

The Money Trail: Ranking Donor Transparency in Foreign Aid¹

Anirban Ghosh
Brookings Institution

Homi Kharas
Brookings Institution

January 2011

Research Associate, Global Economy and Development, The Brookings Institution, Washington, D.C.,
aghosh@brookings.edu
Senior Fellow, Global Economy and Development, The Brookings Institution, Washington, D.C.,
202.797.6105, hkharas@brookings.edu.

Abstract

Transparency of aid activity is being recognized to be one of the key areas whereby aid effectiveness can be improved. In this paper, we propose an index to measure and rank donors on the transparency of their aid activities. The Transparency Index rates 31 bilateral and multilateral donor agencies on six measures of transparency. We find that being a member of the IATI is a powerful signal of a donor being more transparent across most other dimensions as well. We find no relationship between transparency and donor aid volumes. Overall IDA and Australia are identified as the most transparent donors, while Korea and IDB Special Fund are the least transparent.

1. INTRODUCTION

Official Development Assistance (ODA)² is one of the most important instruments of collaboration between rich nations and poor nations. In 2009 alone, net disbursements of ODA were \$140.2 billion³, and over \$3.76 trillion between 1960 and 2009⁴. For 31 recipient countries ODA was greater than 10% of their GDP in 2008 (Moon and Williamson, 2010).

There is growing consensus that aid transparency must be improved to get better aid effectiveness⁵. Aid transparency can be defined as “the comprehensive availability and accessibility of aid flow information in a timely, systematic and comparable manner that allows public participation in government accountability” (Moon and Williamsom, p. 2, 2010).

The Accra Agenda for Action, a document summarizing the deliberations of the 3rd high level forum on Aid Effectiveness held between September 2nd and 4th, 2008, called on all donors to disclose aid information in a timely manner. The International Aid Transparency Initiative (IATI) was launched at the same forum. IATI brings together donors, recipients, aid experts and non governmental organizations to create a common and universally agreed method of sharing aid information between all stakeholders⁶. Currently 18 donor agencies are members of the IATI.⁷

Why is transparency important? Are some donor countries and multilateral agencies more transparent than others? Is there a good way to measure transparency of aid across

different donors? In this paper, we construct a quantitative index to measure donor transparency. Our transparency index is an aggregation of six indicators, each of which can be measured annually. In this way, the index can be used to bench-mark countries or aid agencies against each other as well as to measure changes over time.

In section 2 we explain why transparency is important for aid effectiveness. In section 3, we look at how indices have been used elsewhere in policy analysis. In section 4 we survey existing literature on transparency indices. Section 5 describes the data and our index methodology. Section 6 has the results, the index values, and selected case studies. Section 7 concludes.

2. IMPORTANCE OF TRANSPARENCY IN AID EFFECTIVENESS

We choose to look at elements of transparency that are needed to improve aid coordination and accountability. Complete transparency means that everyone can see how much aid is being given by each donor, to whom, for what projects, and when. It also means providing information about the impact of an aid project or program. Having access to this information helps recipient countries plan better, and can affect the composition of spending and the use of aid. Without greater transparency, there is considerable duplication and waste, a problem which was identified at least since the Pearson Commission report, “the present multiplicity of agencies and their lack of coordination lead to much unnecessary duplication of effort” (1969, p. 28). Almost forty years later, in 2005, the UNDP (2005, p. 100) made very similar statements: “weakly

coordinated donors, many of them operating overlapping programs...” are a serious problem (Easterly, p. 6, 2007).

Over the last ten years, the number of new aid projects has skyrocketed, and their average size has shrunk drastically. In 2007, there were 79,875 new aid activities by the Development Assistance Committee (DAC) bilateral donors, up from 18,827 in 1997 (Figure 1). During this time, the mean size of each activity fell from \$2.2 million in 1997 to \$1.2 million, and the median aid project size in 2007 was only \$83,267. This fragmentation of ODA makes it even harder for aid agencies to coordinate their activities and duplication and waste could be growing. Because of the lack of transparency of who is doing what where, it is impossible to quantify the waste—the data simply do not exist. But anecdotes abound: in Aceh, a little girl surprised doctors by developing a case of measles in 2005. While the girl recovered fast, doctors later discovered that the measles symptoms were the cumulative result of three vaccines she received from three different aid organizations (Djankov *et al.*, 2009).

Figure 1 inserted here

Figure 1 – Fragmentation of aid activities

Transparency is also valuable in combating corruption. For example, in Uganda, a public expenditure tracking survey in 1995 found that the share of donor-funded education programs actually reaching schools was only 20%. As a result of an information campaign making transparent what each school was supposed to receive from the

Ministry, the funds flow increased to more than 80% by 2001 (DFID, 2010). Collins *et al.* (2009) estimate that at least \$18 billion of aid a year is susceptible to capture, of which about 25% is currently diverted due to corruption. On this basis, they estimate that the reduction in capture could be in the region of \$2.2 billion a year, if agencies were to be more transparent in their activities.

Greater transparency affects all major stakeholders in development assistance programs:

- Donor Country Taxpayers: ODA is a voluntary transfer that ultimately depends on the support of donor country taxpayers. Aid transparency allows taxpayers to understand how their taxes are being used, and thus to become more engaged in and supportive of aid. A November 2010 survey conducted by the program on international policy attitudes (PIPA) at the University of Maryland PIPA found that Americans on average over-estimate by the amount their government spends on foreign aid by about twenty-five times. The median response to how much of the federal budget was spent on foreign aid was 25%; when asked the ideal amount that the government should spend on aid, the median response was 10%. The actual percentage of the budget going to foreign aid is only 1%. Perhaps not surprisingly, given this misunderstanding, another recent survey shows 71 percent of the US public overwhelmingly in favor of cutting foreign aid in the current tight budget environment (The Economist, 2010). Other gaps between aid policy and citizens' desires emerge: a strong majority of the US public prefers to give aid through multilateral institutions rather than bilaterally, but the US share of aid going through

multilateral institutions fell to 11 percent in 2008, half the level of a decade before. More transparency would help preserve the base of public support for aid.

- Donor Country Governments: Greater transparency helps donor nations to more effectively evaluate their aid programs. Some countries, such as the United States, provide aid through multiple agencies, often with overlapping responsibilities. There is no clarity between foreign assistance objectives, legislation and Presidential initiatives and the activities of foreign assistance organizations (Brainard, 2006). The result is a confusing duplication of activities and diffuse accountability. The mandate question “what is this agency’s aid for” is often unanswered.
- Recipient Country Citizens: A lack of transparency can fuel misperceptions in recipient countries about the purpose and magnitude of aid, and donors can be blamed for poor results that may not be of their making. As noted by Oxfam America (p. 8, 2010), “even when the US government has the best of intentions with its aid, its lack of transparency often leaves people in recipient countries second guessing the intent of the US.” Greater transparency is necessary for recipient country citizens to be able to hold their governments accountable over any discrepancies between aid received and aid spent. For example, in Afghanistan, an official at the Ministry of Finance when interviewed by Oxfam America said that since 2001, the US had pledged \$32 billion in aid but less than 20% (\$6 billion) was recorded in the government databases. This means that Afghans have no way of knowing what happened to the other \$26 billion that the US could have spent in their country (Oxfam, 2010). With

greater transparency of how much aid is coming into their country, citizens and government officials can have a greater say in how best to use the funds.

- Recipient Country Governments: More comprehensive and timely aid information helps recipient countries plan their budgets better. This is especially true for aid dependent countries, where ODA forms a large part of their budget. Consider the example from Kenya, where the government is unable to track how the \$502 million that the US spent in 2008 for HIV/AIDS is being used. Quoting an official in the ministry of Public Health, “It is easy for us to know what kinds of things and where PEPFAR [the US President’s Emergency Plan for AIDS Relief] is funding. But I’ve been asking for a list of partners, where they are working, how much they are spending, on what—but I can’t get it. I’m supposed to be supervising these activities, but I don’t have the information” (Oxfam, p. 6, 2010). Nigeria’s 2008 National Planning Commission reports on the difficulties of the government in trying to locate where and how donors spend their foreign aid in the country. USAID and the EU were able to provide most of the information (although with the EU there was a three month delay), but Canada’s aid agency (CIDA), DFID (UK) and JICA (Japan) were much less cooperative with sharing their information (Steven, 2010). For example, “CIDA claimed disbursement did not tally with what they had actually spent...[It] refused to supply more information when asked [to]...”(Steven, 2010).

While advocating for greater transparency, we are aware that it is not a free good.

Improving transparency will require additional investment and organizational changes by

donors. These costs are mainly administrative, adapting IT and reporting systems to global standards and also staff time spent in training and reporting of aid activities. Collins *et al.*, (2009, p.4) estimate the additional cost for donors for implementing high transparency standards, as laid out by IATI, to be between \$3.8 and \$8 million. But the savings are also enormous. Donors currently provide considerable amounts of information on request to a range of stakeholders, but much of this is done manually because standardized, computerized reporting systems are not in place. The savings on automating provision of aid data alone would more than offset the costs of investing in better transparency systems. In addition, the estimated potential indirect benefits from more efficient aid are estimated by the same authors at about \$2.2 billion a year.⁸ The case against transparency cannot be argued on cost or technical reasons, but seem to be fundamentally political—a reluctance to automatically release information that could potentially be damaging to an organization.

3. EFFECTS OF CREATING A TRANSPARENCY INDEX

A transparency index serves as a quantitative measure that is comparable across countries or agencies. This measure can then be used to benchmark donors, thereby incentivizing them to enact reforms in certain areas to improve their performance relative to peers. In other words, the benchmarking index assesses a donor against what others are actually doing in practice rather than against an abstract notion of “good” behavior. A secondary purpose is to use the index for research purposes to document the importance of making progress on the transparency agenda. We believe a transparency index can be associated

with outcome measures such as less corruption, and improved poverty, health and education outcomes.

Indices, by design, are quantitative. But in some cases, like transparency, there are no easily observable metrics that can be measured. In compiling our transparency index, we have chosen sub-indicators that are measurable and that we believe are correlated with a latent, unobservable variable (“the organizational culture of transparency”). As such, our sub-indicators are not in and of themselves the focus of priority reform areas. In this, we differ from other indices. We are not trying to claim that improvement in the sub-indicators literally improves transparency. But we do believe that an agency that cultivates a culture of transparency will achieve an improvement in the sub-indicators selected by us for measurement.

Indices have recently been developed for a number of development areas, and experience suggests that such benchmarking has indeed helped to “move the needle” by bringing differences in performance between agencies to the fore. In the case of transparency, it is important to have a driver of change, as lack of transparency has been an issue for many years. The problems of aid coordination appear to be getting worse not better over time. Almost everyone pays lip-service to the importance of transparency but without specific indicators it is hard to hold them accountable for putting into practice their commitments.⁹ A Transparency Index fills this gap by generating a dialogue on which donors are putting into place a transparency agenda on aid and how aggressively they are moving to implement such an agenda.

Below, we illustrate the point that quantitative indices can spur reform by looking at the experiences of four other indices. The success of these indicators suggests that a Transparency Indicator for aid could also be helpful.

(a) Doing Business Index

The World Bank introduced an annual ranking of countries, called the *Ease of Doing Business Index* in October 2003. It monitors client requests for assistance in improving the investment climate and, based on this feedback, the Bank estimates that the *Doing Business* index has inspired 113 reforms around the world between 2003 and 2008.

Tellingly, individual countries have targeted improvements in this index as goals for their progress in making their countries investment friendly. For example, Georgia targeted the top 25 list in 2006 and ranked 18th by 2008, Saudi Arabia (ranked 23rd in 2008) and Mauritius (ranked 27th in 2008) target a top 10 position as their objective. Mozambique targets to be the highest ranked country in Southern Africa (Doing Business, p. 7, 2008).

(b) Humanitarian Response Index

Development Assistance Research Associates, DARA, created the Humanitarian Response Index (HRI) in 2007. The HRI is an annual index that ranks 22 OECD donors (plus the EC) on their performance in supporting and funding humanitarian action.

According to the DARA website, this “annual ranking allows governments, humanitarian

organizations and the public to track the overall progress and evolution of donors' performance in the humanitarian sector. More importantly, it helps stimulate public debate and reflection on what defines good practice¹⁰.”

The HRI focuses attention on the best and poorest performers amongst the donor countries. According to the DARA website, “Privately, more and more staff of donor agencies have told DARA that the HRI provides them with information that can be used for internal lobbying within their agencies to encourage and apply good practice.¹¹” The HRI has been successful in highlighting some areas of humanitarian response which have previously been ignored by donors, such as improving the quality and use of needs assessment.

(c) Corruption Perceptions Index (CPI)

Since 1995, Transparency International (TI) has been reporting the Corruption Perceptions Index or the CPI on an annual basis. This index ranks more than 150 countries in terms of perceived levels of public corruption, as determined by expert assessments and opinion surveys. The CPI has been used as a measure of corruption for research purposes in many fields including higher education, economics, and political science(e.g., [Heyneman *et al.*, 2008], [Svensson, 2005] & [Drury *et al.*, 2006]).

According to the TI (2008) website, “it has been widely credited with putting the issue of corruption on the international policy agenda,” as TI national chapters have used the index to promote policy change.

(d) Revenue Transparency Index

In 2008, Transparency International and Revenue Watch released “*Report on Revenue Transparency of Oil and Gas Companies*”, a ranking of 42 oil and gas companies around the globe evaluating their revenue transparency policies and management systems. The index found largely inadequate disclosure and anti-corruption practices of these 42 companies (RWI, 2010), and the report argues that this contributes to mineral-source developing countries’ entrapment in a ‘resource curse’. By identifying high performers, the report shows that good corporate self governance is possible, and these high performers can create a benchmark for other corporations to follow.

4. PREVIOUS WORK ON TRANSPARENCY INDICES FOR AID

Previous work on transparency indices for aid has been done by Easterly and Pfitze (2008), Williamson (2010) and, most recently, Publish What You Fund (2010). Given the similarity between the Easterly/Pfitze and Williamson’s approaches, we can classify their work as the first generation of transparency indices, and the Publish What You Fund and our approach as the second generation.

Easterly and Pfitze’s transparency index is an average of two parts. The first part is the ease of access to an aid agency’s staff information and operating costs via their website and their responsiveness to email inquiries. The second part of the index evaluates

whether donors report information to the Development Assistance Committee's (DAC) database, and the Credit Reporting System's (CRS) database on aid activities. The authors look at five different OECD statistics tables. Each donor gets one "transparency point" for reporting to each table, and the index is an average number of points gained. No attempt is made to address the quality of donor reporting¹². For example, if a number was reported to "Total Official Flows" through DAC, the agency was given 1 point and 0 if the report was missing. There is no attempt to look at discrepancies between reported numbers and actual disbursements. Even partial reporting gets a perfect score because of the binary nature of the Easterly/Pfutze indicator.

Our index, in contrast, has only one of six component indicators as a binary variable (signatory to the International Aid Transparency Initiative) and this indicator is accurately measured, as all signatories are published on the IATI website. Three other indicators adjust for the partial nature of data reporting by measuring the proportion of projects for which adequate information is revealed.

Williamson (2010) has the same flavor as Easterly and Pfutze, but with newer data.

Williamson creates three different indices. In two of them, the criterion is whether data is available rather than the quality or extent of the data that is reported. The third index is on agency operating costs, staff and salary information, by contacting agencies either via their web site or directly through email. This information, however, relates to a completely different concept of transparency. We are interested in transparency over an agency's project information as a tool to be used for planning, coordination and

evaluation. Agency operating costs is about transparency in the governance of an agency and may differ from country to country depending on the nature of the agency (a separate entity or part of a government ministry) and government accounting practices. As is the case with Easterly and Pfutze, the mixing of these two concepts of the purpose of the transparency index complicates interpretation of the results.

Publish What You Fund (PWYF) released their transparency index in late 2010, and improves on the earlier works by measuring the quality of data entered: for example, the completeness of project reporting, and not just whether a donor reported to the DAC's creditor reporting system or not. PWYF's approach of looking for proactive data is similar to our approach. They categorize transparency into three segments, commitment to transparency, transparency towards recipient government, and transparency towards civil society. PWYF's approach uses perception data as well as quantitative data.

The correlation between our index, defined below, and PWYF is 0.47, while the correlations between our index and Easterly and Pfutze is -0.04 and with Williamson is 0.11. The low correlations suggest that transparency is difficult to measure and that conceptual and data issues will generate different results. As the measurement of transparency is still in its infancy, with only a few attempts, it is worthwhile to explore alternative approaches, such as that used by us in the Quality of Official Development Assistance assessment, to try to extract relevant information from available data to the greatest extent possible.

5. THE QuODA¹³ TRANSPARENCY INDEX DATA AND METHODOLOGY

In our Transparency Index, we focus on data that agencies provide to publicly available, comparable databases. The index is an aggregation of six indicators, each based on annually updated data. They are cardinal, continuous measures (except one) that we believe serve as proxies for a latent, unobservable variable, namely the culture of transparency of the organization.

There are three defining characteristics of our Transparency Index, which we consider valuable. First we only use data that donor agencies proactively put in common databases so that they can be accessed and compared with other donors. We do not measure reactive responses, such as survey results, nor do we look at individual agency web-sites to see if information is buried there. For example, we penalize agencies for not providing project details to the global common data repository, the DAC creditor reporting system, even if those project details are available in the agency's annual report. The notion is that transparency implies data that is readily available, useful to others and comparable across donors so that it can be a tool for greater coordination and accountability. Information buried in an agency annual report or their own web-site does not meet the requirement of cross-donor comparability.

The second important characteristic of our index is that we use indicators that correct for partial reporting. In this way, we are able to make judgments on the overall quality and comprehensiveness of aid information and make more nuanced judgments on the degree

of transparency. Third, we explicitly compare donors to each other (by using z-scores), thereby creating a “best in class” measure and a base year measure of transparency. For policy purposes, it is useful to compare countries against what others are actually doing, rather than against a theoretical norm; at the same time, indices that have been useful for policymaking are those that have repeated measures over time that can be used to monitor progress on the indicator, in both absolute and relative terms.

While we have found indicators that have all of the above characteristics, we would be first to admit that the existing database is poor in a number of regards. First, the data are incomplete, especially with regard to coverage of the most important emerging economy donors and of private aid, so the list of comparators is smaller than what we ideally would like. Also, variables like disbursements cannot be accurately matched with commitments, so it is hard to know if projects are actually implemented. Second, the data are not timely, with up to two years’ delay. This hampers the use of our index for policymaking purposes as most agencies are continuously upgrading their transparency and wish to know where they stand today, not where they were positioned eighteen to twenty-four months ago. Third, there are areas which could be important for transparency but where all donors do poorly. Two such examples are geocoding and beneficiary feedback, which are now being recognized as important for improving aid efficiency, but which have not been the focus of transparency measures in the past. In these cases, a comparison with peers would not be relevant because everyone would have the same score--zero. The implication of ignoring these new criteria is that even the highest ranked donors in terms of our index may have considerable room to improve their

transparency. Being judged best among one's peers does not imply being fully transparent on all relevant information.

Our Transparency Index is an equally weighted average of six indicators, each of which is directly actionable. It is, however, worth emphasizing that these indicators may not themselves be the critical aspects of transparency that would drive improvements in aid effectiveness. Rather, they are chosen as correlates of an unobservable, latent indicator, that can best be thought of as a “culture of transparency” that we believe is linked to aid effectiveness. The policy implication is clear. If donors only act on our indicators, in a narrow way, they could achieve a high score on our index, but without necessarily getting a lot better at delivering aid. But if they undertake broader programs of transparency (as the World Bank has recently done), then this will show up in our metrics and will also likely result in improved development impact from their aid.

The indicators are defined as follows:

1. Whether the donor is a member of the international aid transparency initiative (IATI) — an initiative to agree on common standards and reporting to facilitate sharing of aid information.¹⁴ The IATI, which grew out of the Accra agenda for action, is the only common global standard of transparency which has had systematic inputs from recipient governments, nongovernmental organizations and aid experts, along with donor governments. One limitation of using this indicator is that some countries have their own data transparency standards that

mimic the functionality of IATI. But we do not give them credit because there is no guarantee that the data provided is comparable across countries.

2. Proportion of projects for which three key fields in the AidData database are filled out: the project title, its long description and its short description.

Information on what a project is about it is important to understand the purpose to which aid money is being put. Such information helps identify overlaps of projects or gaps in specific areas, and can be used to promote a better division of labor between different donor agencies. It is usually provide in a condensed way, and so is not bureaucratically expensive to provide as shown by the example below of a typical entry:

TABLE 1 INSERTED HERE

Table 1: Typical Example of AidData 3 key fields¹⁵

3. Average character count of the project long description in AidData data. Although lengthy descriptions are not needed, in general the more detail on the aims of the project is better.¹⁶ For example, if, in the example above, a bit more information was shared on how refugees were being reintegrated or on what kind of reconstruction activities are being funded, the information would be richer. The ability for everyone to know exactly what projects are underway allows greater coordination, and also speaks to the culture of transparency of an agency.

4. Percent of projects reporting the aid delivery channel. It is important to know whether a project is to be implemented by the government, an NGO, a multilateral or another agency. Our indicator is the proportion of aid that goes through projects with an identified channel code.
5. Completeness of project level commitment data. In the creditor reporting system, donors report both the aggregate level of aid and also their aid at the disaggregated, project level. In our analysis, we have found that the sum of commitments that are reported at the project level does not tally to the aggregate level of commitments reported by the donor. The missing or unaccounted aid is not transparent by definition. Our indicator looks at the discrepancy between the aggregate amount of aid and the sum of commitments in detailed activities in the CRS, as a ratio of the aggregate aid. The smaller the discrepancy, the greater is the completeness of the project reporting and the higher the ranking of the donor.
6. Share of net ODA that donors give to recipients with good monitoring and evaluation framework. One purpose of aid is to develop a better understanding of what works in achieving a good development impact. That understanding is best informed through monitoring and evaluation. When countries have good systems in place, the impact of aid can be readily observed by others. Our indicator is based on a World Bank assessment of the quality of evaluation systems in recipient countries.¹⁷ If more aid goes to these countries, the greater the overall amount of learning from these projects. Our indicator rewards donors that have a greater share of net ODA going to countries with good monitoring and evaluation frameworks.

We are keenly aware that our indicator to measure learning is very basic. Ideally, we would have liked to have indicators such as: the share of projects where an independent evaluation was done; the share of projects with impact evaluation built into their design; and the share of projects with systematic beneficiary feedback. We are also disturbed by the difficulty in matching disbursement data to specific projects, in a way that would allow us to monitor implementation progress of projects in a systematic and comparable fashion.¹⁸ Such data should be important components of any transparency agenda, but at present no donor does well on providing this information so benchmarking is of no value.

The data for the Transparency Index comes from two main sources:

- The Development Assistance Committee's Creditor Reporting System's (CRS) database, with details on each aid activity available from 1973 onwards¹⁹.
- AidData²⁰ – AidData is a data source for aid activities launched in March 2010 (Tierney *et al.*, 2011). AidData aims to capture the universe of foreign aid at the project level. It is currently the most comprehensive source of ODA project information. AidData augments both previously available DAC data with data from new donors and with descriptive and financial data at the project level. AidData is an independent organization not affiliated with any donor group.

(a) Summary Statistics

All the indicators, except membership in IATI, are continuous, cardinal measures. Indicators are computed for 22 countries and 9 multilateral organizations (with select UN organizations bundled into a single category). Multilateral agencies are not scored on the aid delivery channel indicator because, almost by definition, they channel their funds through recipient governments.

Table 2 Inserted Here

Table 2: Summary statistics of the indicators

(b) Index Methodology

We put the donor score for each indicator on a comparable scale by calculating a z-score (the donor's raw score less the mean across all donors, divided by the standard deviation of the scores). For the completeness indicator (indicator #5), we multiply the z-score by (-1) so that positive numbers reflect greater transparency for all indicators. The Transparency Index is the simple average of these z-scores. It should be interpreted as a summary statistic or a proxy for the donor's overall transparency.

Table 3 presents the correlations between the z-scores of each indicator: The average correlation is only 0.11. This suggests that the different indicators do indeed measure different aspects of transparency and that they are not simply duplicating information. Therefore, we give each indicator (z-score) an equal weight in constructing the aggregate Transparency index.

As another robustness check, we did a principal component analysis. Since the first principal component explains only 34% of the variance²¹, there are no data driven weights that one can use as an alternative to the simple average²². Thus further justifies our minimally arbitrary and most transparent choice of equal weighting²³.

Table 3 Inserted Here

Table 3: The correlations between the z-scores of all 6 indicators in Transparency Index

6. RESULTS – THE TRANSPARENCY INDEX

The figure below shows the Transparency Index by donor country. The values of each of the six separate measures can be found in appendix 2.

Result 1: the International Development Association (IDA) is the most transparent donor.

Since July 1, 2010, IDA (along with the rest of the World Bank Group) has implemented a new access to information policy. Philosophically, IDA has shifted from a presumption of confidentiality to one of disclosure. Public access is permitted for all Bank information outside of a narrow list of confidential items that are specifically excluded. Procedures have been adopted to ensure enforcement of this policy. This culture of candor is reflected in IDA's scores on our indicators. In fact, on average across all the indicators,

IDA has a score that is more than one standard deviation above the mean for all donors. The most transparent donor country is Australia, followed by Ireland, the European Community, and Denmark. On the opposite end of the spectrum, the Inter-American Bank's Special Fund is the least transparent donor, followed by Korea and Greece.

Insert Figure 2 Here

Figure 2: The Transparency Index

There does not appear to be any strong, systematic difference between multilateral agencies and bilateral donors on transparency. The IDB Special Fund and the Asian Development Fund and IFAD are among the least transparent donors; the African Development Fund, the International Fund for Agricultural Development and UN agencies²⁴ are right around the mean for all donors; while the IDA and the Global Fund to Fight AIDS, Tuberculosis and Malaria score well. There are similarities and differences in this result compared to other indices. Easterly and Pfitze (2008) also rank IDA as the most transparent donor, but find UN agencies to be among the least transparent donors, a result with which we would disagree.

Result 2: there is no relationship between aid volume and aid transparency

There is a very low correlation between the size of donors and the transparency of their activities—in fact the correlation is 0.11. In practice, that means that several large donors

are also poor performers on transparency. France, Japan and the United States are three of the largest donors, accounting for one-third of total net ODA in the last five years. All three donors do poorly on the transparency index, being ranked, 25th, 23rd and 22nd respectively. If these donors made a forceful effort, overall global transparency could be significantly improved. USAID administrator, Rajiv Shah, has already expressed his determination to make the agency more transparent: “I am convinced that if we can be the most transparent development agency in the world that the American people will accelerate their support for our work” (Shah, p.10, 2010).

Insert Figure 3 Here

Figure 3: Mean ODA net disbursements per year between 2004 and 2008 and Transparency Index of the 31 major donors

Result 3: low transparency usually is a result of doing poorly on multiple, but not all, indicators (and vice-versa).

Donors that do poorly on our index usually do so not because of exceptionally poor performance on one indicator, but rather poor performances on at least two and usually more indicators. Evidence of this can easily be seen by comparing the two most and two least transparent donors²⁵. In figure 3, we show the index values of IDA (ranked #1), Australia (#2), Korea (#30) and IDB Special Fund (#31).²⁶ Note that Korea, the second least transparent donor, actually outperforms the two most transparent donors in the share

of aid to partners with good monitoring and evaluation frameworks, but does rather poorly on all other indicators. Australia, despite being one of the most transparent donors, has an average score on the detail of its project descriptions.

Insert Figure 4 Here

Figure 4: Comparing the top and bottom donors on the Transparency Index²⁷

Result 4: membership of IATI is an important signal of transparency across all dimensions.

Donors who are members of the IATI score higher on other dimensions of transparency as well. Indeed, 13 of the top 15 most transparent donors are also members of the IATI. We find that being a member of IATI is a powerful predictor of the donor being more transparent across most of the other dimensions. In figure 5 below, we show the average z-scores of members and non-members on the five other dimensions that are used to create the Transparency Index. In three of these five dimensions, the average z-score of an IATI member country was much higher than that of the non-member country.

Insert Figure 5 Here

Figure 5: Transparency Indicators for IATI member and non-member donors²⁸

Donor Case Study – the United States

The United States, the largest donor of foreign aid averaging \$25 billion per year over the last five years²⁹, accounts for about 18% of the total aid provided by the donors in this index. However, in terms of transparency, the United States ranks only 22nd out of the 31 agencies. Why does it rank so low?

Figure 6 shows the US is inconsistent in terms of its commitment to transparency. On the one hand, it does much better than average in three categories: the completeness of project level data³⁰, recording of project title and descriptions, and degree of detail of project descriptions. On the other hand, the United States does exceedingly poorly in the other three categories: reporting of the aid delivery channel³¹; share of aid to partners with good monitoring and evaluation frameworks, and membership of IATI.

Insert Figure 6 Here

Figure 6: indicator values (z-scores) for the United States

7. CONCLUSIONS

Greater transparency in aid would help reduce overlap, waste and lack of coordination between donors. Lack of transparency also leads to a lack of opportunities to learn what really works in aid, thus inhibiting rigorous research on aid effectiveness. Because aid is increasingly fragmented, norms and formalized systems of transparency are becoming more important. Informal knowledge sharing among a few large players is no longer a viable alternative, as ever more players need to know what others are doing.

It is not straightforward to measure transparency, partly because norms and standards are still not universally accepted and partly because transparency is an elusive and shifting concept that resists an easy definition. Although there have been a number of recent attempts to create an index to measure aid transparency, the findings are not widely accepted as credible or reflecting reality. In some cases, the indicators do not lend themselves easily to actionable reforms, and do not easily quantify the degree and speed with which transparency reforms are being implemented.

This paper proposes an index of transparency based on six indicators. We have chosen indicators that are continuous cardinal variables that can be compared across donors and updated annually. By using quantitative measures, we can form more nuanced judgments as to the depth of transparency. We hope that the benchmarking provided by these indicators will help to “move the needle” in the transparency of agency activities, as has been the case with other quantitative indices.

There is a downside to relying on quantitative indicators. We are restricted to available information that is limited in scope, reflecting the generally poor state of affairs with aid transparency. We also do not score donors on new forms of transparency where all donors do poorly. We do not suggest that direct action to improve the score on any one of our indicators will materially improve the effectiveness of aid, but we do believe that taken together our indicators provide a measure of the culture of transparency of a donor.

It is this culture that is widely reported in the literature as essential for effectiveness and accountability.

Our transparency index ranks 31 bilateral and multilateral donor agencies on six measures of transparency. We find that the indicators we use are not strongly correlated with each other, and thus each indicator captures different dimensions of transparency. Several large donors have ample scope to improve transparency, suggesting that rapid improvements in the picture of global aid could be possible if progress is made in a handful of large countries. Overall, IDA is the most transparent donor, followed by Australia, Ireland and the EC, while the IDB Special Fund and Korea are the least transparent donors. We also find that being a member of the IATI is a powerful signal of a donor being more transparent across most other dimensions.

¹ This paper describes one index out of a larger project called “Quality of Official Development Assistance Assessment” by Nancy Birdsall and Homi Kharas. Available at:

<http://www.cgdev.org/content/publications/detail/1424481/>

² Official Development Assistance is defined as those flows to recipients on the DAC recipient list and multilateral development institutions from official agencies granting aid to promote economic welfare and is concessional in nature with at least a 25% grant element; therefore this excludes private flows.

³ DAC1, <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1>

⁴ Measured in constant 2008 dollars

⁵ Best practice standards include agency transparency, minimal overhead costs, donor coordination, and delivery to less corrupt and more democratic countries. (Williamson, p. 2, 2010).

⁶ <http://aidtransparency.net/>

⁷ As of January, 2011

⁸ Collins *et al.* (2009) estimate that the efficiency savings alone are likely to pay for the transitional cost of additional transparency within a year or two.

⁹ Transparency International, for example, wrote “despite stated support ..for aid transparency and accountability, the Accra Action Agenda ultimately fell short on ..concrete commitments..the lack of progress threatens to undermine aid as an effective tool..” <http://www.freedominfo.org/2008/09/accra-agenda-transparency-languague-called-unspecific/>

¹⁰ <http://www.daraint.org/node/176#eight>

¹¹ <http://www.daraint.org/node/176#eight>

¹² Easterly and Pfutze acknowledge this shortcoming in their paper. ““Our index only evaluated agencies as to whether they reported at all to a given table in the OECD database, without taking into account the quality of that reporting.” Easterly and Pfutze (p.9, 2008).

¹³ QuODA is an acronym for Quality of Official Development Assistance

¹⁴ The IATI standards include:

-
1. an agreement on what information organizations will publish, how detailed the published information should be and what kind of detail should be included, for example whether it should include expected outcomes and payment conditions
 2. a common system for categorizing different types of aid spending /commitments with all participants using the same terminology and definitions so that it will be easier to share and compare information
 3. a common electronic format that will make it easy to share information and thus reduce transaction costs
 4. a code of conduct that will set out what information donors will publish and how frequently, how users may expect to access that information, and how donors will be held accountable for compliance. (Source: IATI website, <http://www.aidtransparency.net/about>)

¹⁵ 2008 Donor Denmark to recipient Sudan, commitment amount 2,418,964.68 USD of ODA Grants, source: AidData from www.aiddata.org, accessed on June 16, 2010.

¹⁶ Because there are a few long detailed descriptions, causing a long RHS tail, we take the natural log of the character count as the indicator.

¹⁷ The World Bank, *Aid Effectiveness Review (20xx)*, rates a sub-set of 61 aid recipients in terms of the quality of their monitoring and evaluation frameworks. The scale is 1 to 4, with 4 being the best. Our indicator is the share of aid going to countries with M&E ratings of 3 or 4.

¹⁸ Timeliness cannot be judged by data availability in the CRS. As of December 17, 2010 the data on 2009 aid disbursements was still incomplete, and while DAC donors are required to report to the CRS, they are not required to report to recipient governments and there is no centralized database that shows whether aid information was shared with recipient governments, and when.

¹⁹ The CRS data made significantly improvements in their reporting from 1995 onwards.

²⁰ www.aiddata.org

²¹ Each subsequent component captures lesser percentages of the overall variance.

²² To capture at least 80% of the variance, we would need to use 3 components, thus creating 3 indices.

Since we are trying to convey a latent transparency characteristic of donors, we feel the single index summary statistic is the better approach.

²³ Roodman (2006) uses a similar argument to justify equal weights in CGD's Commitment to Development Index.

²⁴ Note that the UN Agencies are a selected number of agencies for which we have data. These agencies include UNICEF, UNAIDS, UNDP, UNFPA, and World Food Program (WFP)

²⁵ Indicator details can be found in the appendix.

²⁶ The "aid channel" indicator is not included as this is not applicable to multilateral agencies.

²⁷ IDA, AsDF and IDB Special Fund do not have data for reporting of aid delivery channel, so this dimension is dropped from Figure 4.

²⁸ This data does not include UN Agencies since UNDP is an IATI member while other agencies are not.

²⁹ 2004 through 2008, net ODA in constant 2008 dollars, source DAC 2a

³⁰ Note that the incompleteness category was multiplied by (-1) to make positive numbers stand for more completeness.

³¹ In practice, the United States frequently reports this as "other", not a very helpful description.

REFERENCES

- (2008). *Report on Revenue Transparency of Oil and Gas Companies, Transparency International*, Available at:
http://www.transparency.org/news_room/latest_news/press_releases/2008/2008_04_28_prt_report_launch
- Brainard, L. (2006). *Security by Other Means*.
http://www.brookings.edu/global/foreign_reform_chart.pdf.
- Collins, M., Zubairi, A., Nielson, D., & Barder, O. (2009). The costs and benefits and Aid Transparency. Aidinfo. <http://aidinfo.org/files/aidinfo-Costs-and-Benefits-October-2009.pdf>
- DAC1. <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1>
- DFID – International Aid Transparency Initiative. <http://www.dfid.gov.uk/Global-Issues/Working-to-make-Global-Aid-more-effective/International-Aid-Transparency-Initiative/>
- Djankov, S., McLiesh, C., & Ramalho, R. (2006). Regulation and Growth, *The World Bank Working Papers*. http://www.doingbusiness.org/documents/growthpaper_03_17.pdf
- (2008) *Doing Business. Comparing Regulation in 178 Economies*.
http://www.doingbusiness.org/documents/Fullreport/2008/DB08_Full_Report.pdf
- Drury, A. C., Kriekhaus, J., & Lusztig, M. (2006). Corruption, Democracy, and Economic Growth. *International Political Science Review / Revue internationale de science politique*. 27 (2), 121-136.
- Easterly, W. & Pfütze, T. (2008). Where Does the Money Go? Best and Worst Practices in Foreign Aid. *Journal of Economic Perspectives*, 22(2), 29–52.

Easterly, W. (2007). Are aid agencies improving? Brookings Working Paper #9.

--The Economist/YouGov poll, April 7, 2010.

http://www.economist.com/blogs/democracyinamerica/2010/04/economistyougov_polling

Heyneman, S. P., Anderson, K. H., & Nuraliyeva, N. (2008). The Cost of Corruption in Higher Education. *Comparative Education Review*, 52 (1), 1-25.

--IATI website, <http://www.aidtransparency.net/about>

Moon, S. & Williamson, T. (2010). Greater aid transparency: crucial for aid effectiveness, *Project Briefing*, 35, 1-4.

Oxfam America (2010). Information: Let countries know what donors are doing.

Ownership in Practice. Oxfam America.

<http://www.oxfamamerica.org/files/information-let-countries-know-what-donors-are-doing.pdf>

Program on International Policy Attitudes, PIPA, (2001). Americans on Foreign Aid and World Hunger A Study of U.S. Public Attitudes.

http://www.worldpublicopinion.org/pipa/pdf/feb01/ForeignAid_Feb01_rpt.pdf

Pearson Commission (1969). *Partners in Development: Report of the Commission on International Development*, New York, NY: Praeger Publishers.

Publish What You Fund (2010). *Briefing Paper 1: Why Aid Transparency Matters, and the Global Movement for Aid Transparency*. Publish What You Fund.

<http://www.publishwhatyoufund.org/sites/default/files/bp%201%20final.pdf>

Roodman, D. (2006). Building and Running an Effective Policy Index:

Lessons from the Commitment to Development Index. Center for Global Development, Essay. <http://www.cgdev.org/content/publications/detail/6661>

Shah, R. (2010). USAID's Approach to High Impact Development.

<http://www.usglc.org/USGLCdocs/Shah%20Transcript%205'5'10.pdf>

Steven, D. (2010) Nigeria: do donors know what they're spending?

<http://www.globaldashboard.org/2010/03/19/nigeria-donors-spending/>

Svensson, J. (2005). Eight Questions about Corruption. *The Journal of Economic Perspective*, 19 (3), 19-42

Tierney, M.J., Nielson, D., Hawkins, D. G., Roberts, J.T., Findley, M.G., Powers, R.M., Parks, B. Wilson, S., & Hicks, R.L. (2011). More Dollars than Sense? Addressing Knowledge Scarcity in Development Finance. *World Development Journal, Special Issue*.

--(2010) Transforming Resource Wealth into Well-Being. *The Revenue Watch Institute*.

http://renewatch.org/files/rwi_annual_report_2010.pdf

--World Bank Aid Effectiveness Review. <http://go.worldbank.org/E561OLG8Z0>

United Nations Development Program (2005). *Human Development Report 2005: International Cooperation at a Crossroads: Aid, trade, and security in an unequal world*.

New York, NY: United Nations Development Report.

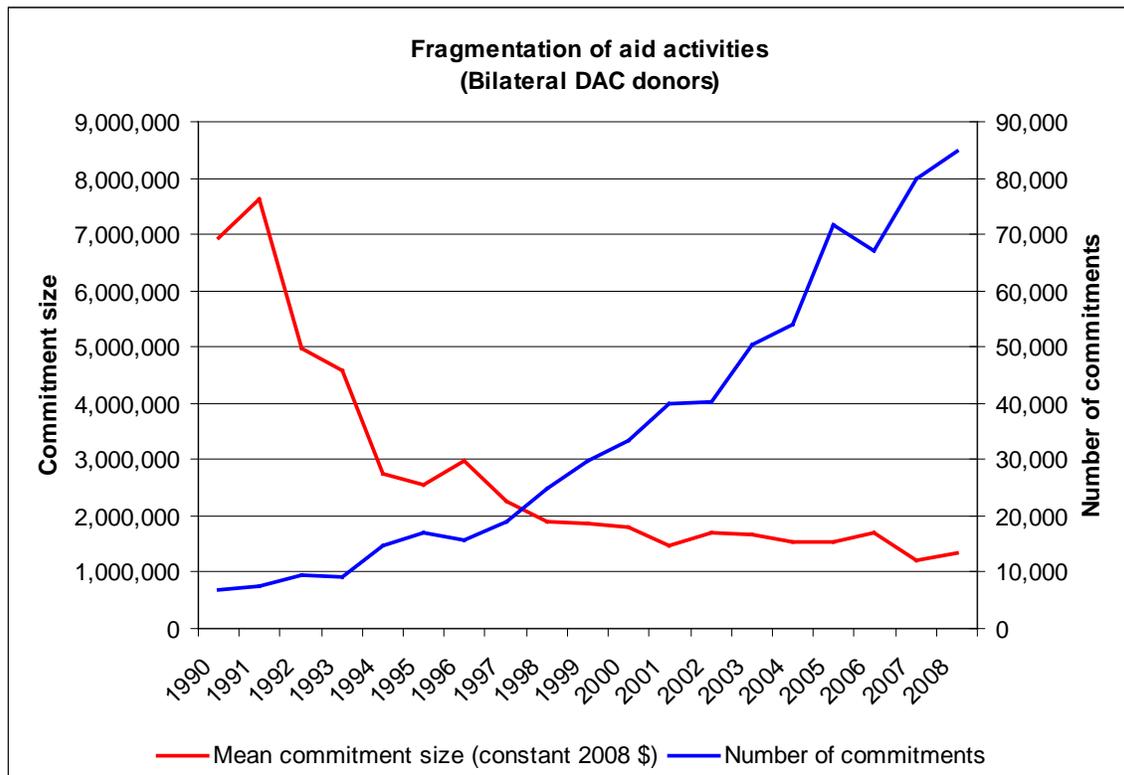
http://hdr.undp.org/en/media/HDR05_complete.pdf

Williamson, C. R. (2010). Fixing Failed Foreign Aid: Can Agency Practices Improve?

AidData Conference Papers. Available at:

http://s3.amazonaws.com/aiddata/Williamson_aiddata.pdf

Figure 1 – Fragmentation of aid activities



Source: DAC CRS and authors' calculations

Table 1: Typical Example of AidData 3 key fields

Title	Short Description	Long Description
Locally based reintegration	LOCALLY BASED REINTEGRATION	Reintegration of refugees and reconstruction activities in co-operation with local NGOs

Table 2: Summary statistics of the indicators

Transparency	Member of IATI	Recording of project title and descriptions	Detail of project description	Reporting of aid delivery channel	Completeness of project-level commitment data	Aid to partners with good M&E
Mean	0.49	0.86	1.99	0.94	0.30	0.72
Maximum	1.00	1.00	3.55	1.00	1.00	0.89
Minimum	0.00	0.33	0.00	0.71	0.00	0.22
Standard deviation	0.50	0.19	0.69	0.09	0.21	0.13
Number of donors	31	31	31	22	31	31

Table 3: The correlations between the z-scores of all 6 indicators in Transparency Index

	Member of IATI	Recording of project title and descriptions	Detail of project description	Reporting of aid delivery channel	Completeness of project-level commitment data	Aid to partners with good M&E
Member of IATI (Yes=1)	1.00					
Recording of project title and descriptions (AidData)	0.270	1.00				
Detail of project description (AidData)	0.032	0.527	1.00			
Reporting of aid delivery channel (CRS)	-0.061	0.024	-0.059	1.00		
Completeness of project-level commitment data (CRS)	0.274	0.189	0.459	-0.277	1.00	
Aid to partners with good M&E	0.497	-0.210	-0.071	-0.027	0.124	1.00

Figure 2: The Transparency Index

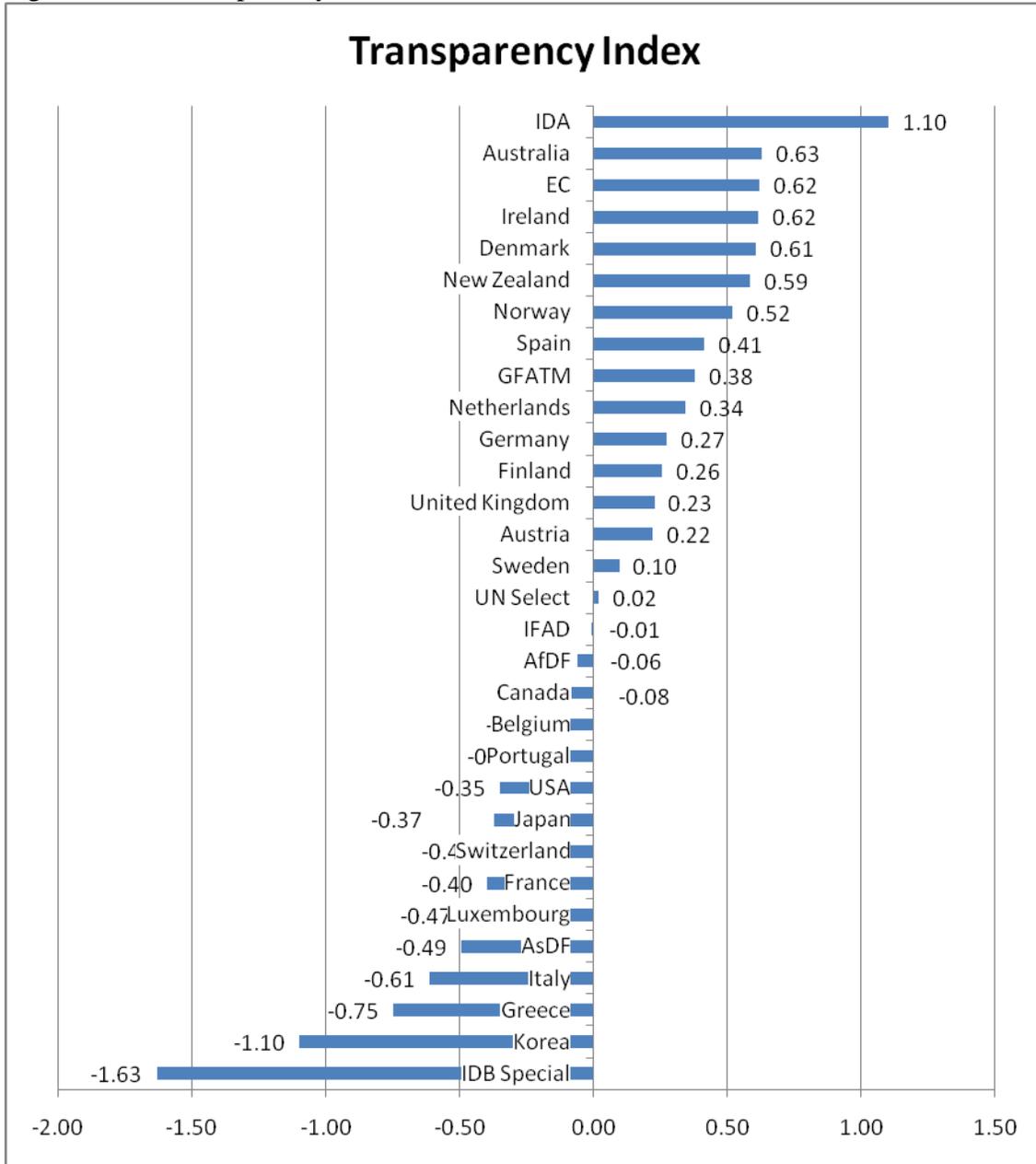


Figure 3: Mean ODA net disbursements per year between 2004 and 2008 and Transparency Index of the 31 major donors

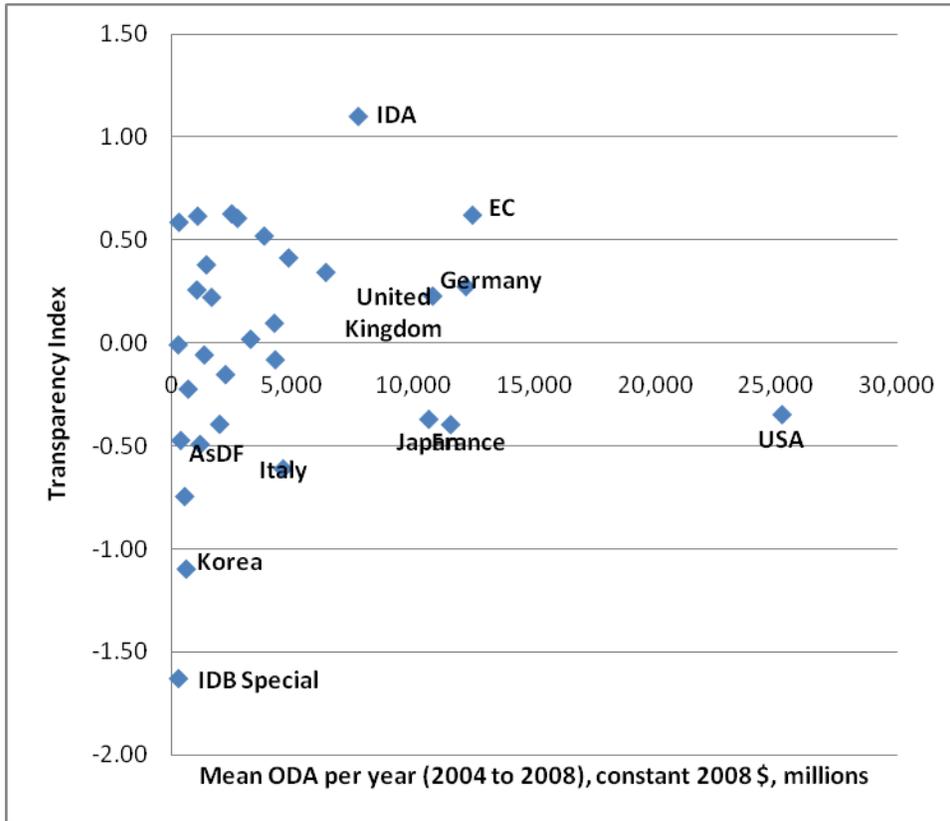


Figure 4: Comparing the top and bottom donors on the Transparency Index³²

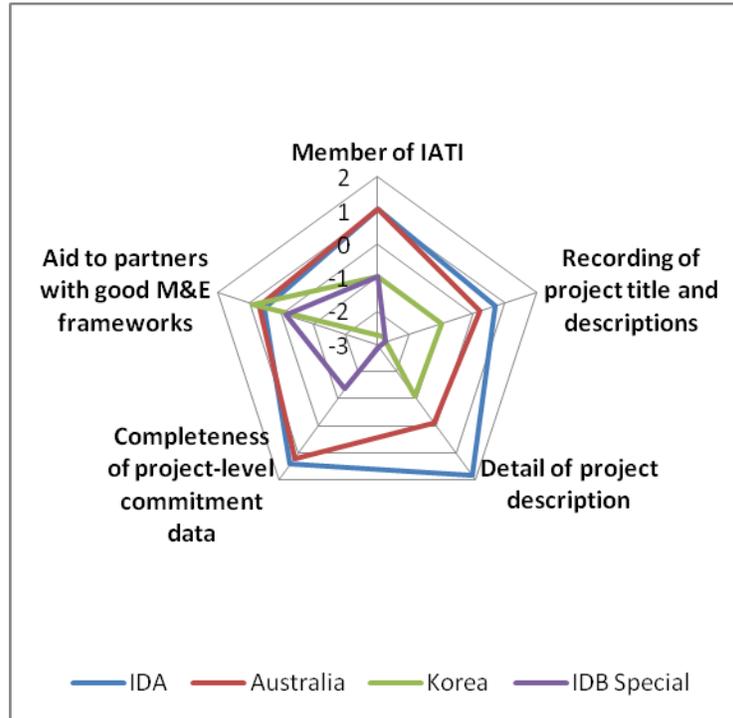


Figure 5: Transparency Indicators for IATI member and non-member donors³³

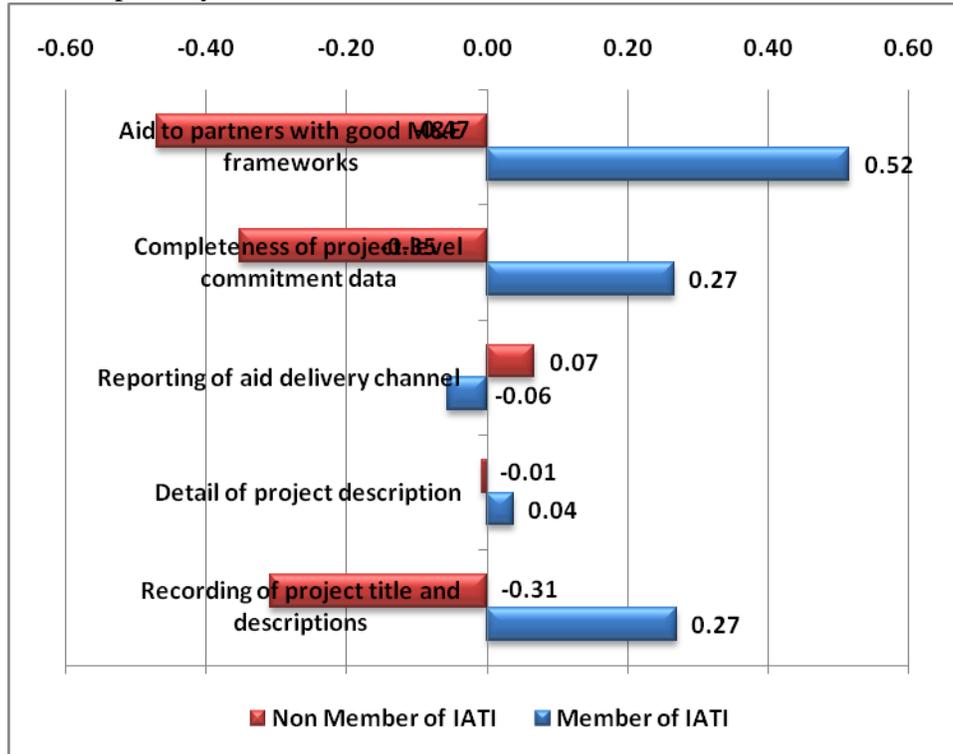
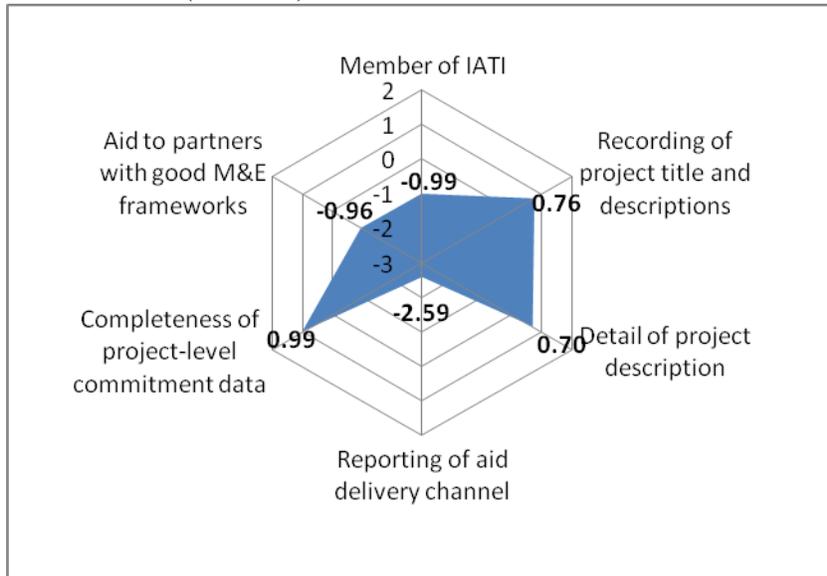


Figure 6: indicator values (z-scores) for the United States



Appendix 1

International Aid Transparency Initiative - Accra Statement¹

04 September 2008

We, representatives of developed countries responsible for promoting development and Heads of multilateral and bilateral development institutions, and representatives of philanthropic foundations, meeting in Accra on 4 September 2008:

- Welcome the commitments in the draft Accra Agenda for Action by all donors to “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”, “support information systems for managing aid”; and “provide full and timely information on annual commitments and actual disbursements’
- Recognise that transparency of aid information promotes more effective partnerships, and accelerates development and poverty reduction by increasing accountability and ownership, reducing corruption, and improving service delivery;
- Welcome the additional scrutiny and increased effectiveness that transparency can bring to donor organisations and other development institutions;
- Emphasize the role that transparency plays in promoting mutual accountability;
- Respect the right of taxpayers and their representatives, and of citizens in developing countries, to information about how foreign aid is spent; and
- Affirm that information about aid should be easily accessible to support local accountability and efficient public administration.

We therefore resolve that:

¹ DFID posting. <http://www.dfid.gov.uk/Global-Issues/Working-to-make-Global-Aid-more-effective/International-Aid-Transparency-Initiative/International-Aid-Transparency-Initiative-Accra-Statement/>, date April 27, 2010

- We will give strong political direction, and our agencies will invest the necessary resources, to meet in full existing nationally and internationally-agreed reporting standards and to accelerate availability of aid information.
- We will share more detailed and more up-to-date information about aid in a form that makes information more accessible to all relevant stakeholders.
- We will, to the extent possible, provide more reliable and detailed information about intended future aid.
- We will be transparent about conditions attached to aid and expected project outputs and outcomes.
- We will build on and extend existing standards and reporting systems, consulting partner governments, civil society organisations, parliamentarians and other users of aid information, in order to agree, by end 2009, common definitions and a format to facilitate sharing of aid information. .
- We will urge all public and private aid donors, including bilateral and multilateral organisations, and philanthropic foundations, and those who deliver aid on our behalf, to work with us to agree and then implement these common standards and format.
- We will give priority within our organisations to implementing and adhering to these standards and format when they have been agreed.
- To the extent possible we expect that organisations that deliver aid on behalf of our respective organisations should adhere to the same standards of transparency.

Appendix 2: The Transparency Index and Indicator Details

Donor Name	Transparency Rank	Multilateral	Member of IATI	Recording of project title and descriptions	Detail of project description	Reporting of aid delivery channel	Completeness of project-level commitment data	Aid to partners with good M&E frameworks	Transparency Index Score
AfDF	18	1	0.00	0.67	2.67		0.26	0.79	-0.06
AsDF	27	1	1.00	0.34	0.85		0.34	0.87	-0.49
Australia	2	0	1.00	0.90	1.93	1.00	0.04	0.81	0.63
Austria	14	0	0.00	1.00	1.91	1.00	0.29	0.84	0.22
Belgium	20	0	0.00	1.00	2.39	1.00	0.44	0.55	-0.15
Canada	19	0	0.00	0.90	2.78	0.96	0.33	0.59	-0.08
Denmark	5	0	1.00	1.00	2.12	1.00	0.37	0.89	0.61
EC	3	1	1.00	1.00	2.11		0.02	0.70	0.62
Finland	12	0	1.00	1.00	2.41	0.75	0.31	0.89	0.26
France	25	0	0.00	0.89	1.47	0.98	0.38	0.60	-0.40
Germany	11	0	1.00	1.00	1.90	0.95	0.30	0.69	0.27
GFATM	9	1	0.00	0.67	3.55		0.00	0.75	0.38
Greece	29	0	0.00	1.00	2.01	1.00	0.56	0.22	-0.75
IDA	1	1	1.00	0.99	3.23		0.00	0.80	1.10
IDB Special	31	1	0.00	0.33	0.00		0.59	0.70	-1.63
IFAD	17	1	0.00	0.67	2.64		0.00	0.67	-0.01
Ireland	4	0	1.00	0.96	2.35	0.97	0.31	0.88	0.62
Italy	28	0	0.00	0.99	2.15	0.87	0.59	0.52	-0.61
Japan	23	0	0.00	0.69	1.41	0.93	0.19	0.72	-0.37
Korea	30	0	0.00	0.67	1.24		1.00	0.84	-1.10
Luxembourg	26	0	0.00	0.66	1.05	0.98	0.34	0.76	-0.47
Netherlands	10	0	1.00	1.00	1.78	0.94	0.25	0.76	0.34
New Zealand	6	0	1.00	1.00	2.09	1.00	0.21	0.78	0.59
Norway	7	0	1.00	1.00	2.25	0.99	0.23	0.72	0.52
Portugal	21	0	0.00	0.83	2.01	1.00	0.55	0.75	-0.22
Spain	8	0	1.00	1.00	2.24	0.94	0.31	0.77	0.41
Sweden	15	0	1.00	0.73	1.68	0.99	0.37	0.78	0.10
Switzerland	24	0	1.00	0.71	1.24	0.74	0.21	0.76	-0.40
UN Select	16	1	0.17	0.96	1.68		0.02	0.63	0.02
United Kingdom	13	0	1.00	1.00	2.02	0.89	0.34	0.76	0.23
USA	22	0	0.00	1.00	2.46	0.71	0.09	0.59	-0.35

³² IDA, AsDF and IDB Special Fund do not have data for reporting of aid delivery channel, so to complete the chart; they are given values of average, i.e. a z-score of 0.

³³ This data does not include UN Agencies since UNDP is an IATI member while other agencies are not.