پوهنتــــون کــاردان
KARDAN UNIVERSITY

Explanatory Analysis of Information Disclosure in Relation with Foreign Aid in Afghanistan

Mr. Waqas Khan[1] and Ms. Neelab Moulanazada[2]

Abstract

This paper attempts to relate how the level of information disclosure affects the amount of aids through an explanatory study. The disclosure of aids allocation and utilization information plays an important role for non-profit organizations to attract more aid while enhancing accountability and public trust. This paper specifically focuses on two main types of disclosures, qualitative and quantitative disclosure, and attempts to relate the effect of information disclosure on donations' decisions. Choosing appropriate amount of disclosure and targeting the right mix of qualitative and quantitative disclosure is, thus, a valuable strategic decision that allows charities to attract more aids, boost accountability, and gain public trust. The study particularly uses transparency, reliability, frequency, auditing, standardization, and accountability as collective proxy for measuring information disclosure. The study finds that information disclosure has significant impact on foreign aid. The study suggests strict and integrated policies for information disclosure both at government and non-governmental level.

Key Words: Accountability, Donor agencies, Foreign aid, Information disclosure, Transparency.

JEL Codes: M40, M42, M48, G14, D82

----

1. Introduction

Foreign aid play an essential role in improving and retaining a healthy and sustainable community. Public rely on aid programs and services and expect accountability, stewardship and financial transparency from charity organizations. Aid organizations rely on contributions from donors; these contributions are mostly from businesses, the government and general public. Transparent Disclosure is the obligation of charities to publish and provide important information to the public and donors. Donors base their contributions on the reports of performance, accountability, effectiveness, and efficiency of results (Saxton & Guo, 2011). If the market for aid is efficient, disclosure can act as a powerful tool for aid to reduce information asymmetries and improve transparency, so that donors can rely on accurate and adequate information in making donation decisions. Thus properly providing the right amount of disclosure and targeting the right balance between qualitative and quantitative disclosure is one of the critical strategic decisions for charities to achieve market differentiation, build up a relationship of trust, and attract more aid.

Donor agencies help low income countries in providing basic life facilities and Afghanistan is no exception. These agencies also make sure the effective and efficient utilization of donations which are supported by accountable and correct disclosure. In the current state of Afghanistan, the concept of accountable

1. *Assistant Professor, Kardan University, Kabul Afghanistan*
2. *Manager Financial Planning, MTN Afghanistan*

and transparent disclosure is not in practice which can create problems for recipient organizations in getting funds. The overall objective of the study is to see the extent to which information disclosure explains variance in foreign aid. The research study explains different characteristics of information disclosure and then links those characteristics with foreign aid. Findings of the research can be a good source of reference for recipient information to standardize their reporting of foreign aid utilization. Such standardization will increase transparency in reporting and increase in trust of donor agencies.
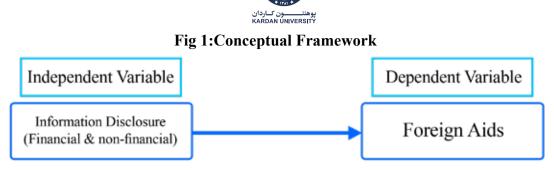
2. Literature Review

Gibbins, Richardson and Waterhouse (1990) defined financial disclosure as "any deliberate release of financial (and non-financial) information, whether numerical or qualitative, required or voluntary, or via formal or informal channels". Gibbins et al. (1990) defined disclosure position as "the supply of corporate disclosure or the way in which information disclosure is managed". Marston and Shrives (1991); Epstein and Palepu (1999); and Hope (2003) consider corporate annual reports as a fundamental mean of corporate information (financial and non-financial) disclosure. Because of agency problems and information asymmetry issues, there is a rise in demand for quality information disclosure (Healy and Palepu, 2001). Such problems and issues can be mitigated by transparent information disclosure (Healy and Palepu, 2001; Graham, Harvey and Rajgopal, 2005; Lambert, Leuz and Verrecchia, 2007).

According to Tripathi (1981) "foreign aid is the expression most frequently used to describe the flow of financial and technical resources from the developed world to the underdeveloped world". The Britannica Encyclopedia defines the foreign aid as "the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population. Aid can be economic, military, or emergency humanitarian" (Victoria Williams, 2011).

Prior studies have found the extent of disclosure as a whole and the extent of financial and non-financial disclosure respectively has a positive impact on amount of future donations received in general (Saxton & Guo, 2011 , Gordon et al 2006, Behn & Lin, 2003, Dhanani & Connolly, 2012, Zhuang, Saxton, Wu,2011). Melendez (2001) argues that because of a unique social role of aids, there is a need for financial disclosure. She further explains that due to such unique role "a charity must be transparent enough to make donors, volunteers, and partners confident that the charity will in fact advance public rather than private interests. According to her, non-profit organizations are accountable to donors, volunteers, clients, the media, and government. The public expects a higher level of accountability from the nonprofit sector both because of its tax treatment and because it is seen as the "do-good" sector. Parsons (2007); Reck (2001); and Saxton et al. (2009) support the idea that "donors are influenced by measures of financial efficiency". Same is in the case of Afghanistan where the recipient organizations must measure and show their financial efficiency to donor agencies in order to gain their trust. This paper analyzes this relation through cause and effect study. The study used the given conceptual framework to conduct the regression analysis and estimate coefficients.

Fig 1:Conceptual Framework

Source: Author's Compilation.

3. Research Design

The study uses quantitative analysis approach to explain the impact of information disclosure on foreign aid in Afghanistan. For primary data collection, 5 points Likert scale questionnaire was used to analyze the mentioned objectives. On Likert scale, 1 is strongly agree, 2 is agree, 3 is neither agree nor disagree, 4 is disagree, and 5 is strongly disagree. The questionnaire has a total of 24 close ended questions; 12 questions for measuring information disclosure and 12 questions related to foreign aid in Afghanistan. To measure information disclosure, questions were asked in relation to; transparency, reliability, frequency, auditing, standardization, and accountability of disclosure reports.

3.1 Sampling and Sample Size

Population for the study includes all those entities which are directly or indirectly related to foreign aid. The study used a sample of 130 respondents, out of which 100 complete questionnaires were returned. The study used stratified random sampling method where the population is divided into five different strata including donor agencies, recipient organizations, government regulators, beneficiaries and information reporting organizations. Sample was randomly selected from these defined strata.

4. Analysis Method

The study conducted demographic analysis first for the respondents, than reliability of the questionnaire was tested through 'Cronbach Alpha' test. Before regression analysis, the study conducted the 'Pearson's Correlation' analysis. For testing hypothesis, regression analysis was conducted to check the impact of information disclosure on foreign aid in Afghanistan. For regression analysis, following model is used for beta estimation:

$$FA = \alpha + \beta(ID) + \varepsilon$$

Where FA stands for 'foreign aid', α is the constant term, β is the coefficient of independent variable, ID represents 'information disclosure, and ε shows the error term. 'β' is used to check the impact of information disclosure on foreign aid. The strength and direction of relationship will be represented by β.

4.1 Demographics

Table 2 shows the frequency analysis of the respondent sample of 100. Frequency analysis is based on four factors i.e. gender, age, education, and employment sector of respondents. Table shows that total sample of 100 respondents included 71 Males and 29 Females. Education section included 7 with Diploma, 68 with Bachelor's degree, 23 with Master's degree and 2 respondents with PhD degree. Based on employment, 27 respondents were from Ministry of Finance, 12 from Ministry of Commerce, 33 from NGO's and 28 from other sectors like donors and non-profit organizations.

Table 1: Frequency Table of Respondents

	Gender		Age					Education				Employment Sector			
	Male	Female	<20	<30	<40	<50	>50	Dip	Bach	Mas	PhD	MoF	MoC	NGO	Other
Frequency	71	29	1	72	20	6	1	7	68	23	2	27	12	33	28
Percentage	71%	29%	1%	72%	20%	6%	1%	7%	68%	23%	2%	27%	12%	33%	28%

Source: Data Output from SPSS

Note. Dip = Diploma holders. Bach = Bachelors. Mas = Masters. MoF = Ministry of Finance. MoC = Ministry of Commerce. NGO = Non-Governmental Organizations

4.2 Reliability Analysis

Cronbach's alpha test is used for reliability analysis. It is used to measure the internal consistency of a set of items in a group (Cronbach, 1951). If result of reliability score is 0.60 or higher it shows the level of internal consistency. Table 1 shows that Cronbach's alpha is 0.689, which indicates a high level of internal consistency among the 24 questions' set.

Table 2: Reliability Statistics

Cronbach's Alpha	N of Items
0.689	24

Source: Data Output from SPSS

Note. N = Number

4.3 Correlation Analysis

Table 3 shows the Pearson's correlation analysis. Correlation coefficient between information disclosure and foreign aid is 0.455 which shows the direction and strength of the relationship. The coefficient shows a positive relation with strength of 0.455 which means if one variable changes by 1 unit, the other will change by 0.455 units. From table 3 it is clear that coefficient correlation is significant at the 0.01 level.

Table 3: Pearson's Correlation

	Mean	SD	FA	ID
FA	3.7658	0.36095	1	0.455**

ID	3.6667	0.40911	0.455**	1

Source: Data output from SPSS

Note: **. Correlation is significant at the 0.01 level (2-tailed); N = 100

FA = Foreign aid. ID = Information Disclosure

The study uses two variables for cause and effect analysis i.e. information disclosure as independent variable and foreign aid as dependent variable. For cause and effect analysis, the study estimated the beta for information disclosure to find its impact on foreign aid. Such beta is estimated through regression analysis which is divided into three parts including; Model Summary, ANOVA, and Coefficient Estimates.

4.4 Model Summary

The "R" column in Table 4 represents the value of R, the multiple correlation coefficients. A value of 0.455 indicates a good level of prediction. The "R Square" column shows coefficient of determination, which is the proportion of variance in the dependent variable that can be explained by the independent variables. R square has a value of 0.207 that our independent variables explain 20.7% of the variability of our dependent variable. The 20.7% of R square means that the impact of information disclosure on Foreign Aid is only 20.7% there are many other facts that comprise the rest of 79.3% which are not considered in this paper.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.455[a]	.207	.199	.32314

Source: Data Output from SPSS

Note: a. Predictors: (Constant), Information Disclosure. Std. = Standard

4.5 Analysis of Variance (ANOVA)

Table 5 shows the analysis of variance to test the hypothesis that 'model is not a good fit'. The table 5 shows that the significance value of model is less than 0.05 which means that the model used by research study is a good fit and can be used for testing cause and effect relationship through beta estimation.

Table 5: ANOVA Model

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.666	1	2.666	25.528	.000[b]
	Residual	10.233	98	.104		
	Total	12.899	99			

Source: Data Output from SPSS

Note. a = Dependent Variable (Foreign aid). b = Predictors: (Constant), Information Disclosure

4.6 Coefficient Estimation

For coefficient estimation, the study tested the hypothesis that "Information disclosure has no impact on foreign aid in Afghanistan". Result of estimation is given in table 5 given below:

پوهنتــــــــــون کــاردان
KARDAN UNIVERSITY

Table 6: Coefficient Estimation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	2.295	.293		7.837	.000
	ID	.401	.079	.455	5.053	.000

Source: Data Output from SPSS

Note. ID = Information Disclosure. Std. Error = Standard Error. Dependent Variable = Foreign Aid. Sig. = Significance Value

Above table 6 shows that significance value of independent variable (information disclosure) is 0.000 which is less than 0.05%. This implies that information disclosure has significant impact on foreign aid in Afghanistan, rejecting the null hypothesis. With such findings, it can be inferred that the quality of information disclosure can change the level of foreign aid in Afghanistan.

Table 6 also shows coefficient for constant term i.e. 2.295 which means that in the absence of information disclosure, Afghanistan will still receive foreign aid in units of 2.295. The standardized coefficient of information disclosure is 0.455 which shows the positive direction of relationship and strength of the impact of information disclosure on foreign aid. The coefficient of independent variable indicates that with every one unit change in information disclosure, the level of foreign aid will change by 0.455 units. The estimated coefficients in Table 5 suggest the given regression model:

$$FA = 2.295 + 0.455(ID) + 0.079$$

5. Conclusion

Foreign aid has a significant role in the development of Afghanistan. Such foreign aid are considered a key in the improvement of social welfare and basic life facilities. Transparency in these aids is considered one of the basic issues to determine their efficiency. Transparency can be ensured with quality information disclosure. This paper tried to find the impact of information disclosure on the financial aids in Afghanistan. To measure information disclosure, the study used close ended questions in relation to transparency, reliability, frequency, auditing, standardization, and accountability of disclosure reports. The study found the significant impact of information disclosure on foreign aid in Afghanistan.

The research study recommends standardizing the information disclosure and makes it obligatory on both governmental and non-governmental organizations. The government and recipient organizations should be transparent in their financial information disclosure to build the trust of donor agencies. Future research studies can be conducted to develop a holistic framework for standardizing the financial and non-financial information disclosure in Afghanistan.

References

1. Behn, R. D. (2005). The accountability dilemma. *Public Management Report*, 2(7), 1–2.

2. Cronbach, L. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika*. 16(3), pp.297-334.

3. Dhanani, A., & Connolly, C. (2012), Discharging not-for-profit accountability: UK charities and public discourse, *Accounting, Auditing & Accountability Journal*, 25(7) 1140-1169.

4. Gibbons, M., Richardson, A., and Waterhouse, J. (1990). The Management of Corporate Financial Disclosure: opportunism, ritualism, policies, and processes. *Accounting Research*, 28(1), 121-143.

5. Gordon, L. A., Loeb, M. P., Lucyshyn, W., and Sohail, T. (2006). The Impact of the Sarbanes-Oxley Act on the Corporate Disclosures Concerning Information Security, *Journal of Accounting and Public Policy* (25:5), pp. 503-530.

6. Graham, J. R., Harvey, C. R., & Rajgopal, S. (2005). The Economic Implications of Corporate Financial Reporting, *Journal of Accounting and Economics*, 40(1), 3-73.

7. Healy, P. M., and Palepu, K. G. (2001). Information Asymmetry, Corporate Disclosure and the Capital Markets: A Review of the Empirical Disclosure Literature. *Journal of Accounting and Economics*, 31(1), 405-440.

8. Hope, O. (2003). Disclosure Practices, Enforcement of Accounting Standards, and Analyst's Forecast Accuracy: An International Study. *Journal of Accounting Research*, 41(2), 235-272.

9. Lambert, R., Leuz, C., & Verrecchia, R. (2007). Accounting Information, Disclosure, and the Cost of Capital. *Journal of Accounting Research*, 45(1), 385-420.

10. Marston, C. L., & Shrives, P. J. (1991). The use of disclosure indices in accounting research: Review article. *British Accounting Review*, 23, 195–210.

11. Melendez, S. E. (2001). The nonprofit sector and accountability. *New Directions for Philanthropic Fundraising*, 31, 121–132.

12. Parsons, L. M. (2003). Is accounting information from nonprofit organizations useful to donors? A review of charitable giving and value relevance. *Journal of Accounting Literature*, 22, 104–129.

13. Parsons, L. M. (2007). The impact of financial information and voluntary disclosures on contributions to not-for-profit organizations: a field-based experiment. *Behavioral Research in Accounting*, 19, 179–196.

14. Reck, J. (2001). The usefulness of financial and nonfinancial performance information in resource allocation decisions. *Journal of Accounting and Public Policy*, 20, 45–71.

پوهنتـــــــون کـاردان
KARDAN UNIVERSITY

15. Saxton, G. D., & Guo, C. (2011). Accountability online: understanding the Web-based accountability practices of nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly*, 40(2), 1–26.

16. Saxton, G. D., Kuo, J. S., & Ho, Y. C. (2011). The determinants of voluntary financial disclosure by nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly* (accepted).

17. Saxton, G. D., Neely, D. J., & Guo, C. (2009). *Web disclosure and the market for charitable contributions.* Paper presented at the annual meeting of the American Accounting Association, New York, NY, 1–5 August 2009.

18. Tripathi, D. (1981). Occupational Mobility and Industrial Entrepreneurship in India: A Historical Analysis. *The Developing Economies,* 19(1), 52-68.

19. Zhuang, J., Saxton, G. D., & Wu, H. (2011). Publicity vs. impact in nonprofit disclosures and donor preferences: A sequential game with one nonprofit organization and N donors. *Annals of Operations Research.*