

# Assessment of Transparency in the Budget Process in the Participating Regions of the Project: Experience and Problems

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(Translated into English by Alinazar Alinazarov of the IBP)

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## 1. Relevance

Transparency of government activities at all levels is particularly important because it is a main condition for opening decision-making processes and is part of the foundation for democracy. The need for open and transparent public management is characteristic both of countries with established democracies and of others that relatively recently started their democratic transformation. In Russia the budget is the main tool to accomplish socio-economic policies. Therefore, the study of transparency of the budget process is of vital importance.

## 2. History

Budget transparency has its origin in the history of parliamentary systems. However, modern budget practices in many countries do not meet transparency requirements when the executive dominates the budget process, the legislature has limited power during budget debates or during amendment recommendations; when there is limited availability of budget related information for the effective assessment of budget execution; or when the public has little participation in the budget process. Hence, budget transparency receives considerable attention in the advancement of budget reforms.

Globalization and the growing interdependence of national economies draw attention to the role of international financial institutions to improve financial transparency. The Asian financial crisis showed that with broad access to information on the Asian financial market and fiscal policies, it might have been possible to “turn on the appropriate regulatory mechanisms” and alleviate the crisis. As a result, first steps were taken in order to formalize transparency requirements. On April 16<sup>th</sup>, 1998, the International Monetary Fund (IMF) published the *Code of Good Practices in Tax and Budget System* and called on its member-countries to implement it. The principles and practices of the Code are based on the experience of tax and budget administration in member-countries. The IMF Code offers recommendations, is limited to finance and credit policies, and is addressed to the IMF member-country governments.

Increasing transparency of the budget process can be initiated not only by financial institutions or governments to improve the budget system, but also by civil society organizations. In South Africa, for example, where the budget process provides little opportunity for

the legislative and civil society to take part, the Institute for Democracy in South Africa (Idasa) and the International Budget Project (IBP) of the Center on Budget and Policy Priorities in Washington, DC proposed a broader approach combining transparency with public participation. The same approach is reflected in the core of Strategy's program, *City Residents and Authorities Setting Course for Cooperation. A Budget People can Understand and Influence*.

Thus, it is possible to identify three main types of budget transparency initiatives, one where international financial institutions promote financial transparency; a second where national and regional governments work to increase transparency through budget reforms, including provisions for broader information to the citizens; and finally through civil society institutions to increase citizen participation in the budget process.

### **3. Why do we need budget process transparency?**

Representatives of the legislative and executive branches, as well as civil society groups, share an interest in budget transparency. Although the motives for promoting transparency can be different (elections, investments, control on budget expenditure, receiving budget allocations, etc.), budget transparency is always a necessary condition to good governance due to the following reasons:

- Transparency enables every member in society to understand the budget language and its figures. Since taxes constitute the major source of revenue, it also allows seeing where tax money is spent.
- Transparency creates opportunities for public debates and enables realization of citizen rights to budget information, and participation in budget decision making.
- Transparency increases oversight from legislators and citizens over quality budget decisions at the formulation and execution stages.
- Transparency is a prerequisite for control on budget allocations and is an instrument against corruption.
- Transparency promotes greater trust between the government and civil society groups.
- Transparency and public participation can increase the effectiveness of budget expenditure.
- Transparency is a precondition for macroeconomic stability in a country. In a crisis situation necessary changes can be made more quickly and efficiently.
- Transparency opens regional and national government policies to other countries, which increases investment opportunities.

### **4. Transparency and public participation**

Budget process transparency is not only about availability of information to the public. Transparency is a necessary, but not sufficient condition for public participation. Budget transparency being an instrument for the development of democracy depends on the level of development of democracy, i.e. the readiness and ability of civil society to ensure public control over budget transparency and participation in budget policy decision-making process, protecting the interests of communities.

The *Transparent Budget Program* is seen as social technology, or as a set of methodically valid actions, rules, and procedures, which enable independent experts and NGOs to ensure public participation in the budget process, aiming at increasing its efficiency. In addition to applied budget analysis, public participation and the technology of legislative initiatives, budget transparency evaluations are a key component of social technology.

## 5. “Me” and transparency: I can, I want, I know how

During the Program to evaluate the budget process, data was collected regarding the willingness, readiness, and capability of participation in the budget process. Motivation was rated very high, whereas only 1% of the participants said they Know How to apply transparency tools, 95% of the participants said their Know How abilities would improve with adequate access to methodological instruments.

## 6. Transparency assessment: methodological toolkit

The methodological toolkit that was developed in the framework of the project consists of the questionnaire and methodological recommendations regarding the organization of surveys to assess public participation. The IMF Code became the first international experience to design standards (minimum requirements) applicable to every budget system. It is based on clarity of roles and function of government bodies; public availability of information on activities of government; openness of budget preparation process and its execution, and accountability; and independent guarantee of tax and budget-related information reliability. However, being limited within the financial policy, the code pays insufficient attention to the role of civil society institutions, and it is not oriented towards improvement of budget process through enhancement of public and legislators participation.

The transparency assessment and participation scorecard (questionnaire) - which is mainly based on the IMF Code of Good Practices but was developed and broadened to consider factors of public participation - was used in South Africa by the experts of the Budget Information Service of Idasa and the IBP. The scorecard originally served as a basis for the Russian version of transparency assessment within the framework of a budget program. International experience and standards are undoubtedly of interest for Russia as a first attempt to apply the questionnaire to the project's seminar attendees. However, collaboration with regional experts, as well as consultation with the representatives of the Committee of Finance demonstrated that for practical use we need to adapt the questionnaire.

The following circumstances require adapting the scorecard to the Russian context:

- In the framework of Strategy's budget project the questionnaire was intended for the budget at the sub-national and municipal levels, while the IMF Code and the scorecard used in South Africa are designed for the national budget.
- Specific characteristics of tax and budget system in Russia, including constitutional and legislative terminology, make it impossible to directly copy the scorecard, which was also confirmed by the results of surveys conducted by the experts and participants of the seminars.
- The budget process at the municipal units and sub-national divisions of the Russian Federation also differ due to legal frameworks, which need to be adapted.

A questionnaire was developed in the participating regions of St. Petersburg, Pskov, Samara, Petrozavodsk, Novosibirsk, and Velikie Luki for the sub-national and municipal divisions of the Russian Federation. The questionnaire to assess budget process transparency for municipalities includes 58 questions. The one for the Russian Federation has 55 questions. The questions are grouped under the following sections:

- Legislative aspect of transparency.
- Budget expenditure responsibility.

- Budget information and budget documentation.
- Analysis of budget execution.
- Public participation in the budget process.

The instructions for regional coordinators, who organized the pilot survey for the transparency and participation assessment, included the following sections: purpose, goals, tasks, and responsibilities of regional coordinators; organizing and technology of pilot survey, including selecting expert-respondents, processing the results, and the format of results presentation. The main goal was to ensure a uniform methodological approach for conducting the assessment, which is the underlying condition for inter-regional and inter-municipal comparison of the obtained assessment results and development of recommendations for increasing budget transparency and participation in the budget process.

The main goal of the methodological recommendations was to ensure uniform principles of:

- Selecting expert-respondents.
- Organizing and technology of conducting expert survey.
- Processing the results and presenting them to Strategy.

## **6. Transparency and participation assessment**

Transparency and participation assessment was conducted in 8 regions on the basis of surveys at the municipal level in Murmansk city, Petrozovodsk, and Velikie Luki, and at the sub-national level in St. Petersburg, Novosibirsk, Samara, Pskov, and Ujno-Sakhalinsk *oblasts* (“Oblasts” is the Russian term for “region”). Eighty experts took part in the pilot survey, 32% of the experts were legislators, 26% were part of the executive branch, 23% NGOs, 11% were media representatives and 8% were scholars and academics (see. Annex 1). The experts self-evaluated their experience in budget work in the following way:

- 13% have no experience.
- 11% 3 years of experience.
- 23% 3 to 5 years of experience.
- 53% more than 5 years of budget-related experience.

Distribution of the expert self-appraisal was in the range of 4 to 9 points on the 10 points scale.

Experts were selected according to a basic knowledge of budget processes and public participation at the municipal level for the regions of Murmansk, Velikie Luki, Ujno Sakhalinsk (basic scheme of selection). For St. Petersburg, Pskov, Novosibirsk, Samara region, and Petrozavodsk experts required an in-depth knowledge of budget processes and public participation (full scheme of selection).

Based on the generalized results of pilot experts survey, the following conclusions can be drawn:

- It was proved that the developed methodological toolkit for transparency and participation is usable.
- Assessment can be expressed both qualitatively (high, moderate, weak) and quantitatively (from 0 to 1 or on a 10 points scale) and presented in tabular and graphical form (see, for example, Annex 2, 3).

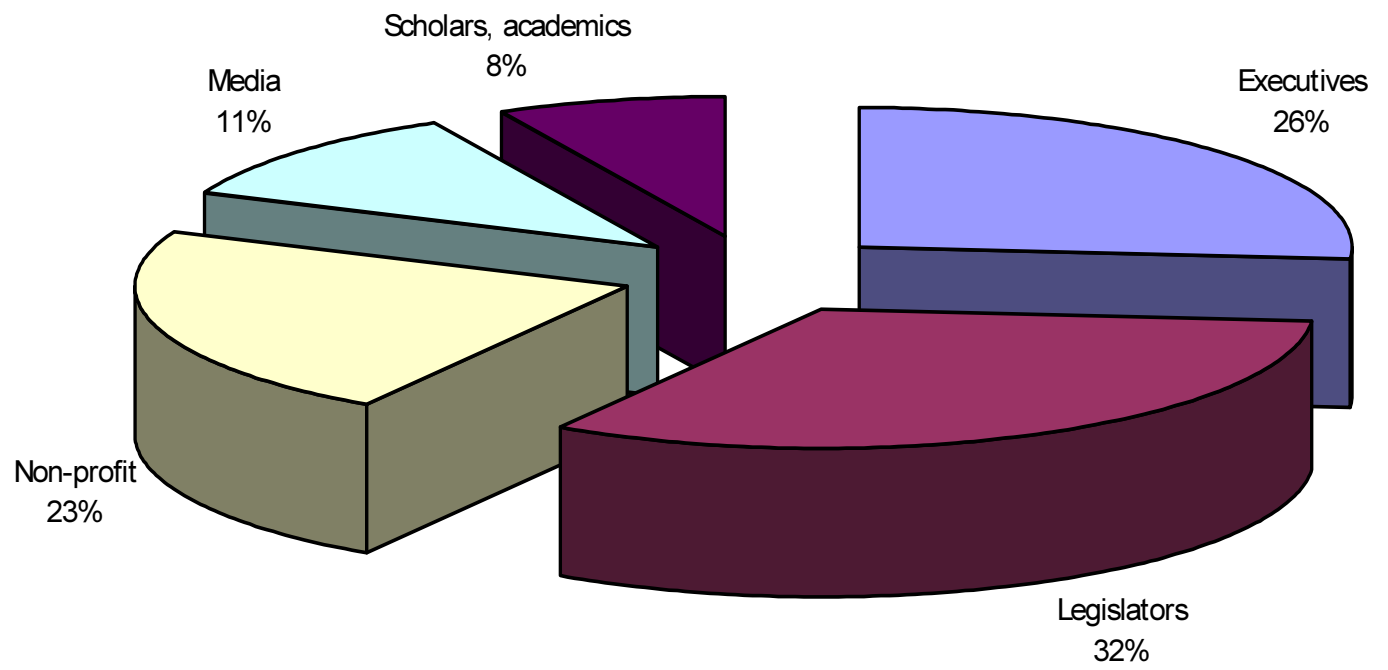
- Qualitatively transparency was assessed as “moderate”. However, quantitative assessment in each section substantially differs from region to region. This shows that the experts gave different conceptual weight to “moderate”.
- Agreement among the experts on particular questions is not significant, because the respondents’ opinions vary widely and require additional analysis.
- Interpretation of obtained results should consider individual characteristics, such as professional expertise in the field, since the questionnaire includes a broad range of questions and in some of these a respondent may not be prepared to answer.
- If the assessment results for two regions are close there may still be substantial differences, since each region’s results reflect a different range of factors (See Annex 5.4).
- The results enable us to highlight some specific aspects of transparency and participation, also based on comparative analysis of Russian cities’ characteristics.
- All of the regions obtained a low grade in the section of “participation in the budget process” (See Annex 6), which shows weak civil society participation in the budget process.
- Including government officials in the surveys increased their interest in public participation, which will influence executive, legislative, and civil society cooperation.
- The experience suggests that the technology of transparency and participation assessment can be used in other regions, which are not yet participating in the budget program. This can be achieved through minor methodological adjustments and appropriate consultation.

## **7. Public participation and budget transparency: experience and problems**

The problems faced during the development of the toolkit, can be divided into general and specific, like shortage of qualified specialists. In addition, the origin of the problems can be classified as follows:

- Methodological, derived from the development of this toolkit.
- Organizational, as a result of the organization of the survey.
- The problem of expert selection and assessment of opinion agreement.
- Methodological problems to analyze obtained results.

**9. Annex 1**  
**Distribution of experts according to the field of activities (%)**



**Annex 2**  
**Qualitative and quantitative assessment of budget process transparency**  
**(municipalities)**

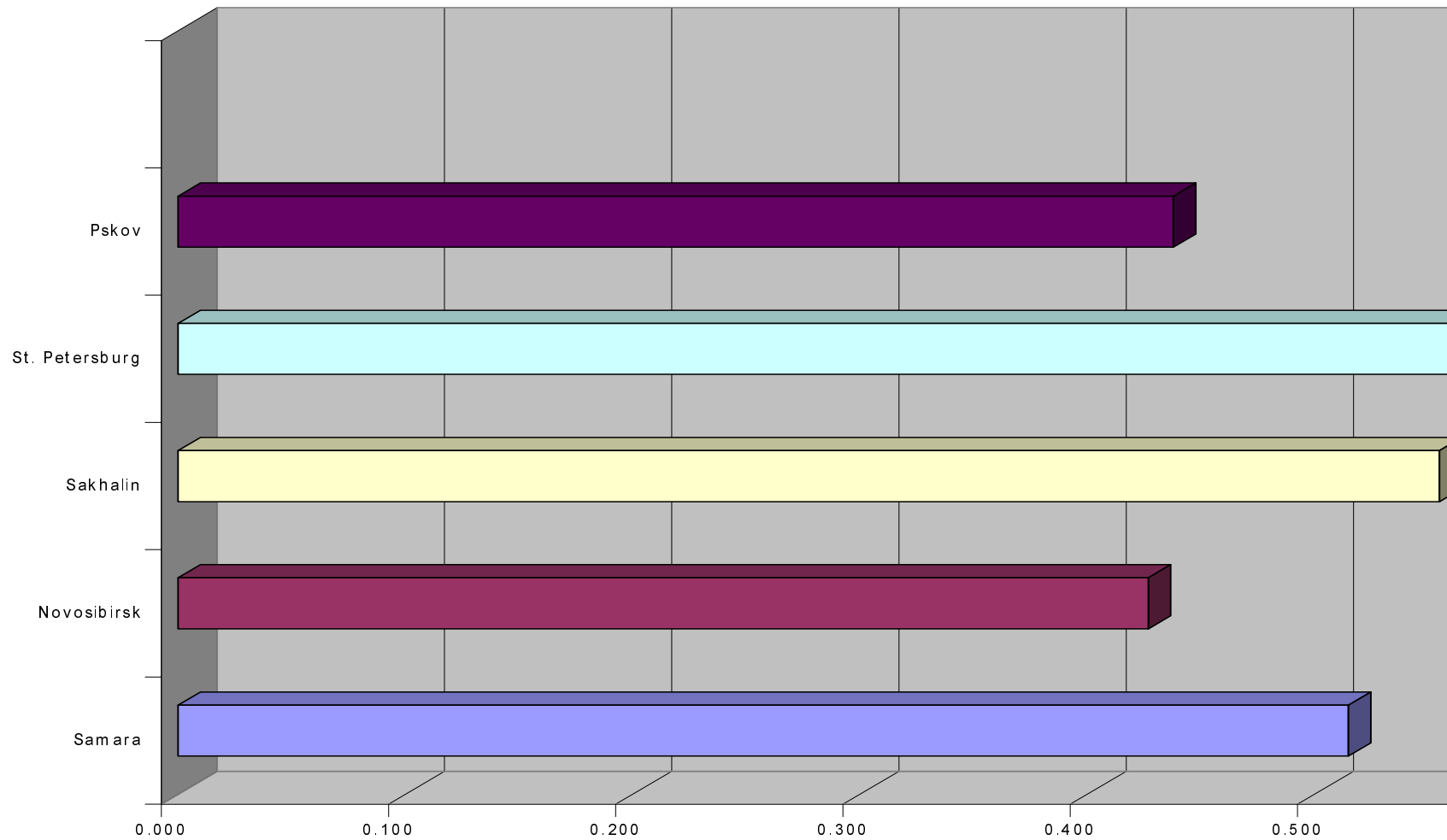
<b>Components of the budget process transparency assessment</b>	<b>Petrozavodsk</b>		<b>Velikie Luki</b>		<b>Murmansk</b>	
	<i>Assessment result (qualitative)</i>	<i>Assessment result (quantitative)*</i>	<i>Assessment result (qualitative)</i>	<i>Assessment result (quantitative)*</i>	<i>Assessment results (qualitative)</i>	<i>Assessment results (quantitative)*</i>
Section 1 «Legislative aspect of transparency»	Moderate	0.70	Moderate	0.40	Moderate	0.46
Section 2 «Responsibility for expenditures»	Moderate	0.45	Moderate	0.42	Moderate	0.50
Section 3 «Budget information and budget documentation»	Moderate	0,46	Moderate	0.40	Moderate	0.50
Section 4 «Budget execution analysis»	Moderate	0.52	Moderate	0.50	Moderate	0.45
Раздел 5 «Public participation in budget process»	Moderate	0.46	Weak	0.33	Weak	0.25
<b>Composite result of budget process transparency assessment</b>	Moderate	0.2**	Moderate	0.41**	Moderate	0.43**

\*The quantitative assessment reflects the score of a region on each section, on a scale of 0 (no transparency) to 1 (absolute transparency).

\*\* Calculated as an average for sections 1 through 5

### Annex 3

#### Overall results of budget process transparency assessment in federal subordinated region\*



\* Some regions that participated in the assessment are under direct Russian Federation subordination, that is, there are no other government jurisdictions, between them and the national government. Other regions, however, are under jurisdiction of administrative divisions, thus are not directly subordinated to the federal government.

## Annex 4

### Comparative assessment of budget process transparency by sections (regions under direct federal subordination)

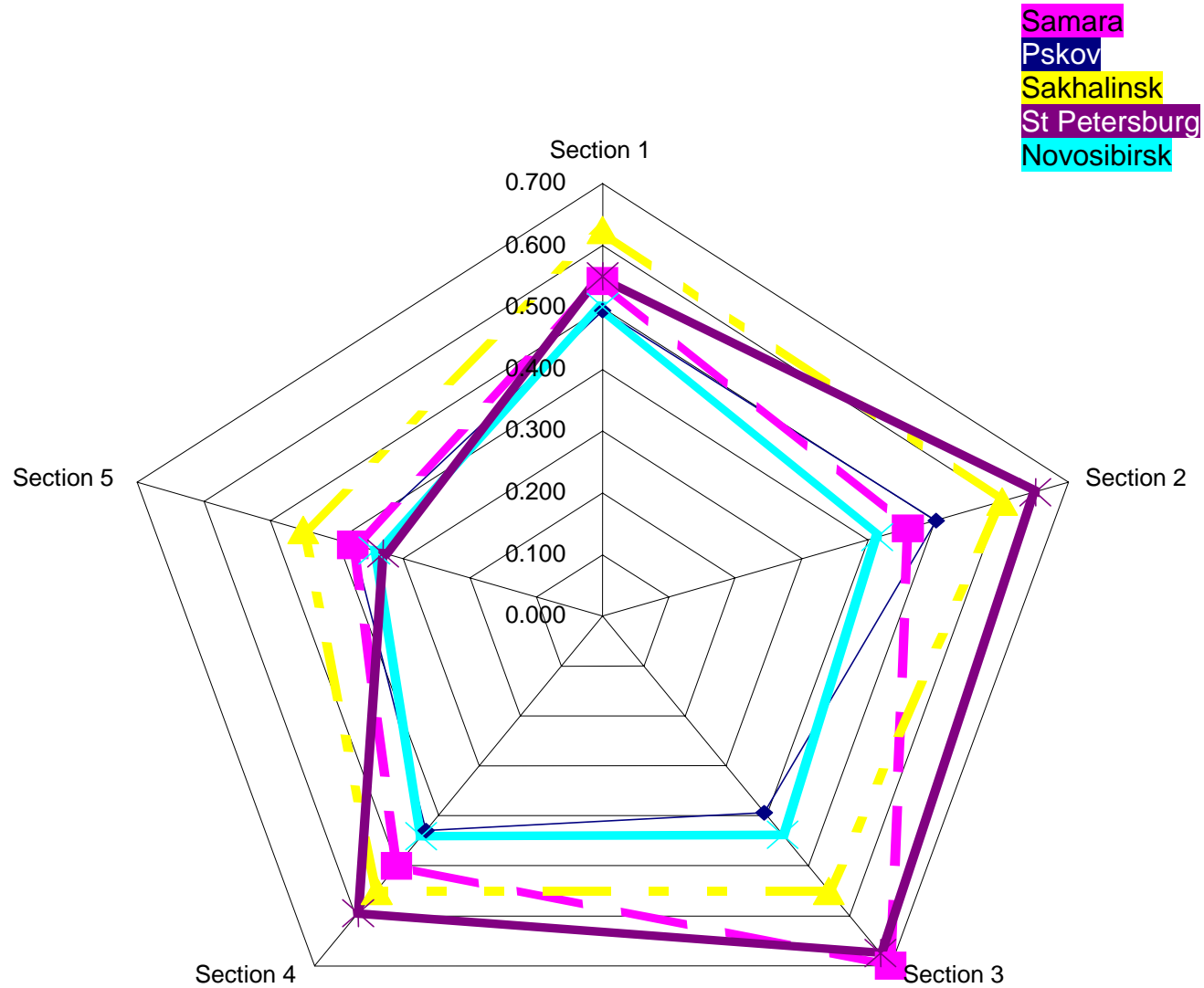
Section 1 «Legislative aspect of transparency»

Section 2 «Responsibility for expenditures»

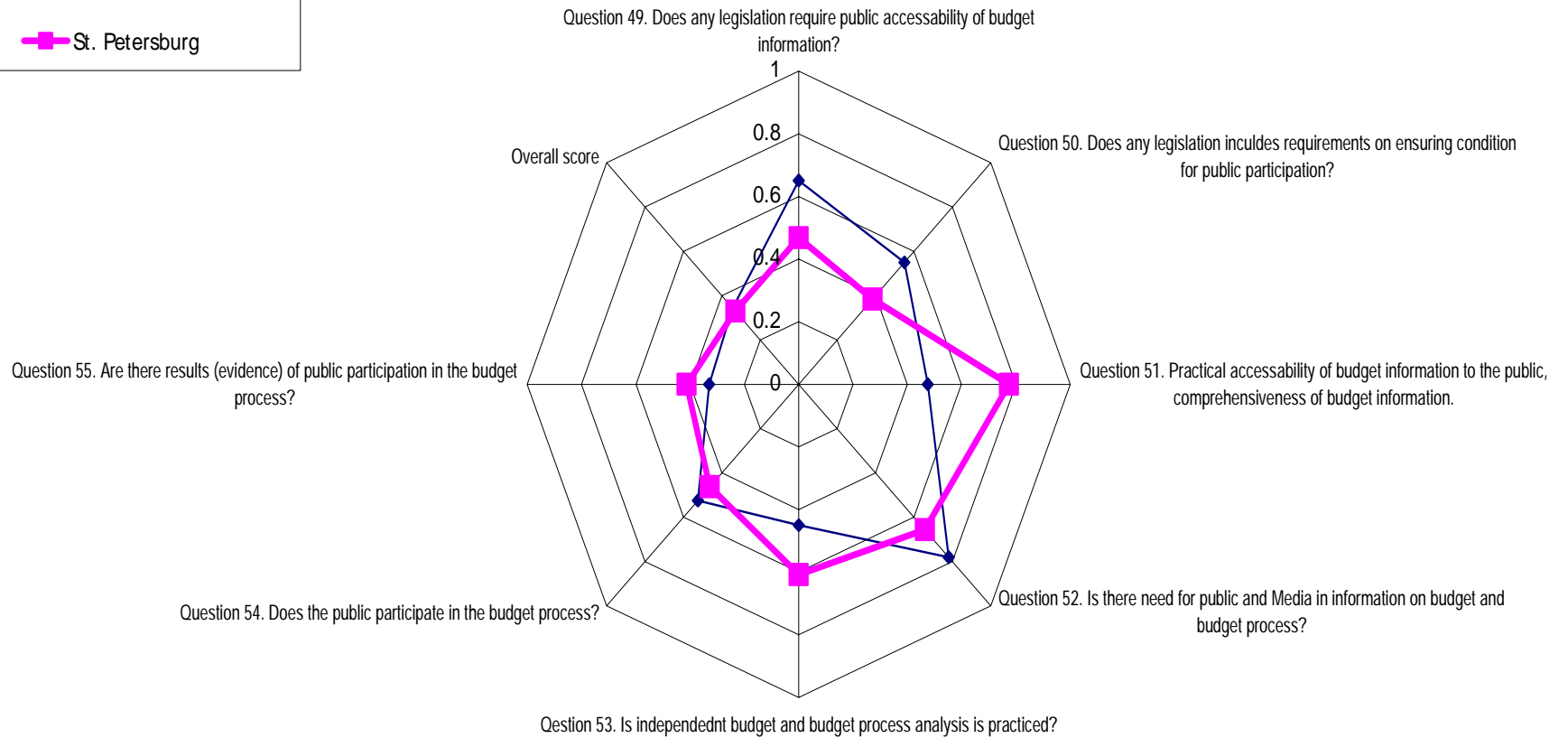
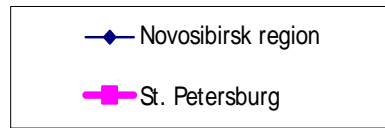
Section 3 «Budget information and budget documentation»

Section 4 «Analysis of budget execution»

Section 5 «Public participation in budget process»



## Budget transparency assessment: section "Participation in budget process"



## Annex 6

### Comparative characteristics of budget transparency in the regions of Federal subordination

