

# DOCUMENTS YOU CAN USE:

## WHAT THE OPEN BUDGET SURVEY 2010 TELLS US ABOUT THE GLOBAL STATE OF TRANSPARENCY

By Harika Masud and Jason M. Lakin

The state of global budget transparency is poor. The results of the International Budget Partnership's recent 2010 Open Budget Survey (OBS) reveal that seventy-four countries assessed fail to meet basic standards of transparency and accountability. This article explains the importance of budget transparency and analyzes the results of the Survey. Drawing on OBS findings from previous years, this article concludes that, while the current state of transparency is dismal, the trajectory is positive.

### **Introduction: Why Does Budget Transparency Matter?**

Suppose you could decide how the government of the country that you live in spent its money. Suppose further that you had two options to choose from. In the first case — call it Scenario One — the government would produce a careful medium-term plan after consulting with stakeholders. That plan would link directly to the budget priorities for each year. When the government has produced a proposed budget, everyone would have a chance to compare the plan to the budget and offer comments. After debating the budget, changes would be made to reflect agreed upon priorities, and the budget would be approved. Over the course of the year, the government would report on its spending against the budget, and various stakeholders would check to see that the money was being spent as intended. At the end of the year, everything would be audited, and there would be a public debate about the findings.

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Harika Masud and Jason M. Lakin work at the International Budget Partnership (IBP), an organization that collaborates with civil society around the world to use budget analysis and advocacy as a tool to improve governance and reduce poverty. At IBP, Ms. Masud works on the Open Budget Index and provides training and technical assistance to organizations on good practices related to public financial management. She obtained her bachelors degree in economics and social sciences from the Lahore University of Management Sciences and holds an MA in public policy analysis from the University of Michigan.

Jason M. Lakin is a Program Officer with the Partnership Initiative at IBP. He holds a PhD in government and social policy from Harvard University. He is the co-author, with Seymour Martin Lipset, of *The Democratic Century* (2004).

In the second case, Scenario Two, the government would produce a medium-term plan as well, but it would not be linked to the budget. The budget would be approved without stakeholders having time to look at it thoroughly or comment on it. The government would occasionally report on spending, but only when it felt like doing so. There would be no regular oversight—at the end of the year, the auditor might conduct an audit, but the findings would not be made public, and even if they were, the government would ignore them.

Except for a few aspiring tyrants, almost all of us would choose Scenario One. But, as the International Budget Partnership's Open Budget Survey (OBS) 2010 reveals, most of the world lives within a system that looks more like Scenario Two. This article draws on the 2010 Survey to document the current state of budget transparency around the world and explain why it matters.

The reasons we would choose Scenario One are straightforward. The purpose of financial planning is to make decisions and then put money behind those decisions, so we would prefer that the plan be linked to the budget. Greater transparency and public participation in the budget process is more likely to yield spending priorities that serve the best interests of society as a whole. Regular oversight is likely to reduce corruption and mismanagement. The regular release of information can provoke public debate and encourage accountability. And budget information is important not just for accountability to the public but also for internal management purposes.

Holding the government fiscally accountable requires the production and dissemination of budget information from the formulation stage, through approval, execution, and evaluation (or oversight). Yet around the world today, citizens and legislatures frequently lack at least some basic information about government decisions and actions at every stage of the budget process. It is important to note that citizens may lack access to information for a variety of reasons, not simply because governments completely fail to produce the relevant documents. Typically, citizens face four main challenges in accessing government budget data and reports:

- Information is not produced by the government (not even for internal use);
- Information is produced by the government but is not made available to the public;

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- Information is made available to the public but contains inaccurate or incomplete data; or
- Information is available, but it is so technical in its presentation that it is inaccessible to a majority of the population.

The next section will describe the Open Budget Survey, this paper's main source for cross-national information about budget transparency, which attempts to measure access to budget information across the stages of the budget process.

### **How Does the Open Budget Survey Measure Budget Transparency?**

The Open Budget Survey is a biennial measure of budget transparency and accountability around the world. It evaluates both whether central governments give the public access to budget information and whether oversight bodies are effective. The Open Budget Index (OBI) is constructed from 92 of the 123 questions in the more extensive Open Budget Survey. It provides a cross-nationally comparable transparency ranking that measures the availability, timeliness, and comprehensiveness of eight key budget documents, which should be published by all governments as per international best practice. The eight documents are described in detail in Box 1 on the following page. The remaining 31 out of the 123 OBS questions that are excluded from the OBI assess the strength and effectiveness of legislatures and Supreme Audit Institutions (SAIs, sometimes called the Auditor General). In this article, we draw on both the OBI and the larger OBS.

The Survey has been conducted on a biennial basis since 2006, when it included fifty-nine countries. The second round in 2008 included twenty-six new countries (eight-five total), and in 2010, nine additional countries brought the total to ninety-four. Because the same survey instrument has been used in each iteration, the data for most countries assessed is comparable over time and can be used to determine trends in budget transparency for specific countries.

Within each country surveyed, a team of researchers—who are drawn from civil society (including NGOs and academics) and are independent from the government and political parties—completed the Survey. Subsequently, two anonymous peer reviewers independently reviewed each country's completed survey (these reviewers were also independent of government and political parties). In addition, the International Budget Partnership (IBP) invited the national government of eighty-eight of the countries covered in the 2010 Survey to comment on the questionnaire completed for that country. Approximately half of these governments commented on their results.<sup>1</sup>

### **The Global State of Budget Transparency: Findings from the Open Budget Survey**

This section focuses on what the 2010 Survey tells us about the key budget documents described in Box 1, beginning with a discussion of the aggregate findings, then proceeding to link the key documents to the various stages of the budget process and explain why it is important for them to be available.

### Box 1: The Eight Key Budget Documents of the Open Budget Index

There are eight key budget documents (in bold) that *should* be publicly available as per international best practices on fiscal transparency.

A **Pre-Budget Statement** presents the assumptions used in developing the budget; expected revenue, expenditure, and debt levels; and the broad allocations among sectors.

The **Executive's Budget Proposal** presents the government's detailed declaration of the policies and priorities it intends to pursue in the upcoming budget year, including specific allocations to each ministry and agency.

The **Enacted Budget** is the legal document that authorizes the executive to implement the policy measures the budget contains.

There are three review documents that governments should publish during the course of budget execution. First, the executive should issue monthly or quarterly **In-Year Reports** on revenues collected, expenditures made, and debt incurred. Second, the executive should publish a **Mid-Year Review** to discuss any changes in economic assumptions that affect approved budget policies. Third, the executive should issue a **Year-End Report** that summarizes the financial situation at the end of the fiscal year. This report should include an update on progress made in achieving the policy goals of the Enacted Budget.

Best practice requires that a body that is independent from the executive issue an annual **Audit Report** covering all activities undertaken by the executive.

Budget documents are usually lengthy and contain technical information. Thus, governments should also publish a **Citizens Budget**—a simplified summary of the budget that is issued in languages and through media.

The state of budget transparency around the world is poor. The average OBI score for the countries surveyed in 2010 is 42 out of 100. Only twenty of the ninety-four countries included in the Survey—including South Africa, New Zealand and France—had OBI 2010 scores above 60 and so could be characterized as providing their citizens with enough budget data to allow for a comprehensive analysis and understanding of their national budgets. In a number of countries (forty-one), the amount of information provided is acutely inadequate. This includes nineteen countries in which only minimal information is provided, as well as twenty-two countries in which scant (almost no) budget information is provided such as Fiji, Honduras, Saudi Arabia, and Senegal.

Countries performing poorly on the OBI 2010 tend to have low income levels and are located in Africa and the Middle East. The Survey also finds that the average OBI score of the countries that are heavily dependent on revenues from the sales of hydrocarbons (just twenty-six out of one hundred) is much lower than the average OBI scores of the mineral revenue-dependent countries, or those that are not natural resource-dependent

at all. Countries that receive a significant amount of donor aid also tend to perform poorly on the OBI 2010. For instance, eighteen of the ninety-four countries included in the 2010 for which donor aid constitutes more than 10 percent of their gross national income receive an average OBI 2010 score of only 30 percent. Finally, countries that have authoritarian or hybrid systems of government are more likely to have low budget transparency scores.<sup>2</sup>

There is a strong correlation between a country's score on the OBI and the adequacy of its oversight institutions. Countries that perform well on the OBI tend to have the strongest legislatures and SAIs, and countries performing poorly typically suffer from weak oversight institutions. This correlation is not surprising since countries that provide more information on their budgets enable better oversight; thus, we are likely to find stronger, more effective oversight institutions in these contexts.

The next three sub-sections will investigate the state of transparency with respect to the different stages of the budget process, explaining what happens at each stage and which documents matter. Overall, transparency is poor at each stage, but there is variation across documents with respect to accessibility, timeliness, and comprehensiveness.

*Formulation: The Planning and Allocation Stage*

The executive branch of government sets its budget priorities during the planning and allocation stage of the budget process. In many countries, the budget is supposed to be formulated based in part on a set of planning documents. These may include National Development Plans or other medium-term planning documents like Medium Term Expenditure Frameworks (MTEFs). Many countries, from Tanzania to Peru, also now have participatory planning processes that are supposed to inform the budget. These processes are intended to ensure that budget priorities are not solely based on the preferences of the executive branch, but that they incorporate the interests and views of a wider set of stakeholders. When plans and budgets do not align, the potential is high for budget priorities to deviate from socially desirable outcomes.

Disjunctures between the planning process and the budget are not always readily acknowledged by the government, and the public can play a role in exposing them if they have timely access to government planning documents, as well as the Pre-Budget Statement, the Executive's Budget Proposal, and the Enacted Budget. Unfortunately, this is not always the case. As per international best practices for public finance management, the Pre-Budget Statement should be released at least four months in advance of the budget year. Only twenty-seven of the ninety-four OBS countries are able to meet this criterion. In many instances legislatures do not have adequate time to review the Executive's Budget Proposal to provide the basis for their deliberation and debate regarding fiscal policies. For example, in twenty-two of the ninety-four countries surveyed, legislatures receive the Executive's Budget Proposal less than six weeks before the start of the budget year. In such instances, the budget oversight role of legislatures is effectively confined to "rubber stamping" the executive's budget with no space for deliberating fiscal policies and their impact on the public. International best practice calls for the budget to be presented at least three months prior to the start of the budget year, but this standard is met in only forty-seven of the countries surveyed.

Sixty-one of the ninety-four countries surveyed in 2010 either do not produce the Pre-Budget Statement (e.g. India), or it is only produced for internal use (e.g. Liberia). In twenty-two countries – including Afghanistan, China, and the Kyrgyz Republic – the government does not publish the Executive’s Budget Proposal even though it is produced for internal use. Ten countries, including Malawi and Equatorial Guinea, do not provide the public with access to the Enacted Budget.

In countries where these documents are not made publicly available, it is very difficult for citizens to debate government policies. But even where the documents are made public, they do not always provide enough information for citizens to use them. For example, the 2010 Survey finds that overall, Executive Budget Proposals that are published contain less than 60 percent of the information required by the Survey to adequately inform the public and allow it to engage in the budget process. The Enacted Budgets that are published are generally more comprehensive but still provide only 80 percent of the required information.

### *Execution Stage*

Once the budget has been approved, the next question is whether or not it is actually implemented as planned. Budget execution requires the Treasury to disburse funds to the appropriate line ministries or sub-national governments, which in turn, spend them as prescribed in the budget, thus translating disbursements into goods and services. There are clearly many points during the fiscal year where this process can go awry because of corruption, weak oversight, or strained public financial management systems.

While the Enacted Budget is a critical document, governments often deviate from it over the course of the year, and these deviations may substantially change the overall prioritization in the original budget. Having access to timely, accurate, and comprehensive information during budget execution can enable the public to critically assess how well the government’s actual spending patterns conform to the budget and also allow government to augment its own self-monitoring capacity.

Citizens can use In-Year Reports, the Mid-Year Review, and the Year-End Report to monitor the implementation of the budget. Some particularly transparent national and sub-national governments, such as those in Peru or states like Maharashtra in India, produce and make available online information about expenditure on a monthly, or even daily, basis. While not technically in the form of reports, this can result in substantial information being made available to citizens. This kind of ongoing budget execution information allows the public to delve further into the *process* of expenditure, and understand the strengths and weaknesses of public management. For example, are governments spending money in a way that is efficient, or do they tend to wait until the last quarter to spend funds and then do so in an arbitrary and wasteful manner?

Of the ninety-four countries included in the Open Budget Survey 2010, only twenty-eight release a Mid-Year Review. Forty of them do not produce this document (e.g. Argentina, Georgia, Malaysia), while twenty-six produce it but do not release it to the public (e.g. Bulgaria, Cambodia, Mongolia). In-Year Reports and Year-End Reports are published by a greater majority of countries (75 percent and 78 percent, respectively). However, there are still cases where all three of these execution reports are either

not produced or not publicly available (such as Saudi Arabia, Chad, and Trinidad and Tobago). In these countries, the public has at best scant information on how the budget is implemented during the year, or how in the final analysis public funds were spent or revenues collected. Furthermore, the quality of these documents is not always high: In-Year Reports contain on average about 76 percent of the information required for effective oversight, but Year-End reports only contain 42 percent. With such little information available about how money was actually spent at year-end, it can be difficult for the public to monitor budget execution.

Another important issue that blends considerations of the allocation and execution stages is the common tendency for governments to use supplementary budgets, which allow the executive to alter initial budget allocations at some point after the budget has passed and while it is being executed. Generally governments use supplementary budgets to respond to unanticipated needs that arise during the year, such as a lack of funds for certain programs resulting from poor budget planning. Although supplementary budgets are not intrinsically detrimental to budget transparency, habitual use of large supplemental budgets may indicate poor budgeting practices. Routine supplemental requests undermine planning within ministries and agencies. They also interfere with open debate on the allocation of resources, since this debate should occur well in advance of actual spending, when the legislature reviews the executive's entire budget proposal for the coming year.

Good budgetary practice also requires that supplementary budgets be approved by the legislature. This facilitates external oversight of the supplementary budgets, which is

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important to ensure that checks are placed on the executive's use of public funds. While the Open Budget Index does not analyze the supplementary budget as one of the eight key budget documents, the OBS does contain questions about the use of supplementary budgets. The Survey finds that in thirty-one countries the legislature is consulted only after the funds are spent – or not at all, meaning there is no legislative oversight of how the original budget was altered or how funds have been expended. In thirty countries, the size of the supplementary budget is so large that it exceeds 10 percent or more of the original budget (e.g. Azerbaijan, Mexico) or there is very little information about supplementary budgets (e.g. Nigeria, Costa Rica).

*Oversight and Evaluation Stage*

Budget implementation should be monitored by a host of oversight bodies. Internal controllers within the government may constitute a first line of defense. They should be complemented by the Supreme Audit Institution (SAI), parliament (acting in part on SAI reports and findings), legislature, independent media, and civil

society. Given the difficulties of monitoring government activity in real time, *ex post* monitoring and evaluation are often the only way to hold officials accountable for their use of public funds.

The key document at this stage is the Audit Report, ideally produced within six months of the end of the fiscal year. According to the Open Budget Survey 2010, thirty-three of the ninety-four countries surveyed either do not produce an Audit Report (e.g. Papua New Guinea, Slovakia, Timor-Leste) or they do not release it to the public (e.g. Mali, Yemen, Ecuador). For the sixty-one countries that do publish their Audit Reports, the comprehensiveness of these reports varies widely across countries such as New Zealand and Bosnia and Herzegovina, where they are fairly comprehensive, to Mozambique and Thailand, whose Audit Reports contain scant information.

Furthermore, many countries lack robust, independent auditors. According to the 2010 Survey, only about a quarter of the countries assessed have strong audit institutions. Even where auditors are reasonably strong, their findings are not always acted upon by the legislature or the executive to rectify abuses. For instance, legislatures in forty of the ninety-four countries surveyed do not perform their oversight role at the audit stage since they either do not scrutinize any Audit Reports or they scrutinize only a few. Civil society can play a critical role here by raising the profile of Audit Reports and pushing the legislature, the media, and ordinary citizens to pay attention to them. When citizens and the media do pay attention to Audit Reports, there is evidence that elected officials are held accountable.<sup>3</sup>

### **Beyond the Documents: Black Holes in Budgeting**

While the core of the Open Budget Index is the set of questions around the eight key documents, the Open Budget Survey also recognizes that there are a number of ways in which governments can hide important financial information, even if they publish these key documents. We refer to these as “black holes” in budgeting, because they are areas of the budget where it is very difficult for citizens to know how much information is missing and, therefore, to be able to hold governments accountable for the use of money that is sucked into them. Three types of black holes are described here, though there are many others.

Perhaps the most prominent black hole that the 2010 Survey tries to assess is that around “off-budget” or extra-budgetary resources. Many countries administer a substantial share of their resources “off-budget,” meaning that these funds do not pass through the ordinary budget process. The kinds of funds that tend to be managed “off-budget” include pensions, social security funds, donor aid, and the proceeds of privatization. Best practice indicates that governments should report on these funds in the annual Executive’s Budget Proposal because of their importance to the overall fiscal position of the country. Yet thirty-two out of the seventy-two countries in the 2010 Survey that release their Executive Budget Proposals provide limited or no information on extra-budgetary funds in their Executive Budget Proposals. This means that a large share of expenditures is beyond the reach of whatever transparency and accountability measures are in place for the normal budget process in these countries.



Another black hole in budgeting arises around tax expenditures. Tax expenditures are exemptions from tax for specified entities, individuals, or activities (e.g. tax breaks for some business sectors). These may be provided to encourage certain kinds of economic activity or to favor certain actors. Tax expenditures may be large enough to have a substantial impact on revenue collection, and they can also alter the overall redistributive impact of public expenditure. They should, therefore, be subject to the same scrutiny as the rest of the budget. However, fifty-four of seventy-two countries that release their Executive Budget Proposals provide limited or no information about tax expenditures in their budget proposals. Interestingly, this is true not only of countries with low OBI 2010 scores, such as Nigeria or the Venezuela, but also of some relatively high-scoring countries like Sri Lanka and South Korea.

Expenditure arrears represent another budgeting black hole. Expenditure arrears are essentially a kind of debt that governments accrue as a result of their failure to make payments to suppliers in a given year. There are several reasons governments may accrue arrears, most of which reflect poor financial management. For example, governments may overestimate revenues or fail to exert budget discipline and spend more than they budgeted for. If arrears accrue because governments fail to properly execute the budget, this means that the budget process, and its transparency and accountability mechanisms, are being undermined. In addition, since arrears represent a form of debt, citizens need to understand their size when debating expenditure tradeoffs. Given that forty-one of the seventy-two countries in the OBI 2010 with publicly available Executive Budget Proposals do not present any information regarding governments' expenditure arrears, the public in these countries does not have a complete picture of the government's liabilities and is, therefore, ignorant of the overall fiscal situation in their countries.<sup>4</sup>

### **Conclusion: What Does the Open Budget Survey 2010 Tell Us About the Future of Budget Transparency?**

In spite of the overall low levels of budget transparency around the world, the limited access to key documents, and the existence of substantial "black holes" in budgeting, the 2010 Survey, along with the previous two rounds, also tells a positive story about the direction of change. We can see that budget transparency around the world is increasing—scores are going up, and changes in specific countries demonstrate that budget transparency is not the province of wealthy countries alone. The comprehensiveness of some key documents is also slowly improving.

Between 2006 and 2010, the global average OBI score for the forty countries with comparable data for all three rounds of the Survey rose from forty-seven to fifty-six out of one hundred. This reflects significant positive change among low performers: the fourteen worst performers in 2006 saw their scores rise from twenty-five to forty by 2010. Similar improvements were also found in some of the countries assessed for the first time in the OBI 2008, including Afghanistan, Liberia, and Yemen. For the seventy-eight countries with comparable data for both the 2008 and 2010 OBIs, the comprehensiveness of the Citizens Budget and the In-Year Report have both increased by five or more percentage points.

As we noted above, countries performing poorly on the OBI tend to share certain characteristics—low levels of income, low levels of democracy, location in Africa and the Middle East, and dependence on aid and revenues from the sale of hydrocarbons. However, these characteristics are not fatal, and there are encouraging success stories among this set of countries. For example, some low-income countries like India (GDP per capita of \$2,941) perform well on the OBI. Likewise, some highly aid-dependent countries (e.g. Liberia and Mongolia), resource-dependent countries (e.g. Mexico and Colombia) and countries in Africa and the Middle East (e.g. South Africa and Jordan) perform relatively well on the OBI.

Another positive finding from the 2010 Survey is that governments can open up their budget systems substantially by simply making public all of the budget documents that they already produce for internal use or for their donors. High-scoring countries (OBI 2010 scores between eighty-one and one hundred) publish 100 percent of the documents they produce, while the worst-scoring countries (OBI 2010 scores between zero and twenty) do not make public the *majority* of budget documents that they already produce for internal use or for donors. By simply uploading these documents to government websites, these countries could become substantially more transparent overnight.

Since the release of the 2008 Survey, civil society organizations in some low-scoring countries have made efforts to raise the public's awareness of the relevance of budget issues. Toward this end, civil societies in Kazakhstan, the Kyrgyz Republic, and Sudan have prepared templates of Citizens Budgets that they have shared with the finance ministries in their countries to encourage them to produce this document in the future and widely disseminate it to the public.

Taken together, these findings suggest that the trajectory of budget transparency is positive. As more countries make their budgets available, there are likely to be demonstration effects that influence other countries to release information. As civil society organizations in poor and rich countries alike increasingly utilize available information, they are likely to demand more of it and increase pressure on governments to publish more of what they already produce. The world may still be a long way from Scenario One, depicted at the outset of this article. But as the stark differences between the two scenarios come into bold relief, those who would resist a move away from Scenario Two are likely to soon find themselves out of arguments and on the wrong side of history. **Y**

– Julie McCarthy and Deborah Gim served as lead editors of this article.

## NOTES

<sup>1</sup> More information about the unique methodology used by the Open Budget Survey is available at [www.openbudgetindex.org](http://www.openbudgetindex.org).

<sup>2</sup> The Economist Intelligence Unit's Democracy Index classifies *hybrid* regimes as those regimes that lack the necessary political participation and functioning government institutions to be classified as democracies, and *authoritarian* regimes as those that do not conduct credible elections and which have low levels of political participation and inefficient government institutions.

<sup>3</sup> Claudio Ferraz and Frederico Finan, "Exposing Corrupt Politicians: The Effects of Brazil's Publicly Released Audits on Electoral Outcomes," *The Quarterly Journal of Economics* (May 2008): 703-745.

<sup>4</sup> It should be noted that high-performing countries generally do not have expenditure arrears, and so do not report on them.