



INTERNATIONAL BUDGET PARTNERSHIP
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Foreign Assistance and Fiscal Transparency The Impact of the Open Budget Initiative on Donor Policies and Practices

By Linnea Mills¹

¹ Linnea Mills is an independent researcher, and she can be contacted at Linnea.Mills@gmail.com.

1. Introduction

When it comes to the current state of government transparency, Jamie Drummond, the executive director of the ONE Campaign, identifies two defining trends: 1) growing public demand for transparency and accountability like that which characterized the Arab Spring, and 2) increased fears over deficits and spending cuts driven by the economic crisis.

According to Drummond, donor agencies could help safeguard their budgets by embracing the transparency and accountability agenda. In addition to ensuring that their own aid flows to country partners are transparent, donors should demand that “all national budgets, including payments from extractive companies, [are] transparent all the way through. If this does not happen soon, progressive nations should stop aid to developing country governments that hide or obscure their budgets from their people.”²

So, how much influence do donors have over the budget processes and practices of their partner governments? An analysis of the findings from the International Budget Partnership’s (IBP) Open Budget Survey 2010 (OBS) — an biennial, independent cross-country assessment of how open and accountable central governments are in managing public resources — found that external pressure from donors led recipient governments, in some cases, to improve budget transparency.³ This evidence supports the argument — a key recommendation from the IBP’s Open Budget Initiative’s advocacy efforts — that donors should incentivize their aid to countries in a manner that supports improvements in budget transparency.⁴

This paper presents research that sought to document how, when, and why three donor agencies — the U.S. Department of State, the Millennium Challenge Corporation (MCC), and the U.K. Department for International Development — have adopted the Open Budget Index in language and practice; assesses the contributions of the Open Budget Initiative and its partners to achieving these apparent advocacy successes; and analyzes other factors that may have influenced the decision of these three donors to use the language and methodology advocated by the Open Budget Initiative.⁵

The three donor agencies analyzed in this report all follow a framework that seeks to promote greater budget transparency. They all also, in one way or another, make use of the Open Budget Index (a comparative measure of a government’s level of budget transparency drawn from the OBS) as part of the process of doing so. The U.S. Department of State requires central governments to meet fiscal transparency criteria to obtain U.S. foreign assistance, and it uses the Open Budget Index, among other sources of information, to

² Jamie Drummond, “Transparency Will Help the Aid Debate Grow Up – and Help it Grow Old and Die,” *Huffington Post*, 29 November 2011.

³ Paolo de Renzio, “Still Mostly Closed, but There’s Hope: Results from the Open Budget Survey 2010,” blog, 6 April 2011.

⁴ Recommendation six of the Open Budget Survey 2010 states that donors should encourage and support aid-dependent countries to improve their transparency.

⁵ This report was commissioned by Open Budget Initiative, which helped identify some people for interviews and commented on earlier drafts. The Open Budget Initiative did not ask the author to develop a narrative that showed the Open Budget Initiative in a positive light. The research questions set out in the Terms of Reference for the study are listed in Annex 4.

assess whether countries fulfill this obligation.⁶ This requirement applies to all U.S. aid to central governments regardless of the implementation agency, such as the MCC. In addition to using the Open Budget Index as required by the Department of State, the MCC recently used it as an actionable governance indicator to directly assess government progress in controlling corruption. Finally, DFID, the U.K.'s ministry responsible for international development projects and programs, recently made budget transparency, as assessed by the Open Budget Index, a criterion linked to receiving U.K. budget support — i.e., channeling aid funds through the government's budget, not through a separate fund or other “off budget” mechanism — and has advocated for the European Commission to do the same.⁷

The research for three cases presented below used a process-tracing methodology that aims to understand how the three development agencies decided to use the Open Budget Index. As such, the narratives incorporate formal and informal actions taken by the Open Budget Initiative and other stakeholders, while acknowledging the wider political environment the donor agencies faced. The analysis based on this process-tracing methodology relies heavily on interviews (all recorded and transcribed); data from hearings, meetings, and events; official communications; policy documents; and media articles. However, all methodologies have limitations, and the main challenge with this methodology was access, both to documented data that may not be in the public domain and to the small number of people who have specific knowledge on the various factors involved.⁸

The findings of the study are presented as follows: Section 2 discusses fiscal transparency as a policy agenda in the United States before introducing the case of the U.S. Department of State in section 2.1 and the case of the MCC in section 2.2. Section 3 provides a similar overview of the transparency agenda in the United Kingdom before focusing in section 3.1 on DFID's policy with regard to budget transparency. Section 4 presents conclusions drawn from the three case studies.

2. Fiscal transparency's place in the broader U.S. transparency agenda

In recent years fiscal transparency has climbed the U.S. foreign assistance policy agenda.⁹ Evidence of this heightened attention is seen in several initiatives that have been launched in the past few years, as well as the inclusion of language on transparency in recent legislation

⁶ The term “fiscal transparency” is broader than budget transparency and means the timely publication of fiscal information by a government that includes information on government revenues, budget, expenditures, and procurement.

⁷ The European Commission has recently agreed to follow this criterion.

⁸ George, A.L. and A. Bennett, *Case Studies and Theory Development in the Social Sciences*, (Cambridge, Massachusetts: MIT Press, 2005); Elgstrom, O., “Norm Negotiations: The Construction of New Norms Regarding Gender and Development in EU Foreign Aid Policy,” *Journal of European Public Policy* (2000) 7:3, Special Issue, pp. 457-476; Tansey, O., “Process Tracing and Elite Interviewing: A Case for Non-probability Sampling,” *Political Science and Politics*, (2007), 40:4.

⁹ Interview 2: Lori Rowley, staff member of the U.S. Senate Foreign Relations Committee, 6 December 2011; interview 3: Bruce Kay, director of Threshold Programs, Europe, Asia, Latin America at the MCC, 6 December 2011; interview 4: Michelle Hoyt, coordinator of the Fiscal Transparency Review Process at the Office of Monetary Affairs at the U.S. Department of State, 8 December 2011.

that targets donor agencies, extractive companies, and aid-recipient governments (Epstein, 2011).

The growing prominence of issues around fiscal transparency led to the creation of a new international initiative called the Open Government Partnership. In 2009 the U.S. Department of State asked the Open Budget Initiative to help develop an international governance agenda, which led to a proposal for a global fiscal transparency initiative. The Open Budget Initiative was informally asked to submit its input on the proposal, and some funding for an initiative was set aside, and meetings were convened with the MCC, the U.S. Treasury, USAID, and the U.S. Department of State.¹⁰ Instead of the proposed fiscal transparency initiative, however, the U.S. government decided to support a broader transparency initiative — the Open Government Partnership (OGP) — which included fiscal transparency as one component.

The OGP, which was initiated by the U.S. and Brazilian governments, was launched in September 2011. In the short time since it was launched, the OGP has grown to include 50 countries, and several dozen additional countries are likely to join in the near future. Fiscal transparency is one of four minimum eligibility criteria for countries wishing to join the OGP, and will be assessed using the Open Budget Index.¹¹ “Two points will be awarded for publication of each of two essential documents (Executive’s Budget Proposal and Audit Report) for open budgets, using a subset indicator from the 2010 Open Budget Index, conducted by the International Budget Partnership, which covers 94 countries.”¹² While the eight founding governments made commitments to take specific, concrete actions to increase their openness at the September 2011 launch of the OGP, the rest of the participating countries have until April 2012 to make their specific and measurable commitments. In December 2011 the International Budget Partnership published a briefing note that includes recommendations for these countries based on insights gained from an analysis of the commitments made by the first wave of eight countries. The recommendations highlight the availability and accessibility of the eight budget documents recommended by international good practices, as well as the detailed guidelines to countries offered by the Open Budget Survey.¹³

Parallel to the OGP, work is also underway to establish another international multi-stakeholder policy initiative specifically focused on fiscal transparency: the Global Initiative for Fiscal Transparency (GIFT). The IBP’s Open Budget Initiative is heavily involved in these efforts.¹⁴

¹⁰ Interview 1: Vivek Ramkumar, manager of the Open Budget Initiative at the International Budget Partnership, 1 December 2011.

¹¹ The other three criteria are access to information, disclosures related to elected or senior officials, and citizen engagement.

¹² Open Government Partnership website, www.opengovpartnership.org.

¹³ International Budget Partnership, “Open Government Partnership: Lessons and Opportunities for Fiscal Transparency.” Available at http://siteresources.worldbank.org/EASTASIAPACIFICEXT/Images/226299-1251872399239/IBP-Briefing-Note-December-2011.pdf?cid=EAP_GACGovHubNewsletterEN_M_EXT.

¹⁴ Interview 1: Vivek Ramkumar; and “Multi-Stakeholder Global Initiative for Fiscal Transparency (GIFT) Launch Strategy July 2011- March 2012,” document provided by Vivek Ramkumar.

2.1 U.S. Department of State: a fiscal transparency requirement linked to foreign assistance

In 2008 the U.S. Department of State declared that “budget transparency and accountability, including full disclosure of all relevant fiscal information in a timely and systematic manner, are critical to sustainable development.”¹⁵ In 2009, when the international financial crisis hit the country and made budgetary allocation to aid agencies more uncertain, the U.S. Department of State stated that “fiscal transparency promotes sound management of scarce resources, citizens’ engagement in budgetary decisions that affect them, and rule of law.”¹⁶ These justifications for focusing on fiscal transparency link the U.S. Department of State’s fiscal transparency agenda to both the policy priority of promoting good governance and accountability in developing countries, and the agency’s need to ensure that limited aid funding is spent in the best way possible.¹⁷

The U.S. Department of State made fiscal transparency a requirement for receiving U.S. assistance a couple of years before the abovementioned larger transparency agenda had emerged, and without formal advocacy efforts on the part of the Open Budget Initiative. This requirement was made strongly and explicitly through the Appropriations Act for fiscal year 2008, though provisions in the Appropriations Act for 2003 had already acknowledged that many countries receiving U.S. assistance lack fiscal transparency, thus undermining the effectiveness of U.S. assistance.¹⁸ In fact, the 2008 Appropriations Act stated that no development assistance from the U.S. would be given to countries in which central governments failed to make their national budgets (revenues and expenditures) publicly available on an annual basis.¹⁹

Reporting requirement and issuing of waivers based on levels of fiscal transparency in recipient countries

As with the provisions from 2003, a reporting requirement on the level of fiscal transparency in countries where central governments receive U.S. assistance was included in the 2008 act. The U.S. Department of State’s Office of Monetary Affairs prepares this report, which constitutes the basis on which the State Department assesses a country’s compliance with the fiscal transparency requirement and, thereby, its eligibility for U.S. assistance. The Office of Monetary Affairs’ assessment pays particular attention to changes related to fiscal transparency in countries that had been judged to be out of compliance in the previous year. Three main sources of information feed into the final assessment. The first is information from U.S. embassies and country offices in the countries that receive U.S. assistance (this information highlights recent changes and progress at country level). Annex 1 lists the questions and methodological guidelines given to country offices for reporting purposes. The second source of information comes from the Open Budget Index. Three country cases

¹⁵ U.S. Department of State, “Report on Fiscal Transparency and Accountability In Countries Whose Central Governments Receive US Foreign Assistance,” Released by the Bureau of Economics, Energy and Business Affairs, 2008.

¹⁶ Cable from U.S. Department of State to Ambassadors, subject: FY 2010 Prohibition on Assistance to Central Governments Whose Budgets Are not Transparent.

¹⁷ Interview 2: Bruce Kay.

¹⁸ U.S. Department of State, Consolidated Appropriations Resolution 2003.

¹⁹ Interview 1: Vivek Ramkumar; and U.S. Department of State, Consolidated Appropriations Act 2008.

in the 2008 report — Bulgaria, Egypt, and Georgia — specifically refer to the countries' performance on the Open Budget Index.²⁰ The last source of information is International Monetary Fund reports on fiscal transparency. Together, these three sources of information are thought to provide a comprehensive picture of a country's level of fiscal transparency, both in absolute terms and in terms of changes over the past year.²¹

However, judging from the manner in which the country cases were presented in the 2008 report, there does not appear to be a clear methodology on which countries are judged to be fiscally transparent or not. In addition, while the report from 2008 was publicly disseminated, country assessments for subsequent years have not been made public, making it difficult for interested parties outside the U.S. Department of State to evaluate the standards used to assess fiscal transparency in line with the requirements in the Appropriations Acts.

While the reporting requirement potentially supports the leveraging of U.S. foreign assistance for greater fiscal transparency, Appropriations Acts from 2008 onward also have included a waiver clause that allows countries with low levels of fiscal transparency to continue receiving U.S. assistance, if doing so is in the national interest of the United States.²² The U.S. Department of State issued a blanket waiver for fiscal year 2008; however, new waiver provisions were established for the subsequent year. After 2008 the criteria for assessing whether countries require a waiver include the public availability of their budget, substantial doubt about the credibility of the budget, or a significant level of extra-budgetary or nondisclosed revenue or expenditure, resulting in a significant lack of transparency in the budget.²³ In 2009 34 countries required waivers (with a further 13 countries being perceived as borderline sufficiently transparent).^{24, 25}

Progress in setting clear and transparent standards for fiscal transparency

²⁰ With regard to Bulgaria, the 2008 report stated, "A 2006 Open Budget Initiative review of Bulgaria recommended enhanced public access to internal budget planning processes." For Georgia it said, "The 2006 Open Budget Index prepared by the International Budget Project (IBP) . . . found that all the budget documents it deemed important are available except for a 'Citizen's Budget.'" For Egypt, the report stated, "Egypt has historically ranked poorly on various budget transparency indices, most recently in the International Budget Project's Open Budget Index report."

²¹ Interview 4: Michelle Hoyt; and cable from U.S. Department of State to 20 Embassies, subject: Demarche: Encouraging Central Government Budget Transparency.

²² U.S. Department of State, Consolidated Appropriations Act 2008; U.S. Department of State, Omnibus Appropriations Act 2009; U.S. Department of State, Foreign Operations and Related Programs Appropriations Bill 2010.

²³ Cable from U.S. Department of State to 20 Embassies, subject: Demarche: Encouraging Central Government Budget Transparency.

²⁴ Cambodia, Egypt, Lebanon, Libya, Saudi Arabia, Yemen, Afghanistan, Kyrgyzstan, Maldives, Tajikistan, Turkmenistan, Uzbekistan, Bolivia, Dominican Republic, Dominica, Nicaragua, St. Vincent, Angola, Burkina Faso, Cameroon, Central African Republic, Chad, Congo-B, Cote d'Ivoire, Democratic Republic of Congo, Ethiopia, Gabon, Gambia, Guinea Bissau, Niger, Somalia, Senegal, Swaziland, and Zambia. Source: Cable from U.S. Department of State to Ambassadors, subject: FY 2010 Prohibition on Assistance to Central Governments Whose Budgets Are not Transparent.

²⁵ Comoros, Djibouti, Malawi, Mauritania, Nigeria, Sao Tome & Principe, Sierra Leone, Zimbabwe, Vietnam, Algeria, Ecuador, Honduras, and Venezuela. Source: Cable from U.S. Department of State to Ambassadors, subject: FY 2010 Prohibition on Assistance to Central Governments Whose Budgets Are not Transparent.

Without a clear methodology for judging whether countries are adequately transparent, fulfilling the fiscal transparency requirement risked becoming a rather discretionary and nontransparent process on the part of the U.S. Department of State. The Appropriations Act for fiscal year 2012 (passed on 14 December 2011) took steps to clarify the fiscal transparency requirement and now states that minimum standards for fiscal transparency that reflect best practices should be developed and used.²⁶ The act also states that the annual determination of “progress” or “no progress” for countries that do not meet these minimum standards will be made publicly available in an annual Fiscal Transparency Report, making the process of adhering to the Appropriations Act more transparent and less discretionary.

While the 2012 act retains the waiver provision, this clause now stresses the need for countries to make progress, stating that a waiver must identify recent steps taken by the recipient government to publicly disclose its national budget. The waiver request must also include specific recommendations for short- and long-term steps that can be taken to improve budget transparency and identify benchmarks for measuring progress. Finally, the new provision raises the amount of financial support available to governments that want to improve their fiscal transparency and, furthermore, includes a provision for in-country civil society organizations working to improve budget transparency to benefit from such earmarked funding.²⁷ With its new minimum standards and requirement to report progress, the 2012 Appropriations Act paves the way for greater use of the Open Budget Index’s methodology, and the additional support for civil society could support the work that the Open Budget Initiative’s local partners do in their countries to increase budget transparency and accountability.

The Open Budget Initiative’s efforts to change legislation concerning fiscal transparency

A central question for this case study is to what extent can recent changes in U.S. policy with regard to the fiscal transparency requirement be attributed to the Open Budget Initiative’s advocacy efforts. While the Open Budget Initiative has advocated for improvements in the requirement directly with the U.S. Congress, these advocacy efforts have been directed mainly at the Foreign Relations Committee, not the Appropriations Committee.

The Open Budget Initiative, along with the ONE Campaign and the Modernizing Foreign Assistance Network, recently proposed to the U.S. Senate a Fiscal Transparency Act of 2011. The act would establish minimum standards of fiscal transparency based on those in the Open Budget Survey for governments of countries that receive foreign assistance from the U.S.²⁸ During an interview for this case study in December 2011, Lori Rowley, a staff member of the U.S. Senate Foreign Relations Committee, explained that a discussion was

²⁶ These should include public disclosure of budget documentation, such as receipts and expenditures by ministry and through government contracts, licenses for natural resource extraction, and bidding and concession allocation practices.

²⁷ U.S. Department of State, Consolidated Appropriations Act 2012.

²⁸ Proposed Fiscal Transparency Act of 2011, discussion draft. Measures include publishing the budget proposal from the executive of the country, as well as a budget as enacted by the legislator of the country, a year-end report on the budget outcomes that includes all off-budget revenues and expenditures, and a report containing an audit of the budgetary outcomes of the country.

taking place at that time among Senate staff in the Senate about fiscal transparency standards. She said, “We are trying to make this act not an annual one but a reoccurring one, and that is why the Foreign Affairs Committee is involved.”²⁹ It thus appears that the Open Budget Initiative managed to seize a window of opportunity to engage fruitfully with the U.S. Congress through the Senate Foreign Affairs Committee on the issue of fiscal transparency.

In terms of influencing the language in the annual Appropriations Act, however, the story is different. While the Open Budget Initiative submitted a letter to the Senate Appropriations Committee, along with the Open Budget Survey 2010 report, the committee did not respond positively to this advocacy effort. According to the Open Budget Initiative, “We wanted the 2012 language to be even stronger but were not successful in getting our suggestion into the appropriations. It was not that our suggestion was rejected, but rather we did not do a good enough job in implementing a legislative advocacy strategy. We focused on getting an authorizing law (with the Senate Foreign Relations Committee) and did not know about the appropriations bill until it was almost too late to do anything.”³⁰ Nonetheless, the final language in the 2012 Appropriations Act turned out to align more closely with the Open Budget Initiative’s recommendations than had been the case in previous Appropriations Acts. Thus the advocacy efforts, while not entirely successful, may have indirectly contributed to changing the language in the 2012 act.

Therefore, while the 2012 Appropriations Act appears to reflect many of the concerns and recommendations advocated by the Open Budget Initiative — i.e., development of minimum standards for fiscal transparency, a requirement to make annual country reports publicly available, and financial support to in-country accountability stakeholders — the impact of the Open Budget Initiative can only be said to have been indirect.

Conclusion

For the U.S. Department of State, fiscal transparency language had been included in the annual Appropriations Act as early as 2003, although it became more of a requirement for continued assistance in the 2008 Appropriations Act. Although some of the country reports from 2008 made use of the Open Budget Index, the Open Budget Initiative was not actively involved at this stage in advocating for a strong regulatory focus on fiscal transparency, or for the department’s use of its index in evaluating country compliance. In the past couple of years, however, the Open Budget Initiative has actively engaged the U.S. Congress through the Senate Foreign Relations Committee to use a clearer and less discretionary methodology, like that in the Open Budget Index, when assessing countries’ levels of fiscal transparency. Though there has been progress with regard to the language of the most recent Appropriations Act, this can, at best, be indirectly attributed to the Open Budget Initiative’s advocacy efforts.

It will be interesting to see the extent to which the 2012 country reports, which will be made public, make use of the Open Budget Index compared to the latest available report from 2008. It might be expected to see greater use of the index in the 2012 reports because over

²⁹ Interview 2: Lori Rowley.

³⁰ Interview 1: Vivek Ramkumar.

time it has both established itself as a rigorous, credible measure of fiscal transparency and generated time-series data, and because of the Open Budget Initiative's increased presence as an advocacy actor vis-à-vis the U.S. Congress. However, the Open Budget Index methodology may not fully resonate with the current needs of the U.S. Department of State as explained by a representative of the Office of Monetary Affairs: "We are really trying to find out what is happening on the ground right now. The Open Budget Initiative is looking at data that is a little bit older. For our purposes, we are really interested in knowing exactly what has happened in the past year."³¹

2.2 Millennium Challenge Corporation: the Open Budget Index as an actionable governance indicator

The Millennium Challenge Corporation (MCC) is one of several U.S. agencies that deliver development assistance, and as such is subject to the fiscal transparency regulations set out in the Appropriations Acts. This, however, is usually not a concern for the MCC, which — because it selects countries for assistance based on the quality of their governance — tends to work with countries that are relatively transparent.³²

When the MCC was launched in 2004, it was decided that the agency should give aid through a competitive selection process, which is slightly different than other U.S. agencies. The MCC identifies eligible countries for their "Compact" agreements from a set of objective and quantifiable indicators for three areas of governance: ruling justly, investing in people, and encouraging economic freedom (see Annex 2). While fiscal transparency is not an eligibility criterion in itself, two of the indicators that fall under "ruling justly" — Control of Corruption and Voice & Accountability — are, in part, implicit measures of a government's commitment to budget transparency. The Voice & Accountability indicator actually includes the Open Budget Index as one of its sources of data. These indicators are renewed on an annual basis, taking into account public comments and consultations with a range of experts in the development community and the U.S. government. To date, the Open Budget Initiative has not been consulted in this process but should consider having a greater presence in future years' consultations. For fiscal year 2012, the Voice & Accountability indicator will be revised to replace the Open Budget Index with a measure of freedom of information. The Open Budget Index will thereby cease to be a primary data source in the MCC's eligibility indicators.³³

For fiscal year 2012, the MCC also carefully considered making the Open Budget Index an indicator in its own right. However, the fact that the Open Budget Index does not cover all lower income countries and comes out every other year rather than every year was mentioned as a reason for not doing so. In addition, the inclusion of an additional indicator was rejected lest the scorecard become too large and crowded with indicators.³⁴

³¹ Interview 4: Michelle Hoyt.

³² Interview 3: Bruce Kay.

³³ U.S. Department of State, "Report on Fiscal Transparency and Accountability in Countries Whose Central Governments Receive U.S. Foreign Assistance," released by the Bureau of Economics, Energy and Business Affairs, 2008.

³⁴ Interview 3: Bruce Kay.

The Open Budget Index as an actionable governance indicator

While the Open Budget Index was not chosen to be one of the MCC's 22 eligibility indicators for 2012, it will be used in an alternative way — as an actionable governance indicator that will be used to assess countries' progress in controlling corruption.

The single indicator used to measure corruption, or control thereof, constitutes the only “hard hurdle” among the MCC's eligibility indicators (i.e., the only indicator that countries need to score above the median to be considered eligible for MCC funding). The current indicator that is based on the Worldwide Governance Indicator's Control of Corruption Index, however, is methodologically problematic. Because the indicator is based on perceptions of corruption and is not linked to clear government actions, it is difficult to judge the intentions and progress of governments in terms of controlling corruption. In addition, for fiscal year 2012 the MCC would need to base its decision on the 2010 Control of Corruption Index, again masking any recent progress made at country level. This time is also a weakness of the OBI as an eligibility indicator. As such, the MCC has a clear interest in using more actionable governance data to judge how well or badly governments are controlling corruption.

Since making budgets transparent is a concrete action taken by governments that has the potential to help root out corruption, the Open Budget Index's assessment of budget transparency could be a strong complement to the Control of Corruption Index.³⁵ Going forward, the Open Budget Index's methodology will be especially useful in judging the eligibility of new countries for MCC assistance that score close to the median on the control of corruption indicator, as well as in the process of assessing countries for which the MCC has a particular wish to judge progress (e.g., for re-electing countries for subsequent Compact agreements). This is what happened in early 2011 when the MCC asked the International Budget Partnership to help with its assessment of Honduras, as described below.

Making use of the Open Budget Index methodology: the case of Honduras

When the MCC board met in December 2010 to decide on new Compact agreements, Honduras's scorecard showed that the country scored slightly below median on the Control of Corruption Index (although this score was statistically indistinguishable from a country whose corruption score was above median). Because Honduras was such a marginal case, especially given that any actions taken by the new government (from February 2010) would not have been reflected in the Control of Corruption Index for reasons explained above, and because its first Compact was deemed to have produced positive development results, the MCC decided to take a different approach to the Honduran case. It agreed with the new government of Honduras on a 24-month Policy Improvement Plan (which started in March 2011) that aimed to improve the country's performance in terms of accountable governance, enhanced management of public resources, and fiscal transparency.³⁶

³⁵ Herrling, S. and S. Rose, “Control of Corruption and the MCA: A Preview to the FY2008 Country Selection,” MCA Monitor Analysis, Center for Global Development, 2007.

³⁶ Testimony of Daniel W. Yohannes, chief executive officer, Millennium Challenge Corporation, to the House Appropriations Subcommittee on State and Foreign Operations, 15 March 2011.

In accordance with the plan, the Honduran government's progress will be judged annually using two actionable governance indicators: the Open Budget Index and a Public Expenditure and Financial Accountability Assessment (PEFA). In the 2010 Open Budget Index, Honduras scored poorly (11 out of 100) and had received equally poor results in the PEFA assessment from 2009. However, because the 2010 Open Budget Index was based on data gathered in 2009, the MCC would not be able to use the index to judge progress on the Honduran Policy Improvement Plan.

The MCC, therefore, requested that the Open Budget Initiative, together with its local research partner organization, the Honduran Fundación Democracia sin Fronteras, use the Open Budget Index methodology to assess Honduras' budget transparency in real time. "We contacted the International Budget Partnership and asked them to do an off-cycle report for Honduras. We did not want to wait until the new Open Budget Index came out but wanted to know if there had been any changes from the low score Honduras got in the latest Open Budget Index. So, we decided to fund a Honduras organization (linked to IBP), so we did not pay any money to the International Budget Partnership."³⁷

The same was done with the PEFA. These two analyses were then compared with the 2010 indices and used by the MCC to judge the Honduran government's progress in implementing its Policy Improvement Plan.³⁸ These two assessments gave the MCC information that was more up to date, more specific than the Control of Corruption Index, and more closely tied to government actions.³⁹ While Honduras is the first case for which this strategy has been tested, the MCC intends to make more use in the future of the Open Budget Index as an actionable governance indicator.

Conclusion

As this case study has shown, the Open Budget Initiative has had an impact on changing how the MCC works with regard to implementing its eligibility criteria. However, this impact has not come from advocating for policy change or from the Open Budget Index becoming an eligibility indicator on its own. Rather, the impact stems from the reputation of the Open Budget Index as a reliable source of information on budget transparency practices, which, in turn, can be used as an actionable governance indicator to measure governments' progress in controlling corruption. The Open Budget Initiative should expect to be offered assignments similar to that of the Honduras case in the near future.

3. Fiscal transparency's place in the broader U.K. transparency agenda

The U.K.'s transparency and accountability policy agenda has been around for some years, although the 2010 change in government has increased attention to these issues. The agenda

³⁷ Interview 3: Bruce Kay.

³⁸ Despite improvements in budget transparency, it was decided in mid-December 2011 that Honduras should be dedicated a threshold program rather than a second Compact.

³⁹ Interview 3: Bruce Kay; a MCC PowerPoint presentation from November 2011 titled "Policy Dialogue with Honduras on Fiscal Transparency Public Financial Management: Results to Date," provided by Bruce Kay; International Budget Partnership and Fundación Democracia sin Fronteras, "Assessment of Budget Transparency in Honduras," 2011; and Congressional Notification Transmittal Sheet, 28 March 2011.

is closely linked to a greater need to show results and value for money, which, in turn, is linked to increasing public pressure on the U.K. Department for International Development (DFID) to justify its use of tax money in an era of austerity.⁴⁰

U.K. citizens' attitudes toward aid appear to have deteriorated, which is not surprising given that the public is bombarded daily with news about budget cuts, the financial crisis, and high levels of unemployment. In a recent survey, 63 percent of respondents thought aid needed to be cut to help deal with the budget deficit and over half of the respondents did not support the coalition government's policy of ring-fencing aid spending.⁴¹ With a skeptical public, DFID is under more pressure than ever to justify every pound used, and in that environment the agency has embraced the transparency agenda, both concerning aid transparency and concerning transparency in recipient countries. According to a DFID representative, "There is a strong commitment to transparency, and I think that a greater focus on budget transparency is a manifestation of this."⁴² This commitment is reflected in DFID's Business Plan 2011-2015, which was based on the Prime Minister's government-wide transparency commitment, the commitment to the International Aid Transparency Initiative, and the U.K. Aid Transparency Guarantee.⁴³

The subsequent section will discuss recent changes to DFID's policy on budget support, and, in particular, DFID's heightened attention to transparency in recipient countries.

3.1 U.K. Department for International Development: using budget transparency as an assessment criterion linked to budget support

In early 2011 DFID went through a process of refreshing its guidelines on budget support, resulting in the document titled "Implementing DFID's Strengthened Approach to Budget Support: Technical Note." This "policy refresh" was not a fundamental change in DFID's budget support policy, but rather an update to the guidelines on how budget support should be implemented.⁴⁴

A focus on budget transparency as part of increased attention to domestic accountability

There used to be three assessment criteria linked to U.K. budget support: 1) progress on poverty reduction and the Millennium Development Goals (MDGs); 2) respect for human rights and other international obligations, and 3) improving public financial management, promoting good governance and transparency, and fighting corruption. While these three criteria remain intact after the policy refresh, DFID's strengthened approach to budget

⁴⁰ Interview 5: Alasdair Wardhaugh, person in charge of DFID's participation in the International Aid Transparency Initiative, 13 December 2011.

⁴¹ House of Commons, Committee of Public Accounts, "DFID Financial Management," 52nd Report of Session 2010-12, published on 20 October 2011; and Nilima Gulrajani, "Ringfencing Aid May Do More Harm than Good," *Guardian*, 24 October 2010.

⁴² Interview 7: Stephen Sharples, senior governance advisor, DFID, 26 January 2012, provided answers to questions via email.

⁴³ DFID Business Plan 2011-2015, published in May 2011.

⁴⁴ Interview 6: Gideon Rabinowitz, U.K. Aid Network, 14 December 2011.

support adds a fourth criterion: the “separate partnership commitment on domestic accountability.” This partnership commitment seeks to enhance transparency by ensuring that partner governments make relevant information on government policies, budgets, and accounts available and accessible to citizens.⁴⁵ This is where budget transparency comes into the policy picture in the most explicit way.

According to DFID’s new approach, assessing the new partnership commitment on domestic accountability will be done by drawing on a range of data. DFID will use its Country Governance Analysis and joint-monitoring frameworks with partner governments. It also will draw on international indicators, such as the Open Budget Index, the Worldwide Governance Indicators and Freedom House Indicators, and, where possible, complement these datasets with information gathered at the country level.⁴⁶ In short, in the past year DFID has brought forward budget transparency as part of its new assessment criteria, as well as incorporated the Open Budget Index as one key indicator to be used in the process of assessing compliance. The next section will focus on the decision-making process leading up to the budget support policy refresh and its heightened focus on budget transparency.

The decision-making process and the role of the Open Budget Initiative

In early 2011 the U.K. Aid Network — an umbrella organization for civil society involved in international development — wrote that the budget support policy refresh was based on a request by Andrew Mitchell, formerly the Conservative Party spokesman for international development and U.K. Secretary of State since the 2010 elections, with the purpose of making the U.K.’s budget support better focused on results and maximizing value for money.⁴⁷ Mitchell not only initiated DFID’s policy refresh on budget support but also has been a driving force behind DFID’s heightened focus on domestic accountability.

The emphasis on domestic accountability has been around for some years and has become institutionalized at the political level. In 2009, ahead of the 2010 elections, the Conservative Party published its Green Paper on International Development that included a commitment, along with funding for budget support, to earmark 5 percent of budget support to domestic accountability stakeholders in countries receiving U.K. budget support.⁴⁸ The same commitment can be found in the previous government’s 2009 White Paper on International Development, although it is believed that this issue was heavily pushed through by the Conservative Party.⁴⁹

This political focus on domestic accountability as part of a results and value for money agenda can also be seen in Britain’s approach to influencing the new policy of the European

⁴⁵ Department for International Development, “Implementing DFID’s Strengthened Approach to Budget Support: Technical Note,” 1 March 2011 (draft) and 8 July 2011 (unchanged in terms of budget transparency from the earlier draft).

⁴⁶ Ibid.

⁴⁷ UK Aid Network, news archive, spring 2011.

⁴⁸ “One World Conservatism: A Conservative Agenda for International Development,” Policy Green Paper No. 11, July 2009.

⁴⁹ Department for International Development, “Eliminating World Poverty: Building our Common Future,” White Paper, July 2009; and DFID, “Strengthening Accountability in Budget Support Countries – DFID’s 5% Commitment: Briefing Note for Country Offices.”

Commission around budget support. During the 2010-2011 consultation process, the U.K. commented on the need for the commission's budget support program to, among other things, strengthen domestic accountability in partner countries by focusing on budget transparency as an eligibility criterion.⁵⁰

This strong political will emerging from the top most probably affected the shape of the consultation process leading up to DFID refreshing its budget support guidelines. Most of the consultations were between DFID and its country offices, as well as those with other U.K. government departments, and other European countries like Sweden and Norway that give budget support.⁵¹

Civil society organizations' formal role in the decision-making process can be characterized as being less driven by advocacy efforts and more of a box-ticking exercise on the part of DFID. While DFID had informed the U.K. Aid Network that a process to refresh its budget support guidelines was taking place well before the process was completed, and had promised to have a discussion with the umbrella organization, that promised discussion never fully materialized. In fact, the U.K. Aid Network was offered consultation only once the policy had been signed off by the Secretary of State. To get a chance to voice its concerns and influence the policy before the consultation process had come to an end, the U.K. Aid Network, on behalf of various civil society organizations, submitted a briefing paper to DFID. In March 2011 DFID finally met with civil society, but only to inform them about the new policy rather than include them as part of the consultation process.⁵² It is thus fair to conclude that formal advocacy efforts by civil society were not the driving force behind DFID's new approach to budget support.

Nevertheless, advocacy on a more informal level did take place between the Open Budget Initiative and DFID leading up to the policy refresh. However, because the Open Budget Initiative did not have a formal advocacy action plan vis-à-vis DFID, it is difficult to trace the extent to which the Open Budget Initiative was able to directly influence DFID's budget support policy refresh. Nonetheless, DFID representatives were able to identify some points at which the Open Budget Initiative may have influenced some of the decisions around the refresh.

For instance, the Open Budget Initiative presented the findings of the Open Budget Survey 2010 and engaged in extensive discussions around recommendations for donors based on these findings at DFID's offices in October 2010. While few attended the presentation, all the key people from the DFID London offices responsible for the budget support policy refresh were there, including governance advisors Stefan Kossoff and Alan Hudson, and the chair, Mark Robinson. Robinson had for many years been engaged in budget transparency issues and was a strong internal supporter on these issues. In terms of influencing DFID's choice to include budget transparency and the Open Budget Index in its new policy, Alan Hudson argues that, in addition to being very timely, the Open Budget Initiative's October 2010 presentation "helped increase awareness within DFID about the Open Budget Index

⁵⁰ Interview 5: Alasdair Wardhaugh; and Communications by the U.K. Parliament's European Scrutiny Committee, (33245) 15561/11, November 2011.

⁵¹ Interview 5: Alasdair Wardhaugh.

⁵² Interview 6: Gideon Rabinowitz.

and gave it a bit of an added momentum.”⁵³ Following the presentation at DFID, another U.K. release of the index was hosted by the think-tank Overseas Development Institute (ODI), which is a leading voice in U.K. development policy and is very well regarded by DFID.⁵⁴

The October 2010 presentation at DFID in particular appears to have been an important factor in shaping the budget support policy refresh in terms of its focus on budget transparency and the use of the Open Budget Index as an assessment tool. While there is no documentation around this policy process that proves the link between efforts by the Open Budget Initiative and DFID policy, Hudson explained that “when there were subsequent meetings about the budget support policy refresh, and when people were sitting around thinking about what sort of issues might be included in the policy refresh, then people remembered the presentation and the fact that the Open Budget Index exists.”⁵⁵

Moreover, throughout the years, the Open Budget Initiative has actively disseminated resources to DFID, which appears to have had an impact on increasing awareness at DFID. According to Hudson: “Whenever the Open Budget Initiative does their survey, they produce a glossy selection of documents, which explain what the survey is, the findings etc. I have received them on two or three occasions so I think that they are reasonably well distributed around DFID. So people at DFID will see them every couple of years and be reminded about the existence of the Open Budget Index.”⁵⁶

Finally, the Open Budget Index also received some positive press coverage in the U.K. right before the budget support policy refresh was finalized, which may have reminded decision makers once again of the merits of the index. In October 2010 Jonathan Glennie from the ODI wrote in the *Guardian* that “there is one area where there is consensus across the board, from donors to recipients, civil society to private sector: that budget information should be put into the public domain. It is hard to think of anything that is more important for poverty reduction and development.” He went on to state that the 2010 Open Budget Index had recently been published.⁵⁷ In addition, Dr. Joachim Wehner, from the London School of Economics, stated in a blog posting that the Open Budget Index is the “only comprehensive assessment of fiscal transparency that is conducted independent of government and at regular intervals. The campaign [for open budgets] is of crucial importance and deserves wide attention, in particular in the current economic and fiscal climate.”⁵⁸

DFID’s need for the Open Budget Index

One possible reason that DFID has included measures like the Open Budget Index in its policy provisions is its increased need for using objective assessment tools. With the growing

⁵³ Interview 10: Alan Hudson, senior policy manager for Governance (Transparency & Accountability) at the ONE campaign, and DFID governance advisor.

⁵⁴ “Launch of the Open Budget Index 2010,” 25 October 2010, Overseas Development Institute.

⁵⁵ Interview 10: Alan Hudson.

⁵⁶ Interview 10: Alan Hudson.

⁵⁷ Jonathan Glennie, “We Need Greater Transparency over Aid Budgets,” *Guardian*, 28 October 2010.

⁵⁸ Joachim Wehner, “Budgeting in the UK Is Highly Transparent. But that Does Not Mean that Budget Decisions Are Carefully Scrutinized, nor that the Right Policy Judgements Are Made,” British Politics and Policy Blog at LSE, 19 October 2010.

focus on value for money and results, DFID faces more pressure to provide justification for the projects and programs it supports. DFID, therefore, has been encouraged to present its projects and programs increasingly in formats like business cases and with a stronger emphasis on formal processes and assessments.⁵⁹ For example, DFID Uganda's Business Case from August 2011 uses improvements in the Open Budget Index as a justification for certain interventions. "Evidence that accountability projects work can be extrapolated from improvement of PEFA scores in Uganda. In addition, Uganda's Open Budget Index score rose from 31 in 2006 to 55 in 2010; the highest score in East Africa and above the global average of 42."⁶⁰

At the same time, unlike the MCC, DFID does not set objective and quantifiable minimum governance quality thresholds that countries must reach before being provided with budget support. Instead, it increasingly used measures of the trends, progress, and commitment made at country level. According to a DFID representative, "we try to avoid absolutes in terms of applying conditionality. Instead we focus on assessing the trajectory countries are on, focusing on what countries have actually done on a case-by-case basis."⁶¹ Of course, such a flexible approach to measuring progress is bound to involve some discretionary decisions on the part of DFID with regard to which countries are on a positive trajectory and which countries are not. This discretionary element will presumably be better justified with the help of indicators such as the Open Budget Index. In the words of one DFID representative: "The fact that the Open Budget Index has a clear methodology and they come up with clear findings including numbers is attractive to DFID because it means that they can put the numbers into measuring progress."⁶² Seen from this perspective, the Open Budget Index (and the other international data sources mentioned in the budget support policy document) can be seen as a tool that can help the DFID to better justify its choices with regard to giving budget support.⁶³

Furthermore, since the Open Budget Index is the only independent and comparative international measure of budget transparency, and since DFID has funded three rounds of the index, it would have been the natural choice when such a tool was being sought. According to Gideon Rabinowitz from the U.K. Aid Network, the Open Budget Index has become the flagship for assessment on how transparent and accountable budget processes are. DFID, therefore, picked up on using it as a tool to assess progress on accountability.⁶⁴ As Alasdair Wardhaugh states about DFID, "we think that the Open Budget Index is a very helpful source among a range of different sources. Therefore, we will make reference to it in our submissions for project approval."⁶⁵

Implementing the new guidelines with regard to budget transparency

⁵⁹ Interview 6: Gideon Rabinowitz.

⁶⁰ DFID Uganda, Budget Support 2011/2012-2014/2015 Full Business Case, August 2011.

⁶¹ Interview 5: Alasdair Wardhaugh

⁶² Interview 10: Alan Hudson.

⁶³ Interview 6: Gideon Rabinowitz.

⁶⁴ Ibid.

⁶⁵ Interview 5: Alasdair Wardhaugh

While the discussion so far has shown that at the agency level DFID has incorporated the Open Budget Index into its work on furthering domestic accountability in countries receiving U.K. budget support, this section will discuss whether and how this commitment is also implemented at country level. Since the DFID’s policy refresh on budget support, two countries — Rwanda and Uganda — have signed new budget support agreements with DFID, and the respective DFID country offices are thus in a position to reflect on the implementation side of the budget support policy refresh.^{66, 67}

The Rwandan country office revealed that, apart from relying on DFID’s technical note on how to assess the partnership commitment on domestic accountability, the office has also received accompanying internal guidance. This internal guidance, in turn, specifically mentions the Open Budget Index as an example of the kind of source that DFID can draw on to assess the commitment of partner governments to strengthening domestic accountability.⁶⁸ This shows that the headquarters of DFID is consistent in its internal communications about using the Open Budget Index.

In terms of motivations for using the Open Budget Index at country level, it appears that measuring progress on domestic accountability in practice translates into measuring progress on fighting corruption. According to DFID Uganda, “the Open Budget Index is one of the sources of information used in the Data Tracking Mechanism, which is a national tool that is used to assess corruption trends. We also use the Open Budget Index as a comparator tool in assessing how Uganda performs compared to other budget support countries.” Using the index to assess corruption trends sounds very similar to the MCC’s use of it as an actionable governance indicator.

The new partnership commitment on domestic accountability has also had some wider impact in raising the issue of domestic accountability at country level. According to DFID-Uganda, the commitment has been highlighted both during and after budget support to Uganda was negotiated and agreed upon. For example, the September 2011 letter from the U.K. Secretary of State to the Ugandan Finance Minister that presented the terms of the budget support stated the importance of strengthening domestic accountability as one of the underlying partnership principles for the U.K.’s support.

Since then, budget support donors, with DFID at the forefront, have collectively lobbied the Ugandan government for a more transparent and credible budget on several occasions, including at a high-level Policy Coordination Committee meeting of Ugandan ministers, budget support heads of mission, and ambassadors. However, the new partnership commitment on domestic accountability is not the sole reason for the dialogue around budget transparency. According to DFID-Uganda, discussions around budget transparency were already taking place at country level before DFID’s policy refresh. That said, DFID Uganda argued that the new partnership commitment on domestic accountability has

⁶⁶ Rwanda Education Sector Programme 2011/12-2014/15

⁶⁷ Uganda Budget Support 2011/12 – 2014/15

⁶⁸ Interview 8: Charlie Whetham, deputy head, DFID-Rwanda, 12 January 2012, provided answers to questions via email.

contributed to a discussion around budget credibility, which is a central concern for DFID in Uganda.⁶⁹

Since the policy refresh on budget support has only recently been enacted and no analyses or evaluations have been published, there exists little documentary evidence of the extent to which the Open Budget Index is used in practice to measure progress at country level.⁷⁰ As a preliminary analysis, however, we can look to two types of documents: budget support business cases for Rwanda and Uganda, and country operational plans, which have been written for a larger set of countries in which DFID operates.⁷¹

Both Rwanda's and Uganda's business cases refer to DFID's domestic accountability conditionality. For Rwanda, it states that compliance with the conditionality will be monitored through the general budget support relationship and program. For Uganda, it states that "data for assessing Government of Uganda performance will be taken from a range of sources, including Government of Uganda's own Annual Government Performance Report and Annual Budget Performance Report, civil society analytical reports and independent verification by the Technical Assistance Support Unit." Thus, while both business cases include the new partnership on domestic accountability, neither explicitly mention budget transparency or the use of the Open Budget Index in assessing progress on domestic accountability.

Finally, a series of country Operational Plans (2011-2015) were agreed upon and published in spring 2011, and all include a section on transparency.⁷² This section outlines: DFID's obligations in relation to the International Aid Transparency Initiative (IATI) and the U.K. Transparency Guarantee, what partner governments are encouraged to do, and what assistance DFID will give to accountability stakeholders at country level. However, in only one such plan (Rwanda) does DFID make explicit reference to the Open Budget Index. (See Annex 3 for DFID's country-specific text on budget transparency). Based on this analysis, it can be concluded that while domestic accountability is well covered, there is still little

⁶⁹Interview 11: Gloria Kempaka Mugambe, governance advisor, DFID-Uganda, 22 February 2012, provided answers to questions via email. DFID-Rwanda was asked similar questions about the discussions around budget transparency and domestic accountability in the process of agreeing to budget support. However, interviewee 9 (Nicholas Waddell, governance advisor, DFID-Rwanda, 26 January 2012, provided answers to questions via email) did not want to say too much about this issue because Rwanda is currently in the process of updating the Memorandum of Understanding for the U.K.'s provision of general budget support in Rwanda and details of the revision are currently under discussion.

⁷⁰ According to Mugambe, assessment of the partnership commitment on domestic accountability will be assessed at least once a year before making the financial commitment for each financial year, and according to Waddell, results on progress at country level will be disseminated following midterm reviews and at the end of the operational plans.

⁷¹ Data for this analysis is taken from DFID's project database. Another source for analysis could be fiduciary risk assessments. In relation to the DFID's policy refresh on budget support, DFID published a Note on Managing Fiduciary Risk in June 2011, setting out how fiduciary risk at country level can be assessed and monitored. In this report, the Open Budget Index is cited as one of many tools that can be used to assess fiduciary risks. The extent to which the Open Budget Index has in practice been used in this regard, however, is difficult to assess since DFID does not publish its fiduciary risk assessments.

⁷² Operational Plan 2011-2015 (for Bangladesh, Burundi, Ghana, Kenya, Nepal, Nigeria, Pakistan, Rwanda, Sierra Leone, Somalia, South Sudan, Tanzania, Vietnam, and Zimbabwe) at www.dfid.gov.uk.

evidence of how the implementation of this added conditionality will be assessed and reported on in practice.

Conclusion

The case study on DFID shows that the recent heightened focus on domestic accountability in partner countries, highlighted in the 2011 budget support policy refresh, emanated from the highest echelons of government, as opposed to being driven by civil society advocacy. However, the policy language with regard to budget transparency has clearly been influenced by the Open Budget Initiative's direct and indirect advocacy vis-à-vis DFID. Especially timely was the October 2010 presentation at DFID by the Open Budget Initiative and the fact that the 2010 Open Budget Index came out at a time when the new government was eager to refresh its policy on budget support. In terms of implementing the policy refresh, however, it is difficult at this point to say how and to what extent the Open Budget Index will be used to assess progress on domestic accountability.

4. Concluding remarks

The analysis of the three donor case studies covered in this report shows that the advocacy efforts by the Open Budget Initiative have had varied impact in changing policy debates and guidelines. For the U.S. Department of State, over the past few years the Open Budget Initiative has been active in policy circles and has directly engaged Congress through the Senate Foreign Relations Committee. It remains to be seen whether new legislation on fiscal transparency will come out of these efforts. The recent changes to the language in the annual Appropriations Act, which is broadly in line with recommendations made by the Open Budget Initiative, may have been influenced by advocacy efforts, although there was little contact between the Initiative and the Appropriations Committee.

In the case of the MCC, no such advocacy efforts can be linked to the MCC's recent use of the Open Budget Index. Instead, it was the MCC that initiated contact with the Open Budget Initiative in order to assess recent progress on budget transparency in Honduras. The Open Budget Initiative's success in this case was clearly based on having developed a respectable and stable methodology for its Open Budget Survey, which could be replicated and measured against a baseline, as well as having a network of local partners ready to carry out such analysis.

In the case of DFID in the U.K., there is anecdotal evidence of a causal association between active advocacy efforts by the Open Budget Initiative and DFID's heightened focus on budget transparency, especially as the Open Budget Initiative made a very timely visit to DFID's headquarters prior to the policy refresh on budget support. The Open Budget Initiative's influence in the case of DFID also comes from having successfully disseminated the Open Budget Survey 2010 and previous years' findings, making the Open Budget Index a well known and respected source of information from which progress on domestic accountability and fighting corruption at country level can be assessed.

In conclusion, this case study research shows that the success of the Open Budget Initiative resides in: 1) its formal and informal political advocacy efforts; 2) the Open Budget Index's

consistent, rigorous, and respected methodology that can be used to assess levels of budget transparency and changes thereof, and as an actionable governance indicator; and 3) the fact that it produces a comparative measure of fiscal transparency that has been around for some years and has become well known in policy circles. Apart from these attributes, the recent success by the Open Budget Initiative in increasing attention to and driving stricter guidelines on budget transparency has undoubtedly been helped by the fact that transparency and accountability are very high on the political agendas in both the U.S. and the U.K. This broader policy agenda can, in turn, be attributed to such issues as domestic financial concerns, which have increased pressure on donor agencies to justify their spending decisions, and the wider calls for international financial integrity and good governance.

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Annex 1: Guidelines for country reporting on fiscal transparency in accordance with Appropriations Act 2010

For embassies in countries that received a waiver in 2009

1. Is the host country's annual national budget publicly available?

Guideline for answering question 1: "Publicly available" can be broadly interpreted to mean that the information is available on-line, on request from the ministry, for purchase at a government printing office, etc. While Executive Budget speeches are valuable, they typically do not contain sufficiently detailed information on revenues and expenditures on their own to satisfy the fiscal transparency requirement. Additional detailed publicly available information on the enacted budget (and, ideally, an end-of-year outcomes report, audited budget reports, and information on budget support from foreign assistance) is usually necessary for a country to be considered fiscally transparent.

2. Are incomes and expenditures included in the publicly available budget?
3. What is post's assessment of the extent to which the publicly available budget accurately reflects actual government incomes and expenditures?

Guidelines for answering questions 2 and 3: the assessment takes into account not only whether a country makes publicly available a budget that includes income and expenditures, but also whether that budget is credible and complete (not including military or intelligence spending, which many countries do not disclose for national security reasons). The assessment also considers the transparency of government-affiliated enterprises that may be expected to transfer revenues to the central government (for example, the transparency of the revenues of a national oil company).

4. Have there been any events since the 2009 review that may have affected fiscal transparency (e.g., a coup)?
5. Since last year's review, what efforts has the host government undertaken to improve fiscal transparency? What progress has been made, pursuant to the 2009 demarches on the subject (reftels)?⁷³

⁷³ Cable from U.S. Department of State to Ambassadors, subject: FY 2010 Prohibition on Assistance to Central Governments Whose Budgets Are not Transparent.

Annex 2: MCC Eligibility Criteria 2012

In fiscal year 2012 the Board of the MCC will use two sets of indicators to assess the policy performance of individual countries. These indicators are grouped under three policy categories: Ruling Justly, Economic Freedom, and Investing in People.⁷⁴

Ruling Justly	Economic Freedom	Investing in People
<i>Status Quo</i>		
<ul style="list-style-type: none"> • Civil Liberties • Political Rights • Voice and Accountability • Government Effectiveness • Rule of Law • Control of Corruption 	<ul style="list-style-type: none"> • Inflation • Fiscal Policy • Business Start-Up • Trade Policy • Regulatory Quality • Land Rights and Access 	<ul style="list-style-type: none"> • Public Expenditure on Health • Public Expenditure on Primary Education • Immunization Rates • Girls' Primary Education Completion • Natural Resource Management
<i>Revised</i>		
<ul style="list-style-type: none"> • Civil Liberties • Political Rights • Freedom of Information • Government Effectiveness • Rule of Law • Control of Corruption 	<ul style="list-style-type: none"> • Inflation • Fiscal Policy • Business Start-Up • Trade Policy • Regulatory Quality • Land Rights and Access • Access to Credit • Gender in the Economy 	<ul style="list-style-type: none"> • Public Expenditure on Health • Public Expenditure on Primary Education • Immunization Rates • Girls' Education: <ul style="list-style-type: none"> • Primary Education Completion (LICs) • Secondary Education Enrolment (LMICs) • Child Health • Natural Resource Protection

⁷⁴ Millennium Challenge Corporation, "Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2012," September 2011.

Annex 3: Implementing U.K. DFID’s budget transparency provisions at the country level

<i>DFID Operational Plans 2011-2015</i>	<i>Text related to budget transparency in partner country</i>
Bangladesh	DFID will support the Government of Bangladesh to fulfill its commitments to transparency by supporting: public financial management reforms that facilitate transparency on budgetary information across government, strengthening parliamentary scrutiny.
Burundi	It is a priority for DFID to help improve the transparency of donor and Government of Burundi reporting on aid and budget plans and ensure that donor funding is more closely linked to government budgeting processes, which in turn are published, along with budget execution figures, and that the country’s new Poverty Reduction Strategy contains commitment to transparency.
Ghana	DFID will promote transparency in Ghana by encouraging disclosure of information by public institutions in Ghana. This will include working with the Government of Ghana to improve the availability and usefulness to the public of information in the budget.
Kenya	DFID Kenya will promote transparency by influencing government and non-governmental partners in-country to aspire to higher standards of transparency in order to scrutinize their activities, and hold them to account. Also DFID will support civil society organizations to make public official information more widely available in more usable formats that Kenyan citizens can use to demand for greater accountability for resources, and better delivery of services from various government institutions.
Nepal	DFID’s public financial reform programs will build up national NGOs so that they can understand and contribute to fair and transparent government budgeting; carry out independent analysis and communication of government budgets to make them more accessible by citizens; track expenditure to make sure resources go where they are intended; hold public officials to account for mismanagement and corruption; monitor government services to ensure quality and fairness; and scrutinize public procurements for corruption.
Nigeria	DFID will promote transparency in Nigeria by promoting transparent government finance and accountable public institutions to help Nigerians hold decision makers to account; working with state houses of assembly to increase transparency and public access to information and debates; and supporting Nigerian civil society to assess the level of transparency of budget and financial management processes, and to

	improve transparency in the oil and gas sector.
Pakistan	DFID will lead a dialogue with its partners on the transparency standards DFID would like them to adopt and what information DFID expects them to publish. This will become a key component of all new funding arrangements from 1 April 2011.
Rwanda	In Rwanda, DFID will discuss with the Government of Rwanda how the UK can help encourage greater public awareness of transparency as monitored by the global Open Budget Index .
Sierra Leona	DFID will encourage the Government of Sierra Leone to improve its transparency including on government budget and expenditure. Continued support will be provided to civil society to enhance scrutiny of the Government budget and public financial management processes through the Budget Advocacy Network.
Somalia	DFID will work with government officials to help them prioritize and manage revenue and donor support, and encourage them to be more transparent to their citizens about their budgets and plans.
South Sudan	Through its relationships with the Government DFID will encourage greater transparency to citizens about budgets and the aid which they receive.
Tanzania	DFID will support the Government of Tanzania in its commitment to make financial information accessible and useable by many Tanzanians (for example, by producing a simplified popular version of the national budget).
Vietnam	DFID Vietnam will continue working together with the UK Embassy and other partners to promote greater transparency by the Government of Vietnam. We will use our influence and provide support to the Government to introduce the new Law on Access to Information, to improve disclosure of the State budget and expenditure, and transparency in key sectors such as construction, health and education.
Zimbabwe	DFID will use its influence to encourage the Government of Zimbabwe to become more transparent to their own citizens about their budgets and the aid which they receive.

Annex 4: Research questions the report should address (stated in the Terms of Reference)

1. The emergence of this issue area, and why it is important

Explain why budget transparency is an important issue area for DFID/MCC/ U.S. Department of State, and what their reasons were for including the Open Budget Index as one of the key indicators in their methodologies and guidelines. This will require an analysis of how budget transparency fits into the larger political economy and contextual environment in which DFID, the U.S. Department of State, and the MCC work, both at the global level and at country level, and who the main protagonists and antagonists of this issue are.

2. What impact did the OBI achieve?

Describe the changes in donor policies and guidelines related to budget transparency adopted by DFID/MCC/U.S. Department of State that form the focus of this case study, both at the global and the country level.

While the case study should focus on improvements in donor policies with regard to budget transparency as defined by the Open Budget Index, it should also consider other kinds of impacts, such as the opening of spaces for dialogue with donors and government, increased capacity and awareness of budget transparency issues in these agencies, and the use that these actors are making of Open Budget Initiative information.

3. What did the Open Budget Initiative and its partners do?

Describe the activities undertaken by the Open Budget Initiative and its partners in the period preceding the impact described in section 2 above. This should include:

- routine activities that form part of the Open Budget Survey;
- targeted activities aimed at donor agencies; and
- activities initiated by civil society organization partners at country level.

4. Were the changes in donor policies and practices due to the Open Budget Initiative and its partners?

Analyze whether and how the activities implemented contributed to the impact described above through a causal chain. This should include:

- A detailed description of how donor agencies responded to the work of the Open Budget Initiative and its partners. Who in donor agencies responded, and why did they respond in this way?
- Were there specific parts of the advocacy activities that they responded to positively? Were there any negative or counterproductive responses, and what motivated these?

5. Explaining the impact

Which factors played a role in facilitating or impeding the impact of the Open Budget Initiative and its partners? Two categories of explanatory factors should be considered:

- Organizational factors: The strengths and weaknesses of the Open Budget Initiative or its partners. What role did their strengths and weaknesses in analytical, advocacy

- and organizational skills play? Staffing, staff turnover? Organizational crises?
Framing of the issue?
- Contextual factors: Were there any external/contextual factors that played an important role in the success of this campaign? Some examples could be domestic politics in donor countries, public opinion about foreign aid, aid environment at country level, etc.

6. Other contributing factors

What are possible alternative explanations for the changes that occurred? Did anything not connected to the Open Budget Initiative and its partners happen? Were any other actors or circumstances putting pressure on these donor agencies to adopt budget transparency as a key criterion? What would the situation have been if the Open Budget Initiative and its partners had not been active here?

7. Conclusion

What can be learned from this case study? What can be learned about the ways in which international civil society organizations can influence policy debates and guidelines? Any good practice lessons for other organizations with similar challenges?