

## 2012 OPEN BUDGET SURVEY

**Background to Survey** – 4<sup>th</sup> Survey since the OBS commenced in 2006

- Survey carried out on a consistent basis throughout the participating countries, by independent institutions, like the INA, with an independent peer review process. In many countries the process has included former senior public officials, such as the retired Auditor-General in S Korea,
- For 2012 covers 100 countries across the globe: developed, emerging, developing, resource rich and poor
- It's a measure of the accessibility of Budget information to the public in a timely manner
- Principle: that access of information of the Budget and to Budget performance, through thorough and regular reporting, to the public (but also legislature etc) , including timely and comprehensive audits, is critical to accountability and suitable and effective public expenditure
- It is not a survey of the accuracy of the data, nor the quality of expenditure nor of sub-national data, but of the transparency of the process at the national level

**Importance of Transparent and Accountable Budgets:**

- Too widely Budgets are obscure and perceived as such by the public, but sound Budgets and accountability are Everyone's business and affect the quality of life for the whole population: Much case study evidence that 'when citizens have access to Budget information, coupled with opportunities for public participation, the result can be better policies, better implementation on the ground and ultimately better outcomes'
- extensive evidence that the timely availability of budget information and invitation to the public to participate and provide feedback is a critical ingredient to suitable and cost-effective expenditure, by empowering the public (and legislature etc) to contribute and monitor expenditure and demand performance:
- hiding information from the public, enables small or vast diversion of public funds away from public priorities (like education and health care, tackling high maternal and infant mortality, basic infrastructure etc) and into inflated contracts on 'white elephant' projects, private benefits for officials, or even non-existent projects
- clearly, various other ingredients are also required to ensure funds are indeed budgeted and expended in the public's best interest, including suitable education and skills (both within government, watchdogs and the public), effective legal framework, capacity and enforcement, good communications systems, social capital etc.

- other benefits of Open Budgeting – cheaper international credit, and by contrast poor fiscal transparency can raise the cost of capital and undermine development prospects

### **Findings of the 2012 Survey**

- situation remains bleak for much of the world's population
- many of the resource rich countries continue to exhibit poor budget transparency (and incidentally many of these also have high rates of income disparity, high rates of poverty and unemployment alongside wealth ....so-called 'Dutch Disease' contributes to undermining broad-based economy and encouraging poor use, misuse and sometimes misappropriation of public funds...including use of large off-budget funds squirreled away from public scrutiny...e.g. poor expenditure and traceability especially apparent in some of PNG's resource richest provinces)
- some other well performing economies, such as China also have disappointing rankings. Their economies are booming as a result of various factors, but again the picture is not universal, and some provinces and cities have made a greater effort towards greater budget transparency, apparently with the same sort of positive outcome exhibited elsewhere, notably enhanced performance and benefits to the public
- various developing and emerging economies from different regions are alongside some of the developed economies with relatively transparent budget processes...there are perhaps some surprises in there, Afghanistan and PNG come relatively well, despite bad reputations for poor governance and services (indicating that other factors, such as public education levels, social and political factors, communications, education/literacy and social capital national-subnational relationships and local patronage/powerplay, etc all come into play)
- countries have demonstrated their capacity to improve considerably, almost overnight...and many countries, including PNG, could improve their scores and ranking relatively easily by making available to the public material already prepared for internal government audiences, and releasing more readily comprehensible material (notably the Citizen's Budget), in PNG's case it's also marked down for the untimeliness and incompleteness of some of the material it provides, which could be remedied without undue effort, if so inclined
- many examples highlighted of governments improving ways, sometimes quite innovative, to communicate Budget information to the public, including through use of modern communications and systems for feedback

- one country in this region which has demonstrated a strong improvement has been PNG's massive neighbour Indonesia, which has improved steadily over the past half dozen years...that may not have happened in all aspects of Indonesian life, especially in its far outposts like W Papua, but with respect to the National Govt their budget processes and material shared with the public have become more transparent over this period, including legislation requiring Freedom of Information, and the strengthening of civil society in a formerly very un-transparent largely military regime. (It should be added that their economic performance in recent years has also been strong, if less well known than others)

## **Papua New Guinea**

- PNG performs well down in this region on Budget Transparency from some of its neighbours, like New Zealand, S Korea and Indonesia, which has been progressively improving over the past decade, but nevertheless with a scoring of 56/100 it remains significantly above the SE Asia/Pacific Average, and even the Global Average of 43
- At 56 there remains considerable room for improving access to comprehensive and timely National Budget information, and some aspects are especially problematic, but the figure does show particularly the Treasury's commitment to transparent budgeting and accountability
- It should be noted that the survey is based upon the latest data available at the start of the 3<sup>rd</sup> quarter of 2012, comprising the 2012 Budget and reporting on the 2011 Budget performance, and 2012 in-year Budget reports and preliminary preparations for the 2013 Budget. It does not include the 2013 final preparations and submission of the 2013 Budget itself (with any post Election changes of process).
- PNG showed a strong improvement in its score from 2006-2008 (52-61), when new laws and procedures were driven through, notably by the then Treasurer Bart Philemon, including the Fiscal Responsibility Act, which required more transparent Budget processes and rules on fiscal management, including the provision of timely end of year and mid-year fiscal reports.
- Since 2008 PNG's score has slipped back to 57 for 2010 and now 56 for 2012; maybe not such a big drop, but it indicates a trend, and that is a trend away from improving Budget transparency in PNG and rather towards letting our systems slip.
- Some of the slippage comes, not so much from not having rules and systems in place, but not applying them effectively. The Treasury does, for example, provide In-Year Fiscal reports, but they've become more infrequent and late, so they fail to comply with the Survey's requirements of regular and

timely reporting, which is necessary as an effective Budgetary management tool

- The 57 score nevertheless, shows strengths as well as weaknesses and it may come as a surprise to many that PNG performs as well as this, considering the extensive evidence and reports of financial misuse: -
  - This only shows the National Budget allocations and not the sub-national
  - Increasing amounts have been put into Trust Accounts (e.g. DSIP), and whilst the Treasury/Finance/ORD seek to track expenditure in these, the capacity to account for this is more limited, at least until there is mandatory and detailed public participation in Budgeting and expenditure tracking at the local level
  - Increasing amounts are being managed through extra-Budgetary vehicles, notably related to state corporations, their assets, liabilities and borrowings..(this is evidenced also by Debt, contingent liability and associated corporate borrowings)
- Treasury has made an effort to improve budget transparency and participation through the Budget process, including inviting ideas and feedback into preparation process
- The Planning Ministry in the past year or so has shown greater eagerness to participate in a public consultative process to improve the utilisation of the development Budget, and in this year's Budget has closed off the Department's own capacity to handle large sums of project funding, which have provided opportunities for extensive malpractice: nevertheless the DSIP process is fraught with opportunities for misappropriation and the amounts are increasing; MPs have acknowledged their incapacity to handle these funds accountably or sustainably (and that it's not their role anyway), but there is some readiness in some Ministries (e.g. Planning) to work with civil society to improve mechanisms of accountability (e.g. through the 2013 CIMC process)
- the Government/Parliament have been very lax about producing the **Enacted Budget** (i.e. the certified Budget legislation, and in some years this didn't even appear to be concluded, although in 2012 processes seem to have been sharpened up
- **Citizen's Budget** - a valuable document to make the National Budget more accessible, now done in many countries, but not yet in PNG, although it was tried by Planning for the 2011 Budget
- **In year Reports** – late and irregular so not compliant and recorded
- **The Budget Proposal** (which we generally refer to as the Budget) is fairly comprehensive and unlike in some countries is available in a timely manner on the web (although web access is limited and costly in PNG....sub-national

budget proposals are generally unavailable, and there are long delays in fund release to provincial/Districts and LLGs, which severely undermine budget performance, but this is not covered by this survey)

- **The Budget Proposal** fails to provide details of different macro-economic scenarios, program details over a multi-year cycle, previous years at a program level, the performance indicators are useless as management tools (and seem to have been dropped in the 2013 Budget), and non-budgetary funds/transfers (including license fees to Fisheries etc) are inadequately included
- **Mid Year and Year-end reports** – done reliably and in a timely manner although the end of year report could do with greater information and verification of expenditure, comparisons between forecasts and actual expenditure and macroeconomic scenario, details of extra-budget funds and specific reference to funding for poverty alleviation/disadvantaged groups
- **Audit** – the poor outcome of audits in PNG pulls down PNG’s performance, although for 2012 it was felt that there was some progress in addressing the backlog: Govt agencies and Parliament seem often to see auditing as a marginal process, more an inconvenience or historic record, whereas it should be a powerful management tool for the present for government to use, but also for the wider public and Parliament if undertaken and released promptly and thorough in its scope.
- The annual audit report is currently more of a report on the status of audits across the public sector, showing how many years behind each agency is and where deficiencies in the progress are, rather than enabling a timely analysis of expenditure and deficiencies in each organisation and the government overall for the previous year.
- Government has multiple and duplicative organisations, many of which seem to show likely inclination towards public accountability. When there’s an issue, the inclination is often to establish an new organisation, and then rarely to close down what’s already there... The Auditor General’s Office needs both adequate powers and funding to be able to perform its job thoroughly and in a timely manner. The powers are needed to help enable it to ensure that the respective bodies provide their finalised accounts for audit on time. This also means that those Departments/Agencies must be adequately funded and committed/pressured into preparing accounts in a timely manner for audit.
- **Parliament:** Parliament has largely been used as a rubber stamp for the Budget process, but one of its main functions is to provide oversight on the Executive and therefore particularly on the Budget and its proper expenditure. Parliament could contribute much more to the Budgetary process, both being consulted through the preparatory phase and having a chance for adequate debate on the proposal, as well as expenditure

oversight. This means that Parliament itself must adequately Budget for consultations, including a Budget committee and regular hearings by the Parliamentary Public Accounts Committee (which in recent years had been operating on an totally inadequate allocation)

- Budget allocations for the SAI (and perhaps other Watchdogs like the OC) should have greater autonomy from the Executive Govt than at the moment, to ensure adequate funding for the task.
- **Prospects: PNG's been enjoying over 10 years of firm economic growth, but the benefits have been localised and the process is not on a sustainable footing. PNG still suffers some of the worst social indicators in the Asia Pacific Region, despite a per-capita income which is now in the lower-middle income bracket... Public funds have performed poorly in terms of outcomes, and there has clearly been extensive abuse.**
- **It is good that PNG has a 56 point ranking in term of Open Budgeting at the national level, but this still falls in the middle ranking of 'providing some Budget information'. There is certainly a commitment by some in Govt (e.g. in Treasury) to have a transparent system, and the Budget volumes (e.g. Vol 1) provide extensive valued information, but much of that is not even looked at let alone used by Govt/legislators...**
- **If PNG is to take advantage of increased future revenue, including managing a planned Sovereign Wealth Fund, it needs to manage it public funds much more effectively, and that first of all requires increased transparency and reporting, both at the national and sub-national levels. Increasing the public's financial literacy and awareness and making Budget information more accessible, to help the public ask the right questions and create the demand for information and quality services go hand in hand.**
- **It also requires many other measures, to strengthen the oversight and enforcement capacity of watchdogs, and a range of other measures from training, improvement management and reporting systems etc in Govt...**

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