



BUDGET TRANSPARENCY –BACKGROUND BRIEFING FOR PEMPAL EXECUTIVE

BACKGROUND

1. **This paper has been prepared for the PEMPAL Executive as a background briefing for its consideration of budget transparency as a cross-COP topic** for the proposed 2014 full plenary meeting of all COPs. The executive will be meeting to discuss options in early July 2013 as part of preliminary planning for the event and will be provided this paper as background to those discussions.
2. **Budget transparency and its broader fiscal transparency, have had increasing focus worldwide.** There is a general acknowledgement that they are key instruments to achieving good governance, thus facilitating development and fiscal sustainability.¹ This growing international focus can be demonstrated by several initiatives aimed either directly or indirectly at enforcing or promoting transparency practices, including some targeted at specific sectors eg natural resources.²
3. **The rise of the civil society movement, global governance and internet technology, has also had an impact on public expectations and access to information.** Further, the political objective of joining and remaining in the EU and the regulatory requirements of accession are a strong driver for candidate and member countries. In response to the financial crisis, many countries are also in the process of fiscal consolidation and improving the quality, efficiency and transparency of their public expenditures.
4. **IT solutions are not only a tool to improve reporting but an underlying driver for improved transparency.** Most ECA countries now publish reports on public websites and some are pursuing e-government strategies and integrated Financial Management Information Systems. Such integration is important to improve budget performance monitoring, produce reliable accounting records and timely, consistent reports with obvious positive impacts on improved transparency and accountability (Dener, 2011).³ Some countries are struggling with budget comprehensiveness and the existence of too much detailed data which impedes the ability to make strategic decisions. Consolidation of data and the application of new accountant standards are also proving a challenge. The introduction of program budgeting reforms has also been a driver in providing information on results and objectives to facilitate information on policy choices.

HOW BUDGET TRANSPARENCY IS MEASURED

5. **International fiscal and budget transparency norms, standards and guidelines exist which provide a framework for budget classification and fiscal reporting.** These include the IMF Code of Good Practices on Fiscal Transparency (currently being revised), the IMF Manual on Fiscal Transparency; the IMF Guide on Resource Revenue Transparency, the OECD Best Practices for Budget Transparency, the IMF Government Finance Statistics manual (GFSM 2001), the European System of Accounts (ESA 95), the United Nations System of National Accounts (SNA), the International Public

¹ Refer to Kopits, G. and Craig, J., 1998, "Transparency in Government Operations," *IMF Occasional Paper 158*.

² For example the Global Reporting Initiative, the Global Transparency Initiative, the Extractive Industries Transparency Initiative, the 'Open Government Partnership'. Refer www.opengovernmentpartnership.org

³ Dener C., Watkins J.A., and Dorotinsky W.L., 2011, "Financial Management Information Systems- 25 years of World Bank Experience on What Works and What Doesn't, World Bank Study, Washington, DC



Sector Accounting Standards (IPSAS), and the International Organization of SAI Lime Declaration on Auditing Precepts.

6. **OECD's Best Practice Guidelines (2001)⁴ define budget transparency as "the full disclosure of all relevant fiscal information in a timely and systematic manner."** The OECD provides guidance on seven budget related reports which are outlined in the attachment. OECD is currently finalizing revised guidelines for fiscal institutions which could be presented at the proposed 2014 cross-COP meeting. Similarly the IMF has recently updated its IMF Code of Good Practices in Fiscal Transparency, in light of the global fiscal crisis, which could also be presented at the meeting. The IMF also made a series of recommendations for renewing the global fiscal transparency effort in the wake of the crisis in a policy paper released in 2012.
7. **Several assessment measures exist although there are issues related to incomplete coverage of Europe and Central Asia (ECA) countries, available assessments being dated, and different methodological bases being applied.** According to Simone (2009),⁵ the limited but growing empirical research on transparency focuses more on the difficulty of measurement with several researchers constructing indices. Existing measures that have transparency aspects include Public Expenditure Financial Accountability (PEFA); the voluntary IMF's (Fiscal) Reports on Standards and Codes (ROSCs); the International Budget Project's Open Budget Index; the World Bank's Governance Indicators Dataset; amongst others. The Revenue Watch Index assesses transparency for countries with mineral, oil and gas reserves and there are other more specific indicators that aim to measure aspects of governance such as Transparency International's Corruption Perception Index and Freedom House's measure of political rights and civil liberties. Similarly, the Global Rights to information Index, which began in 2010, comprises a series of indicators to measure the right to information across the globe.
8. **Further useful tools that could be used to benchmark aspects of budget transparency include the OECD Surveys.** There are several surveys including the Budget Practices and Procedures Survey; the Performance-oriented budgeting survey; Accounting and Audit survey; and the Fiscal Councils and role of Legislature in Budgeting survey. The results of these surveys are used to maintain databases that assist countries in benchmarking and analyses are undertaken by OECD as part of participating in the survey process. The OECD Budget Practices and Procedures database covers 97 countries including 31 OECD member countries and 66 non-members from the Africa, Middle East, Eastern Europe, Asia, Latin America and Caribbean regions.⁶ Currently 15 PEMPAL BCOP member countries are participating in this survey. More than 99 questions cover the entire budget cycle: preparation, approval, execution, accounting and audit, performance information, and aid management. The database aims to aid the development of common practices and standards; provides a free and searchable database that fosters mutual learning on budget practices and procedures; and enables comparative analysis of data and trends to support informed analysis and development of

⁴ Source: Organization for Economic Co-operation and Development (OECD), 2001, *OECD Best Practices For Budget Transparency*, Public Management Service, Public Management Committee, PUMA/SBO(2000)6/FINAL, (May).

⁵ Simone, D.S, 2009, "The Concept of Budget Transparency: Between Democracy and Fiscal Illusion", in *Public Choice E Political Economy*, available at <http://www-3.unipv.it/websiep/2009/200931.pdf>

⁶ The database contains results from the 2007 survey of OECD countries, and the 2008 World Bank/OECD survey in Asia and other regions; and the 2008 World Bank Collaborative Africa Budget Reform Initiative (CABRI)/OECD survey of Africa. Currently 15 PEMPAL member countries are also participating, 11 of those being facilitated through BCOP.



quantitative and qualitative measures.⁷ The results from those PEMPAL countries participating in the OECD survey, could be showcased at the 2014 Cross-COP meeting.

PERFORMANCE AND ACHIEVEMENTS

9. **Measurement of performance and achievements is constrained by available data** as mentioned above. Fiscal transparency ROSCs exist for 23 ECA countries, although most of them were conducted between 2001 and 2004 so they are also dated. OECD/Sigma also provides a qualitative assessment of 8 EU candidate and potential candidate countries which has some transparency aspects. The most comprehensive framework to assess budget systems and institutions is PEFA which comprises 31 indicators but it does suffer weaknesses due to its incomplete coverage of countries and need for more assessments to be undertaken over a longer time period to identify trends.⁸ Only about half of the 30 countries classified in the ECA region have had PEFA assessments although many are out of date and undertaken at different time periods. However, a composite index of those parts of PEFA that directly relate to budget transparency, could be collated for the 2014 cross-COP meeting if further examination of budget transparency is desired using the available PEFA assessments.
10. **The most regular and comprehensive measure of budget transparency is the Open Budget Index which assesses public availability and quality of 8 budget reports.** This index is constructed by the International Budget Partnership (IBP)⁹ through its Open Budget Initiative and uses international standards and frameworks. The IBP actively engages 100 countries primarily in Asia, Africa and Latin America.
11. **The 2012 survey results revealed that 77 of the 100 countries assessed failed to meet basic standards of budget transparency.** However, average scores for 40 countries that have comparable data for last four Open Budget Surveys shows increase in average from 47 in 2006 to 57 in 2012. The governments of 21 countries don't publish the Executive Budget Proposal, which IPB state is the most critical document for understanding exactly how governments plans to manage their country's finances. Results also indicated the widespread failure of governments to provide sufficient opportunities for citizens and civil society to engage in budget processes, which was examined by the survey for the first time. The average score on participation opportunities was 19 out of 100.
12. **Most participating PEMPAL countries have shown significant improvements since the first OBI in 2006 as shown in Table 1** in the attachment.
 - a. **Russia** :improved score 57% from 2006 and 23% from 2010.
 - b. **Bulgaria**: improved score 38% from 2006 and 17% from 2010.
 - c. **Albania**: improved score 89% from 2006 and 43% from 2010
 - d. **Kazakhstan**: improved score 11% from 2006 and 26% from 2010Ten of the 15 PEMPAL countries participating scored above world average of 43 out of a possible 100 as shown in **Table 2** in the attachment.

⁷ Source: OECD Budget Practices and Procedures Survey available at <http://www.oecd.org/dataoecd/30/45/39466141.pdf>

⁸ Source: Hedger, E., and P., de Renzio, 2010, "What do Public Financial Management assessments tell us about PFM reform?" *Overseas Development Institute Background Note*, July 2010.

⁹ The IBP has a number of programs: the Partnership Initiative, funded by Bill and Melinda Gates; the Open Budget Initiative funded by DFID, and the Civil Society Initiative funded by the Swedish International Development Cooperation Agency. IBP also receives institutional support from Ford Foundation, Open Society Institute and the Hewlett Foundation <http://internationalbudget.org/who-we-are/funding/>



13. **The effects of FMIS on budget transparency are currently the subject of a study being conducted by the World Bank.** The objective of this study, which is expected to be completed in June 2013, is to share good practices with countries that use open budget data for FMIS solutions. The study looks at the presentation quality of public finance information, and is aimed to promote the debate on how the web publishing platforms could be improved. It provides guidance on the web publishing standards, highlighting good practices and summarizing the main findings based on the review of 198 public finance websites, and using 34 key indicators and 6 informative indicators. Compared to other indicators and standards, such as PEFA, OBI, IMF Fiscal ROSCs, these indicators do not look at the content but good practice in areas such as dynamic query options, visibility of FMIS, reliability of public finance data, presentation quality, and effective use of open budget data. Initial findings suggest that only a small number of countries (20 percent) are following good practices in budget transparency; in a limited number of countries the civil society and citizens are using budget information; there is a scope for a stronger involvement of external audit organizations in promoting improvements in this area; and, the FMIS is mainly seen as a back office tool used to record and report financial transactions, and not also to exercise its transparency function.

ISSUES TO CONSIDER

14. If budget transparency is chosen as a topic for the cross-COP 2014 meeting:
- a. the available assessments of budget transparency could be showcased, including the 2012 OBI results noting however, there is not complete coverage of all PEMPAL member countries. A more indepth analysis of the 2012 OBI could be completed showcasing methodologies and guidelines for aspects of the OBI directly related to budget execution reports for TCOP, audit reports for IACOP and budget related reports for BCOP for example.
 - b. An examination of the results for questions within the PEFA that directly relate to budget transparency could be undertaken to produce a composite budget transparency index. However, available PEFA assessments are not comprehensive or current across all PEMPAL members unless we decide to encourage our member countries to participate in PEFA in the lead up to the meeting.
 - c. International standards in budget transparency could be highlighted including outlining the revised IMF and OECD guidelines in particular. The results of the World Bank FMIS impact on budget transparency study as well as the results for the World Bank PFM study could also be outlined.
 - d. Pre-event thematic surveys could be considered or alternatively, participation in the OECD surveys facilitated in the lead up to the meeting to allow international benchmarking and analyses to be undertaken by OECD and presented at the meeting. A significant proportion of BCOP members (15/21 members) are already participating in the OECD Budget Practices and Procedures survey, and the results of that could be presented at the meeting but BCOP could also consider participating in the performance oriented budgeting survey and IA/TCOP in the Accounting and Audit survey, if participation is assessed by the Executive Committees as valuable in the PEMPAL context.
 - e. Research into budget transparency could be undertaken extending the preliminary research undertaken in this paper.

ATTACHMENT

TABLE 1: OPEN BUDGET INDEX SCORES 2006-2012

Country	2006	2008	2010	2012	% Δ 2006	% Δ 2010
Albania	25	37	33	47	89	43
Azerbaijan	30	37	43	42	40	-3
Bosnia and Herzegovina		44	44	50	13	13
Bulgaria	47	57	56	65	38	17
Croatia	42	59	57	61	44	7
Georgia	34	53	55	55	63	1
Kazakhstan	43	35	38	48	11	26
Kyrgyz Republic		8	15	20	140	31
Macedonia		54	49	35	-36	-28
Romania	66	62	59	47	-29	-20
Russia	47	58	60	74	57	23
Serbia		46	54	39	-15	-27
Turkey	42	43	57	50	20	-12
Tajikistan				17		
Ukraine		55	62	54	-2	-13

Source: Data constructed from OBI country profiles <http://survey.internationalbudget.org/#profile>

CHART 1: OPEN BUDGET INDEX 2012

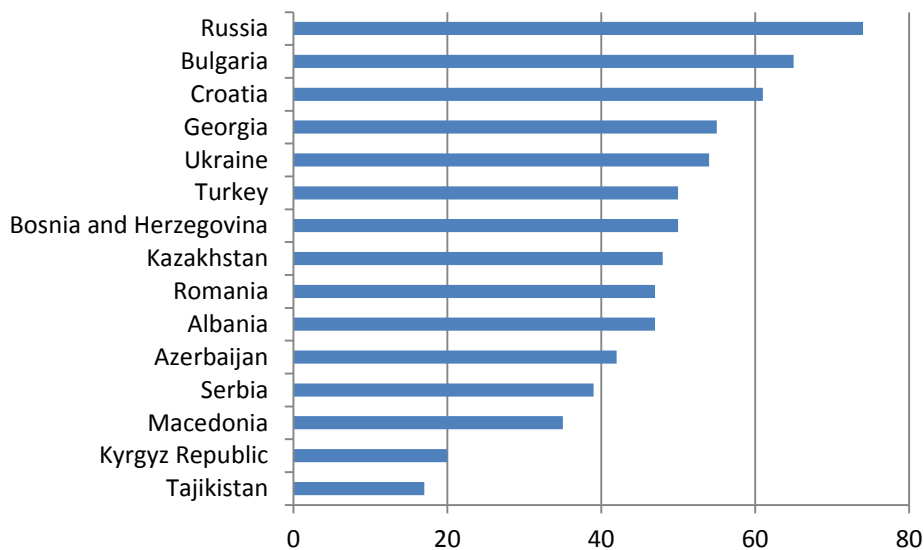




TABLE 2: BENCHMARKING OF PEMPAL COUNTRIES

	Number of Countries Surveyed	Countries	PEMPAL Country Results
Extensive information (OBI 2012 score of 81-100)	6	France (83/100), New Zealand (93/100), Norway, South Africa, Sweden, United Kingdom	
Significant information (OBI 2012 score of 61-80)	17	Brazil, Bulgaria , Chile, Croatia , Czech Republic, Germany, India, Indonesia, Mexico (61/100), Portugal, Russia , Slovakia, Slovenia, South Korea, Spain, Uganda, United States (79/100)	Russia (74/100) Bulgaria (65/100) Croatia (61/100)
Some information (OBI 2012 score of 41-60)	36	Afghanistan, Albania , Argentina, Azerbaijan , Bangladesh, Bosnia and Herzegovina , Botswana, Colombia, Costa Rica, El Salvador, Georgia , Ghana, Guatemala, Honduras, Italy (60/100), Jordan, Kazakhstan , Kenya, Liberia, Malawi, Mali, Mongolia, Mozambique, Namibia, Nepal, Nicaragua (42/100), Pakistan, Papua New Guinea, Peru, Philippines, Poland, Romania , Sri Lanka, Tanzania, Turkey, Ukraine	Georgia (55/100) Ukraine (54/100) Turkey, Bosnia & Herzegovina (50/100) Kazakhstan (48/100) Romania and Albania (47/100) Azerbaijan (42/100)
Minimal information (OBI 2012 score of 21-40)	15	Angola, Burkina Faso (23/100), Dominican Republic, Ecuador, Lebanon, Macedonia , Malaysia, Morocco, São Tomé e Príncipe, Serbia , Sierra Leone (39/100), Thailand, Timor-Leste, Trinidad and Tobago, Venezuela	Serbia (39/100) Macedonia (35/100)
Scant or no information (OBI 2012 score 0-20)	26	Algeria, Benin, Bolivia, Cambodia, Cameroon, Chad, China, Democratic Republic of Congo, Egypt, Equatorial Guinea (0/100), Fiji, Iraq, Kyrgyz Republic , Myanmar (0/100), Niger, Nigeria, Qatar (0/100), Rwanda, Saudi Arabia, Senegal, Tajikistan , Tunisia, Vietnam, Yemen, Zambia, Zimbabwe (20/100)	Kyrgyz Republic (20/100) Tajikistan (17/100)

Source: First three columns: International Budget Project Partnership, Open Budget Survey 2012 (Table 1, page 13) from <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf> Countries scoring the largest and smallest score per category is provided. According to the IBP for countries in “some information” category should aim to move to “significant information” category (above 60/100) by improving the comprehensiveness of existing budget documents; promoting more citizen engagement in budget processes and ensuring that legislatures and SAIs have necessary resources to carry out oversight function effectively. Significant improvements in scores could be achieved, at little or no cost, if existing internal documents were published on the internet (eg Executive’s Budget Proposal). All countries should develop innovative participation mechanisms and publish all budget documents in easy read formats on the internet that facilitates understanding and analysis.



OECD Best Practice Guidelines in Budget Transparency recommend:

- a. The budget, as the Government's key policy document, should be **comprehensive**, encompassing all government revenue and expenditure so that trade-offs between different policy options can be assessed. A discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities should also be discussed. The budget should be **submitted to Parliament no less than three months prior to the start of the fiscal year** and should be approved by Parliament prior to the start of the fiscal year.
- b. The budget should **include non-financial performance data**, including performance targets and include a medium term perspective. Expenditures should be classified by administrative unit (eg ministry) and supplementary information provided by economic and functional classification.
- c. The current budget proposal should be reconciled with forecasts contained in earlier fiscal reports and all significant deviations explained; comparative information on actual revenues and expenditures during the past year and updated forecast for current year should be provided for each program including for non-financial performance data.
- d. **A pre-budget report** should encourage debate and state explicitly the government's long term economic and fiscal policy objectives and outline the economic assumptions underlying the report.
- e. **Monthly reports** showing progress on executing the budget should be **released within four weeks of the end of each month**, and contain revenue and expenditure actuals for the month and year-to-date. A brief commentary should accompany the numerical data and significant divergences explained.
- f. A **mid-year report** should provide a comprehensive update on the implementation of the budget including an updated forecast of the budget outcome for the current fiscal year and at least the following two fiscal years. It should be **released within 6 weeks of the end of the mid year period**.
- g. A **year- end report** and **long term report** should be prepared. The year-end report is the key accountability document and should be **released within six months of the end of the fiscal year** and audited by the Supreme Audit Institution. This report should show compliance with the level of revenue and expenditures authorized by Parliament in the budget and any in-year adjustments to the original budget should be shown separately. The presentation of the year-end report should mirror the presentation format of the budget. The long-term report should assess the long-term sustainability of current government policies including the budgetary implications of demographic change eg aging populations and other developments (10-40 years). It should be **released at least every five years**.
- h. A summary of relevant accounting policies should be provided including a description of the basis of accounting applied (eg cash, accrual) and an explanation given of any deviations from generally accepted accounting practices. The **same accounting policies should be used for all fiscal reports**. If a change in policies is required, the nature and reasons for the change should be disclosed and information for previous reporting periods adjusted, as practicable.
- i. All fiscal reports should be made **publically available** free of charge and on the internet. The Finance Ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organizations.