

aidinfo 

Because ending poverty counts

a Development Initiative



# The costs & benefits of **AID TRANSPARENCY**

MATTHEW COLLIN, ASMA ZUBAIRI,  
DANIEL NIELSON AND OWEN BARDER

OCTOBER 2009

## SUMMARY

1. This paper sets out the costs and benefits of greater aid transparency. We believe this is the first effort of its kind, and it aims to assemble what is known and stimulate further research. We have set out our detailed working and assumptions in 6 appendices. This paper is a draft on which we would welcome comments.
2. We estimate that it will cost the International Aid Transparency Initiative (IATI) signatories a total of \$6m to implement IATI. The range of our estimates is \$3.8m to \$8m and these are one-off costs. These estimates are based on discussions with four donor agencies. More detailed information from a broader range of donors is needed to verify these estimates.
3. Based on a survey of donor country offices, we estimate that donors currently employ the equivalent of 350 full time staff at country level to provide detailed information about aid both to country aid management systems and to meet other information requests about aid. We estimate that routine publication of detailed aid information in an accessible form will save approximately \$7 million a year for IATI signatories because it will reduce, though not eliminate, this duplicate manual reporting of aid information. These savings would cover the estimated costs of implementing IATI in about a year.
4. Increased transparency opens the way to improvements in the effectiveness of aid by reducing diversion and capture, reducing unpredictability, improving accountability and service delivery, improving coordination, facilitating research, improving aid allocation and increasing public support for development. The size of these benefits is uncertain. Based on a thorough analysis of existing literature, we estimate that reduced diversion of funds and increased predictability alone could result in very large improvements in aid effectiveness, perhaps equivalent to an increase in aid of \$1.6 billion a year.
5. Overall we estimate that increases in effectiveness from increased aid transparency by IATI signatories might lead to improvements in aid effectiveness which are approximately equivalent to a permanent increase in global aid of 1.3%. If the IATI standard were implemented by all DAC donors we estimate that this would enable improvements equivalent to a permanent increase of 2.3% in global aid, or \$2.8 billion a year. These increases in aid effectiveness would produce benefits in less than a single day that exceed the estimated costs of implementing IATI. At a time when aid budgets are under pressure, these would be significant increases in poverty reduction without adding to aid spending.
6. We have attempted to summarize the best available information rigorously and transparently. We have set out ranges for each estimate, based on reasonable interpretations of the available evidence. Under any scenario, we find that investing additional resources in aid transparency represents very good value for money.

# THE COSTS & BENEFITS OF AID TRANSPARENCY

MATTHEW COLLIN, ASMA ZUBAIRI, DANIEL NIELSON AND OWEN BARDER<sup>1</sup>  
OCTOBER 2009

**This is work in progress. This paper summarizes our findings to date. We have set out rigorously and explicitly what is presently known about the costs and benefits of aid transparency. We have described our calculations in detail in the appendices.<sup>2</sup> We recognize that there are many unknowns and there is uncertainty about the estimates. We invite others to contribute additional detail and information so that we can develop together the most accurate possible account of the costs and benefits of making aid more transparent.**

## INTRODUCTION

7. People advocate greater transparency of foreign assistance for a variety of reasons. Some focus on the right of the taxpayer to know how their money is being spent, and they emphasize the duty of donors to account for it. Others stress the need for developing country governments to have access to information about how aid in their country is being used so that they can optimize the allocation of limited resources. Still others highlight the need for a wider group of people in developing countries – citizens, parliamentarians and civil society groups – to know what resources are being spent in order to exact stronger accountability from the service providers. And these reasons reflect only a few of many possible benefits from greater aid transparency.

8. Yet greater transparency of aid would require additional investment by donors. Clearly this has an opportunity cost: the money which pays for better systems to make aid more transparent could be used in other ways that would also contribute to poverty reduction. The investment in transparency therefore has to be justified by the benefits.

9. The costs of transparency fall largely on the donors, and they are mainly *administrative*. They include the money necessary to adapt IT systems, staff time to collect and record additional information, the cost of training staff to use new systems and classifications, and coordination costs to oversee internal quality control over a larger amount of published information. Our estimate of these costs is based on visits to the headquarters of four donors, and discussions with others. Based on discussions with staff in donor agencies, our most pessimistic estimate is that the total cost for IATI signatories of

---

<sup>1</sup> Matthew Collin, Oxford University; Asma Zubairi, Development Initiatives; Daniel Nielson, Brigham Young University; Owen Barder, Development Initiatives. Contact [owen@devinit.org](mailto:owen@devinit.org)

<sup>2</sup> All these papers are online at [www.aidinfo.org](http://www.aidinfo.org)

implementing IATI might be in the order of \$6 million, with a range of \$3.8 million to \$8 million.<sup>3</sup> The details are set out in Appendix 5.

10. The possible benefits are divided into two broad groups: (1) *efficiency gains* (such as reduced administration costs, less duplicate reporting, better planning of aid programmes); and (2) *effectiveness gains* (such as improvements in services resulting from greater accountability, and microeconomic and macroeconomic improvements from greater predictability).

11. There are other, less tangible possible benefits, such as improved aid allocation, more and better research, and greater willingness to give aid,. We have not attempted to quantify these broader benefits. Nor have we quantified the efficiency savings for other organizations that collate and use aid information.

12. This paper provides estimates of the magnitudes of the costs and benefits which we have been able to quantify. It surveys existing research findings and supplements those findings with our own analysis. The details are set out in appendices. Each of these topics warrants an entire research programme of its own. We see this work as a start: to our knowledge this is the first attempt to examine the balance sheet regarding aid transparency.

13. Our survey evidence suggests that donor country offices already bear a considerable burden of reporting information about aid to multiple stakeholders. We estimate that the equivalent of between 120 and 570 full time donor staff around the world are presently taken up reporting information about aid to a variety of stakeholders, at a cost of about \$22 million a year. If IATI reduces this burden of duplicate reporting for donors, and so reduces these costs, it will pay for itself quickly. Our central estimate is that these possible *efficiency gains* for the IATI signatories of introducing systems to publish detailed aid information may be of the order of \$7 million a year. This would mean that these systems would pay for themselves about one year, even if there were *no* gains from more effective aid.

14. The *effectiveness gains*, which are more uncertain, are potentially much larger. Greater transparency may unlock improvements leading to reductions in diversion and capture, more effective service delivery arising from greater accountability, increased predictability, improved aid allocation, better aid coordination, improved research and evidence about effectiveness, and greater donor willingness to give aid. Our central estimate is that investment in greater aid transparency might lead to improvements in aid worth about \$1.6 billion a year, which would justify the costs *in less than one day*. Greater transparency is a necessary, but not a sufficient, condition of such improvements.

---

<sup>3</sup> Our cost estimates, set out in detail in Appendix 5, make assumptions about how much investment is needed by each IATI signatory to meet the IATI standard. Further work is needed to refine these costs, looking in detail at the cost of past investments in IT systems.

15. While there is great uncertainty about both the costs and benefits, the orders of magnitude involved along with their confidence intervals are such there exists no scenario in which the additional investment required of donors would not be very good value for the money.

16. Greater aid transparency of the kind envisaged by IATI signatories would make it possible to achieve benefits roughly equivalent to a permanent increase of 1.3% in global aid, or an additional \$1.6 billion per year. Full implementation by all DAC donors would deliver benefits roughly equivalent to a permanent 2.3% increase in global ODA, or an additional \$2.8 billion per year. At a time when donor country budgets are under pressure, improvements in the quality of aid can accelerate progress towards the Millennium Development Goals without adding to pressures on the aid budget.

17. We estimate that efficiency gains resulting from the elimination of duplicate reporting for donors will cover the estimated costs of aid transparency in about a year. Add to that the potential benefits resulting from greater accountability, reduced diversion of funds, more predictability, better coordination, better research, better aid allocation and more public support, and we estimate the costs of transparency will be covered in less than a single day.

## 1. DEFINITION OF TRANSPARENCY

18. For purposes of this paper, aid transparency is defined as meeting the aspirations of the International Aid Transparency Initiative (IATI) to publish detailed, comprehensive, up-to-date, comparable, forward- and backward-looking information about aid in a common electronic format.<sup>4</sup> Some donors may choose to do this centrally, by publishing data from a management information system; other donors may choose to publish information through a variety of decentralized mechanisms (e.g. by their representatives in developing countries). However donors choose to publish the information, the benefits can be secured if the information is easily accessible to people in developing and developed countries in a form that they can readily use.

19. The scope of the International Aid Transparency Initiative is currently the subject of consultation.<sup>5</sup> This draft scope includes both information that donors already have available in a systematic form but do not currently publish (for example, the name of the organisation to which a payment is made); information that is usually available somewhere within the donor agency but not always in a systematic way (such as details of future spending plans); and information that donors do not presently collect or hold at all (such as geographical

<sup>4</sup> The International Aid Transparency Initiative is described at [www.aidtransparency.net](http://www.aidtransparency.net)

<sup>5</sup> <http://aidtransparency.net/wp-content/uploads/2009/06/IATI-scope-draft-24-Sept-final.doc>

location of investments). We have assumed for the purposes of this paper that transparency involves publishing *all* the information in the draft scope, in a systematic way, in a common format with shared definitions.

## 2. EFFICIENCY GAINS

20. This section focuses on possible gains in the efficiency of delivering aid. These mainly comprise the possible benefits for donors of automating reporting and reducing duplication of requests for information.

### 2.1 REDUCED ADMINISTRATIVE COSTS OF REPORTING AID INFORMATION AND TIME SPENT RESPONDING TO INFORMATION REQUESTS.

21. The transparency standard aims to encompass substantially all the information needs of a wide variety of stakeholders, including developing country governments, civil society organizations, international organizations, researchers and other donors.

22. Under current arrangements, members of the OECD's Development Assistance Committee (DAC) report at minimum to the DAC database and Creditor Reporting System and to approximately fifty different country-level Aid Information Management Systems (AIMS). Some donors provide this information centrally, but most provide it directly from their country programme staff. The proposed IATI standard is intended to generate information routinely and automatically in a form that can be read directly into country level aid management systems. For donors (especially staff in country offices) this would mean less time coordinating, assembling and preparing information. For recipient countries, this would mean less time collecting information, verifying it, and inputting information into their aid information management systems.<sup>6</sup>

23. To estimate the savings from more automatic reporting we surveyed 7 donors in their respective offices in 14 developing countries.<sup>7</sup> Our methodology is set out in Appendix 1. We estimate that, on average, each donor country office spends about 7 staff days a year reporting to country aid management systems, and a further 24 staff days a year responding to other information requests. (The range in our survey was large, with country offices spending between 11 to 51 staff days a year spent reporting aid information. Our estimates are slightly less than the estimates made by the Development Gateway Foundation of the costs to donors of providing information to aid management systems).

---

<sup>6</sup> The Development Gateway Foundation estimates that it might cost approximately \$40K to adapt each Aid Management Platform to collect this information automatically.

<sup>7</sup> We received responses from the following donors: GTZ, DfID, DANIDA, Swiss Cooperation, World Bank, Asian Development Bank and UNDP. We received responses from donors in Bangladesh, Ethiopia, Indonesia, Kenya, Kyrgyz Republic, Malawi, Mozambique, Sierra Leone, Sudan, Rwanda, Tanzania, Thailand, Uganda and Zambia

24. If there are more than 2,300 donor country offices around the world to which these averages apply then DAC donors have between them the equivalent of between 120 and 570 full time staff working on reporting aid information, mainly from country programme staff. This might be costing between \$7 million and \$35 million a year. Our central estimate is that donor country programmes spend approximately \$22 million a year providing information to country aid management systems and meeting other requests for information about aid.

25. Some, but not all, of these information requests would be unnecessary if donors routinely published detailed and standardized information about aid. We have assumed that information will be published in a form and at a level of detail that meets *all* the needs of country aid management systems (since this is a priority for IATI), and about *half* of other information requests. Our calculations are set out in Appendix 1. Overall, we estimate that the IATI donors would save approximately \$7 million a year as a result of reduced burden of duplicate information requests.<sup>8</sup> Recipient countries would save approximately \$0.8 million a year.

**Table 1: Efficiency benefits from reduced time spent reporting aid information**

Category	Low estimate	Middle estimate	High estimate
IATI Donors	\$2.8m	\$7.2m	\$8.5m
Recipient Governments	\$0.5m	\$0.8m	\$1.2m
<b>Total</b>	<b>\$3.3m</b>	<b>\$8m</b>	<b>\$9.7m</b>

26. Note that these savings relate to the burden on donor country programme staff, not the costs of central reporting by headquarters. As set out in Appendix 5, there may also be offsetting savings for donor headquarters resulting from greater aid transparency, but these have already been netted out of the implementation costs, and so we have not included them here to avoid double counting.

27. This means that, even in the absence of wider improvements in aid effectiveness, we estimate that more systematic publication of detailed aid information designed to meet the needs of a wider range of stakeholders could yield significant savings for donors because it could reduce duplicate and manual reporting. Furthermore, our analysis suggests that these savings might be large enough to offset the implementation costs in one or two years.

28. Note that *costs* of greater transparency might fall on a different parts of donor organizations than the *savings* identified here. Note also that we have not included in the

<sup>8</sup> See Appendix 1 for details. One reason that the figures are smaller for recipient countries is that staff costs at market rates are so much lower. This may be an underestimate of the benefits to recipient countries if the value of staff greatly exceed market pay rates.

costs the possibility that greater transparency will, at least at first, add to the burden on donors (for example, by leading to a larger number of questions from members of the public seeking an explanation of why particular choices were made). However, it may also be that these additional costs would be offset by the greater efficiency engendered by such public scrutiny.

## 2.2 SAVINGS FOR ORGANISATIONS THAT COLLATE DATA

29. The publication of data in a common electronic format will also generate efficiency savings for other organizations that presently collect, verify and collate information. These include:

- a. The Development Gateway Foundation, which publishes aid data through the AIDA database;
- b. The PLAID database, assembled by The College of William & Mary and Brigham Young University;
- c. A wide range of think tanks, researchers, and international organizations and NGOs who assemble information about aid for advocacy and to support service delivery.

30. Use case studies by the aidinfo team at Development Initiatives suggest that some international NGOs spend approximately 12 staff days a year collecting and collating information from donors about aid, though clearly this varies enormously between organizations.

31. Providing data in an easily accessible, standardized format would lead to considerable cost savings for these organizations. For example, PLAID principal investigators estimate that roughly forty percent of their operating budget has been dedicated to requesting documents, web-scraping online sources, scanning annual reports to create digital copies, and manually entering project information into the database. Each of these tasks would not be necessary if information were published in accordance with an detailed aid information standard, yielding cost savings for PLAID of roughly \$1.2 million per year. There are many other organizations having to devote resources to gathering, collating and reconciling aid data – though generally not on the same scale as PLAID. The savings to the development sector as a whole is likely to be of the order of tens of millions of dollars a year.

32. We have not included these potential savings to the wider development community in this cost-benefit analysis, both because we lack reliable data and because some donors may prefer not to include benefits to third-party organizations in their value for money appraisals.

### 3. EFFECTIVENESS GAINS

33. This section discusses the possible improvements in the *effectiveness of aid* that might result from making detailed information about aid more accessible. These benefits are less easy to define and measure than the efficiency savings, but they are sufficiently well defined – and the confidence intervals narrow enough – for us to make statements about their order of magnitude.

#### 3.1. REDUCING THE DIVERSION OF AID RESOURCES

34. Accountability depends on access to information. Transparency is needed for citizens to be able to keep their governments in check and governments to make their staff more honest and efficient. One of specific areas where accountability matters is in the prevention of the capture, or diversion, of public resources. In Uganda, diversion of education resources was reduced from 87% to 20% as a direct result of increased public information about the resources allocated to each school.<sup>9</sup>

35. To the extent that detailed aid information is made more accessible by aid transparency, we would expect a decline in the diversion of aid-funded government expenditure, as increased scrutiny makes it more difficult for individuals to divert resources.

36. We have surveyed the literature about the extent of resource diversion and the impact of transparency on reducing diversion. Using the DAC's Creditor Reporting System (CRS) we have conservatively estimated that about \$12 billion a year of aid from IATI signatories is of the kind that could be susceptible to capture (plus about another \$6 billion a year from other donors).<sup>10</sup> Evidence from a range of studies, especially Public Expenditure Tracking Surveys (PETS), suggest that between 7% and 43% of such aid may be currently diverted, with a central estimate of 25%. This means that perhaps \$3 billion a year of aid from IATI signatories is currently diverted.<sup>11</sup> To estimate the impact of transparency on reducing capture, we have drawn estimates from previous studies, which suggest that transparency results in reductions in capture ranging from 12% to 74%, with a central estimate of 30%.<sup>12</sup> The details of these calculations are set out in Appendix 2. As a result, we estimate that the reduction in capture of aid as a result of much greater transparency might be of the order of \$900 million a year for the IATI signatories, and \$1.3 billion for all donors. It is of course possible that this is an underestimate, since it makes no allowance

<sup>9</sup> Reinikka and Svensson (2001) – see Appendix 2 for a substantial discussion of these issues.

<sup>10</sup> We have identified aid to the education, health, agriculture and rural development sectors which is classified as flowing through the public sector or non-governmental organisations.

<sup>11</sup> For the sake of clarity, this does not mean that all of this is lost to corruption. Some of this diversion may be unnecessary bureaucracy and inefficiency, or legal use of funds for other purposes.

<sup>12</sup> Note that this decline of 74% assumes that, without the drive for transparency in Uganda from multiple sources, the rate of capture would have remained constant as the education budget was scaled up.

for the possibility of transparency leading to a reduction in capture of the other 90% of global aid.

37. Publishing more detailed aid data will not, by itself, reduce the diversion of public resources. It is a necessary but not sufficient step toward empowering citizens, civil society groups and parliamentarians to hold governments, donors and service providers to account for how that money is used.<sup>13</sup>

38. Table 2 shows the estimated levels of savings generated by the effect of further transparency on reducing diversion of aid.

**Table 2: Annual reduction of diverted resources due to IATI adoption**

Category	Low estimate	Middle estimate	High estimate
IATI Donors	\$97m	\$879m	\$3,784m
All DAC Donors <sup>14</sup>	\$145m	\$1,311m	\$5,645m

39. Our central estimate is that implementation of IATI by the current signatories will increase resources available for poverty reduction by a little under \$1 billion a year by reducing diversion of resources, albeit with a wide range of estimates from \$100m to \$3.8 billion. This range is explained in Appendix 2. From these benefits alone, and assuming the costs are at the high end of our estimates, the costs of greater aid transparency would be repaid in less than 3 days.

### 3.2 THE MACROECONOMIC BENEFITS OF GREATER PREDICTABILITY

40. Aid is both volatile and unpredictable. Despite international recognition of the problem, progress to improve predictability has been slow. Aid is, on average, much more volatile than domestic revenues.<sup>15</sup> There are significant costs associated with the instability of aid, including the welfare costs of fluctuating income streams, the tendency of aid to exacerbate real shocks to the economy, and the fiscal and planning problems associated with unpredictable aid. Several studies have suggested that these macro-level costs might be large. Better information on future aid, both in aggregate and where possible in detail, will reduce the unpredictability of aid and thus lower some of the associated costs.

41. To quantify the impact of transparency it has been necessary for us to estimate both the overall costs of uncertainty of aid and the extent to which these might be reduced by

<sup>13</sup> It follows from this that additional efforts by donors to make information more accessible by such groups are likely to yield high dividends.

<sup>14</sup> Estimates for all donors are based primarily on information from the OECD-DAC database, and so offer a large, but incomplete view of total aid.

<sup>15</sup> See Benn Eifert and Alan Gelb. 2005. "Coping with Aid Volatility." *Finance and Development* 42 (3): 24-27.

greater transparency. Our approach is set out in detail in Appendix 3. We have estimated the costs of uncertainty using the Capital Asset Pricing Model (CAPM) to estimate the market value of a volatile income stream. This approach to measuring the deadweight loss caused by aid uncertainty was introduced in Kharas (2008). Building on that approach, and using a variety of different models to capture the theoretical uncertainty around aid disbursements, we simulate both the impact of an increase in predictability and an improvement in the quality of commitments using a variety of assumptions.

42. Publication of more detailed aid information will not make all aid predictable. Some donors may not have (and hence could not publish) forward plans of aid spending; and some volatility is caused by changes in circumstances over time, which would not be reduced by transparency. The benefits of greater transparency are limited to those cases in which donors have, but presently do not publish in a convenient form, reliable information about their intended future aid spending.

43. Table 3 shows the projected reduction in uncertainty-related deadweight loss, for both aid from IATI signatories and all aid from DAC donors. The potential savings are quite large: our estimates for the savings from IATI donors range from a low estimate of \$375 million to a high estimate of \$1.8 billion.

**Table 3: Annual reduction of deadweight loss associated with aid uncertainty**

Category	Low estimate	Middle estimate	High estimate
IATI Donors	\$375m	\$873m	\$1,804m
All DAC Donors	\$375m	\$1,716m	\$3,566m

### 3.3 USING INFORMATION TO AVOID COORDINATION FAILURE

44. The growing proliferation of official and private aid organizations has increased the problem of coordination. Many donor agencies are not able to make decisions in light of the plans of other agencies because that information is not readily available.

*In the aftermath of the tsunami disaster a local doctor in Banda Aceh, one of the most affected areas, wrote: “In February, in Riga (close to Calang) we had a case of measles, a little girl. Immediately, all epidemiologists of Banda Aceh came in, because they were afraid of a propagation of measles among displaced people, but the little girl recovered very fast. Then, we realized that this was not a normal case of measles and we discovered that this girl has received the same vaccine three times,*

*from three different organizations. The measles symptoms were a result of the three vaccines she received.”<sup>16</sup>*

45. Improved coordination can reduce the risk of duplicated or redundant expenditure and increase the value of aid by improving positive complementarities. But lack of information is not the only possible cause of shortcomings in donor coordination: donors have a broad range of objectives and constraints that may have a negative impact on their ability to coordinate.

46. Appendix 4 sets out our calculations of the possible benefits of greater aid coordination. The costs are derived using a method based on Aldaroso et al (2009) to measure aid overlap, or the degree to which donors crowd into the same countries and sectors. Making assumptions about the degree of overlap, which is related to coordination failure because of lack of information, and the extent to which overlap which is redundant, we estimate the proportion of aid that is potentially wasted.

47. We estimate the benefits at about \$1.8 billion a year for IATI donors, and \$3.5 billion for all donors. These estimates are more uncertain than the other estimates of benefits in this paper, and we have therefore not included them at all in our low- and middle-case estimates of the benefits of greater transparency: we have however included these possible benefits in our “high-case” totals.

**Table 4: Annual reduction in redundant resources**

Category	High estimate
IATI Donors	\$1,816m
All Donors	\$3,541m
<b>Total</b>	<b>\$5,357m</b>

#### 4. OTHER POSSIBLE BENEFITS

48. In this section we discuss other benefits we would expect to accrue from embracing greater aid transparency. While these benefits are potentially important, we have not been able to quantify them. We include them here to serve as a reminder that our quantified estimates are likely to underestimate the benefits of transparency.

<sup>16</sup> El Pais, April 13, 2005, p. A2. Quoted in Djankov, S., J. García Montalvo & M. Reynal Querol, 2009. "Aid with multiple personalities", Journal of Comparative Economics 37(2), 217-229

## 5.1 IMPROVED AID ALLOCATION BY DONORS LEADS TO BIGGER IMPACT ON POVERTY

49. Less developed countries presently receive less than 40% of global aid.<sup>17</sup> A number of studies suggest that aid is more effective in countries where there are large numbers of poor people and which have more effective governance. One study estimated that the impact of aid would be doubled if it were allocated to the countries in which it would be most effective.<sup>18</sup> Even quite modest improvements in global aid allocation would lead to significant benefits in terms of faster poverty reduction.

50. Greater transparency of aid might lead to better aid allocation in two ways. First, donors have (at least until very recently) had very little information about the plans of other donors. A series of independent aid allocation decisions by each donor will not generally lead to an optimal overall allocation of global aid. Few donors are willing to act explicitly as a “donor of last resort” by offsetting global aid misallocation, but if some donors take global aid allocations into account in their decisions then increased information might result in modest improvements in global aid allocations.

51. Second, transparency about aid allocations and the negative consequences of aid misallocation for poverty reduction might lead to greater pressure from civil society and citizens to improve the way aid is used. On the other hand, there is already quite a lot of evidence about aid misallocation, and it has so far not proved sufficient to overcome the political pressures to use aid in less efficient ways.

## 4.2 IMPROVED RESEARCH INTO DEVELOPMENT PROGRAMMES

52. There is a growing body of research looking at the effectiveness of aid, both on large-scale results (such as economic growth) and on narrower results in particular sectors (such as education and health outcomes). This research looks at evidence about whether aid works, and if so, under what circumstances. It can be used to guide choices about the purposes for which aid is given, and how it is used, and so to improve the effectiveness of aid.

53. The quality and quantity of research is, however, limited by poor data about aid. About half the projects reported by donors to the OECD DAC Creditor Reporting System provide descriptions of only one or a few words on the substance of the project. Thus much

<sup>17</sup> OECD DAC Development Cooperation Report; updated 5 December 2008; Table 26.  
<http://www.oecd.org/dataoecd/52/12/1893167.xls>

<sup>18</sup> Paul Collier and David Dollar, 1999, “Aid Allocation and Poverty Reduction,” *World Bank Policy Research Working Papers*, Issue 2041.

of the aid is difficult or impossible to categorize systematically. This problem is made worse by changes to categorization methods over time and across country offices among donors. More reliable categorization would be facilitated by detailed long descriptions, which are largely missing from existing CRS records. Thus assessing the sectoral effects of aid is limited by the poor level of project information detail.

54. The availability of detailed, comparable, freely accessible aid data would improve research on aid effectiveness. Over time this would produce much more persuasive evidence about what aid works and why, thereby increasing the effectiveness of aid in the long run.

#### 4.3 GREATER WILLINGNESS TO GIVE AID

55. For many policy makers, aid transparency is important because it is difficult to make a political case for greater spending on aid in the absence of much better information about how that money is being spent. Taxpayers in donor countries are geographically distant from the beneficiaries of aid, and they have little opportunity to see for themselves how the aid is being used and with what impact. Donor governments are making progress at describing the way that aid is used, but there is frustration in many donor headquarters about the limitations of the information they have about exactly how money has been used and with what results.

56. We have not attempted to quantify the possible effects on aid budgets of greater transparency. In part this stems from our inability to identify a robust methodology for estimating the impact of transparency on donors' generosity. We are also deterred by the fact that an increase in the aid budget would be a transfer from other uses of those resources. Thus an increase in aid spending would be accompanied by a reduction in other kinds of spending, the net effects of which we are unable to estimate.

#### 5. THE COSTS OF AID TRANSPARENCY

57. To assess the feasibility and costs of adopting the IATI standard, a subset of the IATI technical advisory group (TAG) performed four fact-finding visits to donor-agencies. These visits appraised the way that donors currently gather information and began to assess the likely costs and immediate benefits of complying with IATI.

58. A cost model was developed by an independent consultant which categorized donors by the extent to which their systems would need to be adapted to comply with the emerging standard. Broad estimates of complying were developed in discussion with – but not necessarily approved by – the donor agencies. This cost model was then used to estimate the costs for all IATI signatories, resulting in a range of estimates of the actual costs for full adoption of IATI. The details of these calculations are set out in Appendix 5. Table 5 shows the resulting range of cost estimates for each category.

59. All costs are fixed up-front, one-off costs, incurred at the beginning of IATI implementation. We estimate the future running costs of IATI, net of benefits to headquarters, as negligibly small.

**Table 5: Costs of implementing IATI for signatories (US\$ thousands)**

Category	Estimated number of donors in category	Cost per agency			Total Cost, all agencies		
		Low	Medium	High	Low	Medium	High
A	3	50	75	100	150	225	300
B	2	200	330	460	400	660	920
C	7	295	450	605	2,065	3,150	4,235
D	5	245	375	505	1,225	1,875	2,525
E	0	345	672.5	1,000	0	0	
<b>Total</b>	<b>17</b>				<b>\$3,840</b>	<b>\$5,910</b>	<b>\$7,980</b>

60. On the basis of these estimates, our central estimate for the total cost of implementing IATI among the current signatories is less than \$6 million (with a range from \$3.8 million to \$8.0 million). These are one-off costs – the continuing costs are estimated to be negligibly small. Scaling up IATI to all DAC donors would increase the cost to between \$8.2 million and \$18.1 million (and increase the benefits correspondingly). The details are set out in Appendix 5.

61. The total estimated cost of \$3.8m - \$8m for IATI signatories which emerged from our donor visits is perhaps less than we were expecting. In part this is because it transpires that many donors already have information systems in place which can be adapted to provide aid information. In part it is because these figures are net costs, taking account of the possible savings in donor headquarters resulting from having automatic reporting systems in place. Many donors will refresh their information and financial systems in due course, and the marginal cost of collecting and publishing additional information is small. But we would welcome access to more detailed information from donors about the costs of previous investments in information and financial, systems and the corresponding change management programmes, to enable us to validate these estimates.

62. It is important not to understate the costs of implementing IATI. Moving to the publication of more detailed, more forward looking information in a standardized form will require changes to IT systems, training and change management within donor agencies. The figures presented here, and explained in Appendix 5, represent our best efforts to estimate those costs.

## COST BENEFIT ANALYSIS

Table 6: Summary of annual benefits of aid transparency for IATI signatories

Category	IATI signatories only US\$m		
	Low	Middle	High
<b>Costs (one off)</b>	<b>\$3.8m</b>	<b>\$5.9m</b>	<b>\$8.0m</b>
<b>Benefits (per year)</b>	<b>\$457m</b>	<b>\$1 603m</b>	<b>\$6 432m</b>
<i>of which</i>			
<b>Efficiency savings (per year)</b>	<b>\$3.3m</b>	<b>\$8.0m</b>	<b>\$9.7m</b>
<i>Of which</i>			
Donors (in country)	\$2.8m	\$7.2m	\$8.5m
Recipients	\$0.5m	\$0.8m	\$1.2m
<b>Effectiveness (per year) <sup>19</sup></b>	<b>\$454m</b>	<b>\$1 595m</b>	<b>\$6 422</b>
<i>Of which</i>			
Reduced diversion	\$97m	\$879m	\$3 784m
Reduced uncertainty	\$375m	\$873m	\$1 804m
Better coordination	-	-	\$1 816m

*Memo: other savings (not quantified)*

- Better aid allocation
- Better research
- Greater willingness to give aid

<sup>19</sup> The total benefits are less than the sum of the components, because they have been adjusted to avoid double counting. For example, if \$100 has been lost to diversion of resources, then the same \$100 cannot be reduced in value by coordination failure. The totals here net out this possible double counting.

**Table 7: Summary of annual benefits of aid transparency for all DAC donors**

Category	All DAC donors \$m 2010 prices		
	Low	Middle	High
<b>Costs (one off)</b>	<b>\$7.7</b>	<b>\$11.8</b>	<b>\$15.4</b>
<b>Benefits (per year)</b>	<b>\$499m</b>	<b>\$2 800m</b>	<b>\$11 140m</b>
<i>of which</i>			
<b>Efficiency savings (per year)</b>	<b>\$6.1m</b>	<b>\$15.0m</b>	<b>\$18.2m</b>
<i>Of which</i>			
Donors (in country)	\$5.2m	\$13.3m	\$15.8m
Recipients	\$0.9m	\$1.7m	£2.4m
<b>Effectiveness (per year)</b>	<b>\$493m</b>	<b>\$2 785m</b>	<b>\$11 111</b>
<i>Of which</i>			
Reduced diversion	\$145m	\$1 311m	\$5 645m
Reduced uncertainty	\$375m	\$1 716m	\$3 567m
Better coordination			\$3 541m

**Table 8: Payback period for IATI donors (days), discounted benefits**

Benefit type	Cost	Benefits		
		Low	Middle	High
Efficiency benefits only	Low	661	358	284
	High	1 256	606	482
Effectiveness benefits only	Low	3.1	0.9	0.2
	High	3.1	0.9	0.2
All benefits	Low	3.1	0.9	0.2
	High	3.1	0.9	0.2

## 6. CONCLUSIONS

63. This paper aims to assemble available information about the costs and benefits of greater aid transparency, recognizing that further research is required on many of these topics. We are explicit about the extent of uncertainty. We have set out our working in detail in six appendices. We welcome comments on our approach, and suggestions for better and less uncertain estimates of both the costs and the benefits of aid transparency.

64. We have excluded some benefits from this analysis that we have not been able to quantify, including (a) improved aid allocation; (b) improved research into aid; and (c) increased public willingness to support higher aid budgets. If these benefits are significantly greater than zero, then our estimates of the benefits are biased downwards.

65. We have not attempted to quantify the marginal cost and the marginal benefit of specific components of the proposed IATI standard. It seems reasonable to deduce from our analysis that donors are within a range at which the marginal costs of additional transparency are small while the marginal benefits are large and increasing.<sup>20</sup> If so, then the policy conclusion would be that donors should adopt a maximalist strategy towards investment in aid transparency.

66. Our overall conclusion is that, as a result of efficiency gains resulting from reductions in duplicate reporting and manual collation of aid information, the total cost of implementing aid transparency standards is likely to be recovered by donors in about one year (our estimates range from nine months to a bit more than three years).

67. Greater aid transparency would also unlock possible benefits for aid effectiveness in the form of more predictability, less diversion, better coordination, improved allocation, better research, and greater willingness to give aid. These benefits are potentially very large, but difficult to quantify; and aid transparency is a necessary but not sufficient condition of realizing them. On reasonable assumptions we calculate that the possible effectiveness benefits for aid in a single day would exceed the total cost of investment needed to increase transparency.

68. We estimate that the benefit of publishing more detailed, timely, comparable, forward- and backward-looking information by the IATI signatories is equivalent to a permanent increase in aid of approximately \$1.6 billion a year. This is roughly equivalent to a permanent 1.3% increase in global ODA. Implementation of greater transparency by all DAC donors would increase these benefits to the equivalent of a permanent 2.3% increase in global ODA, or \$2.8 billion per year.

*Matthew Collin, Asma Zubairi, Daniel Nielson & Owen Barder  
Oxford University, Brigham Young University and Development Initiatives  
October 15<sup>th</sup>, 2009.*

---

<sup>20</sup> This assertion reflects the relatively large fixed costs of improving donor systems, accompanied by low variable costs of greater transparency; together with increasing returns to scale and scope of greater information availability.

# Aid Works.

## But it could work better

**aidinfo** works to enable full and transparent access to poverty resource information. Information that is complete and timely, includes future and past resource flows, is presented in a format allowing for easy data mash-ups and allows for feedback from all those interested in poverty – especially those who need this information to transform their own lives.

We are doing this because we believe in the transformative power of information:

**People in poor countries** could hold their governments to account for the delivery of required services.

**Governments in developing countries** could plan more joined-up programmes to target those most in need.

**People in donor countries** might increase their commitment to aid, now they can track how it is spent.

**Journalists and advocacy organizations** could check that resources are being used in the most effective way.

**Donors and aid professionals** could increase the effectiveness of their programmes and their overall impact on poverty reduction.

**aidinfo** 

Because ending poverty counts

a Development Initiative 

First Floor  
Keward Court  
Keward Business Park  
Jocelyn Drive  
WELLS BA5 1DB  
United Kingdom  
Tel: +44 (0) 1749 671 343

[www.aidinfo.org](http://www.aidinfo.org)