflects the consensus that aid effectiveness depends on country ownership of strategy, country leadership of aid management, donor alignment with country strategies and heightened accountability for results. All of these, in turn, depend on active parliaments and their engagement with civil society.

How Aid Delivery Affects Parliamentary Oversight

1

Aid spending is diverse. The various types and modalities of aid delivery determine the nature and potential methods of parliamentary oversight. Implementing the parliamentary commitments arising from the Accra Agenda for Action, therefore, requires a good basic understanding of the differences between aid modalities. This section and the section to follow both

This section and the section to follow both investigate the ways in which aid can be categorised and how these distinctions influence parliamentary oversight.

The first distinction to be made is that of the various types of Official Development Assistance (ODA). ODA can be programmable at the country level – in which the partner country participates in deciding how it will be used – or not. Country-Programmable Aid (CPA), as the name suggests, is aid that partner countries themselves can programme according to their needs. This aid falls under the watch of parliaments.

Types of ODA which are used for special purposes (such as debt relief, humanitarian aid, NGO funding and administrative costs)

Official Development Assistance (ODA) is defined as grants or loans (cash and technical cooperation) provided by official agencies to developing countries and to multilateral institutions for flows to developing countries. In order to be considered ODA, the flows must have as its main objective the promotion of the economic development and welfare of developing countries

are excluded from the definition of Country-Programmable Aid. Partner country parliaments can track information on the use of these special funds at the country level, but cannot hold their executives to account for their use. Donor country parliamentarians, on the contrary, can investigate how these funds are used and put pressure on their executives to make their voices heard in the multilaterals' governing bodies.

Aid to the Government Sector: Another important distinction is that of aid to the government sector. Aid is deemed to be to the government sector when it is disbursed based on an agreement with a government agency authorised to spend or receive money for government. This would include works, goods or services sub-contracted

ODA can be categorised as Country Programmable Aid (CPA) or special purpose flows. Country programmable aid is characterised by partner countries having a say in how it will be used. Special purpose flows on the other hand refer to aid whose use is determined in the donor country and usually comprise funds for debt relief and humanitarian assistance. Partner country parliaments should take an interest in both, but have oversight obligations with regards to CPA.

to other entities such as NGOs, semi-autonomous agencies or private companies. While parliaments can be interested in aid that is not based on an agreement with government and which flows to, for example, civil society organisations, it does not have the right to oversee these flows. For these flows – used often for the special purposes mentioned above – the oversight responsibility largely rests on donor parliaments and governing bodies.

Cash Transfers, 'Aid in Kind', Grants and Loans: Aid transfers are distributed either in cash, or by a donor agency providing non-cash inputs. A common form of non-cash inputs is technical assistance, where

the donor provides expert advisors who are paid directly by the donor agency itself. Other forms might be food assistance, the provision of motor vehicles or other equipment. The defining element of aid-in-kind is that the donor agency itself pays the supplier of these goods and services. Both cash and in-kind transfers can be financed by a grant from the donor or by loan.

A grant is an aid transfer that is non-refundable by the partner country government. An ODA loan is money that is lent by the donor to the partner country government, but on provisional terms and with a grant element of at least 25% attached.

While the importance, nature and ease of parliamentary oversight over grants, loans, cash transfers and aid in kind may differ from country to country, there should be no doubt as to whether oversight should occur. The arguments in favour of parliamentary oversight set out in both the first and second section of the booklet still hold:

■ Aid is provided through an agreement with members of the executive, who are subject to parliamentary oversight by law;

■ Aid flows impact spending from domestic resources and on the country's macroeconomy;

■ Parliamentary oversight is essential for government ownership and accountability of aid spending.

Projects and Programmes, Pooled/Basket Funding and Budget Support: A final set of common distinctions concern how aid is delivered. Different donors and even different partner countries differ in the ways in which they categorise project support, programme support and sector or general budget support. Nonetheless, there are clear, broad, distinctions which can be made, which have been formalized in Organisation for Economic Co-operation and Development (OECD) - Development Assistance Committee (DAC) definitions and which are relevant for understanding the role of parliamentarians.

The distinction is often made between aid that is used for stand-alone projects (often investment projects) and aid that is distributed through a **Programme-Based**

Approach (PBA). A PBA is clearly defined in the Paris Declaration literature: it is aid delivery that is based on principles of co-ordinated support for a locally owned programme of development. Programme-based approaches imply:

■ Leadership by the partner country;

- A single, comprehensive, budget framework for all sources of programme revenue;
- Donor coordination and harmonisation of donor procedures;
- Efforts to increase the use of local systems for programme management.

There is no such definition for projects¹. However, projects could be understood as comprising all aid interventions that do not comply with one or more of these defining criteria. Aid interventions are usually called projects when they are financed by single purpose, earmarked, flows and are implemented by third parties often contracted through donor-specific procurement procedures. In many cases, the project is proposed and defined by the donor.

17

1 Outside of the aid context, projects can be distinguished from programmes by the fact that they are single-purpose and have a time limit. Government programmes usually comprise a series of on-going interventions which might include a number of projects, all aligned to the achievement of a coherent set of objectives. In the aid context, programme support too is finite and in some countries support to government programmes can still be called projects, particularly if it occurs off-budget.





Some countries define projects as all aid flows that are off budget, or not approved by parliament in the recurrent or development budget. This is not a useful definition since it implies that some aid flows remain invisible to accountability systems outside the partner country. In principle, all aid flows can and should be brought into the budget process, whether formally approved by parliaments or not.

Budget support is another way of delivering aid. A country can be said to receive budget support when donors provide a cash transfer that is not earmarked to a specific project or expenditure item, and is disbursed through the partner country government's own financial management systems. It is, therefore, by definition a PBA: in fact, most donors define budget support and PBAs, as financing modalities, rather than aid delivery modalities.

PBAs that are funded through budget support are identified as either sector budget support or general budget support. General budget support occurs when a donor provides the non-earmarked cash transfer into the common pool of resources which Pooled or basket funding refers to a joint donor funding arrangement for a Programme Based Approach where funds are disbursed into a common pool for use against an agreed government programme. In principle in a basket-funding agreement no party may earmark for which purpose within the programme its funds should be used. A basket funding approach is often confused with a Sector Wide Approach (SWAp). The two often work together, but whereas the former refers to the financing modality, the latter refers to the set of arrangements and formal mechanisms for working together and supporting a sector as a whole. In other words, some donors who participate in a SWAp might only support projects within the sector outside of the funding, but would still agree these projects through the arrangements of a SWAp.

fund the implementation of a partner country's overall development strategy through the budget. Strictly speaking, sector budget support should also not involve any earmarking and becomes sector support merely by virtue of its policy discussions and sector specific performance criteria. Some donors, however, still identify earmarked sector-based cash transfers as sector budget support. These should be classified as a PBA funded through a pooled or

basket funding arrangement. The support funded by the basket funding arrangement can either be implemented by government directly, or through a Programme Implementation Unit.

In summary, aid flows are of interest to parliamentarians because of their macroeconomic effects on government-funded public services. Parliamentarians can demand oversight of aid which flows to the government sector designated as Country-Programmable Aid (CPA). That is, whatever the nature of the aid flow – a loan or grant, project or programme support, cash or in-kind support – it falls within the oversight scope of parliamentarians. Moreover, this oversight is supported by the Paris Declaration and accompanying Accra Agenda for Action.

How Is Aid Managed? The Aid Management Cycle

The aid management cycle is the cycle through which:

- Donor countries' (or multilateral institutions and international funds) aid budgets are allocated to specific countries, for specific purposes;
- Donors reach agreement with partner country executives on the use of aid;
- Aid is disbursed and spent as agreed to deliver goods and services;
- Aid spending is accounted for, reported and audited;
- Aid programmes are evaluated.

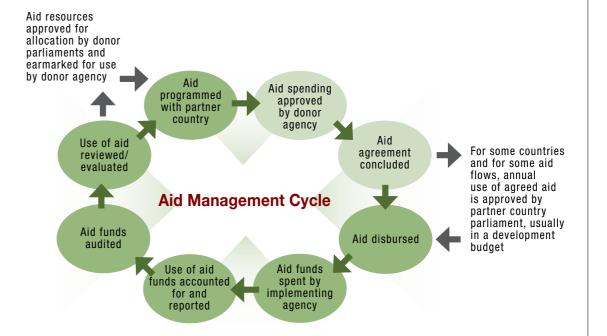
The aid management cycle is typically conducted by the donor agency and the relevant members of the partner country executive. This cycle can be broken down further and depicted as a diagram.

How aid is managed in this cycle has a stark impact on the effectiveness of the aid distributed. The diagram below depicts the current situation. The green circles concern activities in the aid cycle that in accordance with the Paris Declaration should be

Aid agreements are entered into by the aid agency and relevant members of the partner country executive on behalf of the partner country. Which members of the executive are entitled to conclude aid agreements is a function of country specific legislation, policies and practices. In some countries the finance minister or president must be a party to the agreement. In other countries agreements can be entered into by sector ministers, but with a requirement to inform the finance ministry and in other countries even this requirement is not in place. Coordinated management of aid flows at the country level however requires a pooling of information and some sort of centralised arrangement ought to be in place.

undertaken using country systems. These systems provide assurance that the aid will be used for the purposes it was originally intended. The use of these systems will increase country ownership of aid programmes, reduce transaction costs and strengthen the systems. The diagram also illustrates the limited extent to which parliaments participate in the cycle.

Diagram 2: The Aid Management Cycle in Current Practice





Different types of aid are more or less likely to use country systems in the aid cycle. Aid flows that are provided in kind for project support (for example a road built with equipment, materials and human resources imported by the donor) are the least likely to use any of the systems. On the other end of the spectrum, however, general and sector budget support use, by definition, all of the systems highlighted. A basketfunded programme, on the other hand, might use country systems to plan and approve spending, but use donor disbursement, procurement, accounting and auditing systems. Exactly how each individual

aid intervention is managed is a function of the agreement signed between the donor agency and the partner country.

This diversity creates problems for parliamentary oversight of aid. Parliaments do not have the capacity to track every aid intervention, nor is it desirable that parliamentarians are privy to each decision in the aid cycle. That would veer too far towards overstepping the separation of powers and undermine their ability to hold the executive to account for the outcomes of its decisions.

How Do Parliaments Ensure Better Aid Management?

Parliamentary participation in aid management can be enabled through two sets of related interventions. Firstly, against the aid management cycle, parliaments should take up their rightful oversight roles before and after the fact with much more rigour. Secondly, in order for this to happen, mechanisms are required in the budget process whereby partner country governments report transparently – in other words regularly, systematically, comprehensively, accurately and meaningfully – to their parliaments on the volume, allocation and use of aid flows to the government sector.

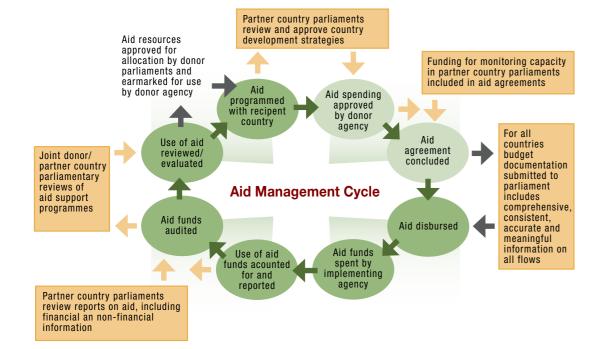
Aid is transparent when regular, systematic, comprehensive, accurate and meaningful information is provided by the partners in the aid contract to their respective populations on time.

Currently, oversight of the aid management cycle is far too weak. The diagram below – an adaptation of Diagram 2 above – shows critical steps towards effective oversight of aid.

Key steps to make the aid management cycle accountable include:

- Parliamentary partnerships and joint review: The active pursuit of a partnership between donor and partner country parliaments to ensure aid effectiveness. This partnership will find its expression primarily through the institution of joint reviews of aid programmes.
- Partner country parliaments approving national development strategies: Currently parliaments are not consistently and effectively included in processes to draft the national development strategies which partner countries are committed to in terms of the Paris Declaration. This must change: parliamentarians as the elected representatives of the people have a greater role to play in these strategies than civil society, which is now routinely included. Going forward the Civil society is best placed to play a supporting role, while parliaments take on a more prominent role in the process.

Diagram 3: A more Accountable Aid Management cycle





■ Donor country parliaments ensuring that capacity building of parliaments is included in country support programmes. Parliaments cannot take up their role in the oversight of aid without sufficient capacity. Donors can play a meaningful role in facilitating the development of capacity by ensuring that country programmes include support for capacity development of parliaments and parliamentarians.

25

■ Regular information on aid provided to partner country parliaments, both before and after the fact. Effective oversight of both aid and domestic spending requires that partner country parliamentarians receive transparent information on aid commitments and aid use. This information can be provided in the aid management cycle. However, as argued below, the budget process is the most effective vehicle for the pooling of aid information.

Bringing Aid On Budget

In many countries, executives should, in principle, report on aid. Yet this does not happen, often because transparent information on aid spending is not available.

Partner countries could choose to undertake this reporting annually, as a regular feature of the aid management cycle. Such a step would strengthen domestic accountability for aid use, but would create an unnecessary burden of aid management on partner countries. It would also fail to strengthen partner country's' overall systems for managing public resources. In short, it would fall short of the international commitments on aid effectiveness. Therefore:

The best solution is for aid to be brought onto budget. National budgets are existing instruments which periodically bring together all sources of government revenue and all proposed uses.

Bringing aid onto budget:

■ Will not only address key aid effectiveness issues: But will also reduce the negative impact of poorly managed aid on the effective use of domestic resources.

Systematically bringing all forms of aid onto budget would mean that parliaments can use their existing powers of budgetary oversight to hold their executives to account for the use of aid.

Not all government budgets are as comprehensive as they should be. It is a principle of sound public finance management that budgets should show all sources and uses of funds so that proper trade-offs can be made against priorities and government activities can be coordinated. Even if funds are not approved by parliament through the budget, they should be reflected fully in budget documentation. This is an accepted international standard (IMF Fiscal Transparency Code). In practice, however, many flows-including aid flows to the government sector- are excluded, undermining the comprehensiveness of government budgets.

This practice is also in line with recent international commitments. The Paris Declaration and the Accra Agenda for Action are clear in their resolve to report aid on budget and use country systems, in other words: the use of domestic systems for managing and implementing the budget throughout the budget cycle.

Bringing aid on budget, however, does not mean that all aid in the form of budget support will be subject to meaningful oversight by partner country parliaments. In practice, aid may be more or less aligned with the government system during some stages of the budget cycle and not during others, as is illustrated by the Diagram 3 and the CABRI/SPA² definitions below. In fact, it is unlikely that all aid will ever be fully managed by country systems.

The blue circles in the diagram show where parliaments have the potential to oversee aid flows by virtue of their oversight of the budget in the budget cycle. While capturing aid in other parts of country systems is also necessary for aid effectiveness, it is particularly important that aid is captured "on budget" and "on report" for the strengthening of domestic accountability systems. Oversight is clearly strengthened when aid is approved by parliament

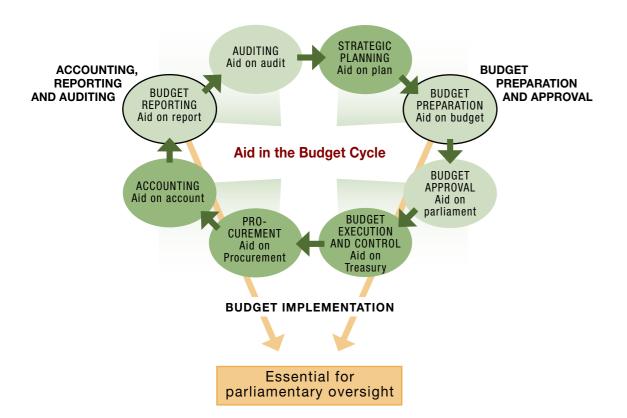
as part of the budget approval process and overseen through reporting. Oversight is further fortified when it is included as part of the processing of audit statements ("aid on audit") and not merely reflected on budget documentation.

Of course, capturing aid on budget only improves the executive's ability to manage aid well-together with domestic resourcesif aid is *reflected* on budget, *integrated* into strategic planning processes, and integrated into budget preparation. Bringing aid "on budget" will increase the likelihood of this happening.

2 The definitions now widely used by the Working Party on Aid Effectiveness were first developed in a Synthesis Report and Good Practices Note on Aid on Budget produced for the Collaborative African **Budget Reform** Initiative (CABRI) and the Strategic Partnership for Africa (SPA) by Mokoro Limited.

27

Diagram 4: Aid Capture in the Budget Cycle





Term	Definition		
On plan	Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions		
On budget	External financing, including programme and project financing, and its intended use reported in the budget documentation		
Reporting aid on budget is a	eporting aid on budget is a minimum condition for parliamentary oversight		
On parliament (or "through budget")	External financing included in the revenue and appropriations approved by parliament		
Appropriating aid through le	ppropriating aid through legislation is a stronger support for parliamentary oversight		
On treasury	External financing disbursed into the main revenue funds of government and managed through government's systems		
On accounting	External financing recorded and accounted for in government's accounting system, in line with government's classification system		
On report	External financing included in ex post reports by government		
Including all aid in ex post re	ports is a minimum condition for parliamentary oversight		
On audit	External financing audited by government's auditing system.		
Including aid in reports by the country's Supreme Audit Institution is a strong support for parliamentary oversight of aid			

Source: Mokoro Limited, 2008. Putting Aid on Budget: A study for the Collaborative African Budget Reform Initiative (CABRI) and the Strategic Partnership for Africa (SPA), CABRI, Pretoria.



"On budget" means that all aid is reflected in the national budget documentation *even* if not approved by parliament in terms of the country's public finance management legislation.

"On report" means that aid is included in government reporting to parliament, even if not accounted for using country accounting systems or audited using country auditing systems.

Making all aid flows transparent to parliament in this manner is an important step towards strengthening parliamentary oversight of aid and ultimately improved aid effectiveness.

Parliaments And Aid Effectivness: Emerging Good Practices

Parliamentarians are not just another domestic stakeholder in aid management. They are part of the institutional infrastructure of aid recipient states. As such, they are an important partner in the aid relationship. In this final section, we look at what tools parliamentarians have at their disposal as well as the requirements necessary for parliamentarians to play their role in aid management.

Meaningful partner country oversight of aid is not just dependent on the actions of the partner country executives and parliaments. These are important components, but donor parliaments, donor aid agencies, and their country representatives can make a valuable contribution to improved oversight as well.

A legislative framework which is conducive for parliamentary powers of oversight is a first condition for effective oversight. Such frameworks are rooted in country constitutions and parliamentary practice. As such, these are not easy to change. However there are instances (see boxes below on Uganda and Rwanda) where parliamen-

tarians can use their legislative powers to adapt these frameworks. When parliamentarians become more involved in aid oversight, the legislative framework is, necessarily, their first point of departure.

But adjusting these frameworks is not the parliamentarians' only option. Within any legislative framework parliamentarians can engage with aid and overall government spending meaningfully if:

- They have access to good information on spending;
- They have the capacity to interrogate spending and results:
- They have internal processes, conducive to assess budgets and spending.

Given international commitments such as the Paris Declaration and the Accra Agenda for Action, partner country parliamentarians can take an increasingly active role in budget and aid management. The quality of this oversight will depend on the capacity of parliaments and their members to exercise oversight generally.



Therefore, in partner countries:

- Parliamentarians need to ensure that they make full use of their existing oversight powers and tools in holding executives to account for all forms spending. These include, but are not limited to Questions, Interpellations, Committees of Inquiry, and Committee Hearings. (see box on the creation of a Budget Office in the Kenyan Parliament to improve parliamentary engagement with the budget).
- If existing budgetary oversight powers are weak, parliamentarians can make use of their legislative powers to elbow open a meaningful space in the budget process (see box on Uganda's fiscal management bill).
- Parliamentarians need to demand changes to the documentation submitted with the budget in order to be able to better assess the context of spending appropriations. Demanding that all aid flows are reflected on budget, meaningfully and accurately, would be part of such a step (see box on

Creating Parliamentary Capacity for Budget Oversight in Kenya

The budget is a highly technical document which is put together by the executive over many months, utilising technical expertise in the government. Unless parliamentarians take active steps to match that expertise, they are likely to be overshadowed by the executive in any attempt to use their oversight powers to hold it to account. In 2007, the Kenyan Parliament created a Parliamentary Budget Office in order to ensure the type of technical expertise that is required to undertake budget work. This office assists various parliamentary oversight committees in their assessment of the executive's spending and revenue proposals as well as in their assessment of actual spending.

the Rwanda parliament's demand to be given information on how spending affects men and women differently).

■ Parliamentarians need to undertake budgetary oversight in such a manner that government's actual spending is in line with its budgeted appropriations. Successful Public Accounts Committees are associated with periods of time in which the opposition acts as chair. Parliamentarians can support this practice. This would also mean parliaments

Legislating for a Stronger Parliamentary Role in Uganda

In 2001, the Ugandan Parliament passed legislation which stipulated that the executive had to provide it with an early view of budget allocations so that it could play a more active role in overseeing the budget. Previously, the Ugandan budget calendar allowed little time for parliament to assess the budget before passing it. In terms of the legislation, government is now required to table an outline of fiscal and budget policy proposals well in advance of the detailed budget, so that the parliamentary budget committee can assess the proposals. It also created a Budget Office to assist parliament in this task.

would need to develop parliamentary processes that link the oversight of public accounts committees with the oversight of appropriation committees.

■ Parliamentarians need to oversee the degree to which their executives fulfil the commitments that they have internationally agreed to in terms of the Paris Declaration and the Accra Agenda for Action. This would mean that parliamentarians would put pressure on executives amongst other to:

Demanding Better Budget Documentation in Rwanda

Rwanda has made great strides in improving how meaningful the budget is when submitting its draft finance law to parliament. The finance law now provides an integrated view on recurrent and development spending organised by delivery programmes, rather than by government institution. However, in 2008, the Rwandan Parliament demanded that more contextual information be provided with the budget, specifically on the ways in which the budget affects men and women differently. This information was not intended to be put on the finance law, but be provided as supplementary documentation along with the finance law.

- Take charge of aid management and manage aid to achieve results;
- Strengthen the linkages between national country development strategies and annual and multi-annual budgeting;
- Establish result-oriented reporting so that progress can be monitored against key national and sector strategies;
- Strengthen country systems, particularly public finance management and procurement systems.



But above all, it would mean that parliamentarians demand to oversee all forms of aid, particularly by having all aid flows reported on budget.

It would also mean that parliamentarians individually, and parliaments as institutions, would need to engage in partnerships with other institutions within their country, on the continent and internationally. Locally, parliaments can tap into public policy and aid management expertise by drawing on

Public Accounts Committees Learning from Each Other

Southern African Development Community Organisation of Public Accounts Committees (SAD-COPAC) was established in 2003. Its main purpose is to empower the public accounts committees of the Member States to effectively carry out their functions as oversight committees over public sector finance, and to promote good governance. The association meets annually to exchange experiences and lessons learnt. At the fifth annual SAD-COPAC conference in Lilongwe in August 2008, a training of members of public accounts committees was also held. Members also benefit from the close association of the network with the Supreme Audit Institutions in participating countries.

civil society organisations, research institutions and think tanks for support. Across the continent, parliaments and parliamentarians can form learning networks with their peers, such as the Southern African Development Community Organisation of Public Accounts Committees (SADCOPAC, see box).

Internationally, it is imperative that African parliamentarians participate in joint international institutions along with their peers. The Joint Parliamentary Assembly was set up in terms of the agreements governing aid from EU member states to countries in Africa, the Caribbean and the Pacific. This is a major aid inflow into Africa and while the Joint Parliamentary Assembly has no decision-making power, it is a mechanism through which parliamentarians in partner countries can link up with their counterparts in the European Parliament.

The Association of European Parliamentarians for Africa (AWEPA) is another avenue through which partner country parliamentarians in Africa can network with their col-

AWEPA is an international non-governmental organisation which works in cooperation with African Parliaments to strengthen parliamentary democracy in Africa, keep Africa high on the political agenda in Europe, and facilitate African-European parliamentary dialogue. AWEPA works in Africa from a development perspective to strengthen the core functions of parliaments: oversight, representation and legislation. It believes that strong parliaments are essential prerequisites for Africa's development and ultimately its stability, peace and prosperity.

leagues in donor countries in the democratic oversight of bilateral and multilateral aid. AWEPA implements parliamentary capacity building programmes throughout Africa and facilitates the engagement of European donor parliaments in this process. Parliamentarians are able to tap into a broad base of good practices and South-South learning as well as North-South policy dialogue. AWEPA's partners in Africa include the Pan-African Parliament, NEPAD, regional parliamentary bodies and national parliaments.

Partner country executives have committed themselves to improving the transparency and accountability of budgeting overall, and their use of aid flows in the Paris Agenda and AAA. To these ends, partner country executives must be accountable for their use of aid to their parliaments, improve partnerships for development and manage aid for the achievement of results. Specifically, they have committed themselves to:

- Work more closely with parliaments and local authorities in preparing, implementing and monitoring national development policies and plans;
- Facilitating parliamentary oversight by implementing greater transparency in public financial management, including public disclosure of revenues, budgets, expenditures, procurement and audits.

Partner country executives also have a role to play in arranging an effective interface between their aid management and budget management systems so that information on aid flows and use can be collected in

Accounting for Aid in Rwanda

In 2008 the Government of Rwanda took a major step forward by compiling a consolidated list of national accounts that included all aid that has reached to the government sector in 2007, whether administered by government, donors or third parties. This exposed under-reporting of aid on budget as well as discrepancies with aid databases. The exercise enabled the government to look closer at the integration of aid in the budget cycle, for all types of aid to the government sector, whether it was administered through government systems or not.

the budget cycle, even if the aid is implemented by the donor or a third party, such as a project implementation unit (see box on Rwanda).

It is essential for meaningful parliamentary oversight of aid that partner country executives make progress towards achieving these commitments and are held accountable for the achievement by their parliaments and development partners.

In the spirit of the Paris Declaration, compliance implies that donor agencies need to ensure that the aid they deliver and how it is delivered, supports the development of a parliamentary voice in aid management. A key problem in putting aid 'on budget' which is not disbursed and managed through country systems, is the lack of timely, accurate, comprehensive and meaningful information on the planned and actual use of aid flows. For aid which is administered outside of country systems, donors hold this information.

This problem can only be solved if donors take their Paris and Accra commitments seriously at the country level, in each partner country. This would mean that donors must:

■ Publicly disclose regular, detailed and timely information on volume, allocation and, when available, results of development expenditure to enable more accurate budget, accounting and audit by developing countries.

Donors have also committed to building the capacity of partner country parliaments in order to facilitate their active participation in the dialogue on development policy and on the role of aid as a contribution to national development.

In order for aid to truly be effective, donor country parliaments and parliamentarians need to evaluate the results of spending and engage with their partner country counterparts. Aid effectiveness should be a key concern of donor country parliaments. This holds both for aid that is disbursed through bilateral arrangements and their country contributions to multilateral organisations. Donor country parliaments have long been concerned about the regularity of and fiduciary assurances for aid spending, some more than others. However, this is only a first step toward aid effectiveness. If donor parliaments take aid effectiveness seriously, they should be concerned:

- With the results of spending. Oversight entails holding their aid agencies to account for the proper use of aid funds as well as their effective use for the achievement of development results.
- With donor agencies' implementation of

the Paris Declaration and Accra Agenda for Action. This would entail ensuring that donor agencies, amongst others, help build the capacity of partner country parliaments and provide regular, detailed and timely information on aid at the partner country level to partner country governments for inclusion 'on budget' and 'on report'.

For all forms of aid, donor parliaments' interests coincide with that of their counterparts in partner countries. Parliamentarians on both sides want to see aid flows used effectively for their intended purposes. Parliamentarians in both the north and the south are isolated to various degrees from current practices in aid management. Building effective partnerships, networks and joint mechanisms of oversight between donor and partner country parliamentarians offers advantages for those on both sides of the aid equation.





Summary And Way Forward

This booklet has argued that oversight of aid flows by partner country parliaments is a necessary condition for aid effectiveness, for the effectiveness of partner country budgets and for building effective states in developing countries. Partner country parliamentarians are not just simply another domestic stakeholder: as elected officials they are partners who must be engaged- observing the imperatives of the separation of powers. Continuing to isolate them from the management of aid flows represents a significant development risk and undermines the most significant mechanism for domestic accountability at the country level.

It has further been argued that given the complexity of aid types, the aid management cycle and the principles of the separation of powers, the best place to conduct effective oversight of aid is from within the budget cycle itself. This means that aid—for purposes of oversight by partner country parliamentarians—should at the very least be reflected fully in government budget documentation and ex post reports. To achieve this would require interventions by all stakeholders

within the aid architecture: donor parliaments, donor agencies, as well as partner country executives and parliaments.

Currently, country systems are not used often enough, in large part, because they are not functioning optimally. Evidence has shown that without effective domestic oversight systems, a trusting relationship between donor and partner countries is difficult to achieve. As this booklet shows, parliaments and parliamentarians have an important role to play in helping to remedy this. Truly effective aid and - more importantly - development, becomes possible when donor agencies provide capacity support to partner country parliaments and work create an enabling environment and incentives for parliaments to play a role in national development planning and oversight.

Parliamentarians themselves, however, hold the key to instigating this change. Representatives from both sides of the aid contract need to be proactive in their home parliaments and work together to assure that aid is used effectively.



Colophon

AWEPA 2009

ISBN/EAN:

9789078147077

Author:

Alta Fölscher, Mokoro

Co-Author(s) / Editor(s):

Kristen Heim; Dr. Jeff Balch; Stephen Lister, Mokoro

Design:

Rob van der Doe - Jantine Jimmink (www.vanderdoe.nl)

Cover Photo, Mozambique Parliament:

Pieter Boersma

(www.pieterboersmaphotography.com

Illustrations:

Martin Dionet

Printing:

Grafinoord (www.grafinoord.nl)







