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## **How to make a difference? Through improved budget credibility to better SDGs achievement<sup>2</sup>**

This brief will try to focus on some of the approaches that might lead to the greater budget credibility desperately needed for achievement of the SDGs. Numerous stakeholders have tried to promote and underline the importance of budget transparency, government accountability and citizen participation in budgetary processes. The valuable efforts and activities of IBP, GIFT, OGP, IMF, OECD, PEFA<sup>3</sup> as well as of the academic community and civil society all around the world, abetted by the expansion of constantly developing online possibilities, have led to improvements in budget transparency, the essential prerequisite for citizens to participate in budgetary decision making and to demand higher levels of government accountability.

The Open Budget Survey<sup>4</sup> shows that the average global **budget transparency** score for 2021 was 45 out of 100, indicating that the public availability of budget information is limited in most countries (ranging from 0 in Comoros, Equatorial Guinea, Venezuela and Yemen to 87 in Georgia). Only 35 countries of the 120 surveyed have sufficient levels of budget transparency (scoring 61 or higher). However, the average budget transparency score of the 77 countries that have been assessed since 2008 has increased from 41 to 50. Between 2008 and 2021, the number of countries scoring below 21 - effectively providing scant or no information - has dropped by more than half. Countries giving sufficient budget information now account for 36% of these 77 countries, compared to 23% in 2008. Unfortunately, regional disparities in transparency persist, ranging from an average of 76 in Western Europe, US and Canada to 27 in the Middle East and North Africa. Among the countries that could be considered to have made substantial improvements are Benin, Dominican Republic, Georgia, Gambia and Nigeria,

However, despite the slow but constant improvements in budget transparency, budget credibility is still unsatisfactory, i. e. deviations of executed from planned budgets are still been widespread. Such deviations might often be justified by sudden and unexpected circumstances (like Covid, earthquakes and floods), but even more often, they cannot. They are too frequently the result of poor administrative capabilities (either in budget planning or in execution or both) or even worse, of political schemes (policymakers spending budgetary funds quite discretionarily, pursuing their own opportunistic interests).

The thirteen-country investigation<sup>5</sup> once again shows **the importance of budget credibility**, as SDGs require governments to mobilize additional financing, prioritize budget allocations towards the goals and ensure that the committed funding is spent in planned sectors for planned purposes. As data published for SDG indicator 16.6.1 only covers aggregate budgetary expenditures, this investigation looked at the sectoral levels, finding that on average spending on water and sanitation, gender and the environment had the lowest rates of budget execution. As a result of Covid, many countries shifted funding away from key sectors such as education, water and sanitation. They also significantly underspent in their gender ministries or sectors (e.g. Gambia, Nigeria and Zambia on average spent only half of their budget for

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<sup>3</sup> For abundance of valuable data, instructions, manuals, best practices, etc., see [International Budget Partnership, Global Initiative for Fiscal Transparency, Open Government Partnership, International Monetary Fund – Fiscal Policy, Fiscal Transparency, OECD - Budget Transparency, Public Expenditure and Financial Accountability](#).

<sup>4</sup> International Budget Partnership: [Open Budget Survey 2021](#).

<sup>5</sup> Torbert Sally: [Connecting Budget Credibility and the Sustainable Development Goals – Results from 13 Country Investigations](#), International Budget Partnership, Washington, D.C., October 2022.

gender ministries or programs). Furthermore, publicly available sources of data often have gaps, are inconsistent and deviate from data published in countries' voluntary national reports (VNRs) and the SDG indicator 16.6.1 database. This is why governments are recommended to publish more comprehensive and reliable data and to use their VNRs to report data on SDG indicator 16.6.1 for budget deviations by sector.

The information for monitoring SDG indicator 16.6.1 comes from the PEFA Framework, which assesses the country's PFM and reports on its strengths and weaknesses. The PEFA study<sup>6</sup> of 152 countries with available data for 2010-2021 shows that just over half has less than a 5% deviation in budget execution, a third are within 5-10%, and the remaining one-fifth are beyond 10%. Two-fifths of the assessed low-income countries have deviations of more than 10% and performance improves markedly in middle- and high-income economies. Even more challenging has been budget implementation at subnational levels, where budgets of over half of the assessed SNGs deviated by more than 15% and in only around one-third less than 5% (Belgium, Ethiopia, Georgia, Germany, Indonesia, and the Kyrgyz Republic). Coping with Covid, some governments increased the social welfare budget by 100%; however, increasing expenditure in certain areas has in some cases hindered the implementation of new projects, especially those related to renewable energy.

For improving the situation and to reach more credible budgets, all the involved players must become aware of the importance of that task and more engaged in achieving it: from budgetary (and also macroeconomic) planners within treasuries or finance ministries who are proposing next year's and/or years' budgets, to the members of parliaments/legislatures (particularly members of their budgetary committees) who are voting in these proposals. From treasuries or finance ministries which are executing the budgets to finally state auditing institutions (SAIs) which are supposed to control the whole process. A stronger role for fiscal councils (and fiscal rules), where they exist, would also be welcome.

Although the roles of treasuries and finance ministries have been more or less obvious and there have been numerous valuable researches, suggestions, instructions and recommendations for their improvement (e.g. from OECD, IMF, PEFA), it is important to emphasize the **role of SAIs**, excellently presented in the recently published, "Strengthening Budget Credibility through External Audits: A Handbook for Auditors".<sup>7</sup> That comprehensive and most timely handbook introduces the concept of budget credibility in the context of PFM and highlights relevant international standards and tools. The most important and highly recommended is that - based on collaboration with numerous countries' SAIs - it provides: useful examples of credibility-related issues and risks usually examined by SAIs; concrete questions to probe budget credibility risks at the whole-of-government level; examples of the RIAS (risk, impact, auditability, significance) method and an audit design matrix for planning an assessment of PFM performance; a sample audit planning matrix; a self-checklist to guide auditors assessing budget credibility risks at the program/entity level; and ways to integrate budget credibility into the audit process while enhancing stakeholder engagement.

Equally important might be the **role of fiscal rules and fiscal councils**, excellently presented in an IMF working paper<sup>8</sup> and the connected dataset<sup>9</sup>. As independent, non-partisan agencies, assessing fiscal policy, plans and rule compliance, fiscal councils usually provide fiscal oversight, monitor fiscal rules and assess

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<sup>6</sup> Gurazada, S., S.Kirova, N. Alazmi, A. Rahman, A. Florina Pirlea: [Government budget credibility and the impact of COVID-19](#), PEFA, Oct 13, 2022.

<sup>7</sup> United Nations Department of Economic and Social Affairs and the International Budget Partnership, 2023. [Strengthening Budget Credibility through External Audits: A Handbook for Auditors](#).

<sup>8</sup> Davoodi H. R., P. Elger, A. Fotiou, D. Garcia-Macia, X. Han, A. Lagerborg, W.R. Lam, and P. Medas. 2022. [Fiscal Rules and Fiscal Councils: Recent Trends and Performance during the Pandemic](#), IMF Working Paper No.22/11, International Monetary Fund, Washington, D.C.

<sup>9</sup> Davoodi, H., P. Elger, A. Fotiou, D. Garcia-Macia, A.Lagerborg, R. Lam, S. Pillai. 2022. [Fiscal Councils Dataset: The 2021 Update](#), International Monetary Fund, Washington, D.C.

credibility of budgets and quality of public policies. The paper defines the fiscal rules and councils, explains the types of rules (like debt, budget balance, expenditure and revenue rules). Particularly useful are parts on deviations from rules (their measurements, dynamics and implications particularly during major crises), as are also the parts on measuring the strength of fiscal rules. Although more and more countries have been introducing fiscal rules, even emerging and developing economies, fiscal councils are not spreading equally. Fiscal councils are found in all countries in North America, in almost all in Europe<sup>10</sup>, some in South America and in almost none in Africa (except for Uganda, Kenya and South Africa) and Asia (except for Iran, Korea and Vietnam).

Numerous countries **parliaments (legislatures)** in charge of scrutinizing, voting in and amending budgets and other documents - like in-year and end-year budget execution reports, essential for checking the budget execution and in that way achieving more credible budgets - are too often not up to the task, whether they are just lacking in capacity or time, or are simply being captured by the dominant political party. Many of them do not even have a competent parliamentary budget office capable of providing independent, impartial and relevant information to its members. The US Congressional Budget Office would, of course, be hard to match, but numerous much smaller countries have excellent offices. Many are managing as best as they can whether with offices with competent staff or with specialised committees consisting of appointed MPs. The New Zealand Parliament, for example, has the exemplary Finance and Expenditure Committee responsible for matters relating to the audit of the financial statements of the government and its departments, government finance, revenue, expenditure, etc. However, even in such a well-functioning country it is difficult, and often not possible, to track spending and what is being achieved. It might be useful to see a letter about accountability concerns<sup>11</sup> and the equally interesting Parliamentary Commissioner for the Environment's report with a telling subtitle - Do we know if we're making a difference?<sup>12</sup>

To help answer that question one might think more about **accessible and inclusive public communication**, which might then, in concert with other approaches, enable a greater public participation. While the abovementioned global average score for budget transparency (45 out of 100) provides no grounds for complacency, one can be even less satisfied with the global average score for public participation in budgetary processes (just 14 out of 100, ranging from 0 in numerous countries to only 59 in best-placed South Korea or 54 in the UK). An excellent OECD working paper<sup>13</sup>, starting from the premise that accessible and inclusive public communication helps to ensure that all citizens, regardless of their circumstances, can be heard and participate in public life, presents practices and lessons learned in OECD and partner countries. These practices show (1) high-level political and administrative commitment is crucial to support the systematic implementation of accessible communication, to encourage compliance with existing standards and accompany the digital transformation; (2) identifying and understanding the target audience is a first key step in making public communication accessible; (3) involving citizens directly in defining more accessible standards and content is essential, regardless of their age, gender, digital literacy, etc.; (4) it is necessary to consider the increasing importance of digital communication, using the already available specific guidelines; (5) governments should enhance professionalisation (facing challenges of certification, education and training of experts) and at the same time diversity in public employment; (6) establish partnerships with

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<sup>10</sup> For fiscal councils in EU, see Bach, S.: [Fiscal councils' impact on promoting transparency and accountability in public finance management](#), *Public Sector Economics* 44 (3) 355-384 (2020)

<sup>11</sup> John Ryan, the New Zealand Controller and Auditor-General: [Letter to the Officers of Parliament Committee about accountability concerns](#), 14 November 2022.

<sup>12</sup> The New Zealand Parliamentary Commissioner for the Environment: [Environmental reporting, research and investment – Do we know if we're making a difference?](#), 18 Oct 2022.

<sup>13</sup> Cazenave, E. and A. Bellantoni (2022), [Accessible and inclusive public communication: Panorama of practices from OECD countries](#), *OECD Working Papers on Public Governance*, No. 54, OECD Publishing, Paris.

the private sector, civil society, media, etc; (7) constantly evaluate the accessibility of public communication beyond websites and applications.

It is to be hoped that the message of this brief has been clear enough. As 2030 is around the corner all the engaged stakeholders should try to do their best. National governments are crucial. They should improve budget transparency and budgetary processes. They should better target and prioritize spending for planned goals, avoiding unnecessary and unexplained budget deviations. That is particularly important for lower income countries where deviations have more pronounced consequences. They should also try to improve their VNRs to reflect both overall and sectoral budget deviations. They should introduce or strengthen fiscal rules and fiscal councils and ensure conditions necessary for independent functioning of these councils.

However, national governments cannot be the only players in this game. Parliaments should strengthen their capabilities, establish competent parliamentary budget committees and offices, while MPs should educate themselves in budgetary issues to be able to keep governments accountable. Fiscal councils, where existing, should use their independence and competencies for hawkish control of budgetary figures. The role of SAIs cannot be overemphasized, as it is they that should have everything under control - from pre-budget statements to end-year budget execution report.

If all these stakeholders did their best and if all these processes and functions were transparent and inclusively communicated, then civil society and individual citizens would not have any excuse for avoiding participation and active engagement in budgetary processes and demanding budget credibility, i.e. government accountability.

Even though SDGs might seem like some kind of constantly repeated mantra, their achievement is from day to day becoming more and more pressing. If we want to make a difference and through improved budget credibility arrive at better SDGs achievement, we have to take steps in that direction. And not gradually, but as fast as possible.

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