Research on incentives for fiscal openness for governments. Interim synthesis note (think pieces component)

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GLOBAL INITIATIVE FOR FISCAL TRANSPARENCY

INTERNATIONAL BUDGET PARTNERSHIP
Open Budgets. Transform Lives.

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BACKGROUND

The stated objective of the Global Initiative for Fiscal Transparency (GIFT) is to "advance and institutionalize global norms and significant, continuous improvements on fiscal transparency, participation, and accountability in countries around the world." GIFT aims to achieve its objective through a variety of channels of influence and areas of work, from the development of new international norms to the promotion of norm convergence, from improving existing assessment tools of performance against norms, to working with different actors – financial markets, the media, civil society, international initiatives like the Open Government Partnership, etc. – to shape and advance a global action agenda around fiscal transparency, participation and accountability.

In order to better target its efforts, developing a thorough understanding of what are some of the key incentives that shape governments' willingness to improve their 'fiscal openness' – as a shorthand term that encompasses transparency, participation and accountability in fiscal matters – has been a key part of GIFT's agenda.

Past research in this area has been scant. A paper commissioned by GIFT in 2012 assembled a list of potential domestic and external factors that might work in favour of increased fiscal openness[1]. Related cross-country research promoted by the International Budget Partnership

[1] M. Petrie (2012): *Towards Stronger Incentives for Increased Fiscal Transparency, Participation and Accountability*. Discussion Paper for GIFT Lead Stewards.

was published in a book in 2013[2]. These initial findings only paint a preliminary and fragmented picture of why, when and how governments decide to promote fiscal openness, and provide limited guidance with regard to the role that international initiatives such as GIFT could play to strengthen incentives for fiscal openness across the world.

In order to promote a deeper understanding around the incentives agenda, GIFT is undertaking additional research, structured around three components:

a) A set of think-pieces written by senior academics and practitioners, based on their own past research and policy experience, aimed at gathering the reflections and insights of individuals who have studied, thought about and worked with fiscal openness reforms (or other transparency-related reforms) over many years and across different country contexts;
b) Reflections on lessons learned by the World Bank and the International Monetary Fund on their experience in promoting fiscal openness reforms across a large number of countries over almost two decades; and
c) A set of interviews with politicians and senior officials considered "reform champions" in their respective countries, to gather first-hand personal testimonies from people at the forefront of successful fiscal openness reforms about the incentives that they faced during the various stages of the reform process, from formulation to implementation.

This note summarizes the main issues and findings from the first component on the think pieces. Five of these pieces were commissioned and written between October 2014 and March 2015, by Alasdair Roberts (Suffolk University), David Heald (University of Aberdeen), Stephen Kosack (University of Washington), Greg Michener (Fundação Getulio Vargas) and Alta Fölscher (Collaborative Africa Budget Reform Initiative)[3]. A seminar was held in Rio de Janeiro

[2] S. Khagram, A. Fung and P. de Renzio (2013): *Open Budgets: The Political Economy of Transparency, Participation and Accountability*. Washington, DC: Brookings Institution Press.

[3] The think pieces can be accessed at: http://fiscaltransparency.net/category/gift-documents/.

in February 2015 to comment on drafts, discuss preliminary findings and identify common topics.

(The other two components will be completed over the next few months. Consultants have been identified for the WB/IMF reflections, and interviews are being set up with politicians and officials in Brazil, the Philippines, South Africa, Mexico, Liberia and Afghanistan)

MAIN ISSUES AND FINDINGS

The think pieces were written by academics and practitioners with broad experience in the fields of public financial management, public accounting, access to information and government accountability. They address a wide range of topics and approaches related to government openness, highlighting different ways to understand the incentives that governments face when it comes to introducing and sustaining open government reforms. The sections below summarize some of these issues and findings.

What do we mean by openness?

A number of authors questioned the degree to which a broad consensus and a clear definition exist of what "fiscal openness" means in practice, and warned about some possible contradictions that arise from this. Heald and Michener, for example, argue that governments might pursue "nominal" transparency and participation practices – what could be termed "window dressing" reforms – to comply with international standards or respond to urgent domestic pressures, without any intention to promote real openness, and therefore preventing "effective" measures that respond to the needs of different actors and stakeholders and that create the conditions for improved government accountability.

This issue might be particularly relevant in countries that depend heavily on foreign aid, and where donors influence the recipient government's reform agenda. Improving budget transparency might come as an imposition of donor conditionalities, but with few domestic supporters and real local demand. This might lead to a focus on the formal aspects *of* reforms without any real functionality. The incentives that governments face in this case are skewed towards forms of fiscal openness that are not likely to meet many users and have a big impact on either accountability or development.

Another important aspect of the lack of a common understanding of the meaning of openness stems from the differences in perceptions and emphases held by various actors in the fiscal openness arena. For some – including ministries of finance, central banks, private investors and international institutions like the IMF or the European Commission – transparency is fundamental to guarantee fiscal discipline and allow fiscal surveillance. For others – sector ministries, civil society actors and citizens more generally – transparency and openness are important to ensure that governments are accountable and direct resources to better service delivery, development and growth. The types of information disclosures that each set of actors demands of government are different, according to Fölscher in her think piece. The former is focused on macro-level information on fiscal aggregates and on central government, while the latter is more interested in disaggregated, sector-specific and often local information complemented by different types of planning and performance data. The incentives that governments face to provide both kinds of information are different, and currently skewed towards the macro side of things. Most budget documents are currently rich in macro-information, but found lacking on the micro-information. While this may help monitor government compliance with aggregate fiscal discipline, it does not allow much space for accountability around many of the aspects of fiscal openness that are relevant to the majority of the population, which revolves around the quality of day-to-day delivery of services.

The dilemmas of openness

One of the key dilemmas of openness – fiscal or otherwise – is common to other reform areas. Those who are key to making the reforms work (politicians, officials, etc.) are those who are likely to want them the least. “No government adopts a transparency policy regarding its own conduct voluntarily", says Roberts in his think piece; "All actors want to maintain autonomy, and transparency threatens autonomy". On the other hand, those who need the reforms the most (citizens, civil society, etc.) are usually those least equipped to do anything about them. Thinking about incentives for fiscal openness therefore implies: (a) understanding the perceptions of reformers with regard to the costs and benefits of reforms; (b) identifying some of the ways in which those perceptions can be altered, for example by either removing obstacles and reducing costs, or by highlighting and enhancing the perceived benefits; (c) taking into account both positive and negative incentives, and therefore also think about ways to increase the costs and reduce the benefits of NOT adopting and implementing fiscal openness reforms; and (d) finding ways of tilting the balance of power in favour of those who benefit from fiscal openness reforms, for example by enhancing their capacities or lowering the costs of collective action.

Another important dilemma in fiscal openness – highlighted by Heald in his think piece – is that some of the different actors involved can play conflicting roles, and face contradictory incentives. Citizens, for example, have a clear role to play as the ultimate beneficiaries of fiscal openness, if and when it leads to government accountability. Their economic interests, however, are likely to diverge significantly, and lead them to seek particularistic interests and patronage rather than the diffuse interests that fiscal openness is often associated with. Parliamentarians also have conflicting loyalties when it comes to promoting and upholding fiscal openness principles and practices. Depending on the political system, they are bound by party politics, by their electoral constituencies (which in many cases implies patronage), and by their broader commitment to representative democracy. Finally, donors and international organizations seeking fiscal information from governments often distort domestic accountability processes, and push for reforms for which there is limited ownership, leading to window-dressing measures with limited impact. Understanding how these contradictions – and the contradictory incentives that they generate – play out in different environments is an important aspect of the broader incentives agenda.

Political incentives

Incentives that governments face belong to different spheres – economic, institutional, etc. One sphere that past research has covered in some detail, with pretty consistent findings, relates to political incentives for transparency reforms. These can be broadly categorized under three headings, or "three incentive streams and political rationales that drive commitments to transparency", as highlighted by Michener in his think piece: (a) the quest for "legitimacy", whereby governments seek domestic and/or international recognition and approval; (b) the need for "insurance" against a prospective change in government, to prevent competitors from managing resources secretly once they come to power; and (c) the interest in "monitoring" government action, to prevent misbehavior and promote efficiency. These three incentive streams work differently in different political systems and environments, and their effectiveness often depends on the number and strength of the various accountability actors tasked with ensuring that reforms happen and stay on track.

Motivation and capacity

Whether incentives work or not – whether they lead to an actual shift in the actions or behavior of a certain actor – depends on both *motivation* and *capacity*. The disclosure of a certain type of fiscal information by government, for example, implies both a strong enough motivation by the government official or agency which produces or holds this information to start disclosing it, and sufficient capacity (technical, institutional, financial, etc.) to ensure that the information can be produced and published in a reliable and timely fashion. When motivation is absent, existing capacity is likely to remain idle or used for other purposes. When motivation is strong enough, however, actors might be prepared to invest in the necessary capacity if it doesn't exist. Thinking about incentives might entail considering both elements. Donors using conditionalities to push for an increase in the quantity and quality of publicly available fiscal information, for example, may provide a strong enough motivation for governments to reform, but may need to support the development of necessary capabilities before reforms can actually be successfully implemented.

Motivation or capacity constraints, however, may also exist on the side of those who are supposed to provide incentives for governments to introduce fiscal openness reforms. Legislatures in countries where dominant parties control the majority of seats might lack a serious motivation to request that the executive be transparent, for example. But they may also lack sufficient capacity to analyze budget information, gather citizen views and hold the executive accountable. Similarly, citizen groups typically lack the specific analytical capacities and skills required in order to access fiscal information and use it to monitor government action. At the same time, their motivation might also be thwarted in environments where they perceive limited openness by governments to engage in serious dialogue and debate on the policy issues that they are seeking to influence.

The quest for meaningful fiscal openness

Linked to some of the issues already mentioned, Kosack and Fölscher advance similar arguments related to the limitations of the current global consensus on fiscal openness, and how useful it is for generating citizen engagement and enhancing government accountability. Useful fiscal information, they argue, is that which is relevant to the needs and interests of average citizens, it varies across contexts and needs to be sufficiently specific and detailed to spur them into action, individually or through organized groups, to ask for changes in service delivery and/or government behavior. Similarly, useful opportunities for citizen participation in the budget process are those that allow for meaningful engagement between government officials and individuals or CSOs, addressing issues of immediate concern and providing avenues for influencing government decision-making and holding public officials accountable for their actions and results.

The requirements of useful – or meaningful – fiscal openness are quite distant from the current state of affairs in many countries, where fiscal information, when made publicly available, is mostly proactively provided by governments in standard aggregate formats that usually do not correspond to those that citizens would need for accountability purposes, and where participation opportunities are scarce and often not very effective. To a certain extent, existing international norms reinforce such state of affairs, being mostly focused on macro-transparency aimed at fiscal discipline, and not at micro-information aimed at service delivery improvements. This might even create a "Catch-22" situation whereby existing fiscal openness practices do not allow citizens and other actors to meaningfully engage with governments, making it more difficult for them to provide some of the key incentives that governments need to face – citizen and media pressure, for example – in order to reform those practices. In other words, for some of the key incentives to work, disclosed information needs to be useful, but for information to be provided in useful formats, governments need to implement reforms that depend on the right incentives being provided.

THE NEED FOR A COMPLEX, MULTI-DIMENSIONAL ANALYSIS OF INCENTIVES

The issues and findings summarized above point to the need for analyzing government incentives for fiscal openness through a multi-dimensional framework that recognizes the complexity of the topic, and that may depend on a number of contextual factors.

The key dimensions that such a framework should include are:

1) *Incentives and disincentives*: the framework should recognize the existence of both positive and negative incentives, linked to the expected benefits and costs of implementing fiscal openness reforms, and to the costs of not implementing them.

2) *Different incentive spheres*: the framework should recognize that incentives might belong to different spheres of government action, and be linked to costs and benefits in these various spheres. For example, in the political sphere, incentives will be linked to gaining or maintaining power and control over offices, resources, etc. In the economic sphere, they will be linked to costs and benefits to the public purse, including revenues, spending and

borrowing, and to prospects for economic growth. In the institutional sphere, they will be based on formal rules and informal behavior, etc.

3) *Actors involved*: the framework should recognize the broad range of actors at both the providing and receiving end of incentives, including different sets of actors within the executive, legislators, oversight institutions, citizens and civil society organizations, the media, private investors and financial markets, international and supranational institutions, donor organizations, etc. It should also recognize the contradictory roles that some of these actors play, and their possible synergies and complementarities.

4) *Components of fiscal openness*: the framework should recognize that in some cases incentives for fiscal transparency might be different from incentives for participation in fiscal matters, for example, as actors and their interests differ, and the political and economic stakes involved might also change.

5) *Phases of the budget cycle*: the framework should recognize that incentives for fiscal openness might also change depending on the various stages of the budget cycle. It might be easier for a government to disclose information and create opportunities for participation during budget planning and formulation, than during budget execution or during the audit stage, where arguably real accountability takes place. Again, at different stages of the budget cycle actors and their interests differ, as do the costs and benefits of fiscal openness reforms.

WHAT GIFT SHOULD FOCUS ON (some preliminary thoughts)

Most think pieces authors were quite clear in their assessment that external actors like GIFT have a limited set of options in supporting stronger incentives for fiscal openness. This is due to the fact that many of the key incentives are domestic and context-specific in nature, making it difficult for external actors to intervene and affect them. Even so, various areas in which GIFT could make an important difference were identified by the authors, which can in turn be divided into more direct action at international level, and indirect action at country level.

Internationally, GIFT could strengthen incentives for fiscal openness by:

a) Continuing its work on norm development and norm convergence;
b) Helping move beyond the focus of existing fiscal openness norms and practices on macro-information, fiscal aggregates, central government and *ex ante* accountability, for example by developing complementary norms and practices around more useful fiscal openness, which focuses on micro-information, disaggregated data, transparency and participation at local level, and *ex post* accountability;
c) Building and expanding the existing evidence base on the benefits of fiscal openness, and documenting and disseminating good practice examples;
d) Working with various donors and international organizations to address the issue of "nominal" or "window-dressing" fiscal openness reforms;
e) Linking up with other complementary communities of practice, such as that linked to freedom of information issues, and using its convening power to bring together relevant actors through existing or new international networks – for example journalists and the media.

Working indirectly with domestic actors and partners at country level, GIFT could also contribute to improving country-level incentives for fiscal openness by:

a) Addressing the "missing user" problem by helping to build the capacity of different users of fiscal information, both in analyzing fiscal information and in advocating for more extensive opportunities for participation in the formulation and execution of fiscal policy;
b) Using its multi-stakeholder setup as an example to assist in building networks of domestic accountability actors and institutions – including the media – in specific countries, helping them overcome mutual distrust and collective action problems.