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The Transparency Gap: Resource-Dependent Countries Perform Poorly on Open Budget Index

A considerable number of developing countries are still trapped in a vicious cycle of poverty and stagnation, despite being endowed with significant stocks of natural resources. Research has highlighted how natural resource abundance is often linked to slower growth rates and actually seems to increase the likelihood that resource-dependent countries will experience negative economic, political and social outcomes. This phenomenon is commonly referred to as the "Resource Curse" or the "Paradox of Plenty."

In this brief, we examine empirically the nature and extent of budget transparency in resource-dependent countries, as a potential foundation on which to improve governance and development impact. We define budget transparency as "the full disclosure of all relevant fiscal information in a timely and systematic manner." [1]

Efforts to explain and address the "resource curse"

There is a growing trend among economists and development practitioners to eschew more economistic, technical approaches — which minimize or ignore political factors — to understanding and addressing the "resource curse." Instead, they are giving increasing weight to the impact of politics, governance and economic management on development in resource-dependent countries.

In recent years, a number of international initiatives have been launched in response to these governance challenges. These follow the groundbreaking work by Global Witness to end conflict, corruption and human rights abuses related to resource exploitation. For example, the International Monetary Fund has introduced special guidelines on Resource Revenue Transparency to complement its focus on Fiscal Transparency. The Extractive Industry Transparency Initiative (EITI) and "Publish What You Pay" campaign have encouraged making information public on the payments extractive industry companies make to governments. Through "EITI Plus," the World Bank encourages participating countries to go beyond the core EITI reporting and auditing criteria to include reporting on expenditures from extractive industry revenues in an effort to link resource wealth with improved development outcomes.

In addition, the Revenue Watch Institute and the International Budget Partnership (IBP) work on developing the capacity of CSOs and other stakeholders within countries to independently monitor government earnings and expenditures. Efforts like these can

[1] Organization for Economic Cooperation and Development, 2001. *OECD Best Practices for Budget Transparency*. Public Management Committee, Public Management Service. Paris: OECD, p.1.

potentially provide some insight into the mechanisms through which domestic actors with power come to support, or even advocate for, institutional change.

Measuring budget transparency in resource-dependent countries

The recognition that governance and institutions matter has brought issues of transparency, accountability and civil society involvement in the budget process increasingly to the fore as some of the main governance challenges that resource-dependent countries must face.

Transparency can be a means of improving economic governance through a combination of mechanisms, including strengthening public accountability and legitimacy, facilitating policy consistency and predictability, and promoting the better functioning of government. However, the linkage between transparency, governance, and policies and development outcomes is not automatic but, rather, is achieved through the interaction of various actors, including government, markets and civil society. In this sense, greater transparency enables the public to understand and participate in policy decisions and builds trust in government.

In 2002, the International Budget Partnership began to develop a survey instrument that provides an independent evaluation of budget transparency across countries. The *Open Budget Questionnaire* was designed to collect comparative data on the public availability of budget information and other budgeting practices and consists of a total of 122 questions based on generally accepted good practice related to public financial management.[2] The responses to the 91 questions that focus on the content and timeliness of the seven key budget documents that all countries should issue were averaged to form the *Open Budget Index* (OBI), which assigns countries a score from 0 - 100.

Table 1. Open Budget Index

OBI Score	Countries
Provides extensive information to citizens (81-100)	France, New Zealand, Slovenia, **South Africa**, United Kingdom, United States
Provides significant information to citizens (61-80)	**Botswana**, Brazil, Czech Republic, **Norway**, **Peru**, Poland, Romania, South Korea, Sweden
Provides some information to citizens (41-60)	Bulgaria, **Colombia**, Costa Rica, Croatia, **Ghana**, Guatemala, India, **Indonesia**, Jordan, **Kazakhstan**, Kenya, Malawi, **Mexico**, **Namibia**, Pakistan, **Papua New Guinea**, Philippines, **Russia**, Sri Lanka, Tanzania, Turkey
Provides minimal information to citizens (21-40)	Albania, **Algeria**, Argentina, **Azerbaijan**, Bangladesh, **Cameroon**, **Ecuador**, El Salvador, Georgia, Honduras, Nepal, Uganda, **Zambia**
Provides scant or no information to citizens (0-20)	**Angola**, **Bolivia**, Burkina Faso, **Chad**, Egypt, **Mongolia**, Morocco, Nicaragua, **Nigeria**, **Vietnam**

Source: Adapted from International Budget Project (2006). Resource-dependent

[2] Most of the criteria used are similar to those developed by multilateral organizations, such as the International Monetary Fund's *Code of Good Practices on Fiscal Transparency*, the *OECD Best Practices for Budget Transparency* and the *Lima Declaration of Guidelines on Auditing Precepts* issued by the United Nations International Organization of Supreme Auditing Institutions (INTOSAI).

countries are marked in bold.

Of the 59 countries included in the 2006 OBI, 24 are resource-dependent. As you can see in Table 1 resource-dependent countries (marked in bold) varied greatly in their budget transparency scores — South Africa, Botswana, Norway and Peru ranking among the best performers — while a significant number (including Nigeria and Chad) still provided scant or no information to their citizens. However, the fact that only four countries out of the 24 provide extensive or significant budget information to their citizens highlights the existence of a significant “transparency gap.”

It is important to note that the OBI results may overstate the level of transparency in many resource-dependent countries. This is especially true in those countries with nationalized oil companies, such as Azerbaijan’s SOCAR, whose operations are not evaluated in the OBI — and which often are the source of substantial, highly opaque off-budget spending.

This gap is also apparent between the average scores of the two groups. Non-resource-dependent countries fare considerably better (i.e., have much more transparent budget systems) than resource-dependent ones. For the first group, the average OBI score is 49.9, while that of the latter is 39.7. Assuming that budget transparency is a reliable proxy for good economic governance, this difference seems to support the opinion that resource-dependent countries suffer from a governance deficit and are characterised by unaccountable governments able to divert resource rents from productive uses, thus fuelling wastage and corruption.

In an effort to examine this question further, a comparison was made between countries’ OBI scores and their Human Development Index scores (the HDI is a composite indicator looking at income together with health and education outcomes). The comparison found that higher OBI values corresponded to better human development performance. While this correlation does not prove that greater transparency and accountability bring about greater human development, it does call for further attention to governance issues in resource-rich countries.

Oil, transparency and democracy

Further analysis of 2006 OBI data by Michael Ross examines the relationship between oil dependence, budget transparency and level of democracy. His findings provide additional insight into the “resource curse” and point to possible strategies for addressing the apparent discrepancy between resource wealth and economic and human development. Ross’ statistical analysis finds a correlation between a country’s OBI score, the measure used for budget transparency, and its oil production.

He also controls for the influence of income on a nation’s level of transparency using the mean GDP per capita for the same period for the income variable. Ross’ analysis suggests that after controlling for income, there is a strong negative correlation between a country’s oil production and the transparency of its budget in 2006. In other words, as production goes up, transparency goes down.

Conceivably, this correlation might be caused by the concentration of oil-producing states in regions of the world, such as the Middle East and Africa, where budgets happen to be less transparent for other reasons. Ross’ analysis found that region has no significant effect on the correlation between oil wealth and transparency.

Another possibility is that the correlation might be caused ultimately by the effect of democracy — since many have argued that oil wealth makes states less democratic, and states that are less democratic may produce budgets that are less transparent. The oil/budget transparency link might really be an oil/democracy/budget link. To explore this possibility, Ross controls for a country’s democracy level and finds that higher levels of democracy are indeed linked to more transparent budgets. Its inclusion in the analysis reduces the impact of oil production on transparency and makes this impact less statistically significant. This implies that part of oil's harmful impact on budget transparency comes from its harmful impact on democracy. However, even after accounting for the intervening role of democracy, wealth from oil production still tends to reduce the transparency of government budgets.

Discussion and Conclusions

In this brief, we attempted to bring together different strands of evidence linking issues of budget transparency, resource dependency, democracy and development performance across the world. Recent research has increasingly focused on the importance of poor governance and weak institutions as a key factor behind the "resource curse." The data from the Open Budget Initiative 2006 demonstrate that resource-dependent countries do indeed suffer from a significant "transparency gap" in their budget systems. To the extent to which this lack of transparency facilitates mismanagement, corruption or other diversions of poverty-reducing spending needed to ensure development, it suggests that governments, the international community and CSOs must make further efforts to promote budget transparency and accountability.

The conclusion reached by Ross that some of the budget "transparency gap" may be connected to a "democracy gap" also has important implications for civil society organizations. If budgets in oil-dependent countries are not transparent, in part, because democracy in these countries is broken, then CSOs could make their governments' budgets more open and accountable by work that strengthens democracy. This work might resemble efforts in India and countries in Africa to increase public participation in budget implementation through such methods as citizen report cards and social audits and other approaches to community budget monitoring. It also might include efforts to pass and ensure the implementation and use of Freedom of Information laws that provide a legal framework for transparency and public participation in decision-making processes.

This Brief was based on a more comprehensive report written for UNESCO by Paolo de Renzio (Overseas Development Institute), Pamela Gomez (IBP), and James Sheppard (London School of Economics and Political Science). The brief drew on additional research by Michael Ross (UCLA Department of Political Science). To receive a copy of the report for UNESCO, email us at info@internationalbudget.org.

The 2008 Open Budget Index, which measures transparency and accountability in 85 countries, will be released on February 1, 2009.