

**THE BUDGET PROCESS AND
CORRUPTION
TOPIC GUIDE**
COMPILED BY THE ANTI-CORRUPTION HELPDESK

Transparency International is a global movement with one vision: a world in which government, business, civil society and the daily lives of people are free of corruption. Through more than 100 chapters worldwide and an international secretariat in Berlin, we are leading the fight against corruption to turn this vision into reality.

Topic guides are a series of publications developed by the Anti-Corruption Helpdesk on key corruption and anti-corruption issues. They provide an overview of the current anti-corruption debate and a list of the most up to date and relevant studies and resources on a given topic.

www.transparency.org

Authors: Matthias Morgner, Marie Chêne

Reviewer(s): Finn Heinrich, PhD

Date: 28 November 2014

© 2014 Transparency International. All rights reserved.



With support from the European Commission

This document should not be considered as representative of the European Commission or Transparency International's official position. Neither the European Commission, Transparency International nor any person acting on behalf of the Commission is responsible for how the following information is used.

TABLE OF CONTENTS

TABLE OF CONTENTS	3
THE BUDGET PROCESS	4
BUDGET FORMULATION	4
BUDGET APPROVAL	5
BUDGET EXECUTION	6
Cash management and treasury account	6
Accounting and reporting	7
RESOURCES ON THE BUDGET PROCESS	8
Background papers	8
Standards, principles and guidelines	9
Practical insights: handbooks and toolkits	9
Assessment tools and datasets	11
Resources from Transparency International's Anti-Corruption Helpdesk	11
Actors and stakeholders	12

This topic guide provides an overview of major corruption risks and anti-corruption approaches in the budget process, and a compilation of the most up to date and relevant studies and resources on the topic

THE BUDGET PROCESS

BUDGET FORMULATION

The budget for the upcoming budget period is established by the executive. Government ministries, usually led by the Ministry of Finance, are responsible for formulating the budget plan in a process that involves several steps of negotiations among government agencies. Corruption risks increase when individual discretion to set aside funds for later misappropriation is high. Funding requests put forward by the spending agencies at “the bottom” of the government administration pyramid will normally exceed the funds available to be shared. The allocation of the funds depends on political priorities set and negotiations done at “the top” of the government. Political and executive decision-making power is, therefore, always also the power to control and direct the allocation of funds. Where systems of checks and balances are weak and policy making is strongly influenced by lobbying and state-capture, there is a higher risk for corruption in the budget formulation stage. The high level of complexity and technical nature of this process limit opportunities for public monitoring and oversight.

At this stage of the budget process, approaches for reducing corruption include:

- **Strengthening overall governance processes.** The chances for the budget being allocated to serve the interests of only a few top-level individuals can be reduced through clearly communicated budget “envelopes” (aggregated amounts for spending units), sufficient time and proper procedures for government negotiations, and a stable system of governance with clearly formulated and balanced powers for each involved actor.
- **Multi-year budgets and programme-based budgeting.** Multi-year budgets aim to ensure that the budget reflects political priorities and government strategies over a perspective of many years and also aim to avoid spending pressures at the end of a fiscal year. Programme-based budgets link allocated funds to measurable results. Both measures are assumed to make it easier to hold public officials accountable and reduce opportunities for corruption, wasteful spending and lax observation of spending approval rules. To be effective, this requires reliable control mechanisms to counterweight the greater levels of managerial discretion which are inherent for multi-year and programme-based budgeting.
- **Provisions for more transparency and public scrutiny.** The budget is a bulky document which often reduces public service deliverables and other government activity to a set of codes and numbers. This makes it difficult for the public (and in some case for parliamentarians) to understand to what extent the budget meets policy objectives. The preparation and publication of easy-to-understand presentations of the budget in “plain language” in so-called citizen’s budgets is a tool to enhance transparency and possibilities for public scrutiny, and is a measure that is gaining popularity and acceptance.
- **Participatory budgeting** has also been used as a tool to enhance transparency and accountability by providing citizens with an opportunity to participate in the budget

formulation stage. This approach has been successfully applied in a number of countries at the local level and has also shown positive results in the preparation of the national budget in countries like the Philippines, for example.

Good practices: the Philippines example

The Philippines was granted the Gold Open Government Award for grassroots participatory budgeting (GPB) in the inaugural Open Government Partnership (OGP) Awards on 24 September 2014 at the United Nations headquarters in New York City. The Philippines was recognised for its outstanding efforts to deepen citizen engagement in the budget process.

GPB engages local communities, CSOs and other stakeholders to work with city and municipal governments in proposing projects to be included in the national budget. From its pilot implementation in 2012, GPB has now expanded to 1,590 cities and municipalities and has resulted in a larger allocation of 21 billion Philippine peso (US\$470 million) for 16,000 locally-identified projects to be included in the 2015 national budget.

Source: <http://www.gov.ph/2014/09/25/ph-bags-gold-award-for-grassroots-participatory-budgeting/>

BUDGET APPROVAL

After the budget has been formulated by the executive, the proposed budget is approved by parliament. Similar to the budget formulation stage, corrupted parliamentarians might amend the budget to the benefit of individuals or interest groups. There is also a risk that parliament does not object to corruption-motivated budget and (mis)allocations already included in the draft budget as developed by the executive. In either case, corruption risks at this stage are related to uncontrolled lobbying, political corruption and, in extreme cases, state-capture.

Tools and approaches for reducing corruption opportunities in the budget approval phase typically include:

- **Improvements to the budget calendar.** To allow for parliamentarians to scrutinise and debate the draft budget thoroughly, sufficient time is needed. The OECD recommends parliaments should have three months to review and debate the draft budget bill. This period is not always provided for, even in OECD countries.
- **Capacity building of parliament's experts and support structure.** Often, members of parliament will require support from experts and the parliament's apparatus to properly assess the draft budget in all its complexity. The capacities of the specialists in the apparatus of the parliament may need to be strengthened to improve the quality of the parliamentary debate of the draft budget bill and to properly identify corruption risks.
- **Regulating lobbying.** The introduction of credible lobby registers and transparency over the business interests of individual members of parliament may be an effective approach and provide an opportunity to increase civil society control over the adoption of the budget in parliament.

BUDGET EXECUTION

Budget execution includes the collection of tax and other revenue, the processing of the various budget expenditures as well as the accounting and reporting of revenue collected and money spent. At this stage of the process, public procurement, tax and customs administration are considered the most vulnerable to corruption, due to the volume of cash transactions, large number of involved officers and the high level of individual discretion involved. Recognising their key importance, the donor community increasingly uses these issues as entry points for anti-corruption activities in developing countries. They will be developed in a separate section of this topic guide.

Cash management and treasury account

Budget execution covers payments which are based on long-term commitments and contracts: salary payments to public employees, all forms of rent and utility bills for objects of public infrastructure, and repayment of debts. There are many opportunities for corrupt practices at this stage of the process, with corruption risks increasing with the degree of data fragmentation in individual accounts for disbursements and collection. Such fragmentation makes it easier to abuse public funds. For example, payrolls may contain 'ghost workers' or monthly allocations to a public school may never reach the school in the full amount. Anti-corruption approaches and tools may include a set of measures:

- **Consolidating data through the use of technology.** Single treasury accounts (STA) and IT-based integrated financial management information systems (IFMIS) are widely applied as a central component of PFM reform and they may positively impact on anti-corruption efforts if applied in the right context. The main features of STA and IFMIS are that they avoid information from being spread over a large number of individual bank accounts and reporting and accounting files by integrating all data into one system. Consolidation of data and real-time access to it reduce the possibilities for money being stolen or misused and this going unnoticed. For this to work, however, the huge amount of data involved requires introducing powerful IT-systems. The complexity of such a system may open new possibilities to circumventing it, thus contradicting the anti-corruption potential of such tools.
- **Public expenditure tracking systems (PETS).** PETS are often considered to be an effective tool to improve accountability in public finance and service delivery. They measure the amount of funds received at each point of the public service delivery chain from a nation's treasury down to the service delivery unit¹. This approach has been useful in detecting irregularities in budget execution in the form of money allocated but "disappearing" on its way to the actual service delivery. The public, as the legitimate recipient of public services, can be involved in the process by monitoring the quality and quantity of services actually being delivered. This approach has been popular after initial model projects have been successful. However, the effectiveness of such approaches depends on a large number of factors, such as the methodology used for conducting the assessments, independence and capacity of the institutions involved in the exercise and the political will to accept the findings and recommendations for reforms, among others.

¹ Following the money: do public expenditure tracking surveys matter? Sundet, G., 2008. <http://www.u4.no/publications/following-the-money-do-public-expenditure-tracking-surveys-matter/#sthash.Todh8qwY.dpuf>

Accounting and reporting

Financial reporting, accounting and internal audit and controls refer to a system for recording, classifying, summarising and reporting financial transactions. Also, it is a prerequisite to prevent fraud, corruption and negligence related to financial transactions within the respective government organisation that spends the budget. Accounting contributes to ensuring that public funds are being used for their intended purposes in compliance with rules and regulations. As such, accounting and reporting practices are of crucial importance for the performance of a PFM system. Traditional PFM literature and international organisations promoting PFM reform, along with general anti-corruption agreements (like the UNCAC) unanimously refer to reliable and timely accounting, in accordance with international standards as a key requirement for better PFM as well as for combating corruption. The most relevant corruption risks at this stage are weak, negligent, or “creative” accounting and reporting which contribute to hiding corruption, fraud and theft.

Anti-corruption tools at this stage of the process aim to improve accounting and reporting standards and to strengthen the skills to implement them. This aspect of PFM is technically demanding and therefore not considered the most suitable entry point for public oversight and monitoring. A central aspect of the PFM reform debate focuses on the advantages and disadvantages of traditional cash-based accounting versus accrual accounting (which accounts for assets and liabilities in addition to cash). However, no clear assessment can be drawn on whether either of these types of accounting is more suitable for detecting and preventing corruption. While there is a consensus that accounting is an essential tool for PFM reform as well as for combating corruption, the impact of accounting and financial reporting alone must not be over-estimated.

RESOURCES ON THE BUDGET PROCESS

Background papers

Following the money: do public expenditure tracking surveys matter? Sundet, G., U4, 2008.

<http://www.u4.no/publications/following-the-money-do-public-expenditure-tracking-surveys-matter/downloadasset/116>

PETS is a tool to improve accountability in public finance and service delivery. A Ugandan success with PETS is one of the most cited anti-corruption success stories. Expenditure tracking has also become a popular activity among civil society organisations engaged in accountability issues at the local level. This U4 Issue paper takes a closer look at the experience of expenditure tracking and argues that its successes may have been overstated. It suggests that an uncritical acceptance of the effectiveness of expenditure tracking has hindered the development of a more nuanced approach that is better suited to the particular circumstances of each case. The paper proposes some principles of engagement on how to track expenditures more effectively.

The budget process and corruption. Isaksen, J., U4, 2006.

<http://www.u4.no/publications/the-budget-process-and-corruption/>

This publication focuses on key corruption risk areas in various stages in the budget process, from budget planning to control and oversight. The paper elaborates on how patronage works and how it may affect public financial management systems. It concentrates on the expenditure side of public budgets and does not cover corruption related to taxation and tax systems or the particular problems arising from budget support from donors, which are topics covered in other U4 Issue pages. The paper primarily addresses the issues from an empirical rather than a theoretical perspective. Reference is made primarily to central government issues and systems.

Back from the sidelines? Redefining the contribution of legislatures to the budget cycle.

Wehner, J., World Bank, 2004.

<http://www.agora-parl.org/sites/default/files/CONTRI~1.PDF>

This paper looks at the role of parliaments in the budget process, from the role of finance and budget committees, which scrutinise proposed government budgets prior to parliamentary approval, to the role of public accounts and departmental committees which ensure that actual government spending is in line with that approved by parliament. A comparative approach is taken whereby presidential and parliamentary systems are reviewed and where the differences between parliaments' constitutional power and current practices are highlighted. An additional focus is given to the research and information needs of parliaments as they deliberate the budget and the importance of parliamentary committees as the "engine room" for financial scrutiny.

Integrated financial management system: an important but limited anti-corruption tool.

Dorotinsky, B., World Bank, January 2003.

<http://siteresources.worldbank.org/INTEGOVERNMENT/Resources/702478-1129947625190/billTransparencyandIFMS.doc>

Based on the experience with World Bank-supported introduction of IFMIS in 27 countries since the 1980s, the author argues that IFMIS can be a powerful tool if it is properly designed and implemented. On the other hand, IFMIS is expensive, cannot by itself influence much and may not

be an optimal anti-corruption tool in certain cases. The high demands to master a complex technology-based tool may even have the adverse effect that access to data can be monopolised which, in turn, may result in new risks for corruption arising. The author concludes that anti-corruption is an ancillary benefit of IFMIS, rather than a primary reason for embarking on IFMIS.

Standards, principles and guidelines

New fiscal transparency code to improve policies and accountability. IMF, 2014.

<http://www.imf.org/external/pubs/ft/survey/so/2014/pol080714a.htm>

The International Monetary Fund recently released a revised version of the fiscal transparency code. Since they were first published in 1998 and last updated in 2007, the IMF's [Code of Good Practices on Fiscal Transparency](#) and accompanying [manual and guide](#) have been centrepieces of global fiscal transparency standards. The revised code includes a principle on public participation: "The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations."

OECD principles of budgetary governance. OECD Senior Budget Officials, 2014.

http://www.pempal.org/data/upload/files/2014/07/oecd_sbo_ho-session-4-updated-draft-principles-of-budgetary-governance-r-downes-den-haag-2014.pdf

The OECD has recently published a document outlining 10 principles of budgetary governance. These include, among others, that: "All budget reports should be published fully, promptly and routinely, and in a way that is accessible to citizens", requiring that budget documents be available online, and that all budget data be presented in open data formats which can be readily downloaded, analysed, used and represented by citizens, civil society organisations and other stakeholders. The recent OECD principles of budgetary governance complement and update the 2002 [OECD best practices for budget transparency: integrity, control and accountability](#).

International public sector accounting standards (IPSAS).

<http://www.ifac.org/publications-resources/2014-handbook-international-public-sector-accounting-pronouncements>

IPSAS are a set of accounting standards for use by public sector entities around the world in the preparation of financial statements. IPSAS are issued by the IPSAS Board. IPSAS strongly encourage and promote the use of accrual accounting. Since 1997, the IPSAS Board has developed and issued a suite of 32 accrual standards and one cash-basis standard.

Practical insights: handbooks and toolkits

The power of making it simple: a government guide to developing citizens budgets. Blyberg, A., Guerrero, J.P., & Ramkumar, V., International Budget Partnership (IBP), 2012.

<http://internationalbudget.org/publications/the-power-of-making-it-simple-a-government-guide-to-developing-citizens-budgets/>

This guide targets governments seeking practical guidance on how to make their public finance systems more transparent. Together with the IBP's *Guide to Transparency in Government Budget Reports: Why Are Budget Reports Important and What Should They Include?* (2010) and the *Guide to Transparency in Public Finances: Looking Beyond the Core Budget* (2011) (referenced in the section quasi-fiscal operations and off-budget funds), it forms a series of publications which

complement each other. The Power of Making It Simple complements these two by focusing specifically on citizens budgets and offering useful tips to governments interested in developing one. (Also available in French and Spanish.)

Producing a citizens' guide to the budget: why, what and how?

Petrie M., Shields, J., OECD, 2010.

<http://www.oecd.org/gov/budgeting/48170438.pdf>

As part of the growing search for more transparency and accountability in government finance, this article suggests guidelines for the production and dissemination of a citizens' guide to the budget. Examples from a variety of countries help to illustrate why governments should publish an annual guide, what the contents and characteristics of a good guide should be, and how such a guide should be made accessible.

Guide to transparency in government budget reports: why are budget reports important and what should they include? Ramkumar, V., Shapiro, I., IBP, 2010.

<http://internationalbudget.org/wp-content/uploads/Guide-to-Transparency-in-Government-Budget-Reports-Why-are-Budget-Reports-Important-and-What-Should-They-Include-English.pdf>

This guide supports governments in their efforts to meet international good practice standards on budget transparency by providing guidance on what reports and documents they should be producing and making available throughout the budget process, and what information should be in those reports. Further, it links to model documents from other countries. The guide covers the pre-budget statement, executive's budget proposal, citizens budget, enacted budget, in-year reports, mid-year review, year-end report and audit report. (Also available in French, Portuguese and Spanish.)

Our money, our responsibility: a citizens' guide to monitoring government expenditures.

Ramkumar, V. IBP, 2008.

<http://internationalbudget.org/wp-content/uploads/Our-Money-Our-Responsibility-A-Citizens-Guide-to-Monitoring-Government-Expenditures-English.pdf>

This guide offers an overview of government budget implementation, including budget execution, procurement, impact measurement, and auditing and legislative oversight processes. It provides practical, tested tools that can be used by independent organisations interested in monitoring government expenditures. The guidebook is intended to help civil society groups monitor the overall budget process and to understand why there may be differences between the funding appropriated in budgets and how those funds actually get spent. (Also available in Bahasa Indonesian, Chinese, French, Russian and Spanish.)

Guide to transparency in government budget reports: how civil society can use budget reports for research and advocacy.

Vivek Ramkumar and Isaac Shapiro (eds.), IBP.

<http://internationalbudget.org/wp-content/uploads/Guide-to-Transparency-in-Government-Budget-Reports-How-Civil-Society-Can-Use-Budget-Reports-for-Research-and-Advocacy-English.pdf>

This guide provides essential information on how CSOs can use, and have used, the eight key budget reports that their government should be making available throughout the budget process – the pre-budget statement, executive's budget proposal, citizens budget, enacted budget, in-year

reports, mid-year review, year-end report and audit report – for research and advocacy purposes. (Also available in in French, Portuguese, Spanish and Arabic.)

Assessment tools and datasets

Open budget survey - producing the open budget index (OBI). IBP, bi-annually (most recently available: 2012).

<http://internationalbudget.org/what-we-do/open-budget-survey/>

The Open Budget Survey measures the state of budget transparency, participation, and oversight in countries around the world. It consists of 125 questions and is completed by independent researchers in the countries assessed. The majority of the questions relates directly to the public availability and comprehensiveness of the eight key budget documents that governments should publish at various points of the budget cycle. In order to allow for comparisons across countries and over time, the IBP calculates the OBI, a simple average of the quantified responses for the 95 survey questions that are related to budget transparency. The OBI assigns each country a score that can range from 0 to 100. The 2012 OBI covered 100 countries.

Resources from Transparency International's Anti-Corruption Helpdesk

Curbing corruption in public financial management in francophone West African countries.

Martini, M., 2014.

http://www.transparency.org/files/content/corruptionqas/Curbing_corruption_in_public_financial_management_in_Francophone_West_African_countries_2014.pdf

The paper analyses how in francophone West Africa, a wide range of reforms and initiatives have been implemented to improve the budget process, ensure more responsible budget execution, better manage resources collected and ensure proper oversight. Results, however, are very mixed for many of these reforms, some of which are long-term endeavours so it is still to be seen whether they will have the intended impact on corruption. Positive results so far have been achieved in a few areas, such as the introduction of single treasury accounts and integrated public financial management frameworks, which have helped to enhance transparency and accountability and consequently reduce the opportunities for corruption. Other promising practices include the involvement and participation of civil society in both planning and oversight.

Transparency in budget execution.

Martini, M., 2014.

http://www.transparency.org/files/content/corruptionqas/Transparency_in_budget_execution_2014.pdf

The paper lists country case studies showing that transparency in the execution of a budget can significantly improve efficiency, prevent fraud and corruption, and help to identify potential wrongdoing and leaks. Evidence shows that the publication of budget execution data online has proven instrumental to uncovering corruption schemes and punishing those involved. This is the case in Brazil, where the Transparency Portal enables civil society organisations, the media, public officials and citizens to monitor and verify how the budget is being executed. The portal, which required relatively low investment to be developed, contains information on government revenues and expenditures, procurement processes, and federal transfers to municipalities and states, and more.

Influence of interest groups on policy making.

Martini, M., 2012.

http://www.transparency.org/whatwedo/answer/influence_of_interest_groups_on_policy_making

While not focusing on PFM, or the budget adoption process in particular, the paper provides an insight into corruption risks related to lobbying and decision-making processes in parliament. While interest groups' influence on policy making is not a corrupt or illegitimate activity per se, disproportionate and opaque interest group influence may lead to administrative corruption, undue influence and state-capture, favouring particular interest groups at the expense of public interest. This answer thus provides examples on measures taken by East and South-East Asian countries to increase transparency and accountability and avoid undue influence and other forms of corruption, and best examples on regulating lobbying, focusing on the United States, Canada, and the European Union.

The implementation of integrated financial information management systems (IFMIS).

Chêne, M., Helpdesk Answer, U4 Anti-Corruption Resource Centre, 2009.

<http://www.u4.no/publications/the-implementation-of-integrated-financial-management-systems-ifmis/downloadasset/393>

Emerging information and communication technology (ICT) can play an important role in fighting corruption in public finance systems by promoting greater comprehensiveness and transparency of information across government institutions. Yet, experience shows that IFMIS projects tend to stall in developing countries as they face major institutional, political, technical and operational challenges. Case studies of more successful countries indicate that factors supporting successful implementation include clear commitment of the relevant authorities to financial reform objectives, ICT readiness, sound project design, a phased approach to implementation, project management capability, as well as adequate resources and human resource capacity allocated to the project.

Actors and stakeholders

International Public Sector Accounting Standards Board (IPSASB).

www.ipsasb.org

The IPSAS Board develops the international public sector accounting standards (IPSAS). It does so on a consultative process involving auditors, finance ministries, standard setters and individuals. The IPSAS Board comprises of 19 individuals nominated by member bodies of the International Federation of Accountants, accounting firms, international organisations, government institutions and the general public. The meetings to discuss the development and to approve the IPSAS are open to the public and accessible from the IPSASB's website.

The Global Organization of Parliamentarians Against Corruption (GOPAC).

<http://gopacnetwork.org/>

GOPAC is an international network of parliamentarians dedicated to good governance and combating corruption throughout the world. GOPAC facilitates an exchange of information and analysis, works towards establishing international benchmarks, and to improve public awareness through a combination of global pressure and national action. GOPAC operates a task force on parliamentary oversight which includes issues of PFM. This parliamentary oversight global task force (GTF-PO) focuses on financial and operational integrity which includes: review of government

revenue and expenditures; and legislation and other parliamentary rules establishing government financial control practices, procedures to account for and report revenues and expenditures, as well as procedures and authorities for parliamentary oversight of financial administration. It also includes legislation and other rules which guide and enable parliament to oversee the implementation of the UN Convention against Corruption (UNCAC).

The Chartered Institute of Public Finance and Accountancy (CIPFA).

<http://www.cipfa.org>

CIPFA is the world's only professional accountancy body to specialise in public finance and public service. CIPFA's 14,000 members work in public services, national audit agencies, major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. CIPFA provides its members with a recognised qualification, and provides guidance and expertise, acts as a community of practice and a global network of public sector accountants.

International Budget Partnership (IBP)

www.internationalbudget.org

The IBP works to fight poverty and improve governance by reforming government budget systems and influencing budget policies. Formally, the IBP was a project of the Center on Budget and Policy Priorities, a Washington, DC based think tank. The activities of the IBP have grown to reach a scope and a quality that result in the IBP probably being perceived as an organisation on its own by many. It promotes efforts to make government budgeting more transparent and participatory, more responsive to national priorities, better able to resist corruption, and more efficient and effective. The IBP provides technical and financial assistance, comparative research opportunities, information exchange and peer networking.

IBP's [Who Does Budget Work Database](#) provides access to civil society organisations and academic institutes and think tanks working on issues related to budget transparency in the countries included in the open budget index (2012: 100 countries).

