Budget Brief

Has the U.S. Become More Serious about Fiscal Transparency Globally?

Vivek Ramkumar
International Budget Partnership

January 2015

Key Points

- **In January 2015, the U.S. Department of State published its 2014 Fiscal Transparency Report, which assesses the transparency of countries eligible to receive U.S. assistance. The Department of State previously produced and published Fiscal Transparency Reports in both 2012 and 2013.**

- **The report finds that, of the 140 countries assessed, 90 meet the minimum requirements of fiscal transparency; 11 countries have "made significant progress" in improving fiscal transparency; and 39 have "not made significant progress."**

- **There have been some notable shifts in individual countries assessments. For example, Saudi Arabia, which scored 1 out of 100 on the 2012 Open Budget Index, was found to be "making progress" in previous reports. This latest report finds the country is "not making significant progress."**

- **This latest report is a significant improvement on past reports. First, its findings suggest an improved methodology for assessing fiscal transparency; second, the assessments are no longer tied to country's eligibility to receive U.S aid.**

- **There are a three further improvements that should be made to future assessments: clearly define which budget documents must be made publically available; increase the visibility of future fiscal transparency assessments; and establish a single assessment of fiscal transparency.**

For more information, contact:
Vivek Ramkumar
vramkumar@internationalbudget.org

Background

Since 2008, U.S. appropriation law has required the Department of State to conduct an annual assessment of fiscal transparency in all countries that are eligible to receive U.S. assistance. From 2012 onwards, the law has required such reports to be made publically available, with previous reports having been published in 2012 and 2013.

These reports aimed to measure two things: whether countries meet the minimum requirements of fiscal transparency; and, for countries found to be falling short, whether they are making progress towards meeting minimum requirements. Until recently, the assessments were linked to a government's eligibility to receive U.S. assistance – being found to not be fiscally transparent would disqualify a government from receiving aid unless a waiver was granted.

In January 2015, the U.S. Department of State published the "2014 Fiscal Transparency Report."[1] This latest iteration of the assessment significantly improves on those of previous years, taking a more evidence-based approach to assessing fiscal transparency and providing countries with specific recommendations for making progress.

This brief analyses the latest report. It outlines its findings, the improvements made to the way the Department of State is assessing transparency, and recommends ways to further improve future assessments.

The 2014 Report

The 2014 Fiscal Transparency Report does not include a detailed methodology of how countries are assessed. However, from discussions with the Department of State, we know that approximately 15 indicators are used to answer three broad questions:

- Are budget documents substantially complete, reliable, and publicly available?
- Is there an independent supreme audit institution that conducts a yearly verification of financial statements to ensure they meet internationally accepted accounting principles?
- Is there evidence of the existence and public disclosure of criteria and procedures for awarding government contracts and licenses for natural resource extraction?

As can be seen in Table 1 below, there has been significant shifts in how countries are rated in terms of fiscal transparency. The 2012 assessment found 34 of more than 140 countries covered were non-transparent. Only two of these non-transparent countries had made no progress toward meeting the minimum requirements. The 2013 assessment, which only looked at 49 countries, found that 34 countries did not meet minimum requirements of fiscal transparency. Only seven of the non-transparent countries were found to have made no progress toward meeting the minimum requirements.

The 2014 report assesses 140 countries that are eligible for U.S. assistance. It found that 50 countries do not meet the minimal fiscal transparency requirements. Of these 50 countries, 11 were found to have made "significant progress" towards meeting minimal fiscal transparency requirements; and 39 were assessed as "not making significant progress."

[1] See http://www.state.gov/e/eb/ifd/oma/235938.htm

For more information, contact:
Vivek Ramkumar
vramkumar@internationalbudget.org

Table 1. Results of the 2014, 2013, and 2012 Fiscal Transparency Reports

2014 Fiscal Transparency Report (140 countries assessed; 90 countries found to be meeting minimum fiscal transparency)		**2013 Fiscal Transparency Report** (49 countries assessed; 15 countries found to be meeting minimum fiscal transparency)		**2012 Fiscal Transparency Report** (More than 140 countries assessed; more than 106 countries found to be meeting minimum fiscal transparency)**	
Making significant progress	**Not making significant progress**	**Making progress**	**Not making progress**	**Making progress**	**Not making progress**
11	39	27	7	32	2
Burma, Cambodia, Cameroon, Chad, Comoros Democratic Republic of Congo, Ethiopia, Guinea, Laos, Niger, Sao Tome Principe	Afghanistan, Algeria, Azerbaijan, Bahrain, Burkina Faso, Central African Republic, China, Republic of Congo, Dominican Republic, Egypt, Fiji, Gabon, Gambia, Guinea Bissau, Haiti, Kazakhstan, Lebanon, Libya, Madagascar, Malawi, Maldives, Nicaragua, Nigeria, Oman, Saudi Arabia, Somalia, South Sudan, Sudan, Suriname, Swaziland, Tajikistan, Tanzania, Turkmenistan, Ukraine, Uzbekistan, Yemen, Zimbabwe	Afghanistan, Algeria, Burma, Cambodia, Cameroon, Chad, Dominican Republic, Democratic Republic of Congo, Egypt, Ethiopia, Fiji, Gambia, Guinea, Haiti, Lebanon, Libya, Nicaragua, Niger, Nigeria, Saudi Arabia, Somalia, South Sudan, Suriname, Swaziland, Tajikistan, Ukraine, Zimbabwe	Central African Republic, Gabon, Madagascar, Republic of Congo, Turkmenistan, Uzbekistan, Yemen	Afghanistan, Algeria, Angola, Burma, Cambodia, Cameroon, Central African Republic, Chad, Cote d'Ivoire, Dominican Republic, Democratic Republic of Congo, Egypt, Equatorial Guinea, Ethiopia, Gabon, Guinea, Guinea Bissau, Haiti, Kyrgyz Republic, Lebanon, Libya, Niger, Nigeria, Saudi Arabia, Somalia, South Sudan, Suriname, Swaziland, Tajikistan, Ukraine, Zimbabwe	Nicaragua, Yemen

Source: The 2014 Fiscal Transparency Report **Note: The 2012 Fiscal Transparency Report assessed "more than" 140 countries, though the full list of countries has not been made public.

Unlike previous years, the 2014 appropriations law does not condition a country's eligibility to receive U.S. assistance on its performance in the Department of State's report.[2] Further, the 2014 appropriations law requires the Department of State to assess whether non-transparent countries are (1) "making significant progress" or (2) "not making significant progress" toward meeting minimal fiscal transparency requirements. By contrast, in previous years, U.S. appropriations laws required only that non-transparent countries be categorized into (1) those that are making progress and (2) those that are not making progress.

Improvements to the Assessment

There are three reasons why the 2014 assessment is a significant improvement over past assessments.

Evidence of an Improved Methodology

As mentioned, the report provides limited information on the specific criteria used in the assessments of transparency. It is therefore difficult to make a definitive assessment of the report's methodology.

Among the changes, however, we can see some notable shifts in individual country findings. For example, Saudi Arabia – a country that scored 1 out 100 on the 2012 Open Budget Index (OBI) – was found to be "making progress" in both 2012 and 2013.[3] Similarly, Nigeria was rated as progressing in both years even

[2] Section 7031 (b)(3) of the Department of State, Foreign Operations and Related Programs Appropriations Act, 2014 (Div. K, P.L. 113-76)
[3] The Open Budget Index http://survey.internationalbudget.org/#rankings

though the Open Budget Survey Tracker shows that the country has not changed its poor budget disclosure practices.[4] Both countries, among many others, have now been found to be "not making significant progress." Further, as we have seen, there has been significant increase in 2014 in the number of countries found to be not transparent.

These results are unlikely to be indicative of a global downturn in fiscal transparency. More likely, they reflect a more rigorous and realistic assessment of fiscal transparency in the countries assessed.

Untying Aid Eligibility from the Transparency Assessments

In previous years, countries deemed to be non-transparent were ineligible for U.S. assistance unless they received a waiver from the Department of State. In practice, however, the vast majority of countries received such waivers. Thus, they did not suffer any adverse consequences as a result of U.S. assessments of fiscal transparency levels.

IBP has previously issued guidance on how donors can help to nudge the governments of aid recipient countries to be more transparent. While donors can help to build incentives for governments to improve fiscal transparency, these should founded on country-based dialogue, developed and monitored in a transparent manner, and adapted to country context.[5]

The delinking of the provision of U.S. foreign aid to the fiscal transparency assessment is a positive step. Not only does it do away with the predictable and farcical issuance of waivers to non-transparent countries, it also allows for a more candid and serious discussion between the Department of State and other governments. In future, dialogues discussing a country's level of budget transparency should be expanded to include local civil society organizations. This could enable more open, inclusive discussions to define what progress or reforms are needed to strengthen fiscal transparency and accountability in a given country.

Recommendations for Further Improvements

The 2012 OBI is a useful resource. The OBI 2012 covered 100 countries and found that 77 countries were providing insignificant budget information.[6] Five of the 77 countries found to provide insignificant budget information on the OBI were not assessed by the Department of State in its 2014 fiscal transparency report.

Of the remaining 72 countries considered to be non-transparent by the OBI, the Department of State finds 45 countries are meeting the minimal requirements of fiscal transparency, including eight countries that scored 20 or less on the OBI (Kyrgyz Republic, Vietnam, Tunisia, Senegal, Rwanda, Iraq, Zambia, Benin), and 10 countries that scored between 21 and 40 on the OBI (Malaysia, Serbia, Sierra Leone, Morocco, Trinidad & Tobago, Thailand, Timor Leste, Macedonia, Ecuador, Angola).

While the 2014 report significantly improves on earlier reports, there are at least three ways that the U.S. could improve their approach to assessing fiscal transparency.

Recommendation 1: Define which budget documents must be published to meet requirements of fiscal transparency

The U.S. Department of State can improve the criteria it uses to assess fiscal transparency by clearly defining and communicating the budget documents it expects governments to publish. A number of international standard-setting bodies have agreed on the basic documents a government must publish to achieve a minimum level of fiscal transparency. In line with these agreements, we recommend assessing fiscal transparency based on the availability of four key budget documents:

[4] The Open Budget Survey Tracker http://www.obstracker.org/

[5] See http://internationalbudget.org/wp-content/uploads/Donor-benchmarks-paper_Sept2013.pdf

[6] Countries are assessed as providing insignificant budget information if they receive a score of 60 or less on the OBI

- Executive's Budget Proposal – equivalent to the budget plans presented by the President to Congress.
- Enacted Budget – equivalent to the appropriations law that has been approved by Congress.
- Year-End Report – these would include actual expenditures compared against the budget plans approved by Congress.
- Audit Report – issued by a body equivalent to the U.S. Government Accountability Office.

If the availability of these documents were assessed in each country covered by the Department of State's report, many more countries would be considered to be non-transparent. This list includes Angola, Benin, Ecuador, Liberia, Mali, Morocco, Rwanda, Senegal, Thailand, Timor Leste, Trinidad & Tobago, Tunisia, Vietnam, and Zambia.

Recommendation 2: Increase the visibility of the reports

Each year, the Secretary of State talks about the annual "Country Reports on Human Rights Practices."[7] Fiscal Transparency Reports should be given similar emphasis; the Secretary should discuss transparency with her or his counterparts in non-transparent countries and offer support to help them improve. More visibility to the fiscal transparency reports is essential to elevating the importance of fiscal transparency and to supporting and sustaining efforts to improve fiscal transparency practices worldwide.

It is noteworthy that the Department of State has established a "Fiscal Transparency Innovation Fund" to support the enhancement of fiscal transparency.[8] Unfortunately, the Department of State has not published details on how much money is available this year and how organizations can apply for these funds, and the deadline for receiving applications (an announcement was made last year). State level discussions could include information on how funds from the "Fiscal Transparency Innovation Fund" will be disbursed.

Recommendation 3: Establish a Single Assessment of Fiscal Transparency

While the 2014 appropriations law rightly delinks U.S. aid decisions from the U.S. Department of State's findings on fiscal transparency, the 2014 appropriations law contained a new requirement for the U.S. Agency for International Development (USAID) to conduct an assessment of budget transparency separate from the one conducted by the Department of State.[9] USAID can now only give foreign assistance to countries that publish their budgets (among several other requirements). It is unclear whether the Department of State and USAID are coordinating with each other or using identical criteria to assess transparency. It is also unclear why the 2014 law was written to create two separate assessments. Future appropriations laws should require only one assessment of fiscal transparency by one U.S. agency rather than requiring assessments by multiple U.S. agencies to avoid confusing the governments covered in these reports.

Conclusion

Overall, the U.S. seems to be moving in the right direction as it is starting to establish more objective guidelines for fiscal transparency and it is making specific recommendations in its fiscal transparency report on steps non-transparent governments should take to improve fiscal transparency. If Congress and the Department of State make further changes along the lines proposed above, the U.S. could become even more forceful in supporting improved fiscal transparency practices worldwide.

[7] See http://www.state.gov/secretary/remarks/2014/02/222645.htm
[8] See http://www.federalgrants.com/Fiscal-Transparency-Innovation-Fund-FTIF-45400.html
[9] Section 7031 (a) of the Department of State, Foreign Operations and Related Programs Appropriations Act, 2014

For more information, contact:
Vivek Ramkumar
vramkumar@internationalbudget.org