

Budget Documentation – What is Best Practice and How is it Assessed

Deanna Aubrey
PEMPAL PFM Adviser
World Bank

INTERNATIONAL STANDARDS

- OECD Best Practices for Budget Transparency
- IMF Code of Good Practices on Fiscal Transparency
- IMF Manual on Fiscal Transparency
- IMF Guide on Resource Revenue Transparency
- IMF Finance Statistics Manual (GFSM 2001)
- United Nations System of National Accounts (SNA)
- International Public Sector Accounting Standards (IPSAS)
- European System of Accounts (ESA 95)

OECD BEST PRACTICES FOR BUDGET TRANSPARENCY

- Part One lists the **principal budget reports** that governments should produce and their general content
 - budget; pre-budget report; monthly reports on budget implementation; mid-year report; year-end report; pre-election report; and a long-term report
- Part Two describes **specific disclosures** to be contained in these reports
 - economic assumptions; tax expenditures; financial liabilities and assets; nonfinancial assets; employee pension obligations; and contingent liabilities

OECD BEST PRACTICES FOR BUDGET TRANSPARENCY

- Part Three highlights practices that ensure integrity and **quality of reports**
 - accounting policies; systems and responsibility; audit; and public parliamentary scrutiny

Refer to background materials for copy of OECD Best Practices for Budget Transparency.

- OECD is working on recommendations for Independent Fiscal Institutions
 - Draft recommendations were discussed at 2012 network meeting of OECD Parliamentary Budget Officials. The revised recommendations will be discussed later this month at the 5th network meeting of OECD Parliamentary Budget Officials
 - <http://www.oecd.org/gov/budgeting/4thannualmeetingofocedparliamentarybudgetofficialsandindependentfiscalinstitutions-paris23-24february2012.htm>

IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY

- **Clarity of Roles and Responsibilities:** The government sector should be distinguished from the rest of the public sector and economy. Public sector policy and roles have to be clear and publicly disclosed; There should be clear and transparent legal, regulatory and administrative framework for fiscal management
- **Open Budget Processes:** Budget preparation has to follow an established timeline and be guided by defined macro and fiscal policy objectives; Clear procedures for budget execution, monitoring and reporting

IMF CODE (CONTINUED)

- **Public Availability of Information:** Public should be provided with info on past, current, and projected fiscal activity and major fiscal risks; **Fiscal information should be presented in a manner that facilitates policy analysis and accountability;** commitment to timely information
- **Assurances of Integrity:** Quality standards; effective internal oversight and safeguards; fiscal info externally scrutinized

Refer to copy of IMF Code of Good Practices on Fiscal Transparency in your background materials. Note that this code is currently being revised by IMF.

Budget Documentation – Different Approaches

- Strike right **balance between detail and aggregation**.
 - Some ways of presenting budget make it easier to integrate performance information eg by grouping individual line items into a single operational costs category
- Program classification combined with good information on results (eg evaluations, performance measures) can **assist decision-makers make more informed judgements** on competing policy objectives.
 - If Governments want to use performance information in budget setting, they need to integrate performance into budget decision-making process, not just budget paperwork (Source: OECD Performance Budgeting: A Users' Guide)

Budget Documentation – Different Approaches

- ‘**Presentational performance budgeting**’ (OECD) - performance information is presented in budget documents as **background information for accountability and dialogue** with legislature and citizens but is not intended to play a role in decision-making
 - Parliament and the public can be kept informed via **program statements** presented with the budget documents accompanying the annual budget legislation.
 - MoF should determine a standardized format for these documents.

PROGRAM STATEMENTS

- Program statements should include the following
 - Program **title**
 - Program **objectives** (clearly articulated and **linked to higher level strategic objectives**)
 - List of the **main outputs** (services) **and activities**
 - A brief narrative outline of the program **strategy, challenges and key new initiatives**
 - **Indicators** to be used to measure program performance
 - Program **performance targets** (if applicable)
 - Program **expenditure estimates**, preferably with medium term projections
 - A breakdown of program expenditure **by broad categories of economic classification**
- A separate easy to understand summary of the budget should also be prepared for citizens. Refer OECD Journal on Budgeting, 2010, “**Producing a Citizen’s Guide to the Budget: Why, What and How?** “

SPECIFIC EXAMPLE – NEW ZEALAND

- New Zealand known for experimenting with PB reforms
 - Came 1st in recent Open Budget Index assessment
 - NZ uses **various methods of presenting the budget** to the public
 - All documents posted on government website including EXCEL spreadsheets to allow further analysis
 - Budget app for Android, iPhone and iPad available
- Budget is presented in **10 key sectors** with four overarching guiding government priorities
- **3 to 10 “votes” within each sector** (eg Sector Justice includes Attorney General, Corrections, Courts, Police etc with each “vote” defined as a grouping of one or more appropriations that are administered by same department (ministry))

SPECIFIC EXAMPLE – NEW ZEALAND

- Information is provided to support the budget estimates for each sector
 - **sector overview** information
 - **statement of responsibility from the relevant Ministers, and CEOs**
 - **performance information for “votes” within sector** covering **2007/2008 to 2015/16** (includes sections on linkages to high level objectives, sector objectives, trends, new policy initiatives, past and expected performance, reconciliation of changes in appropriation)
 - statements of **forecast service performance**
 - forecast **financial statements** of the relevant administering departments (ministries)
 - Statement of Intent of relevant departments (equivalent to **strategic plans**)

Source <http://www.treasury.govt.nz/budget/>

EXAMPLES OF BUDGET DOCUMENTATION

- Budget documentation examples from **South Africa** and **Australia**
 - http://www.pempal.org/data/upload/files/2011/01/krywanio_international-example-handout-pack-uk-.pdf ENGLISH
 - http://www.pempal.org/data/upload/files/2011/01/krywanio_international-example-handout-pack_ru.pdf RUSSIAN
 - http://www.pempal.org/data/upload/files/2011/01/krywanio_international-example-handout-pack_srhr.pdf BOSNIAN SERBIAN CROATIAN

HOW TO ASSESS QUALITY OF BUDGET DOCUMENTATION?

- International Budget Project's **Open Budget Index (OBI)**
- Applying Public Expenditure Financial Accountability (**PEFA**) framework
- **Benchmarking** against other countries through participation in OECD Budget Practices and Procedures Surveys
- IMF's (**Fiscal**) Reports on Standards and Codes (**ROSCs**) assessments
- For EU countries – Stability and Growth Pact assessments

OPEN BUDGET INDEX

- International Budget Partnership conducts comprehensive survey comprising **125 factual questions**
- **Assesses public availability and comprehensiveness of 8 key documents** that governments should publish at different stages of the budget process
- **Five categories:**
 - 1. Extensive information (Open Budget Index scores 81-100)
 - 2. Significant information (OBI scores 61-80)
 - 3. Some information (OBI scores 41-60)
 - 4. Minimal information (OBI scores 21-40)
 - 5. No information or scarce information (OBI scores 0-20)

OPEN BUDGET INDEX

- Provides an independent, comparative, and regular measure of budget transparency and accountability around the world
- Produced every two years
- First OBI in 2006 for 59 countries, second in 2008 for 85 countries, third 2010 for 94 countries, fourth in 2012 for 100 countries
- Full report available in English and Russian (summary reports by country also available)
 - <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf>
 - <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-Russian.pdf>

OPEN BUDGET INDEX 2012

- Only **23 of the 100 countries assessed met the basic standards** of budget transparency of providing significant or extensive information (ie above 60 out of 100)
- **Average worldwide score was 43 out of 100** in 2012
- Of particular concern is the widespread **failure by governments to provide significant opportunities for citizens and civil society to engage** in budget processes (average score on participation opportunities 19/100)
- 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

PEMPAL - OPEN BUDGET INDEX SCORES

- 15 of the 21 PEMPAL BCOP member countries were assessed in 2012
- 10 of the 15 PEMPAL countries participating scored above world average of 43/100
- Significant improvements in many countries
 - **Russia** :improved score 57% from 2006 and 23% from 2010.
 - **Bulgaria**: improved score 38% from 2006 and 17% from 2010.
 - **Albania**: improved score 89% from 2006 and 43% from 2010
 - **Kazakhstan**: improved score 11% from 2006 and 26% from 2010

TABLE 1: OPEN BUDGET SURVEY 2012

	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)

Source: First three columns: International Budget 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.

TABLE 1: OPEN BUDGET SURVEY 2012 CONTINUED

	Number of Countries Surveyed	Recommendations for Improvements
Minimal information (OBI 2012 score of 21-40)	15 countries	<ul style="list-style-type: none"> • Ensure that at least a minimum set of budget documents (Executive's Budget Proposal, the Enacted Budget, the Audit Report, and the Citizens Budget) are published in a regular and timely manner • Public hearings are held in the legislature to disseminate budget information and to gather citizen views on budget policies
Scant or no information (OBI 2012 score 0-20)	26 countries	

GENERAL RECOMMENDATIONS

- For countries in the OBI category “some information” should aim to move to the next category of providing “significant information” (above 60/100) by:
 - Improving the comprehensiveness of existing budget documents
 - **Promoting more citizen engagement** in budget processes and ensure 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 that describes government’s proposed budget policies)
- All countries should develop **innovative participation mechanisms** and publish all budget documents in easy read formats on the internet that facilitates understanding and analysis

GENERAL RECOMMENDATIONS

- **Format and layout** of budget documentation is important
 - Should be **clear and easy to understand**
 - Use graphs, commentary, non-technical language, executive summaries
- MoFs could **post background and explanatory information on website** received from line ministries (if it is not included in final budget documentation)
 - to increase credibility with line ministries and improve transparency

OTHER RESOURCES

- Performance-based Budgeting Manual by Marc Robinson
 - http://www.pempal.org/data/upload/files/2012/04/pb-budgeting-manual_eng.pdf ENGLISH
 - http://www.pempal.org/data/upload/files/2012/04/pb-budgeting-manual_rus.pdf RUSSIAN
 - http://www.pempal.org/data/upload/files/2012/04/pb-budgeting-manual_bos.pdf BOSNIAN, SERBIAN, CROATIAN
- Moving towards a Strategic Advisory Approach on the Introduction of Results-oriented Budgeting by GIZ
 - http://www.pempal.org/data/upload/files/2012/04/giz-study_eng.pdf ENGLISH
 - http://www.pempal.org/data/upload/files/2012/04/giz-study_rus.pdf RUSSIAN
 - http://www.pempal.org/data/upload/files/2012/04/giz-study_bos.pdf BOSNIAN, SERBIAN, CROATIAN
- OECD Policy Brief “Performance Budgeting – A Users’ Guide”
 - <http://www.oecd.org/gov/budgeting/seniorbudgetofficialsnetworkonperformanceandresults.htm> ENGLISH

THANK YOU