

Guide to Transparency in Government Budget Reports:

*How Civil Society Can Use Budget Reports
for Research and Advocacy*

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I. Introduction

The International Budget Partnership's (IBP) Open Budget Survey examines the government; publication of eight key budget reports in countries around the world. The information in these reports helps the public and civil society understand budget proposals and how they are implemented, and to engage in the budget debate. Our studies based on this survey have led civil society, as well as governments, to ask us questions about why these particular reports are important, as well as what a model report should contain to be transparent.

There are few existing reference materials that answer these questions. Development banks and the Organization for Economic Cooperation and Development (OECD) have published manuals containing detailed information on public finance management systems, but the existing literature is neither tailored to the needs of a civil society audience nor does it fully explore the issues raised by the Open Budget Survey.

Therefore, the International Budget Partnership has developed a series of short reports on each of the eight budget reports, describing their importance and prescribing their design in a publication titled *Guide to Transparency in Government Budget Reports: Why Are Budget Reports Important, and What Should They Include?* This publication on the eight budget reports — the Pre-Budget Statement, Executive's Budget Proposal, Citizens Budget, Enacted Budget, In-Year Reports, Mid-Year Review, Year-End Report, and Audit Report — can be found at www.internationalbudget.org.

In this companion guide, we discuss how civil society organizations can use the eight key budget reports for research and advocacy purposes. The ideas presented here are not intended to be exhaustive. Civil society organizations are rapidly developing innovative techniques for analyzing budget reports to support advocacy initiatives.

In some cases, the ideas presented for civil society research using the eight budget reports draw from research initiatives already undertaken by civil society organizations. This is especially the case with those research projects based on the Executive's Budget Proposal, the Year-End Report, and Audit Reports. However, civil society organizations have typically made more limited use of the Pre-Budget Statement, In-Year Reports, and the Mid-Year Reviews — in part because many governments have failed to publish these reports, or those that are published have incomplete data, which has limited the ability of civil society to use them. Therefore, for these reports, we do not cite actual examples of civil society research initiatives; instead, we suggest possible areas of research and advocacy for civil society using the types of data that ideally should be published in these reports.

We should note that, though we are discussing the potential use of each of the eight key budget reports, it is likely (and preferable) that when civil society organizations undertake research and monitoring of government budgets, they will simultaneously use information contained in multiple budget reports. In addition, they may use information from other relevant policy reports issued by the government and information collected from independent sources. A number of other IBP publications provide comprehensive reviews of budget analysis techniques, including the following three guides on budget research and advocacy:

➔ ***A Guide to Budget Work for NGOs***, available in Arabic, English, Russian, and Spanish at <http://internationalbudget.org/library/publications/index.cfm?fa=view&id=3523>.

This guide provides a comprehensive description of the basic principles of applied budget work, examples of useful resources, and best practices; its emphasis is on the budget formulation and enactment phases.

➔ ***A Guide to Tax Work for NGOs***, available in English at <http://internationalbudget.org/library/publications/index.cfm?fa=view&id=3522>.

This guide is intended to help demystify revenue policy issues and give civil society budget groups the tools they need to influence revenue policy in the same way that they have been able to influence expenditure policy.

➔ ***Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures***, available in English, Bahasa Indonesian, French, Russia, and Spanish at <http://internationalbudget.org/library/publications/index.cfm?fa=view&id=3520>.

This guide offers an overview of government budget implementation processes and provides practical, tested tools that can be used by civil society organizations interested in monitoring government expenditures.

II.

Pre-Budget Statement

Why is this report important for civil society?

The issuance of the Pre-Budget Statement can provide an important opportunity for civil society. It is ideally issued at a point in the budget process when civil society potentially has the most leverage to influence the final budget proposal, since often there is still considerable time for discussions with sectoral ministries and the Ministry of Finance on program details, broad policy directions, and overall budget priorities. Civil society can engage legislators about the Pre-Budget Statement, which should be discussed by the legislature according to best practice

What can civil society do with this report?

This section provides the rationale for the progressively more ambitious agenda presented below for civil society in relation to the Pre-Budget Statement.

First, for countries that do not issue a Pre-Budget Statement (and results from the Open Budget Surveys show that many countries do not publish this report), civil society should point out to both the executive branch and the legislature that preparation of such a report strengthens the overall budget process. Civil society should draw on the successful experience of the many countries that use the Pre-Budget Statement as a central and early element of the budget process.

Second, for countries that issue a Pre-Budget Statement only as an internal report, or one not subject to legislative discussion or unavailable to the public at large, civil society should seek to ensure widespread availability of the report.

Third, civil society should actively encourage the government to release Pre-Budget Statements that correspond to best practice. This would include ensuring that the Pre-Budget Statement:

- ➔ Clearly states the macroeconomic assumptions underlying the formulation of the forthcoming budget.
- ➔ articulates the government's fiscal strategy and the underlying rationale for it. The strategy should cover not only the coming budget year but also the medium term and should be responsive not only to the current macroeconomic situation but also to the need to ensure the sustainability of the budget and the solvency of the government;
- ➔ contains as much detail as possible on the broad sectoral and subsectoral budget priorities of the government, highlighting any potential spending increases; and
- ➔ sheds light on government plans for new policy initiatives or changes in direction for its policies.

Fourth, for civil society organizations in countries in which the government issues a well-formulated Pre-Budget Statement, the issuance of the report provides a critical opportunity to influence government policies and budget decisions. Civil society can comment on the appropriateness of macroeconomic policies. Does civil society view the key assumptions that underlie macroeconomic policy formulation as appropriate, both for the characterization of the current economic situation and in terms of the policy targets being chosen with regard to inflation, unemployment, and real growth? Even if there is agreement that the assumptions and policy targets are reasonable, civil society may differ with the government as to the appropriateness of the overall fiscal policy strategy proposed to meet these targets. For example, the Institute for Fiscal Studies in the United Kingdom analyzes Pre-Budget Reports issued by the government and publicizes its recommendations in order to influence the final decisions (see <http://www.ifs.org.uk/projects/314>).

If a civil society organization does not have access to the necessary research capacity or information to analyze the assumptions on which the Pre-Budget Statement is based or the projections made in the report, it can still participate in this debate. It can use analyses undertaken by others (such as by international financial institutions) to ask for justifications on the assumptions and projections from government.

Going further, civil society will have views on the budget priorities among the different sectors, and on the specific allocations to specific subsectoral programs or new policy initiatives that have been identified in the Pre-Budget Statement. Since analyzing the report to test these views may not always be easy given the high level of data aggregation typically presented in a Pre-Budget Statement, one way for civil society organizations to get around this problem is to use details provided in the previous year's budget to make arguments for shifting priorities.

To be useful, the Pre-Budget Statement should provide sufficient information to allow civil society organizations to analyze the implications of the government's stated policy program and budget priorities. Such analyses could answer the following: Which groups in society would benefit from the government's policies? Which would lose? What are the likely implications of the program for economic growth?

The issuance of the Pre-Budget Statement represents an important chance for civil society organizations to explain the nature of the policies the government is pursuing to the organizations' constituent groups and to obtain their reactions. And since the Pre-Budget Statement is typically issued for discussion by the legislature, civil society organizations should expect to lobby key legislators to influence their comments on the Pre-Budget Statement in the legislative discussion. Similarly, civil society organizations are in a position to engage in discussions with sectoral ministries and the finance ministry on issues over which there is significant disagreement.

Fifth, the Pre-Budget Statement serves to create appropriate expectations for the budget itself, and civil society organizations can use this report to prepare for the debate around the Executive's Budget Proposal, once it is tabled in the legislature.

Last, some organizations have tried to use the information included in the Pre-Budget Statement to produce an alternative budget. It is important to note that creating an alternative budget is difficult due to the financial cost, data, and modeling required to produce a comprehensive parallel budget. For example, the Alternative Federal Budget in Canada is prepared by the Canadian Centre for Policy Alternatives (see http://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/afb2003_fiscal_statement.pdf).



The Executive's Budget Proposal

Why is this report important for civil society?

In most countries, budget issues receive the most attention when the executive branch releases its proposed budget to the legislature and the public. Frequently, it is at this point in the year that the key issues in the debate over the budget are established, and that judgments on a budget's merits are made. Thus assessing the Executive's Budget Proposal when it is released is a common activity among budget researchers. This type of analysis also has the advantage of providing information when it is in high demand. Below we present a number of research and advocacy ideas for civil society organizations to consider undertaking with information contained in the Executive's Budget Proposal. (The examples of research and advocacy provided in this section can also be undertaken with the Enacted Budget.)

What can civil society do with this report?

1. General Analysis of the Executive's Budget Proposal: A thorough and broad assessment of the budget proposal when it is released by the executive can help groups identify particularly important areas that might require more work later in the budget cycle. For example, if an assessment of the Executive's Budget Proposal shows that expenditures on welfare programs have been increased, then an organization could follow up by assessing whether the beneficiaries targeted by these programs have actually received program benefits. The Centre on Budget and Governance Accountability in India routinely produces a general overview report of the national budget (see http://cbgaindia.org/publications/primers_manuals/PRIMER-1-FIN%20reduced.pdf).

2. Briefs for Legislators: Civil society organizations can present their analyses of the Executive's Budget Proposal to legislators to enhance their capacity to engage in budget discussions. For example, Kenya's Institute of Economic Affairs (IEA) begins its work on the Executive's Budget Proposal months before its release by conducting public hearings. Since the Kenyan Parliament has only a very short period of time to debate and approve the budget, the IEA assembles in advance a team of experts to analyze the budget proposal and develop a guide for members of parliament to assist them in the debate. The IEA team spends the weekend after the budget's introduction combing through the budget speech, the financial statements, and the finance bill in order to draw out the key points and make the information easily comprehensible to members of parliament in a timely fashion (see <http://www.ieakenya.or.ke/subsection.asp?ID=6>).

3. Sector Analysis: A common type of analysis undertaken by budget groups focuses on an important area or sector of the economy or the government to which the budget proposes to allocate substantial resources. These analyses can review a sector — such as health, education, or defense — in relation to other sectors, the entire economy, or its historic levels of support. Military budget analyses, for instance, can focus attention on how much is spent on the military in comparison to how much is spent on social sectors. Analyses of sectors like health and education often include cross-country comparisons, or comparisons between the states or provinces of a country.

All these comparisons can help determine whether the total resources allocated to a particular agency or sector is adequate.

In many countries, obtaining information on sectors is facilitated by the structure of ministries (or departments) that cover an entire sector, such as a Ministry of Education. This permits organizations with a focus on particular sectors to obtain much of the information they need relatively easily. For example, the Uganda Debt Network analyzed the national budget to assess its impact on the education sector in the state (see <http://www.udn.or.ug/pub/StatementSD.pdf>).

4. Analysis of Effects on Different Population Groups: There are typically two types of analyses that examine the effects of proposed budgets on particular groups. One examines the effects of spending proposals on different income groups. Such analyses might investigate the proportion of total government spending devoted to programs and projects that assist segments of the population living in poverty. A second kind of group analysis is to examine the effects of a government's proposed budget on a particular group defined by characteristics other than income. Such analyses might look at the effects of the budget on the elderly population, or on a racial or ethnic minority.

For instance, civil society organizations often have assessed budget proposals in terms of their effects on children or women. In most cases, budgets do not include any particular reference to their effects on women and children, nor do they show separate allocations for women's and children's programs. Thus the effects of budget decisions on women and children must be derived from various sources of information within the budget, and from other sources outside the budget.

The South African Women's Budget Initiative examined the budget's effect on women in four areas — housing, education, welfare, and work — as well as in relation to the broader issues of public-sector

employment and taxation. Civil society and academic researchers conducted the research jointly, as one of the explicit aims of the Initiative was to expand civil society's ability to do budget analysis, especially in organizations working on gender issues (see <http://www.undp.org/women/CD-Gender-and-Budgets-2004/4.2-national.htm#1>).

Also in South Africa, Idasa, an African democracy institute examined what resources the government was allocating to children's programs, and whether these programs adequately reflected the needs of children as established by the United Nation's Convention of the Rights of the Child (see <http://www.idasa.org.za/>).

5. General Economic Analysis: The budget has tremendous influence over a country's economy, underscoring the importance of assessing the fiscal and economic assumptions and effects of the budget — especially its impact on the poor. It is worth examining the impact of the Executive's Budget Proposal on the government's annual deficit and national debt, as well as the budget's expected effects on economic outcomes, such as inflation, growth, and employment. Fiscal analysis is a fundamental part of budget analysis since fiscal and economic issues will affect the size and composition of allocations to sectors and programs.

Studies that examine fiscal and economic issues in the proposed budget typically involve an analysis of budget goals and targets. Are the estimates of revenue and expenditure reasonable and accurate? What is the likely government deficit or surplus resulting from a budget proposal? What is the distribution of funds among the main economic sectors? These analyses also can critically examine the underlying assumptions in a budget that concern key economic variables like inflation and unemployment. For example, Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento (CIPPEC) in Argentina routinely undertakes a general economic analysis of the national budget (see <http://www.cippec.org/Main.php?do=reportsShow&categoryId=2&page=2>).

These analyses also can adjust the budget numbers in various ways in order to make them more meaningful. An analysis could, for example, examine spending trends over time adjusted for inflation, or look at expenditures overall, in a particular area, on a per capita basis, or as a share of the economy.

6. Revenue Analysis: One of the most important types of revenue analysis is the examination of the distributional effects of the tax system. Would proposed tax reforms be of more help to the rich or the poor? Does the tax system take a larger share of the income of low-income people or of high-income people? In the words of a tax analyst, is the system regressive or progressive? Answering these types of questions requires an understanding of the various sources of revenue and the details of how taxes are levied. Other type of variables can be looked at, including:

- ➔ revenues as a share of the economy;
- ➔ year-to-year changes in revenues;
- ➔ different revenue sources as a share of total revenue; and

➔ revenues, expenditures, and the deficit.

(See pages 56-57 in *A Guide to Tax Work for NGOs* for further details on each of these points, available at <http://www.internationalbudget.org/files/GuideTaxWork.pdf>.)

It is also essential for budget groups to connect expenditure and revenue analysis. Expenditure and revenue are two sides of the budgetary coin; groups need to make sure that the proposed tax base is large enough to sustain support for key government programs. In addition, when governments propose tax cuts, they sometimes make them appear more attractive by understating associated revenue losses and exaggerating their impact on economic growth. So an important area of tax analysis is to provide a realistic assessment of revenue trends under a tax proposal and compare it to a projection of expenditures in order to determine if the combination can be sustained.

The Centre for Budget Advocacy (Ghana) has included analyses of the government's revenue proposals in its reviews of the annual Executive's Budget Proposal (see http://www.g-rap.org/docs/2009/the_2002_budget_of_ghana.pdf). For instance, it commented on the reduction in corporate income taxes and shortcomings in tax administration, which compel the country to rely heavily on donor support. The Centre for Budget Advocacy has also criticized the government for continually reducing the income tax and relying more heavily on regressive consumption taxes.

IV.

The Enacted Budget

Why is this report important for civil society?

The Enacted Budget report helps civil society determine who gains, and who loses, from the budget. The baseline information contained in the report also can help civil society organizations develop strategies to encourage the government to provide the maximum benefits to the organizations' priority areas or change the allocations provided in this year's Enacted Budget in future years, or even mid-year in the current year, to better accommodate pressing needs.

What can civil society do with this report?

Civil society analyses of the Enacted Budget are often similar to analyses of the Executive's Budget Proposal (described above). These analyses can look at budget priorities in general; the allocations to particular sectors; and the effects on different population groups, the economy, and revenue decisions. However, sometimes civil society analyses of Enacted Budgets can be more in-depth than those of the proposed budget because there might be more time available.

The Enacted Budget also can be used to assess the role of the legislature. The Enacted Budget can be compared to the Executive's Budget Proposal to see if the legislature adopted the proposal in full or made significant changes to it. The merits of any such changes can then be reviewed.

In general terms, the Enacted Budget report can provide civil society organizations with a baseline from which to assess whether the budget as implemented accomplishes its fundamental goals and objectives. Civil society organizations can use the information in the Enacted Budget report to monitor the implementation of regular budget initiatives, as well as whether specific countercyclical policy decisions achieve their programmatic objectives without exacerbating losses of public funds.

By comparing budget information presented in the Enacted Budget with the information reported in the budget reports produced over the course of the budget year, civil society can conduct the following types of assessments (these are discussed more fully in the section on the Mid-Year Review):

- ➔ **Economic Forecast Reviews.** As the budget year progresses, civil society organizations can measure changes in the economy relative to the economic forecasts underlying the Enacted Budget, i.e., groups can measure whether forecasts for GDP growth, inflation, employment, and other economic indicators are being met. If they are not being met, civil society organizations can examine the types of deviations from forecasted performance that are occurring. By making such measurements, groups can assess whether the budget is providing the anticipated degree of macroeconomic stimulus or restraint.
- ➔ **Program Performance and Budget Expenditure Reviews.** Throughout the course of the budget year, civil society can continually monitor whether the budgets for individual programs provided for in the Enacted Budget are being expended as planned, and whether funded programs are accomplishing programmatic objectives. If civil society observes deviations from planned budget expenditures, it can seek explanations from the government.
- ➔ **Revenue Reviews.** Just as they review budget expenditures, civil society organizations can compare the information on revenues in the Enacted Budget with that from subsequent revenue reports to assess whether government revenue collections are in line with projections. This can help determine whether any departures from the expected revenue levels are due to inaccurate planning or to unexpected changes in the economic outlook, either nationally or internationally.
- ➔ **Mid-Year Corrections.** Civil society organizations can use the information provided in the Enacted Budget baseline to identify changes in economic performance that might warrant a mid-year correction, such as increases in expenditures for a specific budget program (e.g., unemployment aid or aid to poor families) or the transfer of unused program funds to other programs experiencing higher demand for services.



The Citizens Budget

Why is this report important for civil society?

A Citizens Budget is a nontechnical presentation of either the Executive's Budget Proposal or the Enacted Budget that communicates to the broad public the details of the government's plans for raising and spending public funds. To be as accessible as possible, a Citizens Budget may come in many formats, including newspaper inserts, radio or television broadcasts, or presentations at community meetings.

What can civil society do with this report?

Since the production of Citizens Budgets is a relatively new trend, there are not yet many descriptions of how civil society has used this report. However, there are clear ways in which groups can leverage existing Citizens Budgets:

- ➔ Civil society organizations can prepare reports analyzing the Citizens Budget. What does the Citizens Budget say about the nation's budget and its priorities? Are there shortcomings in the Citizens Budget produced by the government? Significant shortcomings are worth pointing out and, if serious enough (i.e., there is substantial bias or essential information is missing), civil society may consider producing its own Citizens Budget. For sustainability and accountability purposes, however, it is probably better for civil society to avoid routinely taking on the government's role of publishing these reports. However, in some cases in which governments are publishing a Citizens Budget, civil society organizations may choose to publish one that presents a different perspective on the government's budget plans and their potential impact on the country.
- ➔ When the Citizens Budget produced by a government is of high quality, it can be used for educational purposes. Many civil society organizations conduct public workshops where they go through the budget, explaining its terminology and the government's policies and allocations. Depending on what audience the civil society organization is targeting, a Citizens Budget can be a

very powerful teaching tool.

Groups also can engage in, or advocate for, the production of a Citizens Budget.

- ➔ The government of Mexico approached the civil society organization Fundar for suggestions on how to draft a Citizens Budget. The subsequent discussion led to Mexico's release of a Citizens Budget based on the information included in the Enacted Budget for 2010.
- ➔ At the time of writing this guide, a civil society coalition in the Democratic Republic of Congo named ROPI (Reseau des Organisations Partenaires de FIFES) was in open discussions with the government over the drafting of a Citizens Budget. ROPI held a workshop with experts and members of civil society and the government in order to define the main features that a Citizens Budget should have. Following this, a draft was prepared and given to the government to revise before its release.
- ➔ In Namibia the Institute for Public Policy Research released a brief setting out guidelines that could be followed to draft a Citizens Budget, as well as a sample of one. The brief was published with the hope that the government of Namibia would take up this role and produce such a budget (see <http://www.ippr.org.na/Briefing%20Papers/IPPR%20Briefing%20Paper%20No%2049%20Citizens%20budget%20paper-final.pdf>).

VI.

In-Year Reports

Why are these reports important for civil society?

In-Year Reports are review reports that governments should issue on a monthly or quarterly basis during budget implementation to communicate actual figures versus those projected in the budget. Recurrent failure to meet targets on revenue collection or expenditures often reflects problems in planning and forecasting, or institutional problems in line agencies, such as staff shortages. Access to this information throughout the implementation of the budget increases the potential of civil society analyses to affect public policy.

What can civil society do with these reports?

With access to In-Year Reports, civil society analysis can focus on the quality of the forecasting, planning, and implementation that provide the foundation for budgeting. If civil society organizations have information that pinpoints specific programs or agencies that are underperforming, they can design research to identify concrete steps for improvement. For example, if the government claims that a pension scheme for poor widows is being underspent because there are few eligible beneficiaries claiming the pension benefit, then a civil society organization can use In-Year Report data on eligibility and actual claims to design a study to assess the government's statement.

Generally, In-Year Reports allow civil society organizations to assess whether the budget is on track or not. More specifically, they provide information that can be used to assess how revenues are being affected by changes in the budget's economic forecast. For example, a severe drought may affect the GDP growth anticipated by the government and consequently reduce tax collections. Groups can also use data from In-Year reports to look at whether shortfalls in revenues are a result of poor planning, poor execution, corruption, or tax evasion.

In a similar vein, civil society organizations can use In-Year Reports to examine how those expenditures that are related to the economy differ from forecasts. And if the differences are large, the civil society

organizations can ask government officials to explain them? For example, if strong growth in employment projected by the government does not materialize, it may result in an increase in the number of public unemployment benefits claims, which in turn can affect the budget for this expenditure line item.

Other examples of the value of In-Year Reports include the following:

- ➔ Some cash-strapped governments underspend appropriated amounts. In-Year Reports can help civil society organizations track spending rates and demand explanations for shortfalls.
- ➔ In-Year Reports can help civil society organizations assess how governments are responding or should respond to changes that have occurred since the budget was enacted.
- ➔ In-Year Reports can help civil society organizations address the government's responses to changes that might occur during the remainder of the year. Will spending be cut to make up for overspending, or increased to make up for underspending? Similar questions can be posed for revenue changes, especially in countries heavily dependent on the sale of oil, gas, or minerals.
- ➔ Related to the issues above, does the data in the In-Year Reports signal that some kind of supplemental appropriation will be needed? If so, when, where, and how much?
- ➔ Lastly, governments regularly endure shocks over which they have no control – i.e., natural disasters; substantial changes in exchange rates and other financial factors that arise from outside the country; and unforeseen overall changes in the world economy. In-Year Reports can help civil society organizations track the impacts of these shocks on fiscal aggregates and help them interact with governments to influence the responses to these shocks.

VII.

The Mid-Year Review

Why is this report important for civil society?

The executive should publish a Mid-Year Review for the first six months of the budget year to thoroughly analyze the implementation of the budget and ongoing economic developments, such as any changes in economic conditions that affect approved budget policies. Civil society can review this report to understand the budget's implementation and, potentially, to argue for adjustments.

What can civil society do with this report?

Obviously, the first issue that civil society would need to address is whether the Mid-Year Review is available to the public in some form. Civil society organizations would be well advised to argue that transparency would call, at a minimum, for this material to be fully available on the government's website. This argument can focus on the need for the public to know whether the government's budget assumptions and projections are realistic and being achieved (something that would be apparent at the midpoint of the budget year), or whether international or national events make the budget assumptions and projections unrealistic and require changes.

Although publishing a comprehensive Mid-Year Review is recognized as good practice, few countries do so. As a result, there have been limited opportunities for civil society organizations to use information contained in this report for their research and advocacy activities. Nonetheless, here are a few ways in which civil society organizations can use a Mid-Year Review for their advocacy purposes.

Civil society organizations can use general information in the Mid-Year Review to develop concrete recommendations for their government to improve budget programs. For example, Uganda's *Semi-Annual Budget Performance Report* for FY 2009/08 (see <http://www.finance.go.ug/docs/Semi%20Annual%20BFR.pdf>) mentions several delays in program implementation. However, most of the explanations provided are too general, attributing underperformance to "accountability shortcomings." In this case, civil society organizations in the country could focus on translating the government

explanations on problems in programs into actionable indicators. Another example of what civil society organizations can do with information in Mid-Year Reviews is to analyze procurement requirements and how underperforming agencies meet those requirements with their available resources. Could reform facilitate the implementation of work plans and reduce delays in budget expenditures?

Most generally, the Mid-Year Review affords civil society organizations the opportunity to assess whether the budget is on track or not and to do so in a more comprehensive manner than assessments of In-Year Reports would allow (since monthly or quarterly In-Year Reports generally contain less information than a Mid-Year Review). This has both macro and micro dimensions. Using the Enacted Budget as the baseline, civil society organizations can assess:

➔ **Macroeconomic Considerations:** If the Mid-Year Review shows changes in the economic outlook since the budget was enacted, civil society can assess their potential impact on the budget. What will be the consequence of a reduction in projected revenues? Will an increase in costs, due to inflation or unexpected events (such as a natural disaster), result in an increased demand for government social protection?

A key issue is whether or not the budget is providing the degree of macroeconomic stimulus or restraint originally anticipated. If the budget had anticipated restraint and the budget deficit remains excessively high, this could pose challenges for the balance of payments and increase the potential for inflationary pressure or a crowding out of credit to the private sector, all of which could threaten vulnerable groups in the society. If the budget had anticipated the provision of a fiscal stimulus, say in the case of a lagging economy, inadequate implementation of stimulus programs would signal that the economy might not be getting the budgetary lift anticipated, thus raising welfare concerns for the poor and the unemployed.

➔ **Assess Performance Achieved:** In order to ensure that programs are being implemented effectively and to identify any emerging problems, civil society organizations can use information contained in the Mid-Year Review to assess year-to-date performance relative to targets set in the budget.

➔ **Review Expenditures:** Civil society organizations can review updated expenditure estimates for the budget year underway and assess the validity of explanations on why estimates have changed. Civil society organizations can also review the adequacy of new allocations, shifts between administrative units, and new expenditure projections for the remainder of the year, especially regarding social programs.

Particularly when a government is forced to ration budget allocations according to the availability of cash resources coming into the Treasury, the formal budget may be supplanted. Thus one might observe significant underspending relative to the envisaged budget and this would be an opportunity for civil society to raise concerns with the government as to the criteria for its approach to prioritizing allocations.

➔ **Review Revenues:** As with expenditures, civil society organizations can assess whether or not government has collected revenues in line with their projections. They can assess whether any departures from the enacted levels are due to inaccurate planning

or post-enactment changes in the economic outlook, nationally and internationally.

Civil society also can review the assumptions made by the government on projected revenues for the remainder of the year, especially in light of changes in the economic outlook. For example, revenues in countries heavily dependent on sales of hydrocarbons can fluctuate greatly depending on the prevailing prices. In some countries, such as Bulgaria, revenues collected in excess of projections can be spent by the executive, even without seeking legislative authorization. In such situations, civil society analysis can be the only independent oversight mechanisms in these countries, and information contained in reports like the Mid-Year Review can be an important source of information on revenue projections for the remainder of the year.

➔ **Assess the need for midcourse corrections:** By the midpoint of the budget year, civil society necessarily would wish to take stock of any changes in underlying conditions in the economy that might warrant a midcourse correction, either in the degree of budget stimulus or restraint, or in the desirability of an augmentation of an existing budget program. Typically, it is around the time of the Mid-Year Review when the government is addressing whether there is a need for a Supplementary Budget and its contents. Civil society can use the Mid-Year Review as an opportunity to explore with policy makers any new spending programs that should be included in the Supplementary Budget Bill.

For example, Mid-Year Reviews should examine emerging problems due to unexpected events and should discuss the policy solutions proposed. As a response to the recent financial crisis, most of the 2009 Mid-Year Reviews analyzed show the implementation of very similar responses to the emergency: by and large, countries provided stimulus measures according to their means. From Chile to the U.S. and from South Africa to India, governments struggled to contain the decline in economic activities and came up with stimulus packages, safeguards to restore confidence in the financial system, increases in expenditures and investment, special programs to protect hard-hit sectors, and expansions of welfare benefits for the unemployed. While these measures succeeded in containing the economic decline, they also had a very concrete impact on governments' increased responsibilities and on the amount of debt now resting on taxpayer shoulders.

Civil society organizations had, and continue to have, the opportunity to follow up on these specific stimulus measures, monitor their implementation, and ensure their objectives are achieved without exacerbating losses of public funds. Crises do not affect all social strata equally. Therefore, civil society organizations can have an impact by advocating for policies that promote economic recovery with benefits for taxpayers and the general public and for stronger transparency and accountability to minimize any waste of public funds and contain abuse of recently expanded government responsibilities.

VIII.

The Year-End Report

Why is this report important for civil society?

A Year-End Report offers civil society organizations a good opportunity to assess how the government has performed against its original plans or budget. To the extent that the sectoral ministries have provided a more in-depth assessment of the strengths and weaknesses of their performance, civil society organizations can use this information as a platform for discussions on what changes might enhance performance. As with government ministries, civil society organizations can use the results of the Year-End Report both to provide a basis for discussions on fixes that may be needed in the operation of programs in the current budget year and as food for thought as they prepare their input into the critical Pre-Budget Statement, which will set out the terms for budget policy and program policy for forthcoming budget years.

What can civil society do with this report?

There are many reasons why actual government expenditures might deviate from the budget passed by the legislature. These include poor financial management systems, which weaken the quality of budget expenditures and the government's ability to manage the flow of funds, as well as corruption, "creative accounting," and procurement irregularities. At the same time, however, deviations can occur for legitimate reasons: there can be a change in the economic outlook or a natural disaster may have occurred in the country which require funds to be directed in a manner not originally included in the budget.

Civil society organizations must continuously monitor expenditures as they are incurred to ensure that budgets are implemented for their intended purposes — provided that they agree with these purposes. Even if they do not, organizations may choose to monitor expenditures to ensure that public funds are being used in a manner that is efficient and that prevents fraud and theft. Year-End Reports can provide a valuable source of information for why the enacted levels (including in-year changes approved by the legislature) and the actual outcome for expenditures, revenues, and debt differ. These reports

can also explain the difference between performance indicators and targets set by the government and the actual outcome achieved.

Even though information on actual revenues collected and expenditures incurred would be contained in In-Year Reports and a Mid-Year Review, the Year-End Report offers more comprehensive information than those reports and covers the entire year. Information contained in the Year-End Report thus will provide the first opportunity for civil society to take stock of the government's performance against its plans in totality. It also would be useful for civil society organizations to consider using information contained in these reports together to form a clear picture on the spending patterns during the year. For example, civil society could assess whether large procurement-related expenditures took place in the last month of the year because the treasury delayed transferring funds to line agencies until the end of the year — which in turn may result in inefficiency and wasteful use of the funds.

While there are not many examples of civil society organizations making use of the different budget reports issued by national agencies throughout the year, one good example is from South Africa where a research organization, the Public Service Accountability Monitor (PSAM), compares published budget and policy plans to the actual performance reported by government agencies and oversight institutions. This enables PSAM to assess whether the agencies achieved the targets set in their budgets/plans. PSAM analyzes financial information from a variety of sources, including plans, budgets, In-Year and Year-End Reports, Internal Audit Reports, annual reports published by each department, reports published by such oversight bodies as public audit institutions, and reports issued by the legislative committee responsible for the department being assessed.

PSAM standardized the presentation format of its analyses by creating a number of templates and accompanying guidelines. These assist its staff (and other analysts) in compiling the information and developing analyses. Among other items, the guidelines contain a checklist of questions that PSAM uses to develop analyses on a department's performance. PSAM's expenditure tracking reports enable users to develop an account of the expenditures reported by a department and then compare these expenditures to the budget allocations made to the department. In cases in which government departments overspend or underspend their budgets, PSAM analyzes the issues by asking the following questions:

- ➔ Has the department tended to overspend or underspend in previous years? Has the amount of overspending or underspending declined over the four-year period?
- ➔ Did the department provide a valid explanation for its reported expenditures?
- ➔ Are there significant or recurring causes of overspending or underspending? Did the department provide any explanation for its failure to address these causes in the financial year under review?
- ➔ What impact did the overspending or underspending have on the department's provision of services?
- ➔ If the department overspent, was the overspending unauthorized — and will it have to be repaid in the next financial year? If so, what impact will that have on the department's ability to accomplish its objectives that year?



The Audit Report

Why is this report important for civil society?

An Audit Report can be a valuable source of information for assessing how well, or poorly, the budget was implemented. Financial Audit Reports frequently report on underspending or overspending in programs and agencies, uncover fraud and malfeasance, identify unauthorized or unsubstantiated expenditures, and highlight systemic weaknesses in financial management practices in public sector agencies. These reports can provide a wealth of information to civil society organizations that are interested in assessing problems in budget implementation. Audit Reports are often the only independent source of information on the government's financial health. This makes Audit Reports a critical source of information for civil society to assess whether the government is spending public funds judiciously. Such information cannot necessarily be gleaned from In-Year, Mid-Year, and Year-End Reports since these reports are published by governments and, therefore, are not independently verified.

What can civil society do with this report?

Below we present some examples of research and advocacy projects that civil society organizations can consider undertaking using information contained in Audit Reports.

1. Publicize Audit Findings: Civil society organizations can publicize specific problems reported in Audit Reports. For example, PSAM (described earlier) works closely with the legislature to track government agency responses to instances of financial misconduct and corruption identified in the Auditor General's reports. PSAM has highlighted the large number of audit disclaimers issued by a provincial audit agency, which was unable to access financial information during the conduct of its audit. PSAM reported that audit disclaimers were issued to 10 of the 13 major public agencies in the province from 1996 to 2000.

Further, even though the auditor's office was reporting the issuance of large-scale audit disclaimers to the provincial legislature, little action had been taken by the oversight authority to rectify the situation. PSAM began actively publicizing the gravity of this state of affairs. Its staff members gave

numerous radio and newspaper interviews in which they explained the meaning of audit disclaimers in nontechnical language. They explained that the issuance of audit disclaimers meant that the provincial administration could not account for more than 90 percent of its total budget over a period of several years. Faced with increasing pressure as a result of the media scrutiny, several major agencies improved their financial reporting processes. As a result, in 2002-2003 audit disclaimers were issued by the Auditor General to expenditures that comprised 41 percent of the total provincial budget — a reduction of more than half.

2. Compare Agency Performance: Civil society organizations can use information contained in Audit Reports to compare how well government agencies perform. With this in mind, a Tanzanian research and advocacy organization, HakiElimu, began publicizing the findings of Audit Reports issued by the country's controller and auditor general. HakiElimu hoped to use this process to hold government accountable for its management of public funds. Another reason for HakiElimu's engagement with Audit Reports was that local communities, rather than guilty officials, often suffer the consequences of poor Audit Reports. Districts that receive an "adverse" auditor's opinion are automatically ineligible for a major grant that helps fund school construction, the rehabilitation of health centers, and other projects. Cutting these funds is likely to harm district residents, particularly the poor — even though they are not responsible for the irregularities that lead to poor audit results.

HakiElimu accessed data on audit opinions provided by the Tanzanian supreme audit institution and used them to compile simple tables ranking government agencies according to their performance in Audit Reports. These tables were presented in leaflets in an attractive and accessible manner. The leaflets reported on the following four indicators for each central agency or local government authority: the auditor's opinion, "questioned revenues" (revenues about which the auditor is not satisfied that the correct procedures have been followed, or for which there is insufficient information), "questioned expenditures," and questioned expenditures as a percentage of agency expenditures. This last indicator allowed HakiElimu to compare government entities with budgets of different sizes. The most recently released Audit Reports were considered, as well as those of the previous two years. HakiElimu released the leaflets at a public meeting for journalists, civil society representatives, and donors; journalists in attendance were encouraged to follow up with the chair of the Public Accounts Committee, which they did, resulting in more in-depth coverage of Audit Reports.

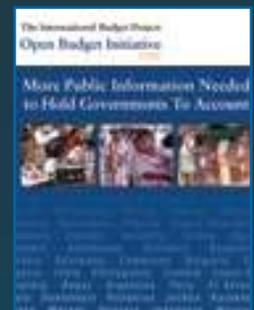
3. Assess Follow up Undertaken by the Legislature: Civil society organizations can track actions taken to implement recommendations made in Audit Reports. For example, an Argentinean civil society organization, Asociación Civil por la Igualdad y la Justicia (ACIJ), began an investigation into procurements made by the government for the national airport. The Audit Report for the agency responsible for the procurements reported serious deficiencies in the agency's management. The government, however, took no action to rectify those problems and ignored the recommendations contained in the audit reports. ACIJ demanded that it be allowed to attend meetings organized by the legislative committee (Comisión Mixta Revisora de Cuentas, or CMRC) responsible for reviewing audit reports. (These meetings had traditionally been closed to the public.) CMRC staff not only denied ACIJ's request but also told ACIJ that the committee itself did not meet to discuss the audit

findings; instead, the committee secretary approved certain audit recommendations and then obtained signatures of consent from the other committee members.

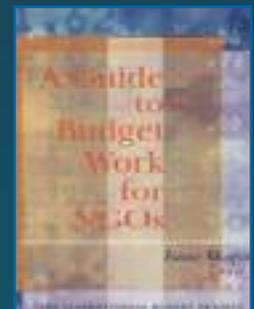
ACIJ filed a legal suit demanding that CMRC meetings be open to the public and obtained a favorable ruling. ACIJ then filed a second suit demanding access to minutes of previous CMRC meetings. Once again, the court issued a ruling in favor of ACIJ and required that this information be made public. The meeting reports were found to contain many irregularities. Seventeen of the 65 reports contained false information, including falsified meeting attendance records. ACIJ concluded that CMRC members were not truly interested in analyzing Audit Reports or demanding corrective action. ACIJ publicized its findings, which were reported in national newspapers, and this negative publicity spurred the CMRC to begin meeting regularly (and properly) to discuss Audit Reports.

Notes

The Open Budget Survey 2010



Other guides by the International Budget Partnership include:



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