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The Current State of Fiscal Transparency: Norms, Assessment, and Country Practices

Murray Petrie

Over the last 15 years, there has been a growing effort globally to promote fiscal transparency, reflecting both that the public has a right to information, and that transparency contributes to more equitable, efficient, and effective fiscal policies. However, the overall state of budget transparency is poor: measured against the Open Budget Index, the national budgets of 77 countries–home to half the world's population–fail to meet basic standards of budget transparency. Efforts are underway to improve the coherence of the multiplicity of standards, strengthen the assessment of country practices, and to address important gaps in the normative architecture, such as norms for legislative oversight and direct public participation. Many governments could rapidly improve transparency by publishing reports they already produce internally, which points to the need to strengthen incentives for governments to be more transparent.

Fiscal Transparency

As recently as the mid-1990s, there was no recognized definition of fiscal transparency, let alone any international codification of what it comprised. Since then, a multiplicity of norms and standards has been introduced, and assessments of practices employing some of these instruments are now generating data on country practices.

In 1998, Kopits and Craig defined fiscal transparency as "openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections." This approach was embodied that year in the International Monetary Fund's (IMF) *Code of Good Practices on Fiscal Transparency*, and in the following year, the IMF starting assessing country practices against the code through the use of Fiscal ROSCs (Reports on the Observance of Standards and Codes). The Organisation for Economic Co-operation and Development's (OECD; 2001) *Best Practices in Budget Transparency* focused on the narrower central government budget sector, while the IMF issued a revised *Government Finance Statistics Manual* (GFSM; 2001), which set the accrual basis as the standard for all countries for reporting fiscal statistics. The International Federation of Accountants initiated the *International Public Sector Accounting Standards* (IPSAS) project in 1996, and by 2002 had issued a core set of accounting standards for the public sector.

Subsequently, the 2002 *Extractive Industries Transparency Initiative* (EITI) and the IMF's *Guide on Resource Revenue Transparency* (2005) reflected heightened concern over fiscal transparency in countries dependent on extractive industries. The multidonor *Public Expenditure and Financial Accountability* (PEFA) reports that commenced in 2005, on the other hand, focused on countries receiving development assistance.

Recently, there has been an increasing emphasis on moving beyond disclosure to incorporate legislative oversight and direct public participation in fiscal policy. This is reflected in the *Open Budget Survey* (OBS) introduced by the International Budget Partnership (IBP) in 2006, and culminated in the *High-Level Principles on Fiscal Transparency, Participation, and Accountability* issued in 2012 by the multistakeholder Global Initiative on Fiscal Transparency (GIFT).[1] The first of the ten GIFT High-Level Principles declares that the public has a right to information on fiscal policy, and the tenth principle declares a right to direct public participation. The High-Level Principles were endorsed by the United Nations General Assembly (UNGA) in December 2012.[2]

These developments reflect that fiscal transparency is increasingly viewed as both having an instrumental value—contributing to high-quality growth, effective public service delivery, and macroeconomic stability—and as being an important right that does not need to be justified on the basis of its instrumental effects.

At the same time, fiscal transparency has become an increasingly broad umbrella term that subsumes a number of dimensions and topics. It covers both the supply side—governments publishing information—and the demand side—legislatures, civil society, and other stakeholders seeking to use information to hold government actors accountable and to participate directly in public debate over resource allocation. The term incorporates open budgeting as well as financial and nonfinancial reporting, the activities of the wider public sector, and the management of public resources. Finally, while still focusing mainly on the central government, the concepts of fiscal transparency are also being applied to subnational governments.

Table 1 summarizes elements of some of the key normative instruments.

Overview of Consensus and Gaps in the Normative Architecture

There is broad consensus in the area of supply-side disclosure by governments: coverage and timeliness of budget documents, timeliness of in-year reporting, and the scope, role, and timing of audited final accounts are areas of broad normative consensus. Provisions relating to the independence of the supreme audit institution are consistently reflected across all main instruments.

There is some key long-standing public financial management (PFM) "infrastructure" supporting this degree of consistency, including the definition of the government sector and the public sector, and revenue, expenditure, and public debt classifications. There has also been a degree of informal, decentralized coordination across the different norm-setting institutions, as well as some instances of explicit cooperation in developing instruments.

However, there are some core areas of fiscal transparency that are technically difficult and over which there is not yet a consensus. These areas include good practice in the disclosure of fiscal risks; accounting for and disclosing the fiscal implications of public private partnerships and contingent liabilities; and the disclosure of quasi-fiscal activities, that is, fiscal activities undertaken outside the government sector, typically by state-owned enterprises (SOEs).

There is also limited international normative consensus around:

- how legislatures should hold the executive to account for the conduct of fiscal policy;
- mechanisms of direct public participation in fiscal policy;
- Subnational government transparency;[3]
- transparency around the delivery of public services; and
- the interface between fiscal policy and environmental issues.[4]

In addition, there is some tension between the different instruments. For example, the instruments differ in their coverage of central government, the public sector or general government, and in whether the ability of the legislature to amend the executive's budget proposal is regarded as a transparency issue, or as going beyond transparency into constitutional design.

Finally, there has been a proliferation of instruments that have the potential to create unnecessary transaction costs, if they are not already doing so, and confusion. This proliferation reflects some overlapping institutional mandates and insufficient coordination mechanisms.

The most significant overlap is between PEFA reports and the Fiscal ROSCs. While the number of Fiscal ROSCs has dwindled in the last few years, the IMF's intention to revitalize its fiscal transparency activities means this issue may reassume some importance.

However, the two instruments are currently quite different from each other, and both are currently being reviewed. PEFA reports focus on the information needs of donors and recipient governments, and therefore they include many PFM diagnostics that go well beyond transparency. Compared to the Fiscal ROSC, PEFA reports' coverage of transparency is relatively limited,

Table 1. Summary of Main Fiscal Transparency Instruments

Instrument name	Scope	Content	Coverage	Graduated	Assessment	Remarks
1. *Code of Good Practices on Fiscal Transparency* IMF, 1998, revised 2007 http://www.imf.org/external/np/fad/trans/index.htm	Budgets, forecasts, and reporting; all fiscal activities; focus on central government, but also covers general government and public sector	45 good practices in 4 pillars: (i) clarity of roles; (ii) open budget processes; (iii) public availability of information; and (iv) assurances of integrity.	Covers all 187 member countries	No (current review intended to introduce graduated approach)	Fiscal ROSC by IMF staff on request of government. Publication is voluntary, on IMF Web site. Detailed staff description, diagnosis, and recommendations. Few ROSCs completed in recent years.	The code and ROSCs are being revised in 2013.
2. *Open Budget Survey and Open Budget Index* International Budget Partnership *http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/*	Budgets, forecasts, and reporting; central government; budget sector	OBI based on availability and content of eight key documents over complete budget cycle. OBS also includes legislative oversight and public engagement.	Country coverage: 2006: 59 2008: 85 2010: 94 2012: 100	Yes (4-level ordinal scale)	OBS completed by independent civil society researchers in each country; surveys published on IBP Web site. Quantitative cross-country data (the OBI); used as basis for recommending reforms. Increasing use by donors and others, for example, Open Government Partnership.	Consideration being given to an "OBI-Plus" to better cover off-budget activities and SOEs.
3. *Government Finance Statistics Manual 2001* IMF http://www.imf.org/external/pubs/ft/gfs/manual/index.htm	Reporting only; general government (and public sector)	An accrual standard for government fiscal statistics as part of the national accounts.	Applies to all 187 IMF member countries	No	Some aspects assessed by IMF staff as part of Data ROSC, and some as part of Fiscal ROSC, for example, definition of sectors, revenue and expenditure classifications, and fiscal balance definitions.	Being revised in 2013 to make compatible with System of National Accounts 2008.
4. *International Public Sector Accounting Standards* International Public Sector Accounting Standards Board *http://www.ifac.org/public-sector*	Reporting only; general purpose financial statements of public sector entities and controlled entities; does not cover business enterprises	Thirty-two accrual basis IPSASs, and one cash basis IPSAS as of March 2013.	Intended to cover all governments at national and subnational levels	Yes (pass/fail)	By accountants and auditors in each country. Audited financial statements are published.	Published medium-term work program of standards development, including a conceptual framework, and convergence with GFSM as feasible.
5. *High-Level Principles on Fiscal Transparency, Participation and Accountability 2012* GIFT www.fiscaltransparency.net	Budgets, forecasts, and reporting; general government and public sector; public rights to fiscal information and to direct participation.	Ten high-level principles covering access to information and the governance of fiscal policy.	Intended to cover all government	No	None. The GIFT work program includes promoting greater coherence in norms, filling gaps in existing norms (for example, on public participation, and legislative oversight) and strengthening assessment practices, including through mutual recognition.	Endorsed by UNGA in December 2012. Intended to sit above existing set of normative instruments and to promote improvements in their coverage, consistency and coherence.

Source: Author's compilation, drawn from the GIFT phase I report, December 2, 2011, at www.fiscaltransparency.net.
Note: Information on a set of 40 normative instruments containing provisions on fiscal transparency is available in the GIFT phase I report.

although they do include provisions on legislative oversight. PEFA reports also include detailed ordinal scores that are intended to help track progress in a country over time. The Fiscal ROSC is aimed at countries at all levels of development, and does not produce explicit performance ratings.

What Does Public Participation Mean with Respect to Fiscal Policy?

The public participation dimension of fiscal transparency has developed only recently, and norms in this area are relatively undeveloped. A wide range of activities are described as constituting "public participation," and the meaning differs across political systems, countries, and cultures. Indeed, the perceived need for and legitimacy of direct public participation mechanisms will be shaped by each country's political system, and by the level of government (central or subnational) concerned.

The International Association for Public Participation identifies a five-level spectrum for public participation: to inform; to consult; to involve; to collaborate; and finally, to empower.[5]

The concept of a spectrum of participation can be a useful way to consider different types of participation for different purposes, although there should be no presumption that higher levels on the spectrum are necessarily more or less desirable than lower levels. It is also important to note that public participation in fiscal policy should be seen in a wider context than just opportunities to participate in the annual budget cycle—policy development will often span more than one budget cycle. Some forms of participation are designed more around public investment project cycles rather than the budget cycle, and some mechanisms for public participation are ongoing, for example, standing consultative panels.

Country Practices

The most comprehensive cross-country data on current practices in fiscal transparency is that compiled by the IBP with respect to country scores on the Open Budget Initiative (OBI). The 2012 OBI comprised 100 mainly developing countries, although it included 18 Organisation for Economic Co-operation and Development (OECD) member countries and had good geographic coverage. The following findings emerge from the 2012 OBI:[6]

- *Finding 1: The overall state of budget transparency is poor.* The national budgets of 77 countries—home to half the world's population—fail to meet basic standards of budget transparency (scores of less than 60 out of 100). The average score is just 43 out of 100, and there is a very large range of country practices—scores range from 0 to 93 on the 2012 OBI.

  The governments of 21 countries do not even publish their executive's budget proposal.
- *Finding 2: There has been steady, albeit incremental, progress over the four rounds of the OBS since 2006.*
- *Finding 3: Good performance is possible in a variety of contexts.* Aid-dependent countries such as Afghanistan, oil revenue–dependent countries such as Mexico, low-income countries such as Bangladesh, and some countries in the Middle East and sub-Saharan Africa all have relatively transparent budget systems. South Africa ranks second on the index.
- *Finding 4: Not only is progress possible, it can happen quickly and at a modest cost.* Many governments could dramatically improve their budget transparency at little or no cost merely by posting on Web sites documents already produced internally.
- *Finding 5: Budget engagement by the audit institutions and the legislature is typically weak.*
- *Finding 6: There is widespread failure to provide sufficient opportunities for civil society to engage in budget processes.* The average score on participation opportunities was just 19 out of 100. There are, however, examples of innovative and meaningful steps to engage citizens, including hotlines for reporting problems with service delivery, public hearings to gather input on proposed budget policies, and efforts to involve communities in audits of public programs.

Looking beyond the OBI, an analysis of 57 Fiscal ROSCs by Hameed in 2005 found that European Union accession countries had higher average transparency scores compared to the rest of the nonadvanced economies, and the difference was statistically significant. There was a higher mean value for scores on budget execution in Latin American countries, possibly reflecting the introduction of GFMISs (government finance management information systems) in the region, and scores on medium-term budgeting were statistically different and higher for heavily indebted poor countries (Hameed 2005).

With respect to PEFA, of the 71 countries for which PEFA assessments of indicator D-2 (financial information provided by donors to recipient countries on project and program aid) were published through March 2011, 48 received a D or a D+, the lowest possible scores. These scores highlight the lack of information provided by donors, and therefore the inability of recipient governments to disclose the information to their legislatures and citizens (IBP 2011, 2).

Finally, with respect to access to information, in 2010–11, a network of civil society organizations submitted 480 requests for budget information in 80 countries.[7] No information at all was provided in response to over half of these requests, despite repeated attempts. Only 12 of the 80 countries complied with right-to-information standards.

Strengthening incentives for fiscal transparency

Given the overall weak state of country practices, it is important to consider how incentives might be strengthened to foster more transparent, participatory, and accountable fiscal decision making. At this stage, there is a limited but growing evidence base in this area, which can be summarized as follows:[8]

- There is evidence that, after controlling for other variables, fiscal transparency is rewarded with higher sovereign ratings and lower spreads.
- Recent case study research identifies four main factors as contributing to improvements in fiscal transparency and participation: (i) political transition toward more democratic forms of political contestation; (ii) fiscal and economic crises that force governments to put in place enhanced mechanisms for fiscal discipline and independent scrutiny; (iii) widely publicized cases of corruption that give reformers political space to introduce reforms that improve public access to fiscal information; and (iv) external influences that promote global norms that in turn empower domestic reformers and civil society actors (Khagram, Fung, and de Renzio 2013).
- There is case study and testimonial evidence supporting the impact of fiscal transparency norms and their assessment on country behavior. For instance, a number of governments have indicated that they will take action to improve their country's score on the OBI, or have introduced more transparency following an OBI assessment.
- There is evidence of a strong impact of international finance institution conditionality on fiscal transparency in some circumstances, for example, Greece's program with the IMF and the European Union contained structural benchmarks on fiscal reporting. Substantial technical assistance has also been provided, and there has been a significant improvement in Greece's fiscal reporting practices.
- Pressures among members of deep regional trade agreements can create incentives for fiscal transparency, as seen in the European Union.
- There is some evidence that fiscal transparency improves fiscal performance and social and governance indicators, which may indirectly strengthen incentives for increased transparency.

Priority areas for action to strengthen incentives include working with the governments in the Open Government Partnership, over 40 of which have committed to specific initiatives relevant to fiscal transparency and participation;[9] exploiting the potential of financial market pressures for transparency in the post–global financial crisis environment; and strengthening the normative architecture for fiscal transparency and participation as well as the effectiveness of the assessment of country practices.

Concluding Remarks

Over the last decade and a half, there has been a greatly increased global effort to promote fiscal transparency to improve equity, effectiveness, and stability in the management of public resources. There is now a multiplicity of norms and a need for more coherence, but gaps remain. Some of these issues are being addressed in the current reviews of a few commonly used instruments, including IMF's Fiscal Transparency Code and the PEFA assessments. GIFT's *High-Level Principles* represent an attempt to promote more coherence and comprehensiveness in the normative architecture, while strengthening legislative oversight and direct public participation. However, the current overall state of fiscal transparency is weak, although there has been some improvement since 2006. Many governments could rapidly improve transparency by publishing on the Web reports they already produce internally. These factors point to the need to strengthen incentives for governments to publish more information and for governments to increase direct engagement with the public. Providing targeted and practical technical assistance to assist executives, legislatures, and civil society can also help increase levels of fiscal transparency.

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About the Author

Murray Petrie is a *Technical Advisor* on global norms with the *Global Initiative on Fiscal Transparency*. Since 1998, he has worked as a consultant for the *International Monetary Fund* and the *International Budget Partnership* on developing fiscal transparency standards and assessing country practices. He is actively involved in civil society initiatives to strengthen transparency, participation and accountability, and has published widely on fiscal transparency and related issues in public financial management.

Notes

1. GIFT is an initiative comprising governments, international financial institutions, and civil society organizations (www.fiscaltransparency.net).

2. UNGA resolution 67/218, which was adopted without a vote, noted the GIFT High-Level Principles and endorsed the principles of transparency, participation, and accountability in respect of fiscal policies. The UNGA resolution is available at http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/67/218.

3. International Public Sector Accounting Standards, set by the International Public Sector Accounting Standards Board, apply to the financial statements of national and subnational governments. The International Budget Partnership has completed pilot studies of budget transparency at the subnational government level, see http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/subnational-work/. The PEFA Secretariat has also published "Supplementary Guidelines for the Application of the PEFA Framework to Subnational Governments," which can be found at http://www.pefa.org/en/content/pefa-secretariat-studies.

4. Examples include climate change–related expenditures, funding, and liabilities; transparency of management of renewable resources, for example, forestry and fisheries; transparency of fiscal support for the exploitation of natural resources and for the consumption of fossil fuels; and transparency of outcomes/impacts in the public management of environmental resources.

5. International Association for Public Participation, www.iap2.org.

6. See http://internationalbudget.org/what-we-do/open-budget-survey.

7. Ask Your Government! 6 Question Campaign. Access Info Europe and the Centre for Law and Democracy, in collaboration with the IBP (see http://www.access-info.org/en/budget-transparency/200-6-question-campaign).

8. For further details, see "Towards Stronger Incentives for Increased Fiscal Transparency, Participation and Accountability" (December 2, 2012).

9. See http://www.opengovpartnership.org/countries.

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