



**Measuring Subnational Budget  
Transparency, Participation, and  
Accountability**  
Open Budget Initiative

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**Subnational Budget Transparency:  
An Analysis of Ten Pilot Studies**

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## Abbreviations and Acronyms

CBPP	Centre for Budget and Policy Priorities
IBP	International Budget Partnership
IMF	International Monetary Fund
NGO	Non-governmental organization
OBI	Open Budget Index
OBS	Open Budget Survey
OECD	Organization for Economic Cooperation and Development
PI	Partnership Initiative
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
ROSCs	Reports on the Observance of Standards and Codes
SN	Subnational

## Introduction

Budget transparency has many advantages: it is an important precondition for prudent fiscal policy and is generally associated with good governance (Koptis & Craig, 1998), economic performance (Alesina & Perotti, 1996), and lower deficits and debt accumulation (Alt & Lassen, 2006). In addition to generating economic benefits, fiscal transparency also functions as a political expression of democratic governance, giving to citizens and taxpayers what they are entitled to. Considering these significant benefits, the question of its properties at different levels of government arises. Indeed, an increasing amount of interest has recently been directed towards analyzing transparency at the subnational level. The fundamental idea remains the same: what documentation should governments make available to the public? Moreover, transparency both at the national and subnational levels of government opposes secrecy in government accounting and is intrinsically linked to accountability.

However, given the increased responsibility of subnational governments to deal with resource allocation and service provision, the importance of transparency at the subnational level has increased dramatically. Transparency at the subnational level is required in order to expose service delivery issues, which are a major concern in many countries. Moreover, subnational budget documents deal with items and expenditures that are particularly visible and tangible for citizens. In this sense, subnational transparency has the potential to provide answers to basic questions such as what happened to central government funds at the local level and whether plans to build a new neighborhood school, or carry out local road works were actually implemented. Although these are important questions, hardly any literature or empirical studies have specifically addressed transparency at the subnational level.

Recognizing the importance of subnational transparency as well as the scarcity of academic and policy literature on the subject, the International Budget Partnership (IBP) has commissioned ten pilot studies on the subject. The studies have been carried out by IBP's partners in Argentina, Brazil, Bolivia, Croatia, Ecuador, India, Indonesia, Mali, Mongolia and Peru.<sup>1</sup> The principal aim of this paper is to synthesize the findings of these pilot studies. In order to do so, the remainder of this paper is organized as follows: Part 1 highlights the importance of subnational transparency, reviews the existing literature on the subject, and discusses its coverage of current assessment tools. Part 2 maps the methodologies used to conduct the pilot studies by giving an overview of the studies and pointing out similarities and differences. Moreover, this part identifies three concerns with the methodologies. Finally, part 3 analyzes the results achieved, regarding both the state of subnational transparency in the ten countries as well as their dissemination attempts. Based on this analysis, the final part also draws lessons from the studies and makes recommendations for future research.

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<sup>1</sup> Please note that hereafter this paper uses the name of the partners and their countries of origin interchangeably. Moreover, transparency, budget transparency and fiscal transparency are taken to be synonymous.

## Part 1 The Rationale for Subnational Transparency

### 1.1 The importance of subnational transparency

Why is it important to focus on transparency at the subnational level? First and foremost, it should be clear that subnational governments are increasingly responsible for resource allocation and service provision. Subnational governments are defined as anything below national (or central) level and thus include the state and local government sectors, whereby a state, province, or region<sup>2</sup> is defined as the largest geographical area into which the country as a whole may be divided for political or administrative purposes (PEFA Secretariat, 2008: 4). Widespread fiscal decentralization reforms have transferred responsibilities, powers and resources from the central government to local government sectors. Transparency at the subnational level is required because it helps monitor these increased responsibilities for the execution of the budget by monitoring the practices at local or regional field offices, which are increasingly responsible for the execution of the budget.

Moreover, subnational transparency can expose holes in subnational public financial management, by linking plans to the budget. Citizens can use this information to identify the source of local service delivery issues and hold politicians accountable. The identification of local mismanagement of public funds will not only reduce corruption, but also inform the policy reform process and provide donors with risk assessments.

While fiscal transparency at the national level reveals how government funds are distributed across lower levels of government, transparency at the subnational level is required to trace those funds. In this sense, another reason why subnational transparency is important is that it enables the monitoring of policy and tracking of financial flows from the source to points of delivery. Crucially, subnational assessments allow for ex-post questions about execution, implementation and procurement, rather than just formulation and approval. For example, on the subnational level citizens can find out whether central government funds actually got to where they were supposed to and how much of those funds were spent on what kind of resources. Transparency at the subnational level provides answers to these kinds of questions, which are clearly very important in terms of creating a mechanism for accountability.

Indeed, subnational transparency enhances an accountability mechanism for items of particular concern to citizens. For example, publicly available budget information on local infrastructure projects such as schools or road works provides citizens with information they can relate to and care about. Citizens are thus more likely to identify with the budget and initiate public debate, than when confronted with information on more abstract, national issues that do not affect their daily lives. Consequently, subnational transparency enhances civic engagement and public debate.

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<sup>2</sup> These areas may be described by other terms, such as canton, republic, prefecture, or administrative region. (PEFA Secretariat, 2008: 4)

Even when countries are reasonably transparent at the central government level, this does not necessarily imply that their budgeting practices are transparent at the subnational level. In fact, countries generally tend to be more opaque at subnational level and there are often huge discrepancies between national and subnational reporting standards. South Africa, which ranks as the number one country in the most recent Open Budget Index (OBI, 2010), would most likely obtain much worse rankings for its provinces. Assessments of subnational transparency are important in order to paint a more complete picture of public disclosure of budget information in a country.

Moreover, subnational transparency assessments are particularly important for countries that allow subnational borrowing. This is the case in many countries, including Denmark, Germany, Italy and the UK, which explicitly allow subnational governments to borrow to finance investment expenditures (Ahmad et al., 2005: 12). Transparency can help to control local borrowing, a need, which arises due to the common pool resource problem. In general, it is clear that subnational transparency assessments are more relevant for federal governments than for more centralized ones.

### Box 1: Seven reasons why subnational transparency is important

Subnational transparency is important because it:

1. monitors practices of subnational governments, who are increasingly responsible for resource allocation and service provision;
2. exposes holes in subnational public financial management and thus has the potential to reduce corruption and mismanagement at the local level;
3. tracks financial flows from the source to points of delivery / provides answers to ex-post questions about execution, implementation and procurement;
4. increases accountability to the public for items of particular concern (e.g. local schools / infrastructure projects);
5. enhances civic engagement and public debate (because of 3);
6. exposes local borrowing and thus helps to control it; and
7. enables within-country comparison and fosters subnational competition.

A drawback of carrying out subnational transparency assessments in different countries is a loss of comparability. Since institutional structures, responsibilities, powers and characteristics of decentralized institutions vary considerably between countries, it appears to be difficult to find a set of common denominators suitable for cross-country comparisons. Then again, while countries do not share all characteristics, they have common features which can be compared. For example, most countries usually have some kind of system to transfer money from central to local levels of government. Even if not all aspects of subnational transparency are comparable across countries, one can compare aspects that countries have in common or restrict comparisons to countries with similar federal structures. Furthermore, there are comparability gains, as subnational assessments enable

comparisons across lower levels of government within a country. For example, governments can rank their own subnational governments, which would enable them to learn from each other's experiences and foster subnational competition.

For clarity of exposition, box 1 summarizes the above arguments in favor of subnational transparency.

### 1.2 Review of literature on subnational transparency

There is hardly any academic or policy literature that explicitly addresses subnational fiscal transparency. Most available research on transparency, which has developed from the political economy literature over the past two decades, focuses on the national level. This focus is reinforced by assessment tools such as the Open Budget Index and policy guidelines such as the International Monetary Fund's (IMF) "Code of Good Practices for Fiscal Transparency" (2007) as well as the Organization for Economic Cooperation and Development's (OECD) "Best Practices for Budget Transparency" (2002). All three, which are the main references for fiscal transparency research, define and focus on fiscal transparency at the national level. Empirical research, for example by Alesina and Perotti (1996), Koptis and Craig (1998) or Alt and Lassen (2006), has used the existing standards and thus analyzes national transparency. A main obstacle for empirical research on subnational transparency is that thus far no measurement or index has been developed for subnational transparency. Another issue is that subnational transparency assessments are more data intensive and require more specialized, local knowledge than national transparency assessments. In many countries subnational budgets are either not available at all, or they are not unified, comprehensive, or released in a timely manner (Lakin 2010: 5). These challenges serve as an explanation for the scarcity of literature on subnational transparency, despite the significant benefits outlined above.

However, there are two recent papers, which make attempts at studying budget transparency in local governments. Caamano-Allegre et al (2011) use the results from survey questionnaires designed to measure budget transparency in local governments to study 33 Galician municipalities (see Table A1 in the appendix for a copy of their questionnaire). Their survey questionnaire is composed of fifteen items based on the second, third and fourth pillars of the IMF's Code of Good Practices on Fiscal Transparency (2007) as well as the authors' practical knowledge about budgetary processes at the local level of government. In all cases, the survey was answered by the public officials responsible for pre-auditing transactions and/or accounting. Based on the survey results, the authors calculate an index score for each municipality. Differences in scores among municipalities are significant with the top-ranked municipality (Lugo) obtaining a score more than three times higher than the lowest ranked municipality (Ponteareas). Interestingly, the municipalities ranked lowest for budget transparency are also those in the worst economic situation. Results should be interpreted cautiously, however, as a significant drawback of this study is that its methodology relies on subjectivity-laden, perception-based data from internal sources.

Similarly, Beales and Thompson (2010) rank 134 localities in Virginia, US, in order to compare their performance and identify baseline standards and best practices. Based on online research of budget documents, the paper grades localities on a 100-point scale, using 16 criteria, in four categories: budget documents presented, extent, expenditure information and contract information. These categories are not weighted equally, with most emphasis placed on budget documents presented. The scope of this study is narrowly defined and focuses exclusively on online transparency of localities, i.e. whether localities make specific budget documents available online. The study concludes that localities in Virginia were generally dismal in their efforts at online transparency as only 20 localities scored more than 50 points.

### Box 2: PI's six principles of subnational budget transparency

1. Subnational governments should provide fully transparent and comprehensive information to the public regarding both budgeted and actual revenues and expenditures, through all four stages of the budget process (formulation, approval, implementation, and evaluation).
2. Subnational governments, like national governments, should be audited internally and externally, and external audit findings should be made available to the public within a reasonable time frame. A report detailing actions taken should be published within a set timeframe (laid down in regulations or law) by the auditor describing responses from officials and sanctions applied where necessary.
3. Where subnational governments have discretion over the use of funds, which have been transferred to them from other levels of government, or funds collected through their own revenue sources, opportunities should be provided for local assemblies (where these exist) and citizens to provide input into the budget process at multiple points from allocation to implementation and evaluation.
4. The executive's budget at central and subnational level should contain detailed information (quantitative and narrative) related to intergovernmental transfers, including at least their size, all rules for receiving and spending them, their distribution, the rationale for this distribution, and, where applicable, the formula by which the distribution is calculated. Where states or provinces distribute funds to district levels, the same should apply.
5. The distribution of resources across subnational units should take account of equity considerations, and should be driven by the need/demand for services, rather than exclusively "supply-side considerations" (i.e., the existing supply of infrastructure and personnel). The budget should contain narrative and quantitative information explaining how the need/demand for services is measured and its relationship to the distribution of resources.
6. Where funds are decentralized, the executive budget proposal or other publicly available and easily accessible central government documents shall contain narrative information detailing the responsibilities of each level of government for the delivery of the decentralized services, the public offices or public officials within each level of government that are responsible for specific services, and the fund flows associated with those responsibilities.

Source: Source: Lakin, 2011

In addition to these papers, the IBP has made an effort to promote research on subnational transparency. IBP's Partnership Initiative (PI) has made a useful contribution to the policy literature on subnational transparency by developing six principles to guide international efforts to improve subnational transparency. A summary of these principles are listed in box 2 above and provide a crucial step towards developing standards to which subnational governments can be held accountable (for a full list see table A2 in the appendix).

Overall, literature on subnational transparency remains scarce, but considering the increasing interest on the subject by international organizations, NGOs and civil society organizations alike, there is likely to be an upward trend in the future.

### 1.3 Coverage of subnational transparency by current assessment tools

As discussed in the previous section, there is hardly any literature on subnational transparency. Therefore, it is useful to go one step further and analyze the coverage of subnational transparency by existing guidelines and assessment tools. Although these documents do not specifically target subnational transparency, they make some interesting references, which serve as a useful starting point for further research on subnational transparency.

Two main existing guidelines that inform policy debates with respect to transparency are the aforementioned OECD Best Practices (OECD 2002) and the IMF Code (IMF 2007). The OECD's Best Practices is a more general and informal document than the IMF Code and makes no mention of or reference to subnational transparency. The IMF's Code, which is more specific about transparency requirements, makes one reference to the subnational level; in the section on public availability of information, the Code specifies that "budget documentation should report the fiscal position of subnational governments and the finances of public corporations" (IMF 2007: 3). The IMF's Reports on the Observance of Standards and Codes (ROSCs), which assesses compliance with the IMF Code, scrutinizes this requirement. However, no other references to subnational transparency are made.

The World Bank's Public Expenditure and Financial Accountability (PEFA) assessments has produced an increasing number of subnational assessments throughout the last couple of years, either as part of an overall assessment of the PFM system in a country or as stand-alone exercises for either one or more subnational entities.<sup>3</sup> Table 1 below provides details on the purpose and scope of PEFA assessments, which are either carried out by the government itself or in collaboration with development partners. In 2008, the PEFA Secretariat produced a set of detailed guidelines for subnational applications, in order to ensure the consistency of their assessments. Although these guidelines address the general state of public financial management, they contain some useful guidance on subnational transparency.

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<sup>3</sup> Links to all publicly available subnational PEFA studies are provided in table A3 in the appendix. Note that this is not an exhaustive list of all assessments produced, as PEFA requires the consent of the country under review in order to publish a report.

Table 1: Scope of PEFA assessments

Purpose	Scope	Comment
Pre assistance to a specific SN entity / Post assistance assessment of a SN entity	Single SN institution	Significant degree of autonomy from higher level
To inform SN reform (pre or post assessment) or provide a general SN assessment	Single or Multiple SN institutions	State or local government sectors with significant degree of autonomy from higher level
To inform SN reform (pre or post assessment) or provide a general SN assessment	Multiple SN institutions + higher level government	State or local government sectors with significant degree of dependence on higher levels of government
General PFM assessment	Central government	Limited or no decentralization of functions
General PFM assessment	Central government + 1 <sup>st</sup> level of SN government (e.g. state level)	In federal or unitary states where the state or regional level assumes a significant degree of responsibility for the delivery of services (and thus expenditure)
General PFM assessment	Central government + 1 <sup>st</sup> level of SN government (e.g. state level, if applicable) + 2 <sup>nd</sup> level of SN government (e.g. district level)	In federal or unitary states where significant levels of service delivery and associated expenditure have been decentralized to local level

Source: PEFA Secretariat, 2008: 8

Several of PEFA's performance indicators cover subnational transparency issues either directly or indirectly. For the purpose of this analysis, the following emphasizes three of those indicators, which offer useful insight into assessing transparency at the subnational level.

Performance indicator 8 addresses transparency of intergovernmental fiscal relations, which – given the aforementioned tendency for service delivery to be implemented locally – is particularly important at the subnational level. In its guidelines, PEFA notes that the fiscal relationship between States and lower levels of government may be set out in the Constitution or determined by specific laws that determine the layers of subnational government, the expenditure responsibilities and revenue sharing arrangements (PEFA Secretariat, 2008b: 12). In this context, the PEFA Secretariat highlights another particularly interesting point: “Given the increasing tendency for primary service delivery to be managed at subnational government levels, correct interpretation of sectoral resource allocation and actual spending effort require tracking of expenditure information at all levels of government according to sectoral categories (which may or may not correspond to the GFS functional classification), even when this is not the legal form in which the budget is executed” (ibid.). This argument reinforces the previous point regarding the potential of subnational transparency to uncover service delivery issues. In this context, the third dimension of performance indicator 8, which is listed in box 3 below, addresses the extent to which subnational governments can generate fiscal data on a sectoral basis. Table A4 in the appendix provides more detailed information regarding the scoring methodology for this indicator.

Box 3: Dimensions of PEFA indicator on inter-governmental fiscal relations

- (i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from higher level SN government (both budgeted and actual allocations);
- (ii) Timeliness of reliable information to lower level SN governments on their allocations from higher level SN governments for the coming year;
- (iii) Extent to which financial information (at least on revenue and expenditure) is collected and reported by SN government according to sectoral categories.

Source: PEFA Secretariat, 2008: 17

In addition to this, the PEFA Secretariat has developed a new indicator for its subnational assessments, which addresses the predictability of transfers from higher level of government. These transfers include all revenues transferred from higher level government either in the form of block or earmarked grants as well as shared revenues which are not collected and retained by the subnational government. This is highly relevant, as poor predictability of inflows of these transfers affects the subnational government's fiscal management and its ability to deliver services. Insofar as this indicator addresses information on transfers from higher-level government, it offers useful guidance to future assessments of subnational transparency. As a reference for how this can be done, box 4 sets out the three dimensions along which this indicator is assessed and table A5 in the appendix details the scoring methodology.

Box 4: Dimensions of PEFA indicator on predictability of transfers from higher level of government

- (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.
- (ii) Annual variance between actual and estimated transfers of earmarked grants.
- (iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year).

Source: PEFA Secretariat, 2008: 53

Finally, performance indicator 23 addresses availability of information on resources received by service delivery units and is assessed against one dimension, which is specified as follows: "Collection and processing of information to demonstrate the resources that were actually received (in cash and in kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units." The scoring methodology for this indicator can be found in table 2 below. Since the indicator is concerned with service delivery, it addresses an issue of particular concern. However, the indicator's one-dimensional assessment and general scoring methodology are fairly vague.

Table 2: PEFA scoring methodology for performance indicator 23

Score	Minimum requirements (Scoring methodology: M1)
<b>A</b>	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the SN's governance jurisdiction. The information is compiled into reports at least annually.
<b>B</b>	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the SN's governance jurisdiction with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).
<b>C</b>	(i) Special surveys undertaken or special reports produced* within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the SN's governance jurisdiction OR by primary service delivery units at local community level in several other sectors. * Special reports may be more appropriate than special expenditure tracking surveys in some local government assessments.
<b>D</b>	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

Source: PEFA Secretariat, 2008b: 39

Overall, the PEFA Secretariat's guidelines on public financial management assessments at the subnational level include some interesting coverage of subnational transparency issues. Future guidelines on subnational transparency assessments can draw from PEFA's experiences, especially with respect to redesigning already existing national guidelines for the subnational level.

## Part 2 Mapping the Pilots' Methodologies

### 2.1 Background and overview

With the aim of developing budget transparency standards at the subnational level, International Budget Partnership commissioned ten pilot studies in Argentina, Brazil, Bolivia, Croatia, Ecuador, India, Indonesia, Mali, Mongolia, and Peru. Research organizations in all ten countries were assigned to analyze the state of subnational transparency in their country, whereby they were instructed to develop their own methodology. At this point, each partner organization has submitted at least two separate reports that describe the methodologies employed and results achieved. The following maps out the pilots' methodologies.

All pilot studies seem to have subscribed to the IBP definition of budget transparency, even though this is not always explicit. This means that the studies place emphasis on public access to budget

information as the most important condition for transparency.<sup>4</sup> The IBP defines “publicly available information as that which any and all members of the public might be able to obtain through a request to the public authority issuing the document” (International Budget Partnership, 2010). Their definition “includes information that is available through well-defined procedures that ensure simultaneous release of public documents to all interested parties, as well as information or documents that are available only on request” (ibid.).

In order to provide an overview of the pilots’ methodologies, table 3 below lists by country the number of units covered, the questions asked, the main methods used as well as the name of the partner organization. As indicated in the table, all pilots covered more than one unit, ranging from 6 units in Bolivia to 42 units in Indonesia. It is important to emphasize that the type and size of units under review varied greatly. For example, the Ecuadorian study analyzed 13 municipalities, whose combined area is smaller than one of the ten states examined in the Indian study. The Peruvian study examined 25 regional governments, while the study on Mali analyzed eight communes in the country. This means that across the ten pilots, there is a vast difference in type, size, and structure of the units covered.

Table 3: Overview of the ten pilot studies

(1) Country	(2) Units	(3) Number of questions	(4) Type of questions	(5) Strategy / main methods	(6) Name of partner organization
Argentina	24 jurisdictions (particular focus on 6)	30	Most multiple-choice (part 1), some open questions (part 2)	<ol style="list-style-type: none"> <li>Investigation of availability of budget information online in 24 jurisdictions (through OBS like table)</li> <li>Questionnaire on 6 provinces on the budget process and intergovernmental transfers</li> </ol>	Centro de Implementacion de Politicas Publicas para la Equidad y el Crecimiento (CIPPEC)
Bolivia	6 regions	51		<ol style="list-style-type: none"> <li>Investigation of availability of budget information online in 6 regions (through survey with 51 questions)</li> </ol>	Centro de estudios para el desarrollo laboral y agrario (CEDLA)
Brazil	27 capitals	58	Multiple-choice (available vs unavailable for part 1 and Likert-type for part 2)	<ol style="list-style-type: none"> <li>Investigation of availability of online budget information in 27 capitals (through questions based on 58 indicators)</li> <li>Questionnaire on 27 capitals on the budget process (perception based)</li> </ol>	Institute of Socioeconomic Studies (INESC)
Croatia	33 cities	52	Most multiple-choice,	<ol style="list-style-type: none"> <li>Investigation of availability of online budget information in 33 cities (through</li> </ol>	Institute of Public Finance (IPF) Croatia

<sup>4</sup> Note that this is different to PEFA assessments, which allow points for comprehensiveness, even if a budget document is not publicly available.

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			some open questions	questionnaire with 52 questions) 2. Questionnaire on the subnational budget process (through 200 perception-based surveys)	
Ecuador	13 municipalities	83	Multiple-choice	1. Investigation of availability of online budget information and budget process in 13 municipalities (through 83 questions)	Grupo FARO
India	10 states	122	Most multiple-choice, some open questions	1. Investigation of availability of online budget information and budget process in 10 states.	Centre For Budget and Governance Accountability (CBGA)
Indonesia	42 local governments	98	Multiple-choice (Likert-type)	1. Review of 21 documents in each of the 42 local governments 2. Construction of several indices based on findings	National Secretariat of Indonesian Forum for Budget Transparency (Seknas FITRA)
Mali	8 communes	62	Multiple-choice	1. Questionnaire based on the stages of the budgetary process	Groupe de recherché en économie appliquee et theorique (GREAT)
Mongolia	22 (21 aimags + capital city)	60	Multiple-choice (Likert-type)	1. Investigation of availability of online budget information and budget process (with emphasis on public access to 10 key budget documents).	Open Society Forum Mongolia
Peru	25 regional governments		Multiple-choice	1. Investigation of availability of online budget information and budget process (through survey) 2. Three case studies on regional governments	Grupo Propuesta Ciudadana

As shown in table 3 above, the number of questions ranged from 30 in Argentina to 122 in India. Most of the questions were closed-ended, with answer choices such as 'yes', 'no', or 'not applicable' such as in Mongolia's questionnaire or 'available' or 'unavailable' in the first part of Brazil's questionnaire. Others formulated questions in form of perception based, Likert-type multiple-choice questions, ranging from 'fully agree' to 'fully disagree', such as in the second part of Brazil's questionnaire. The main rationale for using closed-ended questions was the possibility to quantify answers and thus construct an index. Some pilots used a mix of multiple-choice and open-ended questions, just like the Open Budget Survey (OBS) questionnaire. The Argentine, Indian and Croatian studies, for example, employed both open-ended and closed-ended questions and used the former to substantiate the responses given to the latter type of questions.

Along the lines of the OBS, the content of the pilots' questionnaires generally focused on how and when budget documents are disseminated. The overall methodologies of the ten case studies drew heavily from the OBS, which for the purpose of comparison can be summarized as follows: the questionnaire contains a total of 123 questions, more than two-thirds of which evaluate public access to budget information and are averaged to form the Open Budget Index. The remaining questions cover topics related to opportunities for public participation in the budget process and the ability of key oversight institutions of government to hold the executive accountable. Overall, the survey groups questions into three sections: the dissemination of budget information; the executive's annual budget proposal to the legislature and the availability of other information that would contribute to analysis of budget policies and practices; and the four phases of the budget process. (International Budget Partnership, 2010)

Although the partners were encouraged to develop their own methodologies, they generally adopted the OBS methodology and carried out the following two-folded strategy: most studies first investigated online availability of budget documents and then analyzed the budget process in their chosen units (see column 5 of table 3 above). This structure corresponds to sections one and three of the OBS. In order to determine online availability, the pilots used a number of different strategies. The Argentine pilot, for example, used a table almost identical to the one used in the OBS, which was filled out internally by the partner's researchers in order to measure the online availability of budget documents in 24 jurisdictions. The studies on Indonesia, Ecuador, Mongolia, and Mali also used an OBS-like table for this purpose. Brazil used a budgeting specialist who researched and verified availability of relevant budget information on municipal websites. Availability was determined based on 58 indicators along the dimensions of budget formulation, access to budgetary legislation, content of budgetary legislation, budget execution, budget execution of the legislature, and budget evaluation. Similarly, the Croatian study analyzed the availability of budget documents on cities' official web pages. On this basis 52 questions were answered and the state of subnational transparency evaluated.

As a second strategy, most pilots adopted the third section of the OBS and thus analyzed the budget process, particularly opportunities for public participation and the ability of key oversight institutions to hold the executive accountable. Questions in this section were generally addressed through perception-based surveys. For example, the study on Mali carried out surveys with questions on revenue and expenditure estimates, the comprehensiveness of the information in the budget, the narrative budgetary analysis, and budgetary execution oversight. More specifically, this section of the study dealt with the communal executive committee's budget proposal, as well as the different phases of the budgetary process. The Croatian pilot carried out two hundred survey questionnaires in order to obtain insight into the local budgeting processes and problems relating to local budget transparency in each city under review. Similarly, the Brazilian pilot evaluated local budget processes by asking specialists working in civil society organizations, the Parliament, Academia and in the printed media about their agreement or disagreement with statements about local budget management procedures.

The pilots' chose a variety of agents to answer the surveys. The description of these agents was often vague and it was not always clear on what basis they were chosen. For example, the study on Mali reported that "two city hall officials, a technical and financial partner, and a civil servant answered the questionnaires." The Mongolian questionnaire was completed by "individual researchers based on a mix of interviews with officials, onsite inspections of information documents, and review of legal and other public documents." The responses to all 52 questions in the Croatian study were prepared "in house," principally through the analysis of budget documents and cities' official web pages.

Although responsibility was placed with one main partner in each country, most of them contacted NGOs or civil society organizations in the regions under review, in order to carry out the surveys locally. For example, the Indian partner contacted ten civil society organizations, one in each of the selected states, in order to implement their questionnaire strategy. The Mongolian partner selected one agent for three to four units. The obvious advantage of using agents in the relevant regions is that they have better insight into local budget documents and procedures than the partner organizations generally located in the capital of the country. Obvious challenges that arise when using different agents for each unit are consistency and comparability.

To ensure the quality of the assessment, some partners identified peer reviewers, who commented on first draft versions of the questionnaires and gave feedback. In the Argentine study, for example, a peer reviewer, who was part of the partner's project team and not involved in conducting the interviews, revised the consistency of the information provided as a means to establish a control mechanism. In the Indian case, the peer reviewer was either an independent expert in the field of budgets and public finance or a retired government official who has worked with the Finance Department of the state. In this case, the Indian state partners identified one peer reviewer per state, which means that this review mechanism did not control for consistency across states. The Croatian partner mentions two reviewers in their study, but it is not clear who they are and how they were chosen. The other partners do not report to have used independent reviewers, which again raises issues of consistency and comparability.

## 2.2 Advantages of the methodologies

Although the pilots generally used fairly similar methodologies, some took nuanced approaches to assessing subnational transparency. The following highlights those pilots that worked particularly well and explains why by emphasizing the advantages of their methodologies.

In addition to using the survey with the most questions, another distinguishing feature of the Indian pilot is that it investigates practices relating to budgeting for disadvantaged sections of the population, in particular women (gender budgeting), scheduled castes (scheduled caste sub plan) and scheduled tribes (tribal sub plan). This is an interesting approach, which could be adopted for other sections of society, for example in an assessment of budgeting for children or healthcare. The questions used in the Indian pilot (see box 5 below) offer an interesting example for how to investigate subnational

transparency practices relating to budgeting for specific sections. The advantage of analyzing the budgeting for sections of the population is that it facilitates comparative analysis across states. Moreover, it gives insight into the budgeting practices different states adopt to address specific concerns, for example with respect to women. Consequently, states are given an opportunity to learn from each other's experiences and are encouraged to implement best practices in this area.

### Box 5: Questions from the Indian pilot on budgeting for disadvantaged sections of the population

- Does the process of planning in the State include relevant (planning) strategies meant for the disadvantaged sections of population, such as, Women's Component Plan (WCP), Special Component Plan for the Scheduled Castes (SCP for SCs) and a Tribal Sub Plan (TSP)?
- Whether the main/supporting budget documents provide information on allocations and expenditures (from the State Budget) on WCP, SCP for SCs and TSP?
- Whether the main/supporting budget documents or the other related documents explain on what basis have the State Govt. Departments reported their allocations and expenditures towards WCP, SCP for SCs and TSP?
- Whether the performance of the State Govt. in implementing WCP, SCP for SCs and TSP is assessed regularly?
- Does the State Govt. follow relevant budgeting practices pertaining to Gender Responsive Budgeting?

The main advantage of the Brazilian pilot is its focus on the execution phase in its assessment of subnational transparency. The Brazilian perception-based survey asks questions, such as whether it is possible "to find disaggregated budget execution actions per element/object of the expenditure in the transparency website or portal from the municipal government" or "to identify the transfer of resources to each of the public schools of the local school network." Moreover, the number of questions on contractors and bank information is particularly interesting. The questions in this section of the survey provide interesting examples for how to address issues on budget execution.

The study on Argentina carried out six case studies, which provided interesting information in addition to analyzing online availability of budget documents like most of the other pilots. Each of the provinces are assessed according to budget process, budget presentation to the legislature, budget amendments, reports on implementation and accountability of the year, intergovernmental fiscal transfers, and transfers to municipalities. What works well with this methodology is that the case studies allow a closer look at the state of subnational transparency in these provinces. Moreover, since the issues under review remain constant for each case study, the methodology allows comparison across provinces. Particularly interesting is the emphasis on intergovernmental transfers, particularly in terms of their credibility, timeliness, dependence and discretion. By tracing the development of automatic and non-automatic transfers between 2007 and 2011, the case studies show whether provinces increased or decreased their reliance on intergovernmental transfers over that time period. Each case study also contains a paragraph regarding the transparency of transfers to

municipalities. This paragraph provides information regarding the publicity and level of detail of transfers to municipalities, which appears to vary greatly across provinces. As municipalities in Argentina carry out important functions, such as public works, this assessment is particularly valuable. The analysis also provides detailed information on the regulatory framework as well as on the four phases of the budget process in each province.

In addition to the development of a quantitative assessment and subnational transparency index, the Peruvian survey also includes case studies on the Departments of Piura, Cusco, and Lambayeque. The emphasis in these three case studies is placed on the supply of budget information and identification of civil society's demand for public information, particularly the information requirements of the participatory budgeting monitoring committees. This method provides a region-wide assessment of mechanisms that have been implemented in fulfillment of domestic laws to facilitate citizen participation and monitoring, access to information and accountability. The Peruvian Law of Transparency and Access to Public Information provides that transparency portals must publish information. The focus on information portals for this purpose is particularly interesting as this is a medium that is widely used to communicate subnational budget information. Moreover, another highlight of this study is that the Peruvian pilot looks at a multi-year period, which enables comparison of subnational transparency over time. This is a desirable feature for subnational transparency assessments.

Overall, the nuanced approaches taken by the pilots point to interesting avenues for future research in this field. Future attempts to derive a methodology for subnational transparency assessments can draw from a combination of the advantages highlighted above.

### 2.3 Disadvantages of the methodologies

As discussed in part one of this paper, a key challenge to subnational transparency research is that at this point there are no international guidelines that researchers can use to carry out empirical analyses. The methodologies presented in the ten pilots commissioned by the IBP are a first step towards developing such guidelines. However, there are at least three disadvantages of the pilots' methodologies, which should be taken into account.

First, the studies used the OBI methodology, which was originally formulated to analyze transparency at the national level. Although the pilots generally tried to adapt questions to the subnational level, they simply replaced certain words and hardly asked any new questions. Consequently, crucial issues such as budget execution in general and service delivery in particular received too little attention. Moreover, questions were not very precise and lacked the specificity required to capture the nuances of transparency on the subnational level.

Second, most surveys asked questions without evaluating the quality of information or assessing the consistency and validity of the information. Although some partners identified peer reviewers as indicated above, this process was not always clear and cannot be assumed to have included thorough

fact checking. Especially in cases where different reviewers scrutinized the results in different unit, concerns with the consistency and objectivity of the results across units remains.

Finally, the methodologies of several pilots combined objective and subjective measurements in their indices. The latter, mainly in form of perception-based answers to survey questions is likely to have introduced biases and generally threatens the objectivity of the measurements. Based on these concerns, the results presented should be interpreted cautiously.

## Part 3 Results Achieves and Lessons Learned

### 3.1 The state of subnational transparency

All pilots created an index based on the answers obtained through the questionnaires. In most studies the maximum score in each questionnaire was 100 points and all indices ranged from 0% to 100%. Typically, each answer or combination of answers was assigned a number of points, in some cases weighted according to sections. Notably, the pilots chose different aspects of the study as a basis for the index, for example some included the section on online availability of budget information, while others did not. The Brazilian study created an index based on the section on online availability of budget documents and assigned the number 'one' to represent the result 'available,' and 'zero' when the variable was 'unavailable.' An individual score was then used to classify each municipality in a transparency index from 0 to 100, whereby 80 to 100 points was classified as a 'very good' and 0 to 20 points as a 'very bad' level of transparency. Similarly, the Indian study assigned a scorecard to each state, in which each of their eight broad transparency parameters received a score between 0 and 100 percent.

Based on the indices, the state of subnational transparency in the ten countries appears mixed. While cross-country comparison is not possible due to differences in methodology and units covered, the indices enable within-country comparisons, across units. All partners found high variability across units, i.e. the rankings show vast differences in transparency between the worst and best performing units in each country.

In the Croatian pilot, the average of their main subnational transparency index shows that 57 percent of the expected local budget information was obtained, with a minimum score of 34 percent and a maximum score of 79 percent. The additional index showed that cities provided 82 percent of the expected openness to the public, with a minimum score of 47 percent and a maximum score of 100 percent. The general measure of local budget transparency in Croatia is 65 percent on average. Some of the main problems encountered in many Croatian cities were the lack of the functional classification of expenditures in the budget documents, the explanations of revenues and expenditures by economic classification, the Citizens Budget, adequate data for the previous and the

following two years and macroeconomic forecasts, and the unsatisfactory responses of the ministries and local units to citizens' requests for information.

The study carried out in Mali found that a large number of budget documents are not made publicly available at the subnational level (e.g. approved budget proposal, citizen's budget, in-year and mid-year reports). Moreover, the communal budget proposal did not provide information about economic forecasts, links between the budget and the public policy objectives made by the central government and the commune, execution indicators, information about government poverty reduction policies, or an analysis of the distribution of the tax burden.

In Mongolia, the pilot found that only about 20 percent of all available 220 documents are freely available to citizens, either through the Internet or as free publications that can easily be located by the citizens. However, in Ulaanbaatar, the capital, budget documents were much more accessible to citizens, particularly in form of web based distribution of different budget documents.

Since the Peruvian study covers a period of three fiscal years as opposed to most other pilots, which covered one fiscal year, the results analyze the trajectory of subnational transparency over this time period. Their results show that regional governments have maintained and improved their performance on transparency portals between 2007-2009 compared to the period between 2004-2006. The number of regional governments that perform well, i.e. provided complete and updated information, has increased from 5 in March 2007 to 18 in December 2009.

Overall, these examples show that in each country there are large differences regarding the state of subnational transparency. However, countries share at least four types of common challenges:

### **1) Budget information not available to the public**

Most pilots report cases in which budget information exists but is not made available to the public. The Indian pilot reports that the state governments under review are not providing all budget documents for the latest year as well as previous years on the government website. The Mongolian study finds that many documents are produced for official use only. Notably, many documents that are for official use only in some provinces are public documents in other provinces. Publishing these documents would allow provincial governments to improve transparency in a quick and easy manner. Similarly, in Argentina the provinces of Mendoza, Córdoba, and San Juan produce much of the required budget information but they are not publicly available. This was also the case in Tierra del Fuego, but in December 2010 the province launched a web portal<sup>5</sup> with a series of budget documents and other budget information.

Subnational units should be encouraged to publish available information on the Internet, which is an obvious and fast solution to this problem. Legislation can be a powerful tool to make this happen. Ministries of finance can define by law what documents should be on the official local websites and

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<sup>5</sup> See <http://gestiontransparente.tierradelfuego.gov.ar>

how they should be presented. Moreover, it is important that citizen's requests for information are answered fully within a reasonable amount of time. This, too, can be formalized through legislation, for example requiring replies within 15 days.

## **2) Budget documents not in understandable form**

Timely release of important documents in an understandable form has also been cited as a main challenge. The Croatian survey lists unintelligible legal terminology, frequent changes in budget classifications, and lack of time and basic information about the local budget and local budget process as key challenges. Legislating a citizen's budget can overcome these challenges. A key to budget documents can also help. The Indian pilot finds that only three out of ten states produce such a document, which greatly enhances the comprehensibility of budget documents. Overall, the experience of the pilots shows that there is generally room for improvement regarding the comprehensibility of subnational budget documents.

While publishing budget documents in understandable form is undoubtedly important, it is also crucial that stakeholders are educated about the budget. The Croatian survey finds that less than half of respondents understand the local budget documents. It is therefore crucial that ministries of finance, media and citizens receive education on local budget and local budget process. Education encourages citizens to participate in the local budgeting process and demand simple, timely, full, correct, and understandable information.

## **3) Legislation discrepancies between central and subnational governments**

Pilots cite legislation discrepancies between central and subnational governments as a challenge. Laws are often complicated, which means that they can be interpreted in different ways. Moreover, frequent changes in laws and regulations can make it difficult for local units to fulfill their duties. In this context, the Brazilian study recommends that a Budget Transparency Law should establish sufficient and clear parameters for all member-states and smaller governmental entities. This is particularly important in cases where there are too many local units, as is the case in Croatia where there are 576 local units that are mostly poorly equipped and low in capacity.

## **4) Data collection is problematic**

Many pilots have reported issues with data collection. In addition to the problem of mere availability, another problem is that expenditure data is often aggregated at a high level, which makes it impossible to analyze local public service delivery issues. For example, the Brazilian pilot cites that many regions only publish isolated expenditures, which makes it impossible to trace payments benefiting a given individual or company. While maximum disaggregation of expenditure data is important, it is also crucial to provide citizens with expenditure information in broad classification, for example, by large areas (health, education, housing, etc.).

## 3.2 Dissemination of results

All partners made efforts to disseminate the results of their studies through various media channels. Publications were traced in national and local newspapers as well as web portals and blogs. Some partners also participated in seminars to present the results to local budget authorities. Argentina, Bolivia, Brazil, and Croatia provided the IBP with comprehensive media clips detailing the number of articles they traced in print and online media. Others, such as Ecuador and Mongolia announced their dissemination plans, but have not followed up with a report of actual dissemination successes.

Brazil's study was exceptionally widely disseminated, with over 300 online entries in newspaper portals and blogs. The Brazilian Institute for Socioeconomic studies traced numerous articles and news releases in the country's main newspapers as well as in several regional and local newspapers. Many of these publications also published the rankings based on the study's regional index on subnational transparency. Local media reported the ranking of their region and compared the state of subnational transparency in their region to the national average. This kind of local media interest demonstrates the potential of subnational transparency analyses to provoke regional competition.

In addition to dissemination of results to national and local media channels, the Argentine CIPPEC also published their results in a working paper. This working paper on the state of provincial transparency was followed up by meetings, emails, and telephone talks with authorities from the government of Tierra del Fuego, Córdoba, Province of Buenos Aires, and Salta. Moreover, the working paper was also relatively widely disseminated, with 15 separate articles in local and national print media and 22 entries in online portals and blogs.

The Croatian study was cited in a number of commentaries in both print and online media, as well as in radio shows and on TV. Interestingly, the full rankings of the 33 cities in terms of the state of their subnational transparency was printed in most of the media articles. Moreover, 26 web entries as well as several newspaper articles and commentaries were found on Bolivia's study.

Overall, the factor that appears to have grabbed most media attention across the board was the rankings, which facilitate comparison across subnational units. Prior to the publication of these pilot studies, there was no way of comparing the state of subnational transparency in one region to another. In facilitating subnational comparison, the pilot studies open up possibilities for within-country competition, which may push regions to improve the state of their transparency as they strive to improve their position in the league table. Clearly, media dissemination is key to foster this kind of competition and the pilot studies have shown that by and large there is media demand for this kind of information.

## 3.3 Lessons learned

Based on the above analysis, the key lesson learned is that a carefully-formulated methodology is essential for subnational transparency assessments. Flaws in the methodologies proved to be the

single biggest obstacle to the implementation of the pilots. At this point, neither the literature nor existing policy tools provide standardized guidelines on how to carry out an analysis of transparency at the subnational level. This gap needs to be filled.

As pointed out in above analysis, the studies emulated the OBI's methodology without changing it to meet the needs of subnational analyses. A possible explanation for why most partners relied heavily on the OBS is that they decided to rely on the already established ground-rules. Since their main task was implementation of subnational assessments, insufficient time may have been spent on the development of the methodology. A lesson for the future is thus to spend sufficient time on carving out and defining an appropriate methodology as well as to employ an external agent not too immersed in the OBS methodology to provide impartial guidance. IBP's can assist the development of a methodology by using their experience with subnational transparency to provide comments on this process.

In order to use the potential of subnational transparency to uncover issues with service delivery, questionnaires need to identify what happened to government funds when they reached the city, state or region. Another takeaway from the pilots is that current OBS questions are too general on execution, implementation and procurement, which is appropriate for national assessments but not for subnational ones. Future questionnaires should be diagnostic and contain more specific questions about outputs and service delivery. As this analysis has shown, PEFA's experience in redesigning its guidelines (see PEFA Secretariat 2008a, b), as well as existing public expenditure tracking surveys (PETS), which The World Bank first piloted in Uganda in 1996, could be useful sources of inspiration (see for example Dehn, Reinikka & Svensson, 2003).

Another lesson learned from this analysis is that follow-up research should consider different ways of thinking about the subnational level. The pilots generally looked at the different states, provinces or municipalities of a country. Future studies could focus on sectors rather than simply the national and subnational divide. For example, one approach could be to analyze departments, e.g. health or sectors that relate to several departments. A question to consider is whether it would be possible to assess the implications of the budget for children. The questions used in the Indian pilot regarding budgeting for disadvantaged sections of society offer an interesting starting point for how to investigate subnational transparency practices relating to budgeting for specific sections. Moreover, the third dimension of PEFA's performance indicator on the transparency of intergovernmental fiscal relations exemplifies another way of addressing this issue.

## Conclusion

As the importance of subnational governments in resource allocation and service provision increases, so does the importance of transparency at the subnational level of government. Given this premise, this paper has provided several reasons why transparency at the subnational level is important. Indeed, transparency monitors practices of subnational governments, who are increasingly responsible for resource allocation and service provision. Moreover, transparency exposes holes in subnational public financial management and tracks financial flows from the source to points of delivery. Accountability to the public for items of particular concern are increased and civic engagement and public debate enhanced. Finally, transparency helps to control subnational borrowing, enables within-country comparison and fosters subnational competition.

Based on these significant benefits, it is surprising that hardly any academic or policy literature exists on the subject. One explanation for the scarcity of literature is that national budget transparency is still a relatively new concept, which has developed over the past two decades, and existing literature and policy guidelines have thus far focused on the national level as the first unit of analysis. However, there is increasing demand for research on and development of standards on subnational transparency. The PEFA Secretariat has published several subnational assessments throughout the last few years and has recently produced a set of detailed guidelines for subnational applications. Future guidelines on subnational transparency assessments can draw from PEFA's experiences, especially with respect to redesigning already existing guidelines for the national level.

Responding to the increased demand on subnational transparency research, the International Budget Partnership has commissioned ten pilot studies in Argentina, Brazil, Bolivia, Croatia, Ecuador, India, Indonesia, Mali, Mongolia and Peru. The methodologies of the ten case studies largely replicated the methodology of the Open Budget Survey. All pilots carried out some kind of investigation of availability of online budget information, either through OBS like tables or multiple-choice questions. Moreover, most pilots also emulated the third section of the OBS, by implementing questionnaires on the budget process in the units under review. Some pilots took nuanced approaches to analyzing subnational transparency, which open up interesting input for future research.

Based on the answers obtained through the questionnaires, the pilots created indices. While comparison across countries is not possible due to differences in methodology and units covered, the indices enable comparison across units. The state of subnational transparency in the ten countries appears mixed: partners find high variability across units in all countries, as the rankings show vast differences in transparency between the worst and best performing units in each country. All partners made efforts to disseminate the results of their studies through various media channels. Publications were traced in national and local newspapers as well as web portals and blogs. However, there are at least three concerns with the pilots' methodologies, which urge careful interpretation of the results. First, the studies used the OBI methodology, which was originally formulated to analyze transparency

at the national level. Second, most surveys asked questions without evaluating the quality of information or assessing the consistency and validity of the information. Third, the methodologies of several pilots combined objective and subjective measurements in their indices.

Based on the analysis provided by this paper, one main recommendation for future research remains: the International Budget Partnership should make an effort to help redesign the current OBI methodology to meet the needs of subnational assessments. In particular, a detailed set of guidelines that can be used for future subnational transparency assessments should be produced. These guidelines should include specific questions about outputs and service delivery and consider different ways of thinking about the subnational level, for example in terms of sectors or sections of society. PEFA's experience in redesigning its guidelines for national assessments, the World Bank's PETS as well as the experience from the ten pilots are useful sources of information for establishing new and much needed ground rules for subnational assessments. On this basis, IBP can facilitate and promote more and better subnational budget transparency assessments, which eventually will enable citizens across the globe to hold their governments accountable.

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## Appendix

Table A1: Survey questionnaire on municipal budget transparency (Caamano-Allegre 2011: 8)

<b>QUESTIONNAIRE FOR DATA GATHERING (SURVEY ON MUNICIPAL BUDGET TRANSPARENCY)</b>					
<b>MUNICIPAL GOVERNMENT:</b> .....					
GOVERNMENT OFFICIAL (position of the surveyed): .....					
<b>INSTRUCTIONS:</b>					
Please indicate your level of agreement with the following statements as they pertain to your municipality: 5 indicates strong agreement, 4 agreement, 3 neither agree nor disagree, 2 disagreement and 1 strong disagreement.					
		Full disagree		Full agree	
		←—————→			
1) The budget is made in accordance with the established timeline (with no or rare continuing appropriations) and documentation is submitted to the opposition parties early enough for their analysis (i.e. earlier than scheduled budget meetings).....	1	2	3	4	5
2) Budget estimates and underlying economic assumptions are accurate and realistic.....	1	2	3	4	5
3) Over the fiscal year, periodic information on budget execution is submitted on time to the entire Assembly (art. 207 TRLHL).....	1	2	3	4	5
4) Budget liquidation and general account are presented on time and incorporate the elements necessary to critically evaluate management (justification of budgetary changes, interannual comparison, explanation of the primary deviations.....)	1	2	3	4	5
5) Budget liquidation is subject to public debate in the Assembly.....	1	2	3	4	5
6) Financial accounting accurately reflects the patrimonial situation (amortizations, consistency principle, inventory, non-accounted invoices).....	1	2	3	4	5
7) Arrears and non-accounted invoices do not significantly distort budget liquidation.....	1	2	3	4	5
8) Spending programs are submitted to an efficiency analysis (cost-benefit, cost-utility...) and, in the case of investments, to a study of their effects on running costs.....	1	2	3	4	5
9) Citizens participate, to some extent, in creating a spending budget (it would comprise of the public consultation procedure and other ways in which a transparent participation is assured).....	1	2	3	4	5
10) Budgetary information is available and easily accessible on- and off-line for consultation by citizens.....	1	2	3	4	5
11) In local public employment, conditions for access and promotion are established and fulfilled in such a way as to ensure transparency and equal opportunity.....	1	2	3	4	5
12) Actual observance of the public procurement regulations guarantees the integrity, transparency, impartiality and competition in this municipal management area.....	1	2	3	4	5
13) Budgeted grants are almost always awarded by competitive merit based review.....	1	2	3	4	5
14) At least a 70% of the budgetary expenditures are submitted for pre-audit.....	1	2	3	4	5
15) External auditing bodies receive timely documentation of the municipality's financial management, and issue reports, from which the municipality takes corrective action (in this case, "documentation" refers to budget liquidation, general account, lists of contracts and inter-governmental agreements, list of agreements to regularise irregular expenditures, etc.).....	1	2	3	4	5

Table A2: Full list of PI's subnational principles on budget transparency, participation and financial management (as of 07 July 2011)

<p><b>Principle 1</b></p>	<p>Subnational governments should provide fully transparent and comprehensive information to the public regarding both budgeted and actual revenues and expenditures, through all four stages of the budget process (formulation, approval, implementation and evaluation). Subnational revenues covered by this principle include funds generated internally by subnational governments, as well as transfers from central government in any form (conditional, block grants and so on). The formats for reporting on revenues should be consistent across phases of the budget process and levels of government, allowing for a clear picture of all fund flows to subnational units, and comparability across units. The reporting should be timely, sufficiently disaggregated, and in accessible (understandable) formats, to ensure that it is usable. All reports should contain an executive summary in simple language, with minimal technical jargon. Information should be made freely available both online and in public places.</p>
<p><b>Principle 2</b></p>	<p>Subnational governments, like national governments, should be audited internally and externally, and external audit findings should be made available to the public within a reasonable time frame. Since not all subnational units are audited externally every year, internal audit reports should also be made available on a regular basis. Where concerns have been identified by the auditors, government officials should be provided with a reasonable time frame to respond to audit findings, after which provision should be made for appropriate action to be taken to hold officials accountable for misuse of public funds where this has occurred, and recovery of those funds where possible. A report detailing actions taken should be published within a set timeframe (laid down in regulations or law) by the auditor describing responses from officials and sanctions applied where necessary. This report should also include information on the aggregate number and type of disciplinary proceedings that are in progress, but where no action has yet been taken. These reports should also contain a summary in simple language at the front.</p>
<p><b>Principle 3</b></p>	<p>Where subnational governments have discretion over the use of funds which have been transferred to them from other levels of government, or funds collected through their own revenue sources, opportunities should be provided for local assemblies (where these exist) and citizens to provide input into the budget process at multiple points from allocation to implementation and evaluation. Government should explain the specific issues upon which citizens are being asked to comment and the reasons why citizen inputs are being requested. These inputs should be acknowledged explicitly by government, and explanations should be made available for how these inputs were handled (i.e., input accepted, input accepted but modified with reasons, input rejected with reasons, etc.) Where participatory processes exist at local level for citizens to input into the planning or budget process, clear regulations should explain what those inputs are intended to be used for, and how this input will be accounted for in the central and provincial budget process, so that local participation has a concrete impact on national planning and budgeting. Legal protection should exist for minorities and disadvantaged groups to protect them from discrimination and ensure that they have genuine opportunities to participate.</p>
<p><b>Principle 4</b></p>	<p>The executive's budget at central and subnational level should contain detailed information (quantitative and narrative) related to intergovernmental transfers, including at least their size, all rules for receiving and spending them, their distribution, the rationale for this distribution, and, where applicable, the formula by which the distribution is calculated. Where that formula is based on inputs derived from other</p>

	sources, those inputs shall also be made available so that the public may verify the formula. Where states or provinces distribute funds to district levels, the same should apply. To the extent possible, information should be provided on a multi-year basis to facilitate planning at subnational level.
<b>Principle 5</b>	The distribution of resources across subnational units should take account of equity considerations, and should be driven by the need/demand for services, rather than exclusively “supply-side considerations” (i.e., the existing supply of infrastructure and personnel). The budget should contain narrative and quantitative information explaining how the need/demand for services is measured and its relationship to the distribution of resources. Where other factors also influence the distribution of funds, a rationale for the use of these factors should also be included.
<b>Principle 6</b>	Where funds are decentralized, the executive budget proposal or other publicly available, easily accessible central government documents shall contain narrative information detailing the responsibilities of each level of government for the delivery of the decentralized services, the public offices or public officials within each level of government that are responsible for specific services, and the fund flows associated with those responsibilities.

Table A3: List of subnational PEFA assessments

Country	Unit of analysis	Link
Burkina Faso	Ouagadougou	<a href="http://www.mairie-ouaga.bf/">http://www.mairie-ouaga.bf/</a>
Ethiopia	Addis Ababa	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_addisababa_pefa_report_2010_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_addisababa_pefa_report_2010_en.pdf</a>
Ethiopia	Amhara	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_amhara_pefa_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_amhara_pefa_en.pdf</a>
Ethiopia	Benishangu Gumuz	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_benishangul_gumuz_pefa_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_benishangul_gumuz_pefa_en.pdf</a>
Ethiopia	Harari	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_harari_pefa_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_harari_pefa_en.pdf</a>
Ethiopia	Integrated	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_4regions_pefa_report_2010_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_4regions_pefa_report_2010_en.pdf</a>
Ethiopia	Oromia	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_omromia_pefa_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_omromia_pefa_en.pdf</a>
Ethiopia	SNNPRG	<a href="http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_snnp_region_pefa_en.pdf">http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/ethiopia_snnp_region_pefa_en.pdf</a>
India	Himachal Pradesh	<a href="http://www.worldbank.org.in/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;the">http://www.worldbank.org.in/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;the</a>

Subnational Budget Transparency

		<a href="#">SitePK=295584&amp;menuPK=64187510&amp;searchMenuPK=295612&amp;theSitePK=295584&amp;entityID=000334955_20090703015158&amp;searchMenuPK=295612&amp;theSitePK=295584#Top</a>
Nigeria	Anambra	<a href="http://www.sripnig.org/files/PEFA%20PFM%20Assessment%20Activity%203_2_1_1B.pdf#Top">http://www.sripnig.org/files/PEFA%20PFM%20Assessment%20Activity%203_2_1_1B.pdf#Top</a>
Nigeria	Yobe	<a href="http://www.sripnig.org/files/Yobe%20State%20PEFA%20Assessment%20Final%20draft%20final%20250510.pdf">http://www.sripnig.org/files/Yobe%20State%20PEFA%20Assessment%20Final%20draft%20final%20250510.pdf</a>
Pakistan	Balochistan	<a href="http://www.worldbank.org.pk/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;theSitePK=293052&amp;menuPK=64187510&amp;searchMenuPK=293080&amp;theSitePK=293052&amp;entityID=000310607_20070727152633&amp;searchMenuPK=293080&amp;theSitePK=293052#Top">http://www.worldbank.org.pk/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;theSitePK=293052&amp;menuPK=64187510&amp;searchMenuPK=293080&amp;theSitePK=293052&amp;entityID=000310607_20070727152633&amp;searchMenuPK=293080&amp;theSitePK=293052#Top</a>
Pakistan	North West Frontier	<a href="http://www.worldbank.org.pk/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;theSitePK=293052&amp;menuPK=64187510&amp;searchMenuPK=293080&amp;theSitePK=293052&amp;entityID=000310607_20070727132659&amp;searchMenuPK=293080&amp;theSitePK=293052#Top">http://www.worldbank.org.pk/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;theSitePK=293052&amp;menuPK=64187510&amp;searchMenuPK=293080&amp;theSitePK=293052&amp;entityID=000310607_20070727132659&amp;searchMenuPK=293080&amp;theSitePK=293052#Top</a>
Pakistan	Punjab	<a href="http://www.worldbank.org.pk/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;theSitePK=293052&amp;menuPK=64187510&amp;searchMenuPK=293080&amp;theSitePK=293052&amp;entityID=000310607_20070727143420&amp;searchMenuPK=293080&amp;theSitePK=293052#Top">http://www.worldbank.org.pk/external/default/main?pagePK=51187349&amp;piPK=51189435&amp;theSitePK=293052&amp;menuPK=64187510&amp;searchMenuPK=293080&amp;theSitePK=293052&amp;entityID=000310607_20070727143420&amp;searchMenuPK=293080&amp;theSitePK=293052#Top</a>
Pakistan	Sindh	<a href="http://www-wds.worldbank.org/external/default/main?menuPK=64187510&amp;pagePK=64193027&amp;piPK=64187937&amp;theSitePK=523679&amp;entityID=000334955_20090922035903&amp;menuPK=64187510&amp;searchMenuPK=51634624&amp;siteName=WDS#Top">http://www-wds.worldbank.org/external/default/main?menuPK=64187510&amp;pagePK=64193027&amp;piPK=64187937&amp;theSitePK=523679&amp;entityID=000334955_20090922035903&amp;menuPK=64187510&amp;searchMenuPK=51634624&amp;siteName=WDS#Top</a>
Senegal	Dakar	<a href="http://www.adm.sn/download.php?chemin=actupdf/&amp;filename=RAPPORT PEFA DAKAR mai 2009.pdf#Top">http://www.adm.sn/download.php?chemin=actupdf/&amp;filename=RAPPORT PEFA DAKAR mai 2009.pdf#Top</a>
Tanzania	Local government	<a href="http://www.logintanzania.net/docs/pefar_lg_review2006.pdf#Top">http://www.logintanzania.net/docs/pefar_lg_review2006.pdf#Top</a>

Table A4: PEFA Scoring Methodology for Performance Indicator 8 (PEFA Secretariat, 2008b: 13)

Dimension	Minimum requirements for dimension score. Scoring Methodology M2
(i) Transparency and objectivity in the horizontal allocation among lower level SN governments	<p><b>Score = A:</b> The horizontal allocation of almost all transfers (at least 90% by value) from <b>higher level SN</b> government is determined by transparent and rules based systems</p> <p><b>Score = B:</b> The horizontal allocation of most transfers from <b>higher level SN</b> government (at least 50% of transfers) is determined by transparent and rules based systems.</p> <p><b>Score = C:</b> The horizontal allocation of only a small part of transfers from <b>higher level SN</b> government (10-50%) is determined by transparent and rules based systems.</p> <p><b>Score = D:</b> No or hardly any part of the horizontal allocation of transfers from <b>higher level SN</b> government is determined by transparent and rules based systems.</p>
(ii) Timeliness of reliable information to lower level SN governments on their allocations	<p><b>Score = A:</b> <b>Lower level</b> SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.</p> <p><b>Score = B:</b> <b>Lower level</b> SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.</p> <p><b>Score = C:</b> Reliable information to <b>lower level</b> SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made.</p> <p><b>Score = D:</b> Reliable estimates on transfers are issued after <b>lower level</b> SN government budgets have been finalized, or earlier issued estimates are not reliable.</p>
(iii) Extent to which financial information (at least on revenue and expenditure) is collected and reported by higher level SN government according to sectoral categories	<p>Score = A: Fiscal information (ex-ante and ex-post) <b>by sectoral category</b> is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.</p> <p>Score = B: Fiscal information (ex-ante and ex-post) <b>by sectoral category</b> is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year.</p> <p>Score = C: Fiscal information (at least ex-post) <b>by sectoral category</b> is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year.</p> <p>Score = D: Fiscal information <b>by sectoral category</b> is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.</p>

Note: blue writing indicates changes made to PEFA's national scoring methodology.

Table A5: PEFA Scoring Methodology for Indicator on the predictability of transfers from higher level of government (PEFA Secretariat, 2008b: 54)

Score	Minimum requirements (Scoring methodology: M1)
<b>A</b>	<p>(i) In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%.</p> <p>(ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 5 percentage points in any of the last three years</p> <p>(iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading<sup>6</sup>) in all of the last three years.</p>
<b>B</b>	<p>(i) In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 10%.</p> <p>(ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 5 percentage points in no more than one of the last three years</p> <p>(iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in two of the last three years.</p>
<b>C</b>	<p>(i) In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 15%.</p> <p>(ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points in no more than one of the last three years</p> <p>(iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in one of the last three years..</p>
<b>D</b>	<p>(i) In at least two of the last three years HLG transfers fell short of the estimate by more than 15% OR no comprehensive estimate is submitted to the SN government in time for inclusion in its budget.</p> <p>(ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points in at least two of the last three years</p> <p>(iii) The requirements for score C (or higher) are not met.</p>

Note: blue writing indicates changes made to PEFA's national scoring methodology.

<sup>6</sup> Frontloading means that the average timing of transfers (weighted by the amounts transferred) is less than six months into the fiscal year of the receiving government.