

# Budgets

A guide to best practice in transparency, accountability  
and civic engagement across the public sector

The Transparency and Accountability Initiative is a donor collaborative that includes the Ford Foundation, Hivos, the International Budget Partnership, the Omidyar Network, the Open Society Foundations, the Revenue Watch Institute, the United Kingdom Department for International Development (DFID) and the William and Flora Hewlett Foundation.

The collaborative aims to expand the impact, scale and coordination of funding and activity in the transparency and accountability field, as well as explore applications of this work in new areas.

The views expressed in the illustrative commitments are attributable to contributing experts and not to the Transparency and Accountability Initiative. The Transparency and Accountability Initiative members do not officially endorse the open government recommendations mentioned in this publication.

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## Budget transparency

Governments raise and spend public funds to meet public needs. To do this, they must make good policy choices, execute these effectively and be accountable for their decisions and actions. This is more likely to happen in budget systems that are transparent, i.e. those in which the government provides the public with comprehensive,

timely, accurate and useful information. As a growing evidence base shows, open budget systems can enhance the credibility of policy choices, increase the effectiveness of policy interventions, limit corrupt and wasteful spending and facilitate access to international financial markets.

## Initial steps

### Goal

Governments commit to the timely, accessible and regular publication of the Executive's Budget Proposal, Enacted Budget, Audit Report and Citizens' Budget – the four most important budget documents.

### Justification

Internationally accepted good practices require governments to publish at least eight key budget reports at various points in the budget year: Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, Citizens' Budget, In-Year Reports, Mid-Year Review, Year-End Report and Audit Report. Four of these documents – the Executive's Budget Proposal, Enacted Budget, Citizens' Budget and Audit Report – form the most basic building blocks of budget accountability, thus publishing them is the minimum requirement for an open budget system. Without access to the information in these documents, the public cannot understand the government's plans to collect and allocate budget resources. Nor can they track whether the government has actually spent public funds in accordance with these plans, and are therefore unable to hold the government accountable for the use of public funds.

The Executive's Budget Proposal outlines the government's revenue and expenditure plans; thus timely publication of this document is essential for the public to be able to engage in the debate over the government's proposals. The Enacted Budget is the result of legislative, and ideally public, consideration of the executive's proposal. Because this report documents the commitments that have been approved into law, it will form the basis of any monitoring of government execution. Audit Reports contain the findings of the supreme audit institution's formal, independent evaluation of whether the government has collected and spent public funds as set out in the Enacted Budget, and has done so in accordance with the law. Citizens must have access to this document to be able to gauge the government's performance. Budgets are typically highly technical documents and not easily understood by the majority of the public. A Citizens' Budget is a non-technical presentation of the budget (either the Executive's Budget Proposal or the Enacted Budget) that is widely accessible to all citizens.

### Recommendations

1. Make existing core budget documents publicly available. Although most countries already produce an Executive's Budget Proposal, Enacted Budget and Audit Reports, not all make them publicly available. Governments that currently produce but do not publish these documents could do so immediately and at little expense. (This commitment should not be limited to these reports; governments should publish immediately all budget reports they are currently producing.)
2. Governments should seek to expand the proportion of the public that understands and can potentially contribute to the dialogue on public budgeting by producing and publishing a Citizens' Budget.
3. To increase the public's access to these reports, and avoid unequal access, budget reports should be posted on the government's website, at a minimum. Where internet access is limited, governments could make hard copies of their budgets widely available (either free or for a minimal fee) via public libraries and information desks throughout the country.
4. In multilingual countries, budget reports should be published in multiple languages.
5. In order to facilitate data manipulation, budget reports could be complemented by open data access.
6. Governments should commit to the timely publication and wide dissemination of each document. Late publication of these reports denies the public the ability to use the information to engage in decision-making processes.

### Country examples

A number of governments that were not publishing these documents have recently begun to do so. In 2007, for example, Egypt and Mongolia published their Executive Budget Proposals for the first time. Similarly, in 2009 Liberia began to publish the Executive's Budget Proposal and Audit Report, and Afghanistan began to publish the Audit Report. In 2010 both Mexico and Brazil began to publish Citizens' Budgets.

## More substantial steps

### Goal

Governments commit to publish all eight key budget reports and ensure that these documents provide comprehensive information as required by good practice.

### Justification

While it is critical for governments to provide the public with the most basic information on government plans and outcomes, as laid out above, a fully open and accountable budget system requires that the public have access to comprehensive information throughout the entire budget cycle.

The Pre-Budget Statement presents the broad parameters and macroeconomic assumptions of the Executive's Budget Proposal. It is at this stage, before the proposed budget goes before the legislature, that decisions about the size of the budget and how it will be allocated are made. A Pre-Budget Statement provides an opportunity early in the process to understand and engage with these fundamental choices.

Execution reports (In-Year Reports and Mid-Year Review) provide timely feedback on the progress of budget execution, thus allowing for mid-course corrections, reallocations or supplemental allocations, where necessary. Year-End Reports allow for a comparison between planned and actual spending, increasing accountability and informing decisions for the coming budget year.

### Recommendations

1. Governments should ensure that comprehensive information is provided in each of the eight core budget documents published, including detailed, disaggregated information on revenues and expenditure and prior year data for comparative purposes.
2. Governments should follow established best practice in creating all budget reports. Governments can consult a number of manuals on public finance management for detailed information on the model contents of budget reports, including the IBP's *Guide to Transparency in Government Budget Reports*<sup>1</sup> and the IMF's *Fiscal Transparency Manual*.<sup>2</sup>

### Country examples

A number of governments have also taken such steps recently to increase the comprehensiveness of their budget proposals. For example, in its 2010 budget proposal, the Colombian government for the first time began to provide data on prior year revenues and expenditures. Similarly, the Mongolian government improved the comprehensiveness of its budget proposal in 2009 by providing multi-year information on revenues and expenditures, future liabilities and donor assistance.

## Most ambitious steps

### Goal

This commitment requires governments to publish a comprehensive record of all fiscal activities, including those that are not undertaken through the budget or necessarily reflected in the budget.

### Justification

'Off-budget' activities are not subject to the same level of reporting, regulation or audit as other public transactions. Yet they involve the current and future use of, or the decision to forego, public resources; therefore, unless information on these activities is disclosed, the public will be unable to discern the government's true fiscal status or adequately scrutinise its actions.

These activities include the use of extra-budgetary funds, such as pensions or social security funds, state-owned enterprises and discretionary or secret funds, that move the management of huge amounts of public resources outside the budget process (more recently these have included funds for donor aid, the proceeds of privatisation and arrangements for public-private partnerships). They also include quasi-fiscal activities in which public resources are foregone by state-owned enterprises, or by private companies at the direction of the government, that charge 'below market' prices for goods or services. For example, government-owned banks may provide subsidised bank loans. Finally, contingent liabilities are debts that the government may owe, such as pensions or government loan guarantees, but whose existence and total cost depend on future events.

In addition to information on how the government is spending money through the budget and through other fiscal activities, the public is also interested in information on the recipients of public funds, including beneficiaries of welfare programmes and subsidies, contractors hired to provide public goods and services and officials who receive government salaries and benefits.

### Recommendations

1. Separate from any mention in the Executive Budget Proposal, governments should separately report more detailed information on off-budget activities and those who receive benefits from them in complementary financial reports.
2. Specific information related to welfare entitlements and poverty programmes should be widely disseminated, especially among local communities that are targeted by these programmes.

### Country examples

Every government agency in Chile publishes lists that are updated every three months with information on the salaries and benefits received by government officials; the names of contractors hired by governments and the contract amount; and beneficiaries of social programmes and subsidies. UK databases on all public spending – and US databases on stimulus spending – also identify recipient contractors and other beneficiaries. New Zealand and the US have excellent examples of comprehensive reporting on tax expenditures.

<sup>1</sup> [http://www.internationalbudget.org/files/Government\\_Transparency\\_Guide.pdf](http://www.internationalbudget.org/files/Government_Transparency_Guide.pdf)

<sup>2</sup> <http://www.imf.org/external/np/fad/trans/manual.htm>

## Budget participation

Access to budget information is a critical but insufficient in itself component of an open budget system. Recent research has shown that greater access to public information together with effective public engagement can help reduce corruption and enhance socioeconomic development. Public engagement creates opportunities for the public to contribute their knowledge and expertise, specifically on budget priorities and execution, thereby improving the quality and effectiveness of government spending. In addition, engagement by specialised civil society groups can augment the analytical skills available to the legislature, as well as amplify the findings of the supreme audit institution – significantly reducing the resource constraints that frequently undermine the work of these institutions.

Public engagement in budgeting happens mostly through three public entities – the executive, the legislature and the supreme audit institution – depending on the stage of the budget cycle. Therefore, opportunities should ideally be provided for the public to engage with each of these bodies at each level of commitment. Any system for enabling public engagement must be congruent with the constitutional roles of the legislature, executive and supreme audit institution. The legislature should provide the first opportunity for public participation, given its constitutional oversight role as keeper of the public purse. Public engagement with the supreme audit institution is critical to boosting the quality of oversight over the execution process, and direct public engagement with the executive branch is also necessary, particularly to enable constructive public input into the definition of budget priorities.

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### Initial steps

#### Goal

This commitment requires governments to introduce basic, low-cost opportunities for public engagement at each stage of the budget process.

#### Justification

Civil society organisations (CSOs) and citizens are among the best sources of information about a country's needs and priorities. They can provide inputs that are critical to good budget decisions and support to ensure effective implementation. In addition, they often have the networks and expertise to detect potential cases of corruption or mismanagement; thus engaging them in the process can enhance the overall accountability of the budget system.

#### Recommendations

1. The Executive, led by the Ministry of Finance, should open the budget process to public engagement by holding consultations with the public as part of its process of determining the budget priorities that will drive the allocation of public resources.
2. Within the legislature, the finance committee should organise hearings on the overall macroeconomic and fiscal framework, while sector committees could hold more detailed discussions on individual departments and expenditure programmes.
3. Legislatures should allow the public and the media to attend (and broadcast on television or radio) hearings during which the budget proposal is debated.
4. In addition, legislatures should publish reports detailing their proceedings, including the testimony presented at the hearings. Such steps would, at the very minimum, enable the public to witness and understand how decisions about public funds are taken, and afford them an opportunity to understand the trade-offs at stake.

5. Supreme audit institutions should create communication channels for citizens and civil society to anonymously report cases where misuse of public funds is suspected, both online and through other means.

#### Country examples

Examples of executive-led public participation include one from India, where the Ministry of Finance has recently begun meeting with NGOs as part of its pre-budget consultations (a similar practice has occurred for several years in Kenya). The finance ministries in Kenya and Uganda have for many years conducted similar consultations on citizen budget priorities at the beginning of the budget drafting process. In South Africa, Trevor Manuel, the former finance minister, launched an initiative called 'Tips for Trevor', through which the public were invited to give tips on how to spend the country's money.

Legislatures in almost every country already conduct committee hearings (or have the legal capacity to hold such hearings) before enacting the budget into law. Burkina Faso and Rwanda have recently started broadcasting legislature budget deliberations on television. In the past few years, a number of countries have started to publish detailed transcripts of legislature budget debates, including Azerbaijan, Bulgaria, Trinidad and Tobago, and Zambia. While these efforts do not directly create opportunities for direct public engagement in the budget process, they do build the capacity of citizens to debate and engage with the budget.

The supreme audit institutions in the US and the UK maintain 'fraud hotlines' through which the public can report suspected malfeasance in the use of public funds.

## More substantial steps

### Goal

This commitment requires the executive, legislature and supreme audit institution to provide citizens and CSOs with more direct and more extensive opportunities to engage with their work throughout the budget process, soliciting their opinions and proposals.

### Justification

Though they are responsible for taking key decisions about how best to address their country's needs and prospects for development, governments often lack important information and have limited analytical capacity for making choices about how to raise and spend public funds. By increasing the opportunities for the public and CSOs to go beyond having access to budget deliberations and oversight institutions to directly engaging in and influencing these processes, governments can benefit from knowledge of those close to communities or can augment their access to independent analysis and expertise.

### Recommendations

1. The executive should hold more intensive consultations with the public, and should open spaces for citizens and civil society groups to present evidence and proposals on overall budget priorities, as well as macroeconomic policy and inter-sectoral resource allocation issues. This could be accomplished through sector- and ministry-level meetings with the public. Specific expenditure programmes, individual sectors or clusters of sectors should be covered in these consultations.
2. After opening budget hearings to the public, the legislature should provide opportunities for the public to testify at these hearings. Those invited to testify could include private citizens, academics, private research institutes and representatives of CSOs, community-based organisations, trade unions and churches or religious organisations.
3. The supreme audit institution should provide opportunities for public suggestions to influence the audit agenda, including the sample of agencies, projects and programmes in a country that it audits each year.

### Country examples

In the past ten or so years, the executives in several countries have instituted consultative mechanisms that engage the public as part of the process of developing medium-term expenditure frameworks (MTEFs). In Tanzania, for example, a well-structured public expenditure review process brings together government, civil society and donor organisations in a forum where CSOs regularly contribute reports and analyses.

Examples of legislatures deepening the influence of the public in their deliberations include the Czech Republic and the Philippines, in both of which the public are invited to give testimony on the budgets of a number of key administrative units. In South Africa, the Finance Committee and sector committees regularly invite a range of non-governmental actors to testify in budget hearings.

In an example of more direct and meaningful public participation in auditing, the South Korean Citizens' Audit Request System, introduced under the country's Anti-Corruption Act of 2001, allows citizens to request that the supreme audit institution conduct audits of public agencies suspected of corruption or legal transgressions. Similar arrangements exist in a number of US states.

## Most ambitious steps

### Goal

This commitment is to broaden and deepen the opportunities for public engagement in the budget process by extending their reach and coverage, ensuring that civil society proposals are analysed and taken on board when possible, creating opportunities for direct public participation in decision-making over specific funds or earmarked resources.

### Justification

Because of the cyclical nature of budgets, where what happens in prior years affects and informs decisions about future years, it is critical that all resources are tapped to ensure that budget deliberations are as effective as possible and that evaluation of budget implementation is as rigorous and thorough as possible. Therefore, all three branches of government need to continue to deepen the level at which citizens and civil society contribute to debates over budget proposals and oversight.

### Recommendations

1. The executive should set aside specific resources to fund expenditure programmes identified through a participatory process that responds to the needs and priorities put forward by citizen groups. It could also provide an assessment of various civil society proposals and an explanation of whether and why these were included (or not) in the budget.
2. In order to maximise opportunities for public engagement in the budget process, the legislature should organise extensive public hearings in which the executive and a wide range of constituencies are invited to provide testimony and present proposals on all aspects of the budget. Moreover, it should publish a report detailing its discussions and decisions on the proposals presented.
3. To tap the knowledge and connections of the public further, supreme audit institutions should consider much more direct forms of engagement with the public and CSOs, including conducting joint audit investigations together with the public or CSOs. Alternatively, the executive could collaborate with citizens and CSOs to conduct local government audits that act as a parallel check on the findings of the supreme audit institution.

### Country examples

A number of governments around the world have increased the effectiveness and impact of public spending by adopting participatory budgeting practices that allocate resources to programmes identified with the direct involvement of citizens and civil society groups. The best-known example is Porto Alegre Municipality in Brazil, but similar participatory budgeting processes have been adopted in over 100 cities in Brazil, and in a number of countries around the world.

An example of deeper public participation in oversight is a partnership between the Philippines' supreme audit institution and several NGOs to conduct joint performance audits to determine whether a government programme or project has achieved its anticipated results. Audit teams include employees of the audit institution and representatives of non-governmental organisations. The teams receive joint training on conducting participatory audits before they began their audits.

The most impressive examples of using local government audits to verify findings by the supreme audit institution are the social audits currently being conducted in partnership between the Indian government and local citizens to monitor the implementation of the National Rural Employment Guarantee Act (NREGA). Such practices will allow audit institutions to augment their limited capacity, particularly in conducting performance audits.





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