

DEVELOPMENT CO-OPERATION DIRECTORATE
TRADE DIRECTORATEMEASURING AID FOR TRADE FLOWS: THE ROLE OF AID INFORMATION MANAGEMENT
SYSTEMS

First meeting of the Technical Working Group on the Monitoring Framework on Aid for Trade

21 (p.m.) - 22 March 2007, Château de la Muette, Paris

This paper is submitted for INFORMATION to the 21 – 22 March meeting of the Technical Working Group under item 3 of the agenda COM/DCD/TAD/A(2007)2/PROV/REV1.

The paper notes that effective coordination and management of Aid for Trade requires easily accessible and timely up-to-date information on planned and ongoing aid flows by funding agency, sector and geographic location. In addition, pledges for scaling-up Aid for Trade require tools to increase the quality, transparency and accountability of ODA.

This paper describes how aid information management systems can support the operationalisation of Aid for Trade. In addition, it provides good practice in selecting and implementing such systems.

The paper is based on a note been prepared for the DAC Working Party on Aid Effectiveness on the role of aid information systems in implementing the Paris Declaration on Aid Effectiveness.

A future version of the paper could provide a template of what an Aid for Trade information management system could look like.

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JT03223401

THE ROLE OF AID INFORMATION MANAGEMENT SYSTEMS IN IMPLEMENTING THE AID FOR TRADE AGENDA AT COUNTRY LEVEL¹

1 Background

1. Scaling-up resources for development and increased Aid for Trade levels require a concomitant increase in aid effectiveness. For developing countries to maximise available resources and to leverage the announced scaling-up, national aid management needs a transparent “aid architecture”. On the donors’ side, predictability, transparency of resource pledges, coordinated aid allocation and management, and mutual accountability are *sine-qua-non* to maximise the effectiveness of Aid for Trade.

2. Pledges to increase the volume of Aid for Trade without improved systems of aid management will fail to deliver the anticipated impact of increased aid levels in terms of accelerated trade, economic growth and reduced levels of poverty. Aid information management systems (AIMS) are an important tool to help align donor procedures and practices with government systems. In addition, AIMS contribute to building trust, transparency and accountability.

3. Some developing countries have good information on aid flows when they are channelled through their Treasury. In many countries, however, a significant share of aid is not channelled through the Treasury. While donors may provide information on these projects to a central policy or line ministry, countries often lack access to comprehensive data on these flows and a system to consolidate this information.

4. In some countries, particularly where flows outside the Treasury are small, it may be possible to adapt the existing financial management system to record these flows. In other contexts it is advisable to enhance or establish an aid information management system that is linked to the budget process. AIMS can ensure that all parts of government gain access to essential data on projects by sector, location, and status. Similarly, on-line data entry² by donors and other partners increases the availability of comprehensive data and provides information benefits to all users, rather than just making demands on partners’ time.

5. This note addresses the role AIMS can play in operationalising the WTO recommendations on Aid for Trade. It argues that governments should be encouraged to establish AIMS, their full ownership and management. Donors should support the development of recipient governments’ capacity to manage and populate AIMS and allocate the necessary financial resources to deploy and sustain them. OECD, UNDP and the World Bank could support the development and use of AIMS for Aid for Trade within the existing aid coordination mechanisms at country level.

¹. This paper is based on a paper prepared by Gabriel Accascina (IT4DEV) et al and represents the views of its authors.

² For the purpose of this paper, data entry describes the online input of data into an AIMS both internally by government entities and externally by donors. In particular, it also covers the capacity for automatic data exchange in both directions between the donors’ systems and AIMS. This decreases both parties’ workload and improves the efficiency of the provision of timely reports and information exchange.

6. The rest of this note is structured as follows: Section 2 describes what aid information systems (AIMS) are. Section 3 highlights the links with Aid for Trade. Section 4 addresses the challenges of setting up an AIMS for Aid for Trade and provides key ingredients for a well functioning AIMS.

2 What are Aid Information Management Systems (AIMS)?

7. AIMS are information technology applications, usually databases, which record and process information about development initiatives and related aid flows in a given country. AIMS have been in existence, at varying levels of capabilities and sophistication, for the past ten years. Besides recording aid activities, AIMS have also proven to be extremely useful in planning and decision making.³

8. AIMS are not complete public financial management systems (PFMS). Rather, AIMS provide an *interface* between the recipients' PFMS and information stored in donor systems. They allow for harmonised reporting of aid provided or planned and for reporting back to donors on how the funds have been used. They are thus a tool of mutual accountability with the potential to increase the predictability of aid and to reduce administrative burdens for recipients and donors alike. Their potential role in Aid for Trade is described the Box below.

How AIMS can help in making Aid for Trade effective

Experience shows that aid information management systems can:

- play a critical role in decision-making on the allocation of resources by providing an overall picture of aid flows, arranged according to customisable criteria;
- assist in identifying funding gaps, alerting both government and donors to upcoming financial needs;
- support a specific agenda such as Aid for Trade by making information relative to flows contributing to specific indicators available for cost analysis;
- foster transparency and accountability by recording and tracking projects and financial flows;
- present the international community with accurate and up-to-date information of the status of aid activities in a country through online web-based reporting;
- potentially, through planning and management tools, allow government to process higher levels of aid than ever before, while making aid more effective and decreasing duplication or overlap of aid-funded activities; and
- assist in multi-year programming through providing a clear picture of pledges and commitments juxtaposed against future needs.

³ UNDP has a proven track record of providing customised aid management IT-based tools. Recent successful implementations of the Development Assistance Database (DAD) in Afghanistan, Iraq and Sierra Leone resulted in strong support from UNDP and the Office of Special Envoy to customise the DAD to meet needs of Tsunami affected countries and Pakistan after the South-Asia earthquake. UNDP has provided guidance on the introduction of new systems such as in the Sudan by providing the Government with system requirements and options.

Working with the Ethiopian Ministry of Finance and Economic Development, OECD-DAC, UNDP and the World Bank, the Development Gateway Foundation has developed an Aid Management Platform (AMP) pilot in Ethiopia. The pilot provides an innovative solution to aid harmonisation and coordination, which allows easy tracking and reporting of external assistance, reconciliation of government and donor views on aid flows, and interfacing with the public financial management system. Workflow and team work features support the Ministry in adapting technology to their operations. AMP is now available for implementation in other countries, building on the strong links it has to the staff of international organisations working on implementation of the Paris Declaration on Aid Effectiveness.

3 AIMS and Aid for Trade

9. Aid information management systems can make an important contribution to the successful operationalisation of the Aid for Trade. In some cases indicators can themselves be built into an AIMS. Information to calculate aggregates for the indicators can be tagged to each activity recorded. In other cases the AIMS supports the objectives of alignment, harmonisation, management for results and mutual accountability more broadly.

i. Alignment

10. The Aid for Trade Recommendations call for donors to align with partners' strategies. For governments to ensure this they need to know how projects and programmes will contribute financially and in terms of results to the priorities set out in the national strategy. A good aid information management system will track both planned and actual commitments, disbursements and expenditures, and also the planned and actual outputs that each programme and project is intended to achieve. In so doing, the AIMS can show what level of predictability in financing is available across sectors and across donors.

ii. Harmonisation

11. AIMS can contribute to harmonisation at several levels. The first involves the standardisation of key terms such as commitment, disbursement and expenditure, or the recording of projects using harmonised sector and geographical categories. At a second level, AIMS could provide for the common monitoring envisaged in annual WTO reviews of Aid or Trade.

iii. Managing for Development Results

12. Managing for results is defined as "managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making". An AIMS can provide components of the results-oriented reporting and assessment frameworks required for monitoring progress against national Aid for Trade strategies. An AIMS can include indicators that are derived from Aid for Trade strategies, and monitor how individual projects or programmes are delivering against these indicators. A good AIMS can produce Aid for Trade reports that can greatly facilitate discussions that take place in working groups or their equivalent or in preparing for a national Aid for Trade committees. AIMS reports remove the need to spend much more time on information sharing and free up time for assessing whether expected results are being delivered and how aid effectiveness can be reinforced.

iv. Mutual Accountability

13. The Aid for Trade recommendations call on donors to provide "additional, predictable, sustainable and effective financing to fulfil the Aid for Trade mandate". An AIMS provides a robust and harmonised mechanism to enable donors to live up to this obligation. A web-enabled AIMS provides real time information that can help strengthen the parliamentary role in national development strategies and budgets. AIMS reports and on-line databases can help legislators understand how external assistance is incorporated into the budget preparation and execution process. Similarly, AIMS can provide data on who is doing what and where, thereby making it easier for local government authorities to exercise accountability for the delivery of aid at the local level.

Setting up an AIMS

14. Ultimately the decision on how to implement an AIMS rests with the developing country. To assist them, a number of best practices have been identified (see Annex).⁴ In a nutshell, success depends on:

- Governments providing leadership; applicable policies for information disclosure and exchange; complete and verified development data; classification systems that are in line with accepted standards; and adequate quantity and quality of staff; and
- Donors providing complete, reliable and comprehensive project data, including full disclosure of financial assistance; mid-term projections of assistance delivery including disbursement schedules; validated data across reporting sources and well defined conditionalities; as well as resources and training for setting up an AIMS.

15. As the aid architecture and environment, as well as the national capacity, differs considerably from one country to another, it is essential to start with a thorough assessment of the specific needs and required capacities for setting up an AIMS. A new information management system should be established within the context of existing business processes. This includes the automatic sharing of AIMS reports at sectoral and other coordination fora, allowing for cross-checking data and its routine use for decision making. AIMS should serve to promote the progressive integration of external assistance within the national budget framework.

16. To date, their primary focus of most AIMS has been to track activities, to which aid flow amounts are attached. This allows monitoring and reporting on development initiatives within the country by calendar, sector, donor, type of initiative, or other criteria. The validity of data recorded in AIMS depends directly on the quality and frequency of reporting by donors and government. Hence, the reliability of AIMS data and their value for decision-making are a function of the dialogue between government and donors and their policies and practices. Open dialogue reinforces mutual accountability and the aid alignment and harmonisation process, while strengthening relations between the two parties. Sustainable and reliable data flow is a precondition to AIMS implementation, as well a sustained political and financial commitment relating to good, transparent and accountable governance.

17. Depending on the institutional framework and arrangements, different government departments can be involved in aid coordination and management. In many cases, functions related to managing external resources reside within the Ministry of Finance. However, departments within the Ministry of Foreign Affairs or the Ministry of Planning, as well as lines such as Trade should also be involved in negotiating and/or managing parts of the Aid for Trade flows.

Conclusion

18. Pledges to increase the volume of Aid for Trade, albeit critical, will not yield results in terms of achieving expanded trade, economic growth and poverty reduction unless that aid is used effectively. In this, AIMS is an invaluable tool to enable countries to adopt results-based management to inform their own and donor publics of the development progress achieved with the resources applied. Governments should be encouraged to establish such information management systems under their full ownership and management. Donors should support the development of recipient governments' capacity to manage and populate AIMS and allocate the necessary financial resources to deploy and sustain them.

⁴ Proceedings from these consultations and information about aid management tools and practices are reported at www.devaid.org.

ANNEX: THE KEY INGREDIENTS FOR A WELL FUNCTIONING AIMS

1. Political Commitment and Institutional Issues

1.1 Donor/Recipient Government partnership commitment: commitment to mutual accountability and transparency is key. While donors need to commit to reliable, timely and transparent data on aid flows, recipient Governments need to ensure that there is transparency in data tracking and accountability to national constituencies (Parliaments and civil society) and donors for resource allocation. This rests upon national development strategies that are clearly defined through dialogue among national stakeholders and donors. Increased ownership is acknowledged as a precondition for successful aid delivery, but the operational implications are not always followed through.

1.2 Careful selection of AIMS and management of expectations: the success of an AIMS depends on: being clear on its purpose, its best placement in the government institutional system, capacity required to make it work, donor 'buy in', and realistic expectations of the tool. Success may depend on improvements in the budget and aid management processes, strengthening IT infrastructure, and enhancing outreach and analysis capabilities.

2. Institutional Arrangements and Human Capacity

2.1 AIMS management responsibility is important: Most governments establish an Aid Management Unit within a core Ministry, usually the Ministry of Finance or Ministry of Planning. Before creating new units, however, governments should first consider reinforcing existing departments, such as the budget department. The institutional location of the team responsible for the aid information management system is critical in determining its effectiveness. Clear inter-ministerial and inter-departmental responsibilities and reporting lines are essential.

2.2 Capacity development is crucial: In many cases, the capacities of the department responsible for aid coordination are limited and often already overstretched. In order to use the system effectively, analytical, communication and outreach, as well as negotiation capacities often need to be increased. Additional human resources might be required, especially during the initial roll-out, *i.e.* data entry phase. A thorough capacity needs assessment should precede the development and establishment of an AIMS. To ensure that the benefits of introducing an AIMS are sustainable, careful consideration needs to be given to minimising staff volatility by ensuring adequate salaries can be paid and costs related to training and skills' retooling met. As in other e-Government initiatives, the complexities of aid management coordination require that staff turnover be kept to a minimum. This also ensures a more reliable and professional work environment, better data security and redundancy and prompter services.

3. Data Collection Issues

3.1 Reliable, transparent and timely data disclosure: Data collection must be jointly conducted by both donors and partner governments. For AIMS data to be reliable, they should be provided in a coordinated manner by donors and line ministries. This requires frequent communication between governments, donors and implementers. In countries where data collection has been effectively streamlined (*e.g.* Serbia and, to some extent, Afghanistan), the collection environment has been regulated by a policy framework which established precise reporting responsibilities on the side of the donors, with firm points of capture of financial transactions. When this happens, it is usually because the government is firmly leading the efforts and wishes to integrate the AIMS within their PFMS. In these cases, data are reliable, can be audited and can also be integrated in the budget.

When government leadership is less firm, donors may not recognise their obligation to report to the AIMS regularly. This can create a negative spiral of declining data reliability resulting in limited relevance for decision-making and limited support to the national PFMS, further reducing donor will to support the system. Government agencies and donors should routinely validate project data and financial information entered. The process of verification is critical to ensure that all data entered are reliable and capture the entirety of activities and funding sources available.

Successful implementation of AIMS hinges on making the process of providing data as simple and time efficient as possible. Currently, partner governments are typically faced with trying to make sense of and integrate data provided by donors in differing forms and with different financial years. AIMS have the potential to remedy this, but this must be done in a way which does not increase the workload on donors who themselves face staff and time constraints.

3.2. Technological reliability: Technology helps in providing easy reporting mechanisms to facilitate data provision. Where donors have strong project information management systems of their own, it may be possible to automate part of the process of data provision and updating. A good example that could be applied to AIMS is the process of data harvesting put in place by AiDA, where data is automatically transferred from the donor internal database to the AiDA reporting system.⁵ For this to happen, however, donor practices should be harmonised and a common framework of disbursement procedures and reporting requirements should be established.

3.3 Clarity on data purpose: Data are useful only if they serve a purpose. Congruence between national and local realities should be established. Hence, there should be clarity at all levels on what type of reports the data are going to generate, for what purposes and for which audience. While systems need to be tuned to local circumstances, there is sufficient commonality of requirements between countries in aid management to start with examining existing systems and standards rather than starting from scratch. The standards developed for sectors, countries, currencies, agencies and types of aid by the OECD-DAC's Creditor Reporting System have been widely adopted by donor agencies and their use in AIMS – such as AMP – facilitates data exchange with donors.

4. Financial Implications:

4.1 AIMS come at some cost: AIMS can promote aid effectiveness, but this costs. AIMS main capital costs are the application purchased or developed, which can range approximately from a few thousand (locally developed databases or spreadsheets) to three hundred thousand US dollars (commercial systems inclusive of customisation, training and support). Additional capital costs are the equipment and the networks to support the AIMS application. Operational costs include updates, maintenance and human resources and training. Government commitment is hence of primary importance to ensure that, once established, AIMS can continue to be financially supported beyond the implementation phase which is usually funded by one or more donors.

5. Technical Issues

5.1 User-friendliness of the system. Potential users of the system need to be involved in the design and customisation from the beginning. The tool needs to be designed around existing business processes, not the other way round. Nonetheless, the design process can trigger a review of existing business processes and in such a case implementation should be interrupted until objectives and business processes are clarified. It is recommended to keep the number of data entry fields limited. In this context, one should

⁵ See AiDA (Accessible information on Development Activities) at work at <http://aida.developmentgateway.org/AidaHome.do>. AMP builds on the AiDA standards some of which in turn come from the OECD's Creditor Reporting System.

also consider how many different people would be required to provide the requested information. If a data entry module requires too many different people within a development partner agency to provide information, it is unlikely that the partner agency will enter the data online and the data quality might be fairly low. Automatic exchange of aid information collected by different donor systems should be pursued to the fullest extent possible.

5.2 ***Development time:*** The development from scratch of a comprehensive web-based AIMS requires a considerable amount of time. The development time can be cut short through adapting an existing system. Depending on how sophisticated the aid environment is, customisation can take from one to three months.

5.3 ***Reliable long-term support from the software developer.*** It is critical to ensure that internal, or locally available technical capacity exists to maintain and support the chosen AIMS in the long term. The technical support needed usually encompasses the areas of application code development, user support and help desk functions, networking and Internet access and troubleshooting. This is critical to maintain the system up-to-date and its users properly trained.