

Transparency and Participation in Public Financial Management

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The idea that citizens should have access to detailed information about how governments use public resources is not a new one. In fact, it has a long and distinguished history. As far back as 350 BC, Aristotle's *Politics* suggested that "... to protect the Treasury from being defrauded, let all money be issued openly in front of the whole city, and let copies of the accounts be deposited in various wards". The *Declaration of the Right of Man and of the Citizen*, a fundamental document of the French Revolution of 1789, also recognised citizens' right to know how their taxes are used, and to request an account of any public official.

Despite its deep historical roots, it was only after the Asian financial crisis of 1997 that fiscal transparency became common currency in international policy debates. The IMF published its *Code of Good Practices in Fiscal Transparency* in 1998, and the OECD its *Best Practices for Budget Transparency* in 2002. In 2006, the International Budget Partnership started publishing its *Open Budget Index*, scoring and ranking countries based on how open their public finances are. Over the following decade, more and more actors have become involved in initiatives to promote transparency in public financial management, from international organisations to civil society groups, from private foundations to sector-specific initiatives.

Fiscal transparency appeals to a broad audience across the political spectrum, and is seen as having both intrinsic and instrumental value. While some highlight the role that transparency can play in ensuring fiscal discipline, managing fiscal risk and reducing opportunities for malfeasance and corruption, others claim that it has a transformative and empowering potential, putting information in the hands of people who can use it to break government secretiveness, monitor the use of public resources and hold public officials accountable for development results.

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As a result of these varied expectations, the past few years have seen a flurry of new initiatives calling for increased transparency in PFM. For example, some donor agencies have included transparency benchmarks in their budget support operations, while others have set up funds to support civil society organisations interested in monitoring the implementation of government programs. Different aspects of public financial management, from extractive revenues to procurement and contracting, now have dedicated international transparency initiatives.

Despite all of this, strong evidence on the impact of fiscal transparency is still quite difficult to come by. Positive findings are often limited to specific instances or individual case studies, and cross-country evidence remains marred by statistical problems and data limitations.

The idea that besides access to information citizens also have a right to participate in budget-making is more recent and less consensual. Despite the interest surrounding specific methodologies like participatory budgeting, many still consider that citizens do not have sufficient knowledge or expertise to justify their involvement at various stages of the budget process. Slowly, however, things are changing. Both the new IMF Code and the OECD's Principles on Budgetary Governance include a call for governments to involve citizens in debates around budget priorities and policy choices. And evidence is increasing both on the different ways in which leading governments have been engaging their citizens, and on some of the positive impacts that this has led to.

Transparency and participation are likely to become permanent features of debates around PFM, with related reforms being implemented across an increasing number of countries. More research is needed, however, to ensure that their intended benefits do in fact accrue and more discussion should be promoted on a number of topics, to keep expectations realistic. For example, to what extent can technology amplify the benefits of transparency? And how can we best ensure the public gets access to information that is important and relevant for the different purposes that they pursue, rather than creating an environment rich in data, but poor in information?

Readings

Reading 1: IMF (2014). *Update on the fiscal transparency initiative*. IMF Policy Paper. Washington, DC: International Monetary Fund. <https://www.imf.org/external/np/pp/eng/2014/061614.pdf>

This paper provides an update on the IMF's efforts to revamp and relaunch its Fiscal Transparency Code, alongside a new assessment tool to be used to monitor countries' compliance. It explains the process that was followed to redesign the Code and the differences with its previous versions. It includes preliminary results from the pilot evaluations and has a table in the Annex that provides details on distinguishing among basic, good and advanced practices in the various areas covered by the Code.

Reading 2: IBP (2012). *Open Budget Survey 2012. Open Budgets. Transform Lives*. Washington, DC: International Budget Partnership. <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf>

This report includes the results from the 2012 Open Budget Survey, providing a snapshot of the state of budget transparency across 100 countries, and chapters on changes over time and on the strength of oversight institutions. For the first time, the Survey also includes a set of questions on citizen engagement in budget processes. A new report with updated results will be published in September 2015.

Reading 3: Khagram, S. et al. (2013). Overview and Synthesis: The Political Economy of Fiscal Transparency, Participation, and Accountability around the World. In Khagram, S. et al. (eds) *Open Budgets: The Political Economy of Transparency, Participation and Accountability*. Washington, DC: Brookings Institution Press.

http://www.brookings.edu/~media/press/books/2012/openbudgets/openbudgets_chapter.pdf

This chapter summarises the findings from the first comprehensive comparative research project on the political economy of transparency and participation in PFM. It draws on a series of quantitative papers and eight in-depth country case studies from across the world, identifying some of the key factors behind improvements in fiscal openness, and discussing the limited impact that transparency has had so far on both participation and accountability in fiscal matters.

Reading 4: Reinikka, R. & Svensson, J. (2003). *The Power of Information: Evidence from a Newspaper Campaign to Reduce Capture*. Washington, DC: World Bank.

http://siteresources.worldbank.org/EXTHDOFFICE/Resources/5485726-1271361195921/Reinikka-Svensson-power-of-information_Uganda.pdf

This widely cited paper tells the story of how increased public access to information on grants to local schools in Uganda led to a drastic reduction in capture and corruption, by boosting schools' and parents' ability to monitor local officials' handling of the grants. The story made Public Expenditure Tracking Surveys (PETS) famous, even though a subsequent commentary by the Center for Global Development partly questions the way in which the story was told (see

http://www.cgdev.org/files/15050_file_Uganda.pdf).

Reading 5: Touchton, M. & Wampler, B. (2014). Improving Social Well-Being through New Democratic Institutions. *Comparative Political Studies*. 47(10), 1442-1469.

<http://cps.sagepub.com/content/47/10/1442>

This paper provides the first evaluation of the impact of Participatory Budgeting (PB) in municipalities across Brazil. The authors find that PB programs are strongly associated with increases in health care spending, increases in civil society organisations, and decreases in infant mortality rates. The authors also published a blog on the Washington Post website summarising their findings (see <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/01/22/brazil-let-its-citizens-make-decisions-about-city-budgets-heres-what-happened/>).

Reading 6: GIFT (2015). *The Time is Now: Advancing Public Participation in Government Fiscal Policy and Budget-Making*. Washington, DC: Global Initiative for Fiscal Transparency.

<http://fiscaltransparency.net/wp-content/uploads/2015/02/GIFTParticipationPrimerFeb242015Final.pdf>

This note provides a detailed argument in favour of developing norms around citizens' right to be provided with meaningful opportunities to engage and participate in the budget process. It identifies key actors and examples at different stages of the budget cycle, and summarises findings from case studies of South Korea, Brazil and the Philippines.

Questions to guide readings

1. Despite increasing calls for more transparency and participation in PFM, many governments, especially among poor, autocratic and oil-rich countries, are still able to hide public finances from public scrutiny. What are the key incentives for these governments to open their books? How can both domestic and external actors best put pressure on governments to become more transparent? Can you think of some of the key actors and factors working for or against transparency and participation in PFM in your country?
2. In many superficial accounts praising transparency and participation in PFM, transparency is seen as leading to participation, with the two leading in turn to government accountability. How can we best think of the linkages that exist between transparency, participation and accountability in PFM? What are some of the contextual and PFM-specific characteristics that can facilitate this virtuous cycle?
3. Look at the differing accounts of the Uganda story from the paper by Reinikka and Svensson and from the CGD paper by Hubbard. Which do you find more convincing? Did access to information lead to a drastic reduction in capture of public funds, or was the transparency intervention simply part of broader policy reforms that resulted in better distribution of school grants? Why did PETS not achieve the same level of impact in other countries?
4. What are some of the possible drawbacks of transparency and participation? Could there be such a thing as too much transparency or too much participation in PFM?