

Global Development Program: Transparency and Accountability (T/A)

The goal of The William and Flora Hewlett Foundation's Global Development Program is to improve the income and well-being of people living on less than \$2 per day. The Program seeks to promote specific changes that will help reduce extreme poverty in a set of target countries. To achieve this goal, the Global Development Program will invest in three complementary drivers of economic growth: (1) Transparency and Accountability, (2) Agricultural Markets, and (3) Quality Education, in addition to supporting policy research and analysis in developing countries through the Think Tank Initiative.

The Transparency and Accountability (T/A) component seeks effective public service provision in developing countries

The goal of the T/A component is to ensure the effective provision of public services, particularly to people living on less than \$2 per day.

I. T/A ensures citizens have the information and oversight to hold governments accountable for the provision of basic services

Public services are important to help poor people out of poverty

Governments have a mandate to provide basic services—such as education, health care, and infrastructure—to their citizens. Access to these basic services is especially critical for the poor; for example, education and health directly translate into improved well-being and have been shown to increase income. Access to these

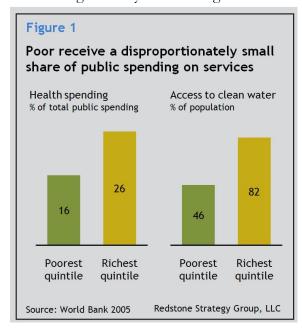


However, public services can improve well-being only if they are delivered consistently and effectively. The poor suffer the most when services are of poor quality or are not delivered at all. Better T/A, including effective oversight and feedback mechanisms, is a key step to improved service delivery.

Public services often make up a large percentage of government spending. For example in three sample countries—Uganda, Kenya, and Bangladesh—services make up over 50 percent of government spending. Education accounts for the largest share of public spending (primarily teacher salaries), averaging about 40 percent of these national budgets. Law and order, roads and works, and health follow at approximately 15 percent each.⁴



Poor people often receive a disproportionately small share of public spending and have limited access to basic services. In a sample of developing countries, the poorest quintile of the population received significantly less funding in several core services than did the richest quintile (Figure 1). In



addition, "leakages" of funds and other inefficiencies seriously undermine the quality of public services. For example:

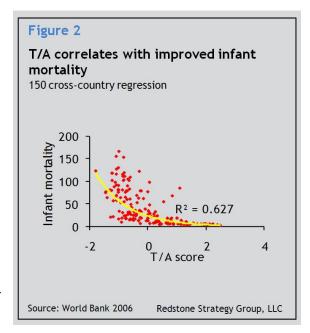
- In Mexico, families living on less than \$5 per day lose 18 percent of their income due to corruption in the form of bribes to obtain essential services.⁵
- In Bangladesh, lack of oversight allows for a 74 percent absenteeism rate among public health care doctors.⁶
- In Nigeria, 93 percent of businesses must own backup power generators due to poor reliability of the public power supply, attributed to mismanagement and corruption in the public power supply corporation, not to a lack of knowhow or skill.⁷

T/A is correlated with improved social and economic outcomes

Given the waste and corruption cited above, it is not surprising that increased government accountability correlates with improved social outcomes. For example, increased accountability, as measured by improved control of corruption, is correlated with decreased infant mortality (Figure 2).⁸ In a study conducted in the Philippines, decreased corruption in the education sector was shown to actually improve pass rates and test scores on the national exam by over 10 percent.⁹

While transparent and accountable governance may directly improve the lives of the poor, it also increases the prospects for economic growth overall. Good governance is strongly associated with improved economic outcomes. In particular, lower rates of corruption correlate with both higher GDP per capita and a more competitive economy.¹⁰

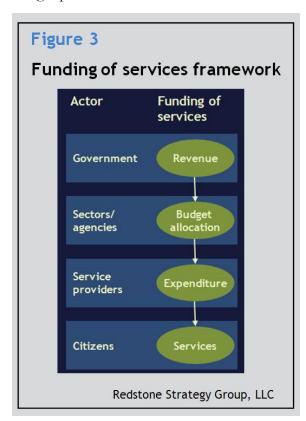
Good governance appears to amplify the positive impact of certain types of foreign aid. In countries that rank high on governance scores, aid has been shown to increase GDP growth rates by approximately 0.8 percent. In contrast, aid may actually have a negative impact on growth in low-ranking countries. The business environment is also heavily influenced by government accountability: in South Asia and sub-Saharan Africa, nearly 50 percent of businesses report corruption as one of the most significant constraint to doing business in developing countries. In the positive in the positiv





T/A can address points of failure in service delivery

Points of failure can occur anywhere along the chain that links government revenues, budget allocations, expenditures, and ultimately service delivery to the public (Figure 3). These breakdown points are caused by inefficiencies and/or corruption in any of the following four stages of the budget process:



Revenue collection. Government revenues originate from many sources and can be lost through many channels. For example, lack of transparency in the reporting of extractive industry revenue payments enables government officials to embezzle monies before they reach the budget; gross inefficiencies in the way donors allocate and distribute their aid undermine the impact of development assistance; and inefficiency and corruption in tax collection reduce the amount of funds going to public services.

Budget allocation. Budget allocation often neglects the needs of the poor. Public officials may prioritize spending to relatively wealthy regions for political gain, or governments may allocate funding to social programs that simply do not work.

Expenditure. Inefficiencies are often the result of bad spending decisions. Without effective procurement and competitive bidding procedures, public officials tend to purchase supplies at unreasonable prices and award contracts to ineffective service providers. Corruption can also

result in leakages as resources are transferred from the central finance ministry to particular government agencies, or to state and local government officials.

Service delivery. The actual delivery of services presents more opportunities for corruption, cronyism, and mismanagement. Service providers may run highly inefficient operations; workers may be poorly trained or, more likely, have few incentives to provide effective services; and staff absenteeism may be high. Without mechanisms for direct citizen feedback, these problems compound and persist indefinitely.

This adds up to dramatic inefficiencies throughout the funding chain for service delivery. For example:

- **\$4.22 billion in oil revenue lost in Angola from 1997 to 2002,** which roughly equaled all spending on basic service needs of the population during the same time period.¹³
- 57 percent of funds intended for education "disappeared" in Tanzania from 2002 to 2003 before reaching the intended schools. 14
- 43 percent absentee rate of health care providers in India and 25 percent for teachers. 15

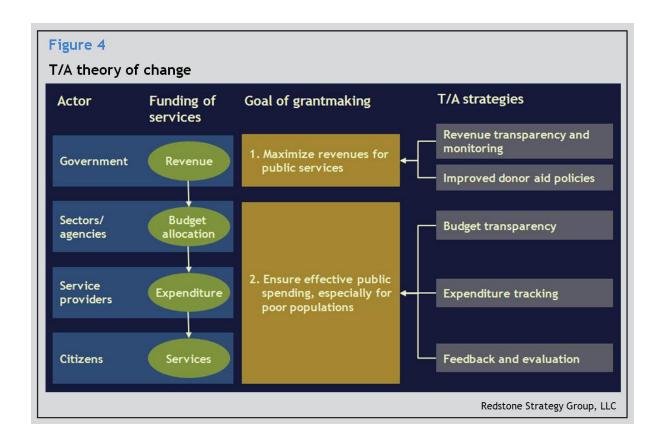


II. T/A's theory of change highlights two primary objectives

The T/A component has two specific objectives that will help improve service delivery (Figure 4):

- 1. Maximize country revenues to ensure that sufficient resources are available to fund public services. As discussed below, this work will focus on increasing revenue transparency and improving donor aid policies.
- **2.** Ensure effective public spending, especially for poor populations. The "public spending" process has three phases: budget allocation, expenditure of funds, and delivery of services. Grantmaking strategies will focus on improving budget transparency, tracking public spending, and evaluation of service delivery.

Where necessary, the Program will support efforts to **ensure basic access to information**, since this is a precondition for effective oversight for both revenues and public spending.





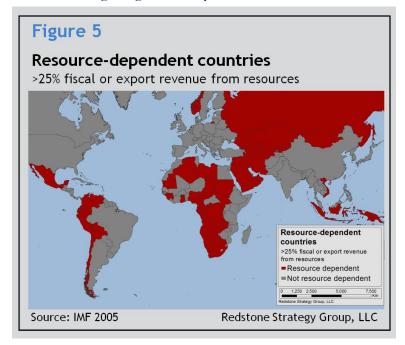
Maximize country revenues to ensure that sufficient resources are available to fund public services

Developing countries receive a majority of their revenues from three sources: (1) extraction of natural resources, (2) foreign aid funding, and (3) domestic tax and tariff revenues. Although domestic taxes are a key source of revenue, tax policy tends to be highly political and difficult for outsiders to influence. Therefore, the T/A component will focus on the other two revenue flows: extractive industries and foreign aid. Both of these are well suited to philanthropic investment, because policy changes in a limited set of venues can affect many multinational companies and donor agencies. Furthermore, leaving aside China and India, half the world's poor live in countries that are dependent on natural resources or foreign aid.

Extraction of natural resources, such as oil, mining, or gas, is a key source of revenue for about

developing ortransition countries (Figure 5). Despite the immense resource wealth extracted every day from these countries, poverty rampant. is phenomenon, commonly referred to as the "resource curse," occurs when natural resources provide large influxes of independent government revenue. These funds can easily be misappropriated by corrupt officials, or they can simply be wasted by state institutions that are not accountable to taxpayers.

Foreign aid funding exceeds 10 percent of gross national income in half of the forty-six countries in sub-Saharan Africa; in countries such as Uganda and Senegal, official



development assistance (ODA) routinely exceeds half of government expenditures.¹⁶ Though our ultimate goal is to help jump-start local economies so that international aid is no longer necessary, development assistance will be a key source of funding for service delivery in poor countries in the foreseeable future. Therefore, it is critical to ensure that aid resources are being used effectively—both to benefit the poor and to ensure that donors continue to give aid.

As shown in the theory of change (Figure 4), T/A uses two mechanisms to maximize revenues for public services: improving revenue transparency and monitoring, and improving donor aid polices, both of which are detailed below.

<u>Improving revenue transparency and monitoring.</u> There is an urgent need for greater transparency in how extractive industry and foreign aid revenue inflows are reported and monitored. To improve transparency, Hewlett T/A grantmaking supports efforts to, for example:

■ Improve international standards for extractive industry revenues. The Extractive Industries Transparency Initiative (EITI) seeks to promote more accountability in resource-rich countries by requiring full publication of company payments and government revenues generated from the oil,



gas, and mining industries. Thirty countries have committed to the principles of the EITI. With the Open Society Institute, the Hewlett Foundation helped create the Revenue Watch Institute (RWI) to work with the EITI Secretariat and resource-rich governments on EITI implementation.

Another international mechanism with significant potential to influence the behavior of extractive industry companies worldwide is the International Accounting Standards Board (IASB), an independent organization dedicated to developing a single set of enforceable global accounting standards.¹⁷ RWI is working with the IASB Board to include transparency of extractive industry revenue payments in the next platform of IASB standards.

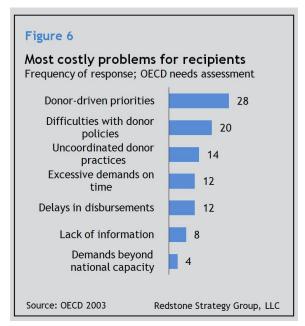
• Improve data reporting standards for foreign aid donors. Given the large volume of international aid, there is a surprising lack of good data available to governments and NGOs in recipient countries for the purpose of tracking donor money. Without this information, it is impossible for citizens to hold their own governments accountable for how aid is being used—and impossible for recipient governments to manage incoming aid flows effectively.

The best existing database of donor information, the Organization for Economic Cooperation and Development (OECD) Creditor Reporting System provides outdated information, is difficult to search, and does not include information on actual transactions. The Hewlett T/A component will support efforts to improve aid reporting standards through work with the OECD/Development Assistance Committee and with advocacy groups committed to advancing this aid transparency agenda. ¹⁸

- Strengthen international networks of revenue transparency organizations. By working with international networks and regranters for these two areas (resource revenues and foreign aid), the T/A component will work to strengthen local monitoring efforts in multiple countries.
- Provide direct support to local watchdog groups and research organizations. In the Program's target countries, investments will directly support organizations that are demanding greater revenue transparency and holding their governments accountable for how these revenues are spent.

Improving donor aid policies, especially those of the United States, to help maximize revenues for very poor countries. Significant inefficiencies in the delivery of foreign aid result in loss of funding available for public services (Figure 6). Although the United States gives a relatively small share of its GDP in foreign aid relative to other donors, it is the largest bilateral aid donor by total volume, representing nearly 40 percent of bilateral aid. However, recipient country government officials characterize the United States as one of the least effective of all OECD donors. Due to this combination of high aid volume and poor quality aid, reform of U.S. development assistance could yield significant benefits for poor countries.

Most experts agree that it would be extremely difficult to make significant improvements in U.S.





development assistance without overhauling the country's outdated foreign aid legislation. Last reauthorized in the 1980s, the Foreign Assistance Act is now more than 2,000 pages long and involves more than fifty separate government agencies. To address these problems, new legislation for development assistance would need to include the following provisions:

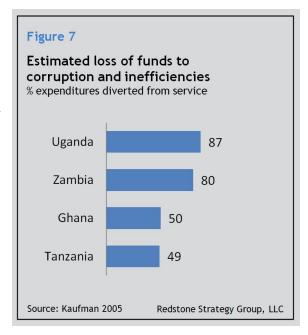
- Better coordination of planning and budgeting across U.S. agencies.
- Greater budget flexibility for USAID, particularly in the field.
- The ability to provide "good performers" with direct budget support.
- Elimination of "tied aid" (requiring the purchase of U.S. products and services).
- Significant reduction of congressional earmarks.

With this in mind, the T/A component has been laying the groundwork for significant reforms of U.S. foreign assistance to be introduced in 2009 and 2010. The next two years offer a critical window of opportunity to fix these problems, since the most opportune moment to introduce a comprehensive reform of U.S. foreign assistance will be early in the next presidential administration.

Ensure effective public spending, especially for poor populations

To ensure effective public spending, the Program will invest in the following three types of activities:

- Strengthen budget transparency and analysis. These efforts help ensure that funds are being allocated appropriately and are applied to the needs of the poor. In some cases, this means finding creative ways to obtain and disseminate budget information in places where budget data are not made public. For example, Developing Initiatives for Social and Human Interactions (DISHA), an NGO in Gujarat, India, gets budget documents from opposition members of parliament on the day the budget is presented, simplifies and translates these documents, and then disseminates this information to parliamentarians, the media, and civil society almost overnight. By making its state's budget accessible to a broader group of stakeholders to use for advocacy, DISHA has secured increased government budget allocations for the state's poor
 - tribal regions. In other cases, this will mean looking at a particular sector and analyzing budget allocations so advocates who care about these issues can use them. In South Africa, many advocacy groups benefit from the research carried out under Idasa's "Children's Budget" project, which analyzes the implications of government budgets for children.
- Support expenditure tracking. This involves tracking funds from the point of allocation through disbursement to government agencies and down to service providers. For example, a 1996 Public Expenditure Tracking Survey (PETS) in Uganda revealed that Ugandan schools were only receiving about 13 percent of the funds allocated to them by the central government. Outraged citizens and public officials began a wide-ranging transparency





campaign to publish school budgets in major newspapers and on notice boards at public schools. As a result, by 2001, 80 percent of allocated funds were reaching the schools. Results from PETS have documented similar leakages in several other countries including Zambia, Ghana, and Tanzania (Figure 7).

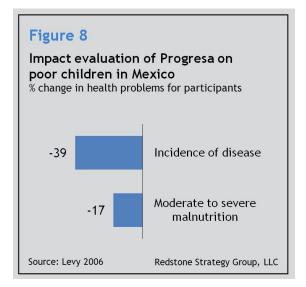
To strengthen the role of watchdog groups like DISHA, the Program will work with global networks (such as the International Budget Partnership) to seed budget-monitoring activities in developing countries around the world.

In target countries, the Program will also support a more ambitious set of coordinated T/A investments to ensure budget transparency and track public spending, including:

- Advocacy for improved budget transparency
- > Analysis of budget allocations and dissemination of budget information that citizens can understand
- Expenditure tracking by NGOs and watchdog groups
- > Training for the media to improve coverage of budgetary issues
- **Expand feedback and evaluation of service delivery.** Even if funds make it to service providers, services may be provided poorly or the wrong services may be provided. To prevent this, it is critical to evaluate the results of social programs through the following feedback mechanisms: (1) direct feedback from citizens in the form of citizen scorecards or surveys, as well as studies that compare costs of services across districts; and (2) external evaluations that help determine if the government's social programs are having the desired impact in terms of outcomes that matter, like reducing malnutrition or improving learning.

Impact evaluations (IEs) are particularly useful, as they demonstrate whether programs are actually having an impact and at what cost. This helps establish cost-efficiency comparisons that allow governments to allocate scarce resources to the greatest benefit of the poor. IEs also produce evidence that can create political pressure for maintaining successful programs or for making mid-course corrections when necessary.

Launched in 1997 in Mexico, the Progresa program in Mexico provided conditional cash transfers to poor families if they complied with certain conditions. For example, the program provided nutrition supplements if the family regularly visited a health clinic and conditional cash payments if children stayed in school. An independent impact evaluation of Progresa showed dramatic improvements for program participants versus nonparticipants (Figure 8). Thanks to this clear evidence of the program's success, Progresa, now called Oportunidades, has been maintained and expanded through several administrations in Mexico, as well as replicated in other countries. ²¹



To increase the number of large-scale IEs of key social programs, the T/A component has worked with other donors to establish the International Initiative for Impact Evaluation (3IE)



with members including developing country governments, foundations, official donor agencies, and NGOs. 3IE will improve the implementation of impact evaluations and the use of the information for decisionmaking by:

- > Setting global standards for IE and commissioning demonstration evaluations
- Comparing results globally across countries and sectors
- > Sharing results with public officials to inform the design of future programs

The Program will also work in target countries to promote better feedback mechanisms by:

- Supporting efforts to collect direct feedback from citizens on service delivery and to conduct surveys comparing service delivery performance and costs across districts
- > Encouraging government ministries to commission more independent IEs of public services and to make the results of these evaluations public

Improve access to information where necessary to ensure effective oversight

Certain enabling conditions must be in place for the investments described above to succeed. One of the most important conditions is ensuring access to information through freedom of information laws or similar mechanisms. If citizens cannot access basic information about the decisions the government is making, and how it is generating and allocating public funds, then it is extremely difficult to carry out most of the interventions proposed here (e.g., budget analysis or expenditure tracking). As in the case of Mexico (see Section IV), the T/A component supports work to improve access to information in countries where local partners find this agenda to be essential to effective oversight.

III. To maximize impact, T/A will focus investments in target countries

Investments at the country level will focus primarily on improved public spending in a select group of countries, likely to include some combination of Ghana, Kenya, Mexico Nigeria, Tanzania, and Uganda over the next ten years. As discussed above, these in-country T/A investments will focus on revenue and budget transparency, effective public spending, and improving the evaluation of service delivery. Example grantees include think tanks, local CSOs, government ministries, and training organizations like the Abdul Latif Jameel Poverty Action Lab (MIT).

With the help of T/A and country experts, the Program will assess the specific target countries to determine: (1) where the greatest sources of leakage or inefficiency are in the budget process; and (2) whether there are interested partner organizations that can help address these weaknesses. Country assessments will seek to answer the following questions (among others):

- Revenue collection. What are the main sources of revenue in the country? Are there concentrated flows (e.g., from extractive industries or foreign aid) that could be better tracked?
- **Budget allocation.** Is there sufficient budget transparency to analyze budget allocations and track expenditures? Is there a "citizens' budget" or some other way of translating the budget into language the average person can understand? Is the budget allocated in response to citizen needs and priorities?



- **Expenditure.** Where are the key problems in the budget process, and where are the most leakages? Has a Public Expenditure Tracking Survey been conducted in the country, and if so, what did the results show? Are there particular sectors where corruption appears to be most prevalent? What is the role of the Auditor General?
- Service delivery. What are the primary causes of poor services in the country? Does the government ever perform (or commission) high-quality impact evaluations of social programs? Are there groups with the capacity to conduct IEs? Are there mechanisms in place for citizen feedback on services? Have comparative cost surveys been conducted?

IV. Recent investments in Mexico illustrate the potential impact of a country-level approach

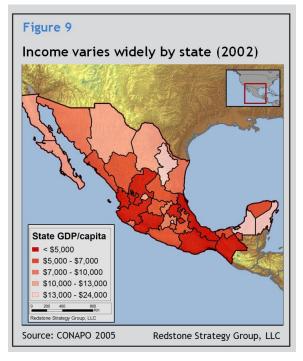
Democratization and effective grantmaking have helped increase transparency and accountability reforms in Mexico

This section provides an overview of activities the Hewlett Global Development Program's T/A component has supported in Mexico, ongoing challenges that point to areas for future investment, and lessons that can be applied to the Program's T/A investments in other countries throughout the world.

Poverty and corruption are both widespread in Mexico

Current estimates of poverty in Mexico show that half of the country, over 50 million people, are poor and living on less than \$5 per day, and that 20 percent of the population is living in extreme poverty on less than \$2 per day (Figure 9).

Mexico's transition to multiparty democracy in 2000 provided an opening to improve governance. Since then, Mexico has improved its scores on World Bank measures of government effectiveness,



voice and accountability, and control of corruption. But much more needs to be done to ensure that Mexico's democratic transition produces governance improvements that directly benefit the half of the Mexican population that lives below the poverty line.

Mexico is still ten points below the average on measures of government accountability, and twenty-one points below the average on control of corruption. Mexico is also falling behind other countries in the region on overall economic competitiveness.



T/A investments in Mexico have helped locally driven efforts succeed at both the federal and state levels

In 2004, Hewlett took advantage of the country's democratic opening to implement, expand, and strengthen transparency and accountability guarantees in Mexico to benefit the poor.

Hewlett's strategy in Mexico has taken advantage of opportunities presented by the passage of Access to Information (ATI) legislation (sometimes called Freedom of Information legislation) and other transparency and accountability reforms, including laws to improve public budget transparency and performance, and a law requiring impact evaluations of all federal social development programs. These laws have created positive conditions for working on T/A as well as momentum to improve governance. Still, the challenge of implementing these remarkable transparency and accountability reforms remains (especially at the state and local levels), and is an important goal for the Global Development Program in Mexico.



The Hewlett strategy in Mexico has been to solidify expand transparency and accountability guarantees, expand the constituency working on T/A, and provide targeted technical assistance to government for T/A reforms implementation, especially at the state level. This involves working with a broad set of actors and practitioners -- NGOs, independent think tanks, universities, journalists, and government officials -across sectors, including health, environment, human rights, the judicial system, and the private sector. The Foundation has invested in a variety of research and advocacy organizations to expand access to information guarantees and then to use newly available information on public spending to improve service delivery for the poor.

After only five years of T/A grantmaking, the Foundation's work in Mexico has contributed to several successes. The Foundation's grants have

built a diverse community of grantees working together on T/A, including bridging traditional barriers between CSOs and government. It was this community that played a key role in the following advances:

- The passage of a constitutional amendment to guarantee access to federal, state, and municipal-level information.
- Completion of a major pilot project to understand how poor communities can use ATI to improve well-being (e.g., IFAI *Comunidades*).
- Increased local media capacity to use ATI.
- Emphasis on governance as an economic competitiveness issue.
- More impact and performance evaluations of government programs available to the public.

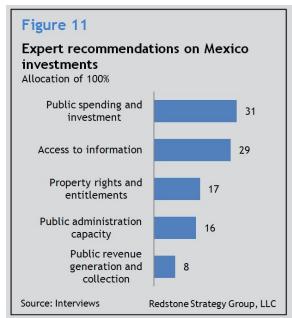


- Inclusion of 'civic' organizations (including transparency and accountability watchdog groups) as eligible for tax-deductible status in Mexico.
- Use of information technology tools to foster a network of national, state, and local organizations that focus on T/A in Mexico.
- Passage of state-level budget accounting reform.
- Publicly available, user-friendly information on Mexico's major agricultural subsidies.

With the constitutional guarantee of access to information now in place, transparency laws have *de jure* expanded to all states and large municipalities in Mexico (Figure 10). *De facto* implementation challenges remain that require further effort and investment by Hewlett and other donors. There is some evidence that improved transparency is allowing citizens at the state and local level to track service delivery from federal government budget coffers to intended poor recipients. However, we also see signs of resistance to new transparency and accountability reforms as citizens, especially at the state and local levels, are exercising these powerful new rights. Experts are now citing strategies used in Mexico to guide efforts to increase transparency and improve public spending in other countries around the world.

Experts recommend shifting investments in Mexico to focus on decentralized spending

Based on the current level of transparency and accountability in Mexico, experts recommend investments that focus primarily on public spending-including budget analysis and monitoring, expenditure tracking, and impact evaluation—with some additional work to improve access to information (Figure 11). By focusing on public spending, the Program's investments will seek to address some of the challenges associated with Mexico's recent decentralization of funding, which has shifted significant funding to the states over the past decade.



This shift has resulted in many issues at the state level. First, the change occurred before mechanisms were put in place to hold states and municipal governments accountable for how they spent public funds. Second, even though the states receive funds, taxation and revenue generation remain concentrated at the federal level. As a result, "states are like kids in a candy store," as one expert put it, with little accountability for their spending. Finally, CSO capacity remains limited at the sub-national level.

To address these challenges, experts recommend more focus on investments that impact state and local activities:

- Continue work to realize ATI guarantees
- Use ATI for budget analysis and tracking of expenditures from federal coffers to state and local levels



- Conduct comparative analyses of state accounting, procurement and spending practices
- > Effectively use and expand impact evaluations

Decisions about where to focus state and local investments will be based on criteria such as local NGO capacity, political opportunity (vis-à-vis state and local governments), and relative concentration of poor populations.

Grantmaking in Mexico offers lessons for the Program's future countrylevel work

Our successes and failures in Mexico suggest several lessons for T/A investments in new democracies in sub-Saharan Africa.

- Local networks are critical. Isolated transparency and oversight groups will be more vulnerable to political vagaries. The Mexico Program team has built a diverse network of incountry players who have helped influence policy change and are working to prevent backsliding.
- T/A improvements should begin at the federal level, but extend quickly to sub-national levels in decentralized systems. Democratization in Mexico has created an unusually speedy laboratory for T/A reforms that are now extending to the states and municipalities.
- Investments in transparency and accountability guarantees alone are not enough to secure benefits for the poor. Passing laws is only a first step -- implementing guarantees are the greater challenge. In addition, CSOs that work with the poor need direct support to take advantage of access to information guarantees in order to analyze budgets and track expenditures for the poor. Impact evaluation is also a critical tool for improving public spending at the country level.
- Creative collaboration with government is essential. The Program has found creative ways of working with key Mexican government agencies and ministries. Simply increasing citizen oversight and monitoring of government is not sufficient without increasing government's capacity to respond constructively. Our experience has shown that securing the buy-in of institutions, not just individual government officials, is important over the long-term.
- The fiscal and legal enabling environment matters for CSOs. Local watchdogs and other civil society advocates will benefit from an enabling environment infrastructure that fosters professionalism, institutionalization, and financial sustainability.



ENDNOTES AND SOURCES

- ¹ Note: governments may deliver services directly or contract for the delivery of the services.
- ² UNDP HDR 2006
- ³ Barro and Sala-i-Martin 2004
- ⁴ Bevan and Palomba 2000
- ⁵ Indice Nacional de Corrupcion y Buen Gobierno 2007
- ⁶ World Bank WDR 2004
- ⁷ Adenikinju 2003
- 8 Kaufmann 2004
- 9 Azfar & Gurgur 2001
- ¹⁰ Kaufmann 2005
- ¹¹ Dollar and Burnside 2004; Clemens et al. 2004
- ¹² Kaufmann 2005
- ¹³ Human Rights Watch 2004
- ¹⁴ Reinikka and Svensson 2002
- 15 World Bank WDR 2004
- ¹⁶ IMF IFS 2007
- ¹⁷ The International Accounting Standards Board (IASB) is based in London and directs accounting standards in Europe, Australia, and parts of Southern Africa and Southeast Asia. It coordinates with its sister organization, the U.S. Financial Accounting Standards Board (FASB), to create compatible accounting standards that can be used for both domestic and cross-border financial reporting.
- ¹⁸ The OECD/Development Assistance Committee is the principal international coordinating body for all the OECD donor countries.
- 19 World Bank 2004
- ²⁰ Last October the Board heard about the Progresa program and its impact evaluation in a talk given by Santiago Levy, one of the key architects of the program.
- ²¹ Levy 2006