
Public Finance Topic Guide

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What are public finance assessments?

In the context of anti-corruption, we define public finance assessments as those tools which aim to identify transparency and accountability gaps and/or corruption risks in government public financial management *systems* and/or in the budget *process*¹. Given the focus on anti-corruption diagnostics, this guide does not include tools designed specifically to support citizen participation and advocacy efforts in the *formulation* of budgets.

Purpose and context of the assessments

The purpose of public finance assessment tools in the context of anti-corruption are:

- to assess public financial management and accountability systems, and procedures in aid recipient countries: Such assessments have largely been developed by donor agencies in recognition of the fact that aid can often be redirected to purposes other than it is intended (fungible) and is vulnerable to misappropriation, especially in the context of general budget support. Public financial management assessments are therefore generally used to inform the development of public financial accountability reforms, to measure progress on such reforms, and in some cases to assess fiduciary risk, with a view to guiding donors' funding and lending decisions. A further objective is often to foster increased co-operation between development agencies and recipient governments².
- to assess levels of transparency and access to information in government budgets: The majority of these assessments are comparative in nature, providing a scoring and/or ranking based on the extent to which national or local governments provide citizens with accurate, timely and complete information on budget plans and results across the different stages of the budget cycle. Making comparisons across or

¹ Although a key element of the budget process, procurement/contracting is not included here, but is instead covered in the Public Procurement Topic Guide. Other guides which overlap closely with this guide include Access to Information, Local Governance, Social Accountability, and Education, Health and Water

² World Bank, 2003, Assessing and Reforming Public Financial Management; ODI, 2001, A Guide to Public Financial Management

within countries can provide civil society with evidence to support advocacy efforts on opening government budgets³.

- to identify corruption risks in the use of public resources, both in terms of government revenues and expenditures. On the revenue side, assessment tools focus in particular on the extent to which governments disclose information on the sources of revenue earned through natural resources and extractives⁴, or on the extent to which the tax administration system is vulnerable to corruption⁵. On the expenditure side, the emphasis is on determining whether the resources allocated by the budget have been spent according to plan and to identify leakage due to mismanagement and corruption⁶.

Assessment approaches

In line with the different purposes identified above, the different approaches to public finance assessments can be divided broadly as follows, although there is clearly some overlap:

- Public Financial Management approaches focus on identifying strengths, weaknesses, and risks in the legal frameworks and organizational structures and processes for public expenditure management at the national level. Although assessments do not directly address corruption, the issue of financial integrity cuts across the analysis. Assessments generally involve desk based research, field missions by the assessment team, interviews or meetings with public officials and multiple rounds of consultation and peer review⁷. A recent stocktaking study prepared for the 4th High Level Forum on Aid Effectiveness⁸ divides the range of available tools into three categories: (a) diagnostic or analytical tools covering the whole of the PFM system⁹, (b) tools which focus in greater detail on individual PFM elements or institutions¹⁰, and (c) tools used by donors in order to assess fiduciary

³ Open Budget Survey and Index; Subnational Budget Transparency: An Analysis of Ten Pilot Studies; Índice Latinoamericano de Transparencia Presupuestaria; Índice de Transparencia Presupuestaria Pública Argentina; Índice de Información Presupuestal (Mexico); Índice de Transparencia (Brasil); Croatian Open Local Budget Index; Government Transparency in Virginia: How Localities Compare

⁴ Revenue Watch Index; Guide on Resource Revenue Transparency; Follow the Money: A Guide to Monitoring Budgets and Oil and Gas Revenues; Extractive Industries Transparency Initiative: Validation Guide

⁵ Anti-corruption Effectiveness Indicators for Tax Administration; Benchmarking Tax Systems; Diagnostic Framework and Toolkit For Revenue Administration

⁶ Our money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures; Public Expenditure Tracking Surveys (PETS); Follow The Money: A Resource Book for Trainers on Public Expenditure Tracking in Tanzania; Engaging Communities and Civil Society Organizations in Public Expenditure Tracking: A Training Manual

⁷ World Bank (2004) Assessing and Reforming Public Financial Management A New Approach

⁸ OECD (2011) Stocktaking Study of PFM Diagnostic Instruments

⁹ E.g. Public Expenditure and Financial Accountability (PEFA) - Performance Measurement Framework; Preparing Public Expenditure Reviews for Human Development; Country Financial Accountability Assessment (CFAA) Methodology; Reports on the Observance of Standards and Codes (ROSCs); Commonwealth Public Financial Management Self-Assessment Toolkit; Open Budget Survey and Index

¹⁰ E.g. Diagnostic Framework and Toolkit For Revenue Administration; Country Procurement Assessment Report; Methodology for Assessment of National Procurement Systems; Public Expenditure Tracking Surveys

risk and/or the use of country systems¹¹. A notable development in recent years has been the introduction of the Public Expenditure and Financial Accountability (PEFA) Framework, a unifying set of high level indicators, providing core information on budget credibility, transparency, oversight and policy orientation. A complementary approach is the IMF's Reports on the Observance of Fiscal Standards and Codes (Fiscal ROSCs), which focuses particularly on transparency and accountability aspects of PFM systems, including clarity of roles, openness and access to information and data integrity¹².

- Budget transparency approaches focus more on benchmarking *de facto* public access to budget information against recognised standards for transparent and accountable budget systems. Most notable amongst these approaches is the International Budget Partnership's Open Budget Survey, for which independent budget experts collect data on the availability, timeliness, and comprehensiveness of a country's budget reporting and the strength and effectiveness of legislatures and oversight institutions in the country¹³. A number of other indices adapt the IBP's Open budget survey methodology to either the regional or sub-national level¹⁴. A related approach, most commonly adopted at the sub-national level, is to measure the breadth, depth and timeliness of budget information that local governments make available online, as well as the ease of use of their websites or transparency portals¹⁵. Finally, data on the perceptions of government officials and information users on budget transparency is sometimes combined with an assessment of the legal framework to identify gaps in terms of government accountability to its citizens as regards the budget.¹⁶
- Revenue- and expenditure-related approaches
 - There is no diagnostic tool that provides comprehensive analysis of the *revenue side* of public budgets. Instead assessments focus on anti-corruption safeguards in the management of discreet revenue streams: One approach is to benchmark the extent to which governments publish information on sources of natural resource revenue against standards laid out in international codes such as the Extractive Industries Transparency Initiative or the IMF's Code of Good Practices on Fiscal Transparency¹⁷. Another approach, sometimes included as part of a wider PFM assessment, is to assess institutional weaknesses in tax administration systems that may present opportunities for corruption to occur and/or to assess perceptions of corruption and bribery in tax administration^{18,19}.

¹¹ E.g. Fiduciary Risk Assessment; Guidelines for Implementing Second Governance and Anti-Corruption Action Plan

¹² Fiscal ROSCs and PEFA Assessments: A Comparison of Approaches (Public Financial Management Blog, January 2010)

¹³ Open Budget Survey and Index;

¹⁴ E.g. Subnational Budget Transparency: An Analysis of Ten Pilot Studies; Croatian Open Local Budget Index; Índice de Presupuesto Abierto (Central America)

¹⁵ Índice de Transparencia Presupuestaria Pública Argentina; Índice de Transparencia (Brasil);

Government Transparency in Virginia: How Localities Compare

¹⁶ Índice Latinoamericano de Transparencia Presupuestaria

¹⁷ E.g. Revenue Watch Index; Guide on Resource Revenue Transparency; Extractive Industries Transparency Initiative: Validation Guide

¹⁸ Another important source of government revenue in many developing countries is international aid. Whilst there a number of tools which assess transparency in aid delivery, these tend to focus on

- On the *expenditure side*, the focus is on monitoring the flow of public resources allocated through the budget. Monitoring is usually carried out by civil society during the budget execution phase although it can take place during the oversight phase²⁰. The most common monitoring approach is the Public Expenditure Tracking Survey (PETS), which uses surveys of frontline providers and local government staff, combined with official financial data, to track the flows of resources from central government to the service provider. It collects information on facility characteristics, financial flows, outputs and accountability arrangements²¹. A related method is the Quantitative Service Delivery Survey (QSDS), most commonly used in the health sector, which takes the PETS one step further by examining the efficiency of public spending and incentives at the level of the service facility through interviews with managers, staff and in some cases, beneficiaries²². Both PETS and QSDS are generally sector specific, and can be conducted at the national, state or district level²³.

Data sources

Public Financial Management approaches rely largely on legal institutional analysis and interviews with high level government officials to collect data on institutional strengths and weaknesses of a county's PFM system. Assessments of budget transparency tend to use expert analysis of official government data and budget documents sometimes supported by requests for information to test how easy it is to access budget information in practice. Expenditure tracking, meanwhile, relies largely on survey data, combined with official data from governments and service providers.

Key issues and challenges

- Public financial management approaches: A wide variety of public financial management assessment tools has emerged over recent years, often in an uncoordinated way, leading to considerable overlap between some of the tools as well as higher transaction costs²⁴ on both governments and donors. The introduction of the PEFA Framework, however, has addressed this lack of harmonisation to some extent by providing a standard reporting structure and set of high level indicators, providing core information on the performance of the PFM system over time. The framework allows for the integration of some of the more established tools which assess specific elements of the PFM system (e.g. Public Expenditure Reviews (PER), Country Financial Accountability Assessments (CFAA) and Country Procurement

donor rather than recipient accountability. An exception is CMI's recent paper on Corruption Indicators in Performance Assessment Frameworks for Budget Support.

¹⁹ E.g. Developing a Tool to Assess Tax Administration; Diagnostic Framework and Toolkit For Revenue Administration; Anti-corruption Effectiveness Indicators for Tax Administration

²⁰ E.g. Political Process Monitoring: Budget Monitoring, Budget Advocacy and Expenditure Tracking

²¹ E.g. Using Public Expenditure Tracking Surveys to Monitor Projects and Small-Scale Programs: A Guidebook; Public Expenditure Tracking Surveys (PETS); Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures

²² E.g. Quantitative Service Delivery Surveys (QSDS); PETS/QSDS data portal

²³ E.g. Public Expenditure Tracking Surveys in Education; Public Expenditure Tracking Survey in the Water Sector; Public Expenditure Tracking Survey of the Health Sector in Mozambique

²⁴ when several of these tools are applied concurrently

Assessment Reports (CPAR)²⁵. Nevertheless, a key issue remains the lack of clarity in terms of which diagnostic tools are most appropriate for which questions and contexts. Another important weakness of existing public finance assessment tools relates to their limited coverage of sub-national levels of government²⁶. The focus of the PEFA framework, for example, is on public financial management at central government level, although operations of other levels of government are considered insofar as they impact on the performance of the national PFM system²⁷.

- **Monitoring approaches:** The principle consideration in implementing expenditure tracking tools is to first determine whether there is sufficient time, human and financial resources, and expertise to undertake an assessment. A typical PETS, for example, takes about a year to complete and requires a good level of technical expertise on budget execution processes as well as significant financial resources. It is also crucial to consider what unit is to be tracked. Whilst a broad survey might provide more information of use to a range of stakeholders or cover a larger geographical area, it may overlook important details and compromise the usefulness of the final results. On the other hand, the more specific the assessment is, the less likely it is that the results will be comparable across different areas. A further issue is the difficulty in accessing accurate financial information at different levels of the service delivery chain. A lack of clear allocation rules at central government level, for example, can lead to greater discretion on spending decisions at local level. This can make it more difficult to objectively identify mismanagement of funds and has, in some cases, resulted in a flawed perception that leakage or even corruption has occurred²⁸. Data collection challenges may also arise due to poor record keeping and the use of cash and in kind disbursements at facility level.

Promising practices

- **Objectivity vs flexibility:** The Open Budget Survey is considered the most comprehensive assessment of its kind to date. Because it is published every two years and covers the same set of countries²⁹, it also allows for comparison both over time and amongst countries³⁰. A key feature of the assessment is its grounding in internationally accepted criteria for budget transparency and accountability, through an examination of the availability and dissemination of 8 key budget documents³¹. Whilst the survey specifies the timeframe within which each of these should be released based on IMF and OECD Guidelines, it also recognizes that not all countries are in a position to meet them. It therefore adds an element of flexibility into the assessment by distinguishing between those governments that are

²⁵ PEFA Secretariat, 2003, 'Assessing Public Expenditure, Procurement and Financial Accountability: A Review of the Diagnostic Instruments'; Task Force on Public Financial Management, 2011, 'Stocktaking Study of PFM Diagnostic Instruments'

²⁶ PEFA Secretariat, 2003, 'Assessing Public Expenditure, Procurement and Financial Accountability: A Review of the Diagnostic Instruments'

²⁷ Public Expenditure and Financial Accountability (PEFA) - Performance Measurement Framework

²⁸ Budget Mechanisms and Public Expenditure Tracking in Kenya; World Bank (2009) Implementing Public Expenditure

Tracking Surveys for Results: Lessons from a Decade of Global Experience

²⁹ plus new countries which are added in each round

³⁰ Open Budget Survey and Index

³¹ These are: the Pre-Budget Statement, Budget Summary, Executive's Budget Proposal, Supporting Budget Documents, Citizens Budget, Enacted Budget, In-Year Reports, the Mid-Year Review, Year-End Report, and Audit Report

publishing documents within a reasonable timeframe and those that are publishing documents so late as to make public access to these documents almost meaningless³².

- Sub-national and sectoral assessments: Whilst broader PFM tools have yet to adequately address local governance issues, there is an increasing trend towards measuring budget transparency at the sub-national level. This is particularly important given the increased responsibility of sub-national governments for resource allocation and service provision. Though still an emerging area, the International Budget Partnership (IBP) has commissioned ten pilot studies on sub-national budget transparency in Argentina, Brazil, Bolivia, Croatia, Ecuador, India, Indonesia, Mali, Mongolia and Peru³³. These studies have allowed for new forms of analysis to be conducted, including: budgeting for disadvantaged sections of the population (India); comparing across sub-national units to encourage peer to peer learning (various); assessing of the credibility, timeliness, dependence and discretion of intergovernmental transfers (Argentina); and identifying the extent of civil society demand for public information (Peru). A similar trend can be observed at the sector level, with assessment tools being developed for measuring budget transparency in the defence, natural resource management, and aid sectors amongst others³⁴. Other tools include sector specific questions as part of the broader assessment³⁵.

All tools referenced in this guide are accessible via the gateway tool database:

<http://gateway.transparency.org/tools>

³² Guide to the Open Budget Questionnaire

³³ Subnational Budget Transparency: An Analysis of Ten Pilot Studies

³⁴ The Transparency of National Defence Budgets; Revenue Watch Index; IATI Assessment Checklist

³⁵ Open Budget Survey and Index; Ask Your Government! The 6 Question Campaign

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