

»» Project information

Trusted Budget Expenditure (TruBudget)

Increasing efficiency and transparency in development cooperation (and beyond)

Inefficiencies and high risks of misappropriation of funds have led donors to establish parallel structures for the disbursements of funds in partner countries. While the global Aid Effectiveness Agenda promotes the use of partner country systems in development cooperation, in reality, donors have developed their own customized procedures designed to minimize risks. As a consequence, country systems remain weak and the structural impact of development cooperation remains limited. In addition, partner countries are left with the onerous task of coordinating various donor requirements and programmes.

Digital innovation could now help to address this problem: KfW Development Bank together with KfW's Digital Office has developed a blockchain-based software which can serve as a platform to track and coordinate the implementation of donor-funded investments. By promoting trust on the part of the donor partners, TruBudget could make the use of country systems viable. It will further allow partner countries to increase efficiency and facilitate donor coordination.

against this background that each donor institution has set up its own rules and procedures which have to be adhered to by partner countries if they want to receive funding. This leads to several negative outcomes, such as high transactions costs, the challenging task of donor coordination, and a lack of structural impact which could be otherwise achieved. This situation led donors and developing countries in 2005 to endorse the Paris Declaration on Aid Effectiveness and later in 2012 the Busan Partnership for Effective Development Cooperation. The Busan Partnership, while demanding developing countries to improve their PFM systems, calls for the use of country systems as the default option for donor countries. However, although progress in PFM in

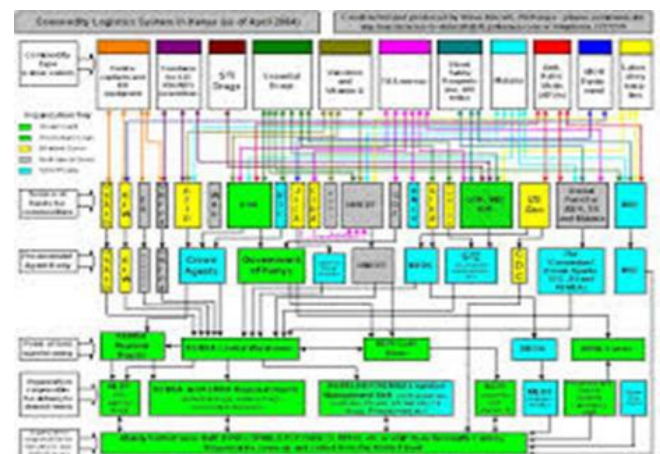


Figure 1: Example of different donor programmes for the procurement and distribution of drugs in Kenya (2010). Source: KfW Group

The Challenge

For development finance institutions (DFIs) and donor countries, there is a perceived high risk involved in the implementation of development cooperation and the provision of budgetary funds to partner countries. This risk lies in the misuse of funds for purposes other than intended. Public financial management (PFM) in partner countries is often perceived to be lacking the level of transparency and efficiency required from donors. It is

Project name	Trusted Budget Expenditure (TruBudget)
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Country/Region	Eligible Partner Countries in Africa (and worldwide if applicable)
Lead executing agency	Ministries of Finance or equivalent

partner countries has been achieved over time, donor countries are still hesitant about using country systems to a greater extent. The reason for this is an unchanged risk perception on the part of donors. We assume that an increase in transparency and trust could overcome this obstacle, thus allowing a rise in the use of country systems and a more sustainable effect of development

ment Information Systems - IFMIS).

The current version of the software is a prototype which will be further developed and improved in close cooperation with and according to the needs of participating partner countries.

Impact and Vision

The application of TruBudget will benefit partner countries and donors in several ways: 1) Reducing transaction costs on both sides; 2) Increasing transparency and efficiency of donor-funded projects; and thereby 3) Facilitating the use of country systems. This, in turn, has the potential of increasing the structural impact of development cooperation by strengthening domestic governance structures and PFM systems.

Our vision is for TruBudget to be fully owned, utilized and adapted by partner countries. It can serve as a platform for donor-funded initiatives, which would facilitate donor harmonization to a great degree. Finally, countries would also be free to adapt and use the software for the implementation of domestic programmes and projects, again benefiting from the increased efficiency and transparency as the core feature of TruBudget.

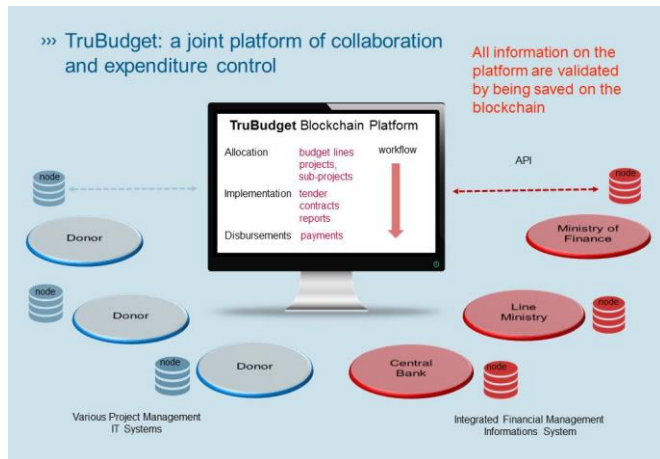


Figure 2: Stakeholder and workflow. Source: KfW Group

Our Solution

KfW Development Bank together with KfW's Digital Office has developed the Trusted Budget Expenditure Regime (TruBudget) software. TruBudget is a blockchain-based workflow tool which allows for efficient and transparent collaborative project implementation.

TruBudget serves as a platform for all stakeholders involved in a project or a programme (e.g., ministry of finance, line ministry, DFI, SOE, auditor). Each stakeholder, or software user, receives specific rights based on their role in the project. The software mirrors specific work-flow processes of project planning and implementation and allows for real-time information to be shared among the users. This means that crucial approval steps, such as a donor's non-objection to a procurement process or a contract, or the release of payments based on invoices from a contractor, can be given immediately without any delay. All activities are documented in the system and are traceable at all stages. The software is based on a private blockchain which provides an inviolable data base (distributed ledger), thus adding the trust required by donors to make use of country systems.

TruBudget is a very flexible and easy to operate software. It has been designed in a way that it can interface (using APIs) with existing IT systems of the involved partner institutions (e.g., Integrated Financial Manage-

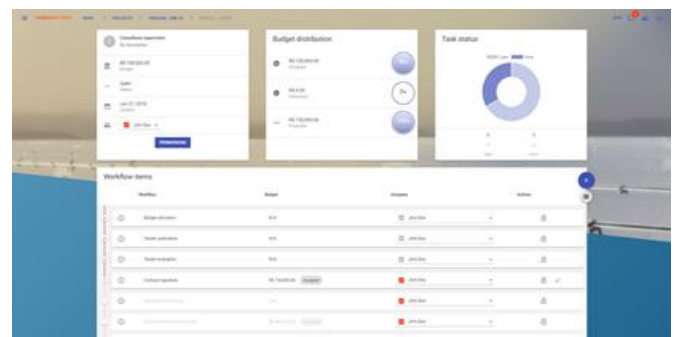


Figure 3: Screenshot of the TruBudget software. Source: KfW Group



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