

World Bank Parliamentary Staff Training Program

Effective Financial Scrutiny: The Role of Parliament in Public Finance

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Introduction and overview

Budgets affect all of us. Businesses analyze budget policy in order to make investment decisions that impact on growth and employment. As citizens, we depend on the state to provide crucial services and infrastructure. Whether new roads will be built, whether our children will have schools to go to or whether clinics can adequately cater for the health care needs of the population depends, to a large extent, on the way government raises revenues and allocates money to meet various competing and sometimes conflicting needs.

The budget is the most important economic policy tool of a government and provides a comprehensive statement of the priorities of a nation. As the representative institutions of the people, national legislatures are the appropriate place to ensure that the budget optimally matches a nation's needs with available resources. Effective legislative participation in the budget process establishes checks and balances that are crucial for transparent and accountable government and ensuring efficient delivery of public services.

Governments are large and complex institutions, and this is reflected in their budgets. Measured in terms of revenues and numbers of employees, some national governments are among the biggest organizations in the world. This makes budgeting in the public sector inherently complex. Budget documents can comprise thousands of pages, the format of the budget is not always easily understandable, and thorough analysis can take a lot of time. Budget scrutiny can be a daunting challenge facing legislators when they are asked to consider the annual revenue and expenditure proposals of the government.

From a long-term perspective, the influence of national legislatures on budget policy has declined in many industrialized countries. It now appears, however, that many legislatures are rethinking their role in the budget process and reasserting themselves as more active players. The purpose of this training module is to make a contribution towards supporting parliamentarians and parliamentary staff to effectively participate in the budget process.

The module contains the following units:

- **The evolution of parliament's power of the purse:** Parliaments have struggled for a role in the budget process. This unit gives an overview of the history of parliamentary involvement in public finance. Much of this module focuses on the development of the House of Commons, which was at the forefront of claiming the 'power of the purse', but other countries are also considered.
- **Introducing the budget:** The second unit is a basic introduction to the budget and some related concepts that frequently feature in discussions on budgeting. It looks at the definition of the budget and its components, including revenues, expenditures and the deficit, as well as some of the key objectives of budgeting.
- **The budget process:** The budget cycle in government typically involves a number of different actors and follows a sequence of essential steps. This unit introduces some of the main participants of the budget process and presents a simplified and generalized outline of planning, approving, implementing and auditing expenditures.
- **Parliamentary approval of the budget:** One or perhaps the main task of parliaments in budgeting is to review the draft budget tabled by the executive for the upcoming fiscal period. This unit provides an overview of some of the key issues that make for effective scrutiny of the executive draft budget including parliament's constitutional powers, its committees, the timing of the budget process, and access to relevant information.
- **Parliament and the audit of public accounts:** Many parliaments not only approve the budget, but also assess the integrity of budget execution through involvement in the audit process. This unit looks at different approaches to parliamentary audit. It covers the types of supreme audit institutions and the types of audits they conduct, the interaction of auditors with parliament, the role of parliamentary committees, and, finally, the use of follow-up mechanisms to ensure that governments implement recommendations for improvements that are generated through the audit process.
- **Opening up the parliamentary process:** Many parliaments are considering whether to open up the parliamentary budget process to the media and the public, or whether they could more directly benefit from outside expertise for the scrutiny of government finance. This unit looks at the pros and cons of opening up committees to the public and how a committee can organize public hearings on the budget.

- **Strengthening parliamentary involvement:** To conclude this module the final unit offers a short diagnostic framework that can be used to assess the effectiveness of legislative financial scrutiny in particular countries.

Throughout the text, core concepts are highlighted and explained. Short definitions of all highlighted concepts are included in a separate appendix that contains a glossary of terminology related to the budget. Each unit concludes with suggested questions for discussion as well as a list of relevant internet resources and a select bibliography.

Unit 1: The evolution of parliament's power of the purse

Learning Objectives

What is Parliaments role in budgeting?

After studying this unit, you should be able to:

- Explain why parliaments came to have a role in budgeting
- Understand the importance of legislative oversight
- Describe some of the methods and institutions parliaments devised in order to exercise control over public finances
- Discuss constraints on parliaments in scrutinizing public finances

Introduction

The finance of the country is ultimately associated with the liberties of the country... If the House of Commons by any possibility lose the power of the control of the grants of public money, depend upon it, your very liberty will be worth very little in comparison. That powerful leverage has been what is commonly known as the power of the purse – the control of the House of Commons over public expenditure.

William Ewart Gladstone, 1891

How did parliaments come to exercise the budgetary roles they have today? Why do they participate in the budget process in the first place? To answer these questions, and as a background to the subsequent units, this unit provides a brief overview of some key stages in the evolution of the role of parliament in budgeting. The following sections look at the struggle to ensure parliamentary consent to taxation, how the rise of modern budgeting helped parliament to control expenditures, and more recent developments relating to the role of legislatures in budgeting.

The struggle for parliamentary control of taxation

The struggle to ensure consent to taxation was a central battlefield in the evolution of parliament in medieval England. To guard against despotic royal rule, parliament sought to limit the kings' powers to impose taxes so as to curtail their ability to maintain a standing army beyond times of war and immediate external threat (Harriss 1975). The principle of parliamentary consent to taxation gained constitutional recognition when it was enshrined in the Magna Carta – a list of concessions to the barons that King John signed at Runnymede in 1215. But this agreement did not resolve the conflict over the power to impose taxes, which continued to simmer throughout the following centuries.

Bitter contests between kings and parliaments in the seventeenth century precipitated procedural innovations that advanced parliamentary control of state finance. In particular parliament's increasing use of a committee of the whole House brought several advantages, due to the fact that the procedures of committees applied for such deliberations, rather than the standard rules. This allowed the Commons to appoint their own chairperson, which reduced the influence of the Speaker, who at the time was generally regarded as aligned with the monarch. The committee procedure also allowed each member to speak more than once and thus facilitated much freer debate. It became easier for the Commons to delay passing the bill to grant subsidies to the crown until the end of a session, a tactic that afforded time to extract concessions from the monarch. But clever procedural devices were not enough to establish parliamentary supremacy over taxation.

A crucial shortcoming of parliamentary control was that it did not extend to royal borrowing on the monarch's personal credit. After Charles II claimed the throne in 1660 parliament started to demand estimations of cost before voting money to be granted to the king, who claimed to get short shrift. To evade expenditure control, a popular royal tactic was to resort to borrowing and hope that parliament would later consent to the raising of funds to repay such loans. But this practice was not sustainable when parliament refused to oblige. In 1672 the government in effect declared the only state bankruptcy in British history when payments on loans from City bankers were suspended initially for twelve months, which was later renewed repeatedly. Only after 1688 was executive borrowing tied to parliamentary consent, which restored trust with lenders and ensured large-scale access to finance over the following centuries.

The Glorious Revolution of 1688 brought a decisive victory for parliament, and it is a landmark in the evolution of its financial role. The 1689 Bill of Rights captures the

outcome of the struggle. Most importantly, it firmly established the principle that only parliament could authorize taxation by proclaiming 'That levying money for or to the use of the Crown by pretence of prerogative, without grant of Parliament, for longer time, or in other manner than the same is or shall be granted, is illegal.' Still, at this stage there was still no such thing as an annual budget, and there was no comprehensive control of expenditures.

Before the revolution the royals freely mingled public and private income. Following the revolution parliament made a life-long grant to the king to cover expenditures on the civil list and the monarch in turn relinquished control over most of his hereditary revenues. Originally, the list was intended to cover the financial requirements of the king and his household as well as the expenditure of the central civil government excluding debt charges. Expenditure items for civil administration were gradually transferred from the list to the supply services and, later, the consolidated fund, in a process that lasted until 1830. The creation of this list was the first step towards the separation of public and royal expenditures.

Paradoxically, in these early days of growing financial control by the Commons one can also find the origin of limitations on parliament's budgetary powers. Given the political dynamics of the time, it made little sense for parliament to volunteer money to the crown. The Commons proceeded to resolve in 1706 'That this House will receive no Petition for any sum of Money relating to public Service, but what is recommended from the Crown.' The financial initiative of the crown has been enshrined in the standing orders since 1713 and this limitation on parliament's power of the purse is considered an essential constitutional principle to this day. Therefore, while the British Parliament was at the forefront of claiming budgetary rights, it was also the first parliament to voluntarily restrict its powers to introduce and amend financial legislation (Inter-Parliamentary Union 1986, p. 1093):

Parliament still respects this long-standing custom and practice and, as a result, it may not vote sums in excess of the Government's estimates. Consequently, the only amendments that are in order are those which aim to reduce the sums requested and have as their purpose the chance for Members to raise explanations before the sums in question are approved.

After the Glorious Revolution, it was not long before parliamentary control over taxation spread beyond Britain. Parliament proved to have a short memory for the passions that could be incited by unilateral imposition of fiscal measures. As imperial finances were exceedingly stretched by the task of protecting vast colonial territories, parliament sought to force the inhabitants of the empire's North American possessions to contribute towards the defense of the territory. In 1765 it ordered the imposition of a tax on a stamp affixed to a range of documents including newspapers and playing cards. This gave rise to great discontent in the colonies, and led to a boycott of British goods by the colonialists. Despite a partial retreat by parliament, which abolished the 'stamp tax' and several other duties, the continued imposition of a duty on tea was sufficient to provoke unrest and ultimately led to the war of independence. At the First Continental Congress in 1774 delegates from the colonies rejected 'every idea of taxation, internal or external, for raising a revenue on the subjects in America, without their consent.'

The rise of modern budgeting

Parliamentary control remained incomplete as long as governments continued to enjoy wide discretion in expending public revenues. Without detailed knowledge of expenditure needs, requests for funds could not be properly evaluated. Following the Glorious Revolution, it took the Commons two further centuries to put in place a comprehensive system of expenditure control. There were some interim achievements, notably the creation of the consolidated fund in 1787. But the development of modern budgeting practices in the United Kingdom had to wait until the Gladstonian reforms in the second half of the nineteenth century.

By the beginning of the nineteenth century, the United States Congress already constrained executive discretion through detailed line item appropriations that prescribed the exact use of authorized expenditures, for instance by setting strict limits on specific expenses such as firewood and candles in particular offices. This tradition has its origins in colonial times, when legislatures were distrustful of British rule and invested much effort in scrutinizing administrative expenditures. The colonialists were suspicious of governors they did not appoint and who were regarded as agents of the king in distant Britain. They thus devised stringent and humiliating control mechanisms including the annual voting of salaries, detailed specification of the object of spending and the amount to be spent, and the reversion of unspent funds to the treasury at the end of the fiscal

period. This advanced level of congressional scrutiny of expenditures was exceptional compared with other countries at the time.

In Europe, France was first in developing modern expenditure control mechanisms based on reforms of state audit during the first half of the nineteenth century. Napoleon put in place the institutional fundamentals of modern public audit when he created the *cour des comptes* in 1807. In the initial years following the creation of the court the benefits of the new audit system for the French National Assembly were marginal. To ensure effective reporting to the assembly, the publication and distribution of audit reports was made a legal requirement in 1832. The assembly also gradually broadened its control over the approval of expenditures until the specification of detailed items of expenditure for each ministry became a legal requirement in 1831. By the middle of the nineteenth century, France had put in place many of the elements that are associated with modern budgeting, notably a comprehensive budget encompassing all of the activities of government, a standard fiscal year, the principle of annual authorization, and a developed system of accounting and audit control.

Control of expenditures evolved differently in the United Kingdom. Parliament appropriated money many centuries before the use of budgets became common. A first known instance of parliamentary appropriation dates back to the fourteenth century, when a grant to the Edward III was explicitly earmarked for 'the Maintenance and Safeguard of our said Realm of England, and on Wars in Scotland, France and Gascoign, and in no places elsewhere during the said Wars' (Einzig 1959, p. 79). Particular sources of revenue were also frequently tied to specific expenses in order to exercise some control over royal spending. However, parliamentary oversight of expenditures remained patchy and incomplete. An important improvement was the creation of the consolidated fund in 1787 for the purposes of collecting revenues and disbursing all monies for the supply of public services, which 'broke the disorder caused by assigning particular taxes to special purposes and it provided the means of infinite expenditure control through comprehensive appropriation schedules' (Reid 1966, p. 57). But full expenditure control had to wait until the rise of modern budgeting.

The decisive steps towards modernization of public finances in the United Kingdom are inextricably linked to William Ewart Gladstone, who first became Chancellor of the Exchequer in 1852. Gladstone was determined to force greater economy in public finance and introduced reforms in the 1860s that made annual and comprehensive estimates

central to legislative oversight. In 1861 the Commons, based on the initiative of Gladstone, resolved to establish a public accounts committee to examine the accounts showing the appropriation of the sums granted by parliament for public expenditure. The Exchequer and Audit Departments Act of 1866 required all government departments to produce appropriation accounts for audit purposes. The act also created the comptroller and auditor general by merging the *ex ante* function of authorizing the issue of money to departments with a new *ex post* function of examining every appropriation account and reporting the results to parliament. The committee developed a high standard of scrutiny and contributed significantly to rapid improvements in the disclosure of financial information in the following decades (Chubb 1952).

In the United Kingdom a final step towards the democratization of the budget was taken when the hereditary chamber, the House of Lords, was stripped of its veto power over financial legislation. The elected House of Commons considered the Lords unable to amend tax and spending bills by the end of the seventeenth century. The formal removal of remaining veto power was triggered by the dramatic struggle over the 1909 budget of Chancellor Lloyd George, who sought increased tax revenues in order to pay for pensions and defense expenditures (Porritt 1910). When the Lords rejected the entire Finance Bill, this prompted the passing of the Parliament Act of 1911, the purpose of which was to debar the Lords from rejecting money bills – legislation strictly related to taxation, borrowing or appropriations. Since then, the supremacy of the elected chamber has been firmly established. Budgetary bicameralism of various forms continues in countries where second chambers of parliament have democratic credentials.

More recent developments in legislative budgeting

Parliamentary fiscal power in the United Kingdom was at its peak in the second half of the nineteenth century, when the Commons frequently amended spending and revenue proposals (Einzig 1959). The spread of parliamentary democracy since the nineteenth century ensured that the principle of parliamentary authorization of taxation and public expenditure became a constitutional fundamental across democratic countries. However, from a long term perspective the influence of national legislatures on budget policy making has declined in most industrialized countries (Coombes 1976). The budgetary decline of parliament is perhaps most evident in the United Kingdom, where the House of Commons ceased to amend estimates almost a century ago.

Several developments contributed to reducing the budgetary activism of parliaments (Schick 2002). The emergence of disciplined political parties has reigned in legislative independence. Devolution of spending, and to a lesser extent of revenues, has chipped away at the comprehensive control of public funds by national legislatures. In addition, the massive expansion of entitlement spend in the twentieth century has substantially rigidified budgets and commensurately decreased the remaining margin for active legislative engagement in annual budgets. With the growth of public spending and the increasing complexity of public finances, the executive budget proposal became the standard against which legislative action was measured.

But the decline of parliamentary power over budgets is not universal. There are signs that some parliaments are attempting a budgetary comeback. In France, for instance, the National Assembly recently initiated a wide-ranging set of budget reforms. The resulting changes include a reclassification of the budget in order to support parliamentary oversight and an expansion of powers to amend expenditures (Chabert 2001). In developing and transition countries, a substantial number of legislatures are moving towards budgetary activism. Perhaps the primary reason for this development is that democratization and constitutional change have opened up possibilities for legislature participation in many previously closed systems. A good example is the Brazilian Congress, which historically played no significant role in the budget process. Democratization in the 1980s led to constitutional changes that gave Congress powers to modify the budget and have resulted in substantial levels of activism (Blöndal et al 2003).

In addition, there has been a recent shift in international financial institutions and donor agencies towards participation in setting development goals and strategies. Developing countries are now asked to access international finance on the basis of comprehensive poverty reduction strategies that are meant to be compiled through an in-country participative process. This shift is linked to renewed interest by the international donor community in the quality of the budget process and the governance of the budget for a variety of reasons, in particular the realization of the failure of conditionality in development lending and evidence on the effectiveness of aid. This provides an opportunity for legislatures in poor countries to reengage with development policy and budgets (Stapenhurst and Pelizzo 2001).

Conclusion

The budgetary role of democratic legislatures is the outcome of a centuries-long struggle for supremacy in public finance. Historically, parliaments first gained the right to consent to taxation, and gradually they devised mechanisms to control the expenditure of public funds. Modern budgets came to aid comprehensive legislative oversight. Legislatures today exercise varying levels of budgetary influence. While some parliaments have become less active in budgetary matters, others have maintained a strong role in the budgeting process. Democratization and constitutional reform provide opportunities for new parliaments to actively define an appropriate budgetary role.

Unit 1 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- Why did Gladstone say that 'the finance of the country is ultimately associated with the liberties of the country'?
- Taking your country as an example, how would you describe the development of legislative financial scrutiny over time? What factors have influenced this evolution?

Relevant internet resources

Bill of Rights (1689)

<http://www.yale.edu/lawweb/avalon/england.htm>

British Broadcasting Corporation:

A to Z of Parliament

http://news.bbc.co.uk/1/hi/uk_politics/a-z_of_parliament/default.stm

California Department of Finance:

Development of Modern Budgeting

<http://www.dof.ca.gov/fisa/bag/history.htm>

Magna Carta (1215)

<http://www.bl.uk/collections/treasures/magna.html>

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Unit 2: Introducing the budget

Learning objectives

What are the components of the Budget?

After studying this unit you should be able to:

- Define the budget and its components
- Discuss possible effects of high deficits
- Understand the principles of good budgeting
- Explain the three objectives of public expenditure management

Introduction

In the most general definition, budgeting is concerned with the translation of financial resources into human purposes.

Aaron Wildavsky, 1984

What is a budget and what purpose does it serve? This unit introduces the budget and some related core concepts and terminology. The following sections consider the definition and components of the budget, and the objectives of budgeting as proposed by current public expenditure management theory.

Definition and components of the budget

The word budget developed from *bougette* or 'small bag' in middle French. The use of the word spread to England, where it came to designate the leather bag in which ministers of the crown carried financial plans to parliament, and eventually it became synonymous with its contents. The use of the word in the United Kingdom now refers to the spring financial statement, which focuses on taxation measures. In most countries, the term refers to the annual expenditure and revenue plans tabled in the legislature. The first traceable legal definition of the budget is contained in a French decree of 1862: 'The budget is a document which forecasts and authorizes the annual receipts and expenditures of the State...' (Stourm 1917, p. 2). In most countries, the government

budget is drafted at regular intervals by the executive and tabled in the legislature for review and approval before the beginning of the fiscal year to which it applies.

Box 1: Origins of the fiscal year

In early budgeting, there was a clear link to the crop cycle. Once the harvest was in, one could make plans for the next year. Many developing countries have maintained this connection by clinging to the broken budget year. In India, the revenue for the subsequent year can only be assessed after the Monsoon season in May, June and July. But agriculture is not the only source of income to be taken into account in the Third World. Papua New Guinea changed its budget year to fit that of the donor countries, since their contributions were so decisive for the government's economic planning. In other parts of Asia, governments hesitate between the lunar and the solar calendars. Over time, there has been a tendency to converge on the calendar year as the most convenient basis for budgeting. While the United Kingdom has held out with a budget year beginning in April, Sweden gave up the broken budget year to adopt the calendar year model in 1995. In the long discussion preceding this decision, it was claimed that a harmonization both upwards (towards the European Union) and downwards (towards private enterprises, communes and regions which had long practiced calendar year budgeting) would bring about greater transparency and facilitate coordination between different levels.

Source: Tarschys (2002).

Sources of income vary substantially between countries. They usually include direct taxes, which are levied on income or capital, for example income tax. Such taxes are called direct because it is normally assumed that the real burden of payment falls directly on the person or firm that is immediately responsible for paying them. By contrast, indirect taxes such as sales taxes or excise taxes on alcohol and tobacco are so called because it is assumed that the real burden of paying the tax will not fall on the firm immediately responsible for paying it but rather that it will be passed on to the customer. Other sources of government income might consist of user charges for certain services, foreign aid, and income from investments or commercial activities.

In considering its revenue raising options, the government has to weigh advantages and disadvantages. For example, boosting reliance on sales taxes makes taxation more regressive. This means that a poor person will pay as much tax as a rich person when purchasing an item of clothing or food, as sales tax does not take account of income differentials. On the other hand, income taxes are progressive when they apply higher rates to individuals with a higher level of income. But where the formal economy is small, excessive taxation of a few high income individuals can undercut investment, which hampers growth and employment creation. Over time, this might erode the tax base and reduce the ability of government to raise revenues. Raising an adequate amount of revenues, while at the same time preserving equity and stimulating economic growth, can be a difficult balancing act.

On the expenditure side of the budget, government allocates funds to various functions such as health care, education, agriculture, justice, defense and so on. This is called the functional classification of expenditures. The share of total expenditures allocated to each sector is a key indicator of spending priorities for a given year and of shifts in priorities over a period of time. In terms of the economic classification of expenditures a distinction can be made between current and capital expenditures. Current expenditures are on goods and services that are consumed immediately, for example wages of civil servants or supplies of learning material for schools. Capital expenditures comprise money spent on the purchase of goods that can be used to produce other goods, for example machinery or infrastructure. The balance between current and capital spending is important. When a clinic is built and equipped to service a community (a capital expenditure), then government has to make sure that it sets aside sufficient funds to run the clinic on a day to day basis, which requires budgeting for wages, medicines and the like (current expenditures).

When government spends more money than the available revenues, it can either raise taxes or budget for a deficit and cover the shortfall with borrowed money. There is a wide range of alternate deficit measures, but the conventional deficit is widely quoted as perhaps the central indicator of fiscal health. This deficit measure is defined as the excess of government's total expenditure over total revenue. There is no absolute figure that can indicate whether the deficit is too large, which depends on the size of the economy. For this reason, the deficit to Gross Domestic Product (GDP) ratio is used to indicate the share of national income that will have to be used to finance the deficit. Although the appropriate size of the deficit depends on a variety of factors that determine sustainability on a case by case basis, one rough but widely accepted benchmark was set in the European Union's Maastricht Treaty with a figure of three per cent of GDP. However, some go further and demand balanced budgets where revenues are equal to expenditures. Changes in the deficit do not have to be the result of a shift in fiscal policy, but can also reflect the business cycle, for instance. Consistently growing deficits, however, give cause for concern:

- Government borrowing can put upward pressure on interest rates so as to 'crowd out' private sector investment. In other words, when government uses most of the capital available on the borrowing market, less is available for the private sector to borrow in order to expand its activities. This can dampen economic growth.

- Deficit spending is expensive. Because government will have to put aside a proportion of funds to service its stock of debt, there will be less money for service delivery. Reductions in service delivery programs affect vulnerable groups in society that are most dependent on the state.
- It is unfair if extensive borrowing forces future generations to make sacrifices so that they effectively pay for spending that we enjoy today. This problem is exacerbated when borrowed funds are not invested productively.
- Excessive deficits are associated with inflation. Some governments have resorted to 'printing money' in order to meet debt servicing obligations. However, this strategy is difficult to pursue when the central bank enjoys entrenched independence from the government both legally and in practice.

Box 2: Principles of good budgeting

Comprehensiveness: The budget must cover all the fiscal operations of government, encompassing all public expenditure and revenues, to enable full and informed debate of the tradeoffs between different policy options.

Predictability: Spending agencies should have certainty about their allocations in the medium term to enable them to plan ahead. Stable funding flows support departmental planning and efficient and effective delivery.

Contestability: No item in the budget should have an automatic claim to funding. All policy and attached funding should be regularly reviewed and evaluated in order to ensure prioritization and optimal performance of spending agencies.

Transparency: All relevant information required for sound budgetary decision making should be available in an accessible format, and in a timely and systematic fashion. Budget information needs to be accurate, reliable and comprehensive.

Periodicity: The budget should cover a fixed period of time, typically one year, and the process of compiling the budget should follow a clear and reliable schedule that is agreed upon and published in advance.

Source: World Bank (1998).

Objectives of budgeting

If resources were limitless, we could all get whatever we want from the government. There would be no need to budget. In reality, spending needs are inevitably beyond available funding. Governments have to make choices about the allocation of scarce

resources to meet competing needs in society. Budgeting is effective in facilitating this process when it forces awareness of overall fiscal constraints, enables the prioritization of spending in line with policy objectives, and supports the efficient implementation of policies.

Table 1	
Basic elements of public expenditure management	
Objective	Requirements
Aggregate fiscal discipline	Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium term and beyond.
Allocative efficiency	Expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs.
Operational efficiency	Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices.

Source: Schick (1998).

Aggregate fiscal discipline refers to the control of the key measures of fiscal performance, including total spending, total revenue, the financial balance and the public debt. Fiscal discipline requires that budget totals are the result of explicit and enforced decisions. Many factors are important for determining the appropriate total level of aggregate spending, including available revenues, access to borrowing and the acceptable level of the deficit. Given these constraints, fiscal discipline calls for affordability of total spending, including in the medium to long term. Some countries have adopted formal rules to ensure fiscal discipline, for example by allowing borrowing for capital purposes only (the so-called 'golden rule'). A strong treasury or finance ministry can check that spending departments do not make exaggerated claims on the budget and that they stick to their budgets once they have been approved. A hard budget constraint on departmental spending exists when the treasury is successful in enforcing approved budgets. This requires comprehensive and reliable information to monitor compliance of government departments with spending plans. To safeguard fiscal discipline, parliament has to resist the temptation to add new spending without commensurate cutbacks elsewhere in the budget.

Because resources are limited, budgeting forces us to consider the merit of competing claims on the public purse and to negotiate tradeoffs between them. The achievement of allocative efficiency or strategic prioritization requires government capacity to allocate resources and select programs and projects in conformity with its objectives. This process

is supported where the policy basis of the budget is stated clearly on the basis of a medium term strategy. Allocative efficiency is threatened where spending departments are bailed out when they overspend, because poor budget execution can introduce substantial ad hoc realignments that distort stated priorities. Such distortions often divert resources away from the poorest and most vulnerable groups in society to cater for the interests of bureaucracies and strong interest groups. Parliament can provide an important platform for public debate on the nation's priorities.

Once funds have been allocated they should be spent so as to deliver maximum results. Operational efficiency is the ratio of the resources expended by government agencies to the outputs produced or purchased by them. Spending departments should strive to eliminate waste and produce goods and services at a cost that achieves ongoing efficiency gains. To provide managerial incentives for operational efficiency high level civil servants can be given performance contracts that spell out clear objectives and targets. Moreover, effective parliamentary scrutiny and accountability for results can support a mind shift in spending departments from a mentality of compliance to one of achievement. Parliaments increasingly consider not only the allocation of money, but also what is delivered with that money. To facilitate legislative review of departmental performance the format of the budget needs to go beyond the traditional focus on cost and inputs. Also needed is information on strategic objectives, output targets (the amounts of goods and services to be delivered) and outcomes (the effects or impact of the activities carried out on the community). Parliamentary scrutiny of audit findings also strengthens accountability for performance.

Box 3: Budgeting for performance

Performance budgeting has been a prominent theme in budget reform for several decades. Such efforts have taken many forms, and success varies. One reason is that the idea of performance budgeting is appealingly simple, but very difficult to implement in practice. A broad definition of a performance budget is one where the budget presents information on what departments have done or expect to do with the money provided to them. Many countries are now providing such information as part of their budget documentation. More strictly defined, a performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. There are very few successful examples of performance budgeting in the stricter sense, and New Zealand is arguably the country that has taken this approach furthest.

Source: Schick (2003).

The objectives of aggregate fiscal discipline, allocative efficiency and operational efficiency are interrelated. In many ways fiscal discipline comes first. For example, politicians often promise improving macroeconomic conditions such as higher growth,

less unemployment and lower inflation, all of which impact on the amount of revenues government expects to collect. Overly optimistic revenue forecasts are politically tempting because they create an imaginary space for promises of more money on services. The inevitable revenue 'shortfalls' result in higher deficits or necessitate expenditure cuts that distort spending priorities so that allocative efficiency is undermined. In-year spending cuts also undermine predictability, which is an important prerequisite for operational efficiency in departments. To be transparent government should publish the macroeconomic assumptions and projections upon which the budget is predicated. It is a good test of government's budgetary foundation to consider whether its growth forecasts are substantially more optimistic than those produced by the private sector and international organizations. If this is the case, it is rather likely that the budget is unsound. Unrealistic assumptions about improvements in revenue collection are another symptom of escapist fiscal planning. Such tactics threaten to undermine the objectives of budgeting.

Box 4: A note on fiscal decentralization

Decentralization of central functions to lower level government units has become an important element of public sector reform in recent years. It is hoped that decentralization can promote local innovation, match services with local preferences, and that greater accountability to local communities can achieve more efficient provision of essential services where central government has not been able to deliver. However, in the initial stages of decentralization, there are often capacity bottlenecks at the subnational level. For this reason, fiscal decentralization should be complemented with adequate oversight and accountability mechanisms to ensure that the process of decentralization is managed optimally and to guarantee equitable access to services. For instance, the legislature should have access to detailed spending information across levels of government, and it should scrutinize the underpinning revenue sharing arrangements.

Conclusion

Budgets are regularly produced financial plans of the government comprising revenues and expenditures of the state. They should be comprehensive and transparent and ensure funding predictability for government departments. Public resources are always limited and inevitably fall short of meeting all the needs of society. For this reason the budget process is used to assess competing claims on the budget and to facilitate difficult tradeoffs. Meeting this challenge successfully requires that budgeting achieves and maintains fiscal discipline, the strategic prioritization of public funds, as well as sound operational management.

Unit 2 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- Does it matter if governments have high budget deficits?
- List some of the main sources of government revenue. Which of these are important in your country?
- How does the budget in your country compare to the principles of good budgeting?
- Are fiscal discipline, allocative efficiency and operational efficiency the only objectives of budgeting?

Relevant internet resources

American Association for Budget and Program Analysis:
<http://www.aabpa.org/>

Governance Resource Centre Exchange:
Public Financial Management and Accountability
http://www.grc-exchange.org/g_themes/pfma.html

International Monetary Fund:
Guidelines for Public Expenditure Management
<http://www.imf.org/external/pubs/ft/expend/index.htm>

Overseas Development Institute:
Centre for Aid and Public Expenditure
<http://www.odi.org.uk/pppg/cape/>

Public Budgeting and Finance:
<http://www.blackwellpublishing.com/journal.asp?ref=0275-1100&site=1>

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Unit 3: The budget process

Unit 3 Learning objectives What is the Budget Process for Parliamentarians?

After studying this unit you should be able to:

- Explain the different stages of the budget process
- Discuss the roles of different actors in the budget process

Introduction

Understanding the way budgets are put together is a crucial first step in influencing decision making. The budget is the result of a process. The priorities and choices it embodies reflect the power of various actors in this process. Those who are effective in influencing the budget succeed in having their choices and priorities included. This chapter provides a general outline of the budget process. While the details will differ from country to country, there are also important similarities across most public budgeting systems. Based on a simplified and generalized discussion, the following sections look at the stakeholders in the budget process, stages of the budget process, and how annual budgeting can be guided by a medium-term expenditure framework.

Actors in the budget process

Within the executive, the role of a finance ministry or treasury is to coordinate and drive the budget process in accordance with a schedule. The finance ministry has the economic expertise to prepare macroeconomic projections. These are important in order to assess the amount of money that will be available for spending. The finance ministry also plays a crucial role in formulating fiscal policy, guiding the drafting of the budget, and later in monitoring budget implementation. Various spending departments are ultimately responsible for expenditures within their jurisdiction, such as health, education, agriculture and so on. Spending departments will often try to extract as many resources as possible, whereas the role of the finance ministry is that of the guardian of the public purse.

Democratic constitutions require taxation and public spending to be approved by parliament. Therefore, the role of the legislature is to scrutinize and authorize revenues and expenditures, and to ensure the budget is properly implemented. The nature and effect of legislative engagement vary. Some legislatures write the budget; others approve executive budget proposals without changes. In some legislatures most of the debate around the budget takes place on the floor of the house; elsewhere the emphasis is on discussion in committees. Some legislatures fragment decision-making power in the budget process across various committees; others have a single financial committee that dominates the process. Ultimately, the final vote takes place in the chamber. However, where committees play a strong role, the house tends to be guided by committee reports in approving financial legislation. Legislators are aware of their constituencies' priorities and needs when considering the budget.

Independent supreme audit institutions such as auditor generals or audit courts carry out an audit of government accounts in order to determine whether government did in fact implement that budget as passed by the legislature. Some of them also consider whether this was done efficiently and effectively. While this basic task is similar across different systems, there are differences in the institutional design of supreme audit institutions. For instance, some are directly linked to the legislature, while others have judicial independence. There are also differences with regard to capacity, resources, and types of audit conducted. The role of supreme audit institutions and their interaction with parliament is considered in detail in another unit.

The potential contribution to the budget process of civil society organizations, covering the full spectrum from think tanks to community-based organizations, is increasingly appreciated. Civil society organizations can provide independent research from a perspective that is not covered by conventional analyses. One example is the work on the impact of the budget on vulnerable groups such as women or children that civil society groups have pioneered, sometimes in collaboration with the legislature. In some countries where the legislature has limited research capacity, think tanks and universities can ensure access to sound technical analysis of fiscal issues. Civil society input to the legislature is promoted when committee and chamber debates are open to the public, legislative information is freely available, and when committees conduct hearings and receive submissions on legislation and budgets.

The media has an important role to play in ensuring that the central issues in budgetary debates are widely understood. In order to play this role, journalists require full access to the legislature and its committees, and all relevant documentation should be available to them. Training and capacity building can help journalists to maximize the quality of their reporting on the budget, and there have been instances where media institutes or civil society organizations have provided such opportunities. A later unit discusses the role of civil society and the media during the budget process.

International financial institutions and donor agencies play a powerful role in the budget process of poor countries with particularly high levels of foreign debt. When international financial institutions and donors attach stringent conditions to loans, the legislature's role may be severely diminished to rubberstamping budgets that reflect prior agreements between lenders and the executive. To be supportive of sound budget practices, donor funding needs to be transparent and predictable, and full information on such funding should be given in the budget. Increasingly, the negotiations around debt and new financing involve a wider range of state and non-state actors. Consultative Group Meetings, as they are called, have become important opportunities for the private sector and civil society groups to make their voices heard on economic and budget policy issues.

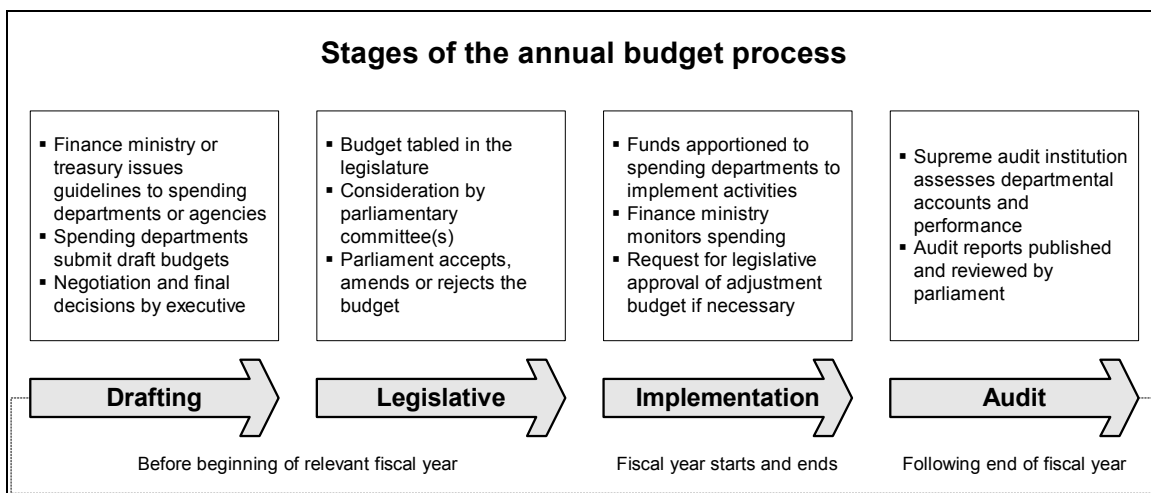
Stages of the budget process

Budgets have to be passed regularly, usually on an annual basis, in order to ensure that the government continues to operate. The budget process is governed by a timeline that typically can be separated into four different stages:

- Drafting
- Legislative
- Implementation
- Audit and evaluation

This basic sequence is applicable for many if not most countries whose governments are built on democratic principles. But across countries there are many differences in the influence of various actors and the timing of the process. The following paragraphs look at a simplified version of public budgeting in the form of a generalized overview of the process of preparing, approving, implementing and auditing a single budget.

It is important to remember, however, that in real life budget cycles overlap. At any one time a number of different budgets are at different stages of the budget process. For example, while one budget is being drafted, another budget might be awaiting legislative approval, yet another might be in the process of being implemented, and a fourth one that has already been implemented might be subject to audit and evaluation. This means that the legislature concurrently has to deal with several different budgets at different stages in their process. The overlapping nature of budgeting means that the maintenance of fiscal oversight can be a complex challenge.



The drafting stage is concerned with compiling a draft budget that can be submitted to the legislature. This stage is mostly internal to the executive, but it does not have to be a secretive affair. The first step is to set fiscal policy and estimate available revenues in order to establish the total resource envelope that will be available for spending. Based on the policy framework of the government the finance ministry issues indicative expenditure ceilings for each department. This leads up to negotiations between spending departments and the finance ministry about the allocation of funds across different functions. A consolidated draft budget has to be reviewed and approved at the highest political level, such as the president or cabinet, which will also make final decisions on especially contentious issues that could not be resolved before.

Once a comprehensive budget has been drafted, it has to be approved by the legislature to become effective. During the legislative stage, parliament scrutinizes the expenditure and revenue proposals of the executive. Its options are to approve or reject the budget,

to amend it, or, in a few cases, to substitute the draft tabled by the executive with its own budget. In some countries, the legislature passes separate legislation for appropriations and changes to the tax code; in others it considers a unified budget bill. The exact form of legislative approval is less important than the fact that it must be comprehensive. Legislative authorization of all public spending and taxation ensures the rule of law in public finance.

The duration of the legislative stage is an important element of variation between budget processes of different countries. The United States Congress spends about eight months and sometimes more on deciding the budget, while some legislatures only have about a month. Budget scrutiny takes time. A good rule of thumb, therefore, is that the more time the legislature has to review the draft budget, the greater its overall potential influence. A national legislature requires a minimum of three months for effective consideration of the annual state budget.

Implementation of the budget commences with the beginning of the fiscal year. The execution or implementation stage of the budget process is mainly in the hands of the executive. The finance ministry or treasury usually plays a leading role in assuring that funds are apportioned to spending departments in line with the approved budget. Sometimes, however, in many developing countries, cash constraints lead to certain expenditures being cut below voted and other unplanned adjustments to approved spending. Funds might be shifted to purposes other than those that were approved. Improvised budget cuts tend to adversely affect vulnerable groups that have a weak political voice, and who are most dependent on government initiatives. Frequent adjustments to budgets can reflect the uncertainties that are characteristic of the macroeconomic environment, but 'continuous' or 'repetitive budgeting' is also a symptom of a weak and ill-disciplined budget system. To ensure that its authority is not undermined by excessive adjustments, the legislature might find it useful to keep a close eye on implementation through scrutiny of actual spending during the fiscal year. Any significant adjustments to the budget should be captured in adjustment or supplemental appropriations that are tabled in the legislature for approval. In-year adjustment decisions need to be made in a transparent manner and should be subject to the same scrutiny carried out at the budget formulation stages.

All countries are exposed to fiscal risks inherent in a continuously changing economic environment and even with high quality forecasting many new and urgent pressures on

public spending are impossible to anticipate and can emerge suddenly. For instance, infrastructure reconstruction might unexpectedly become necessary due to natural disasters such as floods or storms. To ensure that the budget remains authoritative even during difficult economic times, a budgeting system needs to cope with uncertainty (Crippen 2003). This is the function of contingency reserves, which set aside an amount for adapting the budget to changing circumstances or emergencies. However, contingency reserves need to be clearly accounted, decisions about their use should be transparent and approved by the legislature, and they should not be excessive in size. Otherwise, they can easily deteriorate into 'slush funds.'

There are other potential challenges to the proper implementation of annual budgets. Ordinary legislation introduced during the course of a financial year can have budgetary implications, for example by creating or increasing entitlements such as social grants. This might bring such legislation into conflict with the constraints of the approved budget or medium term expenditure plans. For this reason, the process of drafting ordinary legislation should include a consideration of its implications on the budget in both the short and medium to long term. This information should be available to the legislature during the law-making process, so that it can be subjected to independent and open scrutiny.

During the audit and evaluation stage, an independent audit institution, such as an audit court or auditor general, analyses government accounts and financial statements. In most countries, the audit of accounts is followed by the consideration of audit findings by the legislature. If the process is effective, any recommendations based on audit findings are reflected in future budgets, which allows for continuous improvements in public spending and generally public financial management. Audit reports need to be produced and tabled in the legislature as speedily as possible to ensure their relevance and accuracy. Long delays undermine accountability, because officials who are responsible for a loss of public money may have moved on or retired by the time an incident receives attention. Delays may make it more difficult to pursue disciplinary measures. The interest of the public is also likely to focus on more current matters. The timely submission of audit reports requires that departments produce their financial statements in time for the audit institution to meet the deadline. The relevant financial management legislation usually prescribes when and in what form the necessary information has to be submitted by departments to the auditors.

Budgeting is a process rather than an event, and budget cycles are ongoing and interconnected. The role of parliament should not be restricted to budget approval and the review of audit findings. For instance, in a number of countries parliamentary committees ask government to report on the process of drafting an upcoming budget yet to be tabled, and legislators might request certain documentation that is used in the drafting process. During budget execution, the legislature should have access to actual revenue and expenditure data on an ongoing basis. In this way, it will be able to keep track of the progress that is being made in implementing the approved budget. This provides an opportunity to pick up problems at an early stage, before they result in significant deviations between the approved budget and actual revenues and spending. When parliamentarians follow the entire budget process as it unfolds they will be in a position to acquire relevant expertise and to keep track of emerging issues. Legislative effectiveness in budget scrutiny is enhanced by continuous oversight.

Budgeting for the medium term

With budgeting on a year by year basis, new policy initiatives stand little chance of being sufficiently accommodated because there is a bias towards existing programs. Since the need for particular programs can shift over time, unnecessary expenditures may be carried over year after year, leaving insufficient funds to address more pressing *new* needs and priorities. Also, many aspects of budgeting require more than an annual time horizon. For instance, when planning for large scale capital expenditure projects or substantial restructuring of service-delivery agencies, the planning period stretches over a number of years. Many countries have introduced a medium-term expenditure framework (MTEF) to support strategic prioritization and sustainable fiscal planning beyond the horizon of annual budgets.

The purpose of an MTEF is to indicate the size of the financial resources needed during the medium term, usually between three to five years, in order to carry out existing policy. The MTEF concept differs from multiyear budgeting, which involves fixed appropriations for a certain number of fiscal years. Usually, only the first year of an MTEF is approved by the legislature as the annual budget, whereas the outer years are nonbinding projections of the future cost of existing policy. The firmer these projections become, the more they move to the centre stage of the budget process and form the basis for the annual negotiation of allocations, resulting in a system of 'rolling budgets.'

All OECD countries have medium term frameworks, and many developing countries have implemented, or are in the process of implementing, similar tools.

While the details will differ, there are some basic steps that need to be carried out in the process of compiling an MTEF. The first step involves the setting of aggregate and sectoral spending ceilings, based on realistic revenue projections and fiscal policy. The guidance of the finance ministry is important at this stage. The second step involves policy planning within the spending ceilings that have been established. This requires departments to cost programs and consider their linkage to strategic objectives. There will always be contentious issues and difficult trade-offs that have to be negotiated. The third step, therefore, is to make a binding political decision involving final negotiations and the approval of medium term spending choices by cabinet.

Medium term budgeting has been implemented in many countries, but with varying degrees of success. Highest level political commitment is crucial in ensuring that such a reform takes root. When medium term planning is widely considered to be a 'technical' exercise for bureaucrats, and politicians do not buy into the process, the framework is unlikely to acquire the status and authority that it needs in order to become entrenched and deliver improvements. To enhance debate on public spending MTEFs should be tabled and discussed in parliament. Another ingredient of success is to clearly link medium term spending and revenue figures to government policy, for instance by linking the MTEF with a medium term budget policy statement. It is only with narrative information on the content and direction of budget policy that the medium-term figures can be adequately interpreted and assessed by parliament.

Table 2		
Does the annual central government budget documentation submitted to the legislature contain multi-year expenditure estimates?		
	Number of countries	Percentage of total
Yes	28	70%
No	12	30%
Total	40	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Conclusion

For parliamentary budget researchers and committee staff thorough acquaintance with the actors and process of budgeting is essential. This unit looked at a simplified and

generalized summary of budgeting in the public sector. Core participants in a typical budget process are the executive, including finance ministries and spending departments; the legislature and its committees; and supreme audit institutions. Media reporting and civil society participation enhance transparency and public debate. Most budget processes in the public sector go through drafting, legislative, implementation, and audit stages. Medium-term budgeting frameworks are increasingly used to guide annual budgeting and to provide a broader planning horizon that is necessary for many tasks in budgeting. Successful medium term planning requires political commitment to the framework, rather than being a technocratic add-on to the budget process.

Unit 3 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- Why do budget cycles overlap?
- Who plays a role in the budget process in your country?
- Draw a timeline of the budget process in your country. In what way does it differ from the generalized version discussed here?
- Is an MTEF part of the budget system in your country? If so, is it effective?

Relevant internet resources

Health Systems Trust:

The Budget Process: A Guide for South African Legislators

<http://www.hst.org.za/hlink/budget/default.asp>

Institute of Public Finance:

A Citizen's Guide to the Budget

http://www.ijf.hr/eng/budget_guide/proen.pdf

New Zealand Treasury:

The Budget Process

<http://www.treasury.govt.nz/budgets/process/>

Organisation for Economic Co-operation and Development:

Results of the survey on Budget Practices and Procedures

<http://ocde.dyndns.org/>

World Bank:

Medium Term Expenditure Framework

<http://www1.worldbank.org/publicsector/pe/mtef.htm>

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Unit 4: Parliamentary approval of the budget

Learning objectives

What Role does Parliament play in approving the budget?

After studying this unit you should be able to:

- Explain how the constitution impacts on parliament's role in budgeting
- Discuss the roles of committees in scrutinizing the draft budget
- Assess the provision of relevant budgetary information in your country against good practice standards

Introduction

The role of parliament in approving the budget differs sharply across different countries. Some are powerful players in the budget process, and significantly shape budgets. Others generally approve the budget as tabled by the executive without any changes. This unit deals with some of the factors that shape the role of parliament in the approval stage of the budget process. The following sections consider parliament's legal powers to initiate financial measures and to amend budgets tabled by the executive; the timing of the budget and what happens if the budget is not approved in time for the beginning of the fiscal year; the role of parliamentary committees in scrutinizing executive budget proposals; access to information and analysis capacity as a basis for parliamentary decision making; and party political dynamics.

The constitutional basis for legislative budgeting

The formal budgetary powers of a legislature are often spelled out in a country's written constitution, but they can also be based on convention, determined by ordinary legislation, or spelled out in legislative rules. These powers can vary in several aspects.

Some legislatures face constitutional restrictions on their right to introduce financial legislation. Where parliamentarians cannot introduce financial legislatures, only the executive can initiate spending and revenue measures. Another important factor affecting the potential scope for legislative influence is the legislature's legal powers to amend

financial legislation. The more permissive these amendment powers are the greater is the potential scope for legislative activity. Moreover, some constitutions provide for executive veto authority of the kind that requires extraordinary majorities to be overridden by parliament. By exercising a veto, the president can challenge legislative choices.

Table 1: Legislative powers to amend the budget		
Budgetary powers	Number of countries	Percentage of total
Unlimited powers to amend the budget	32	40%
Reductions of existing items only	17	21%
Rights not specified	15	19%
Increases must be balanced with commensurate cuts elsewhere	13	16%
May reduce expenditure, increase only with permission of government	4	5%
Total	81	100%

Source: Inter-Parliamentary Union (1986: Table 38A).

There are various traditions of amendment powers. It appears that the largest category of legislatures has unfettered powers to amend the budget. The classical example is provided by the United States whose constitution establishes no legal limits on the budgetary powers of Congress, although the latter has self-imposed limits from time to time. Unfettered powers allow the legislature, in theory, to introduce its own budget and to rewrite the entire budget proposed by the executive

Other countries constrain the powers of the legislature so as to protect the balance between revenues and expenditures suggested by the executive. This requires that an increase of expenditures has to be counterbalanced with a corresponding cut elsewhere to maintain the aggregate total. A variant of amendment powers that safeguard the deficit allows the legislature to reduce expenditures, but to increase them only with permission of the executive. In effect, this gives the government a veto over legislative amendments that increase the deficit. Versions of this configuration are popular in francophone and Latin American countries.

In the Westminster tradition parliament cannot initiate financial bills and it has strictly limited powers to amend the government's financial proposals. Parliament may only reduce existing items proposed by the government, but it may not include new items or increase existing ones, nor can cut funds cannot be shifted to increase spending on a different item elsewhere in the budget. This configuration evolved during the early days

of the House of Commons, when it met to consider demands for subsidies made by the Crown. Its task was to decide whether and to what extent it would comply with the demand, rather than to initiate its own spending plans for the monarch. Many countries in the Commonwealth have adopted this configuration.

Legislative powers over the budget are sometimes counterbalanced with executive veto powers. Such veto powers are more commonly found in presidential systems of government, although there are also a few parliamentary systems that incorporate executive veto powers over financial legislation, for example New Zealand. Executive vetoes can take two forms. A package veto allows a president to veto a piece of legislation in its entirety. In the United States, for example, presidents have used their package veto power to block appropriations passed by Congress (Williams and Jubb 1996). A line item veto or partial veto on the other hand allows a president to delete individual items in a financial bill. This allows for greater selectivity. The Chilean President has such a line item veto, for example. In this way, legislative decisions can be significantly altered by striking down particular items in the budget that might be of high priority for legislators.

The timing of the budget

Legislatures require both sufficient time and a properly timed budget process to facilitate meaningful decision making. International experience suggests that a minimum of three to four months is required for the approval of the budget by the legislature on the basis of meaningful analysis and scrutiny. However, sufficient time by itself is not enough. The budget should also be tabled sufficiently in advance of the fiscal year to which it relates in order to enable the legislature to make decisions that matter, when they matter. Reforms to the budget process strengthen the legislature when they address both issues.

On occasion, the timely passage of the budget may not be possible. There can be reasons for delays, such as an outbreak of war, and it is important for the state to be able to continue with the provision of essential services. But under normal circumstances, frequent use of interim spending provisions undermines effective ex ante scrutiny by the legislature and the cohesion of the budget as a comprehensive plan for annual spending. What happens if the budget has not yet been passed at the beginning of the fiscal year? Does the constitution stipulate a reversionary budget that becomes effective in such cases? One can divide constitutional practice into two broad categories. There are

countries where interim spending without explicit legislative authorization is possible, and those where this is not the case.

Perhaps the most well known example of the latter category is the United States, where there are no constitutional provisions for such circumstances. Government shutdowns occur when the budget has not been approved at the beginning of the financial year or Congress has not authorized interim spending. In 1995-96, for instance, delays in congressional approval forced the temporary shutdown of some federal agencies.

Other constitutions stipulate a reversionary budget. In some countries, the executive's draft budget takes effect if it has not yet been passed at the beginning of the fiscal year. For instance, article 47(3) of the French Constitution allows for the draft budget to be implemented by ordinance in these cases: 'Should Parliament fail to reach a decision within seventy days, the provisions of the [finance] bill may be brought into force by ordinance.' Similar provisions can be found in the constitutions of many other francophone countries. Such rules establish a strong incentive for the legislature to expeditiously conclude its consideration of the budget, but they need to be coupled with a requirement for the timely tabling of the budget. Otherwise, they might serve to curtail legislative scrutiny and eliminate essential checks and balances. A typical arrangement in many other constitutions is to provide for automatic interim spending along the lines of the previously approved budget and for a limited period only. For instance, article 82 of the Nigerian Constitution allows the president to authorize withdrawals from the consolidated revenue fund for up to six months and up to the proportional amount of the previous budget should the appropriation bill not have been approved in time.

In the distant past, the English Parliament devised the tactic of voting appropriations near the end of the session as a means of forcing the Crown to utilize its own resources before relying on tax revenue raised from the public. At the time, this was an effective mechanism to minimize the tax burden and to force economy in the royal management of funds. Nowadays, parliament regularly passes votes on account to provide an interim authorization pending final approval of the annual appropriations to avert government shutdowns. Many countries in the Commonwealth follow this practice. In general, however, it is a recognized good practice to table the budget sufficiently in advance of the beginning of the fiscal year in order to ensure timely approval. Most legislatures outside the Commonwealth do so under normal circumstances.

Table 2
How far in advance of the beginning of the fiscal year does the executive present its budget to the legislature?

	Number of countries	Percentage of total
Up to two months	10	26%
Two to four months	23	59%
Four to six months	5	13%
More than six months	1	3%
Total	39	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Legislative committees and the budget

The budget goes through several stages in the legislature in a process that usually involves a number of readings and debates on the floor of the house. These debates tend to be about the broad strokes of the budget and to have a publicity function for both government and opposition. The government can use the occasion to advertise its policies, and the opposition has an opportunity to point out perceived shortcomings and to highlight its alternatives. Sometimes, large parts of these debates do not even focus on the budget. Detailed discussions of budget figures usually become possible in a smaller forum at committee level and, away from the political limelight. Legislatures need strong committees to be effective. Legislative committees are the 'engine room' of the legislature. It is here that in-depth and more technical debate can take place, away from the political grandstanding that often characterizes proceedings on the floor of the house. Where the committee stage is underdeveloped, and discussion takes place mainly on the floor of the house, the budgetary role of the legislature is weak. Many legislatures have recognized the importance of effective committees.

There are several ways to involve legislative committees in the approval process. Most national legislatures have a finance or budget committee to consider budget proposals. Sectoral or departmental committees may make recommendations, but under the centralized committee model, these are not binding. This structure can serve to protect the budget from demands for increased spending from departmental committees, such as those dealing with health, education or transport, that often want to boost spending on 'their' sectors. On the other hand, without input from sectoral committees, a chance might be missed to draw on members' expertise in particular policy areas during the scrutiny of relevant expenditures.

The participation of sectoral or departmental committees does not automatically have to threaten fiscal discipline; it only does so when they can operate in the absence of strict expenditure ceilings and without a coordinating mechanism to keep aggregate spending within target. In some countries, financial committees approve aggregate ceilings for various expenditure areas, whereas sectoral or departmental committees have the power to shape the budget of departments under their jurisdiction. Such a two-tier committee structure for the consideration of spending proposals is used for instance in Sweden. Experience suggests that such a system is useful both in ensuring prioritization by drawing in sector expertise, as well as the enforcement of a hard budget constraint by having a budget committee safeguard aggregate spending.

Box 1:
The new parliamentary budget process in Sweden

In the past, the process of budget approval in the Swedish Parliament, the *Riksdag*, was described as 'undisciplined.' The focus of debate used to be on individual appropriations with little consideration of the aggregate effect of parliamentary action. The spending total was only certain at the very end of the process. Parliament recognized a need to reform in the early 1990s, which was a time of fiscal crisis, and established a commission to formulate a reform proposal. The reformed parliamentary process has three key steps. Parliament fixes the aggregate level of expenditures and revenues in a Spring Fiscal Policy Bill, which is tabled in April and approved two months later. Following the tabling of the budget in September, the Finance Committee discusses and recommends the allocations for each of 27 'expenditure areas', such as justice, communications and so on. Once the house has approved the division of aggregate expenditures, sectoral committees allocate funding to individual appropriations within their expenditure areas. The sectoral committees are permitted to change the composition of appropriations but must remain within the agreed total for their expenditure area. The budget is approved in December, before the beginning of the fiscal year in January.

Source: Blöndal (2001).

**Table 3:
What best describes the committee structure for dealing with the budget?**

Committee structure	Number of countries	Percentage of total
A single budget committee deals with all budget related matters with no formal input from other committees. Sectoral committees may make recommendations, but budget committee does not have to follow them.	19	47,5%
A single budget committee deals with the budget, but members from other sectoral committees attend meetings of the budget committee when expenditures in their specific areas are being dealt with. For example, members of the education committee would attend meetings of the budget committee when expenditures for the ministry of education were being discussed.	6	15%
A single budget committee deals with budget aggregates (total level of revenue and spending and their allocation to each sector) and sectoral committees deal with spending at the level of each appropriation. For example, the budget committee would establish the total level of expenditure for education, but member of the education committee would allocate the total among each appropriation within the education sector.	7	17,5%
Sectoral committees deal with appropriations for each respective sector. No budget committee is in place or offers only technical assistance.	2	5%
Other	6	15%
Total	40	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Access to information

Legislative decision making needs to be based on comprehensive, accurate, appropriate and timely information supplied by the executive. The amount of supporting documentation that accompanies the budget figures is crucial. In a number of countries, the budget document itself contains little narrative that outlines the policies underlying tax and spending proposals. Often the only source of narrative information is the budget speech. This makes it difficult for parliamentarians and their staff to understand the policy basis of the budget, and to evaluate whether the budget adequately reflects stated government policy. Many budgets do not sufficiently relate expenditures to budget objectives. If this is the case governments should be encouraged to change the budget format so that it integrates relevant output and outcome information.

There are many other information requirements that have to be met to optimize legislative oversight. Following approval of the budget, in-year actual spending information is essential. This can help the legislature to control unauthorized expenditures and variance between approved and actual figures in a timely fashion. Budgetary

decisions should be made in the knowledge of actual spending information, rather than on the basis of budgeted figures that might be little more than fiction. Apart from good in-year reporting, this also requires effective interaction between the legislature and the audit body, for instance through regular liaison mechanisms. Another reform challenge is often to narrow the gap between the end of the fiscal year and the finalization of audit findings, to ensure that the usefulness of this information is maximized. In many developing countries, the comprehensiveness of information on donor funding needs to be strengthened. Donor funding should be included in the budget, and legislatures should receive detailed information on any funding agreements and attached conditions. The OECD Best Practices for Budget Transparency give a good overview of the types of budget documentation that ideally should be available.

Box 2:
What types of budget documentation should be available?

The OECD has developed Best Practices for Budget Transparency that deal with the availability of budget information, specific disclosure requirements, and integrity and accountability fundamentals. The OECD recommends the following types of budget documentation:

A comprehensive budget includes performance data and medium term projections.

A pre-budget report states explicitly the government's long-term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term.

Monthly reports show progress in implementing the budget, including explanations of any differences between actual and forecast amounts.

A mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term.

A year-end report should be audited by the supreme audit institution and released within six months of the end of the fiscal year.

A pre-election report illuminates the general state of government finances immediately before an election.

A long-term report assesses the long-term sustainability of current government policies.

Source: OECD (2001), <http://www.oecd.org/dataoecd/33/13/1905258.pdf>

Given the density and technical nature of budget documentation, though, the existence of sound and extensive budgetary information in itself is unlikely to be sufficient to ensure legislative oversight. Parliamentarians have to be empowered to independently analyze the budget if they are to play a meaningful role in the process. Even when the legislature has legal powers and the political space to shape budgets, analytical capacity is necessary to make sound budgetary choices. The ability to understand the budget and to make informed changes depends on sound analysis. It is important, therefore, for

parliamentarians to have access to independent information and analysis on the budget preferably through parliament's own research service.

Many of the more active legislatures, in budgetary terms, have substantial budget research capacity. The Congressional Budget Office in the United States has about 230 highly trained staff. Some legislatures have smaller research units that specialize in budget analysis, and yet others have general research units that can deliver some budget analysis when needed. However, in many legislatures' budget research capacity is negligible or nonexistent. Building such capacity should be a component of efforts to strengthen the role of the legislature in budgeting. Parliamentary budget research capacity can be complemented with analyses by independent think tanks, private sector economists and academics. In some countries, individual parliamentarians or political parties represented in the legislature employ specialized budget researchers.

Table 4		
Is there a specialized budget research organization attached to the legislature that conducts analyses of the budget?		
	Number of countries	Percentage of total
Yes, with less than ten professional staff	7	18%
Yes, with ten to 25 professional staff	1	2%
Yes, with 26 or more professional staff.	3	8%
No	28	72%
Total	39	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Table 5		
What is the total number of special professional staff serving political parties and dealing largely with budget issues?		
	Number of countries	Percentage of total
None	8	25%
Less than 10	19	59%
Between 10 and 25	4	13%
Over 25	1	3%
Total	31	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Party political dynamics

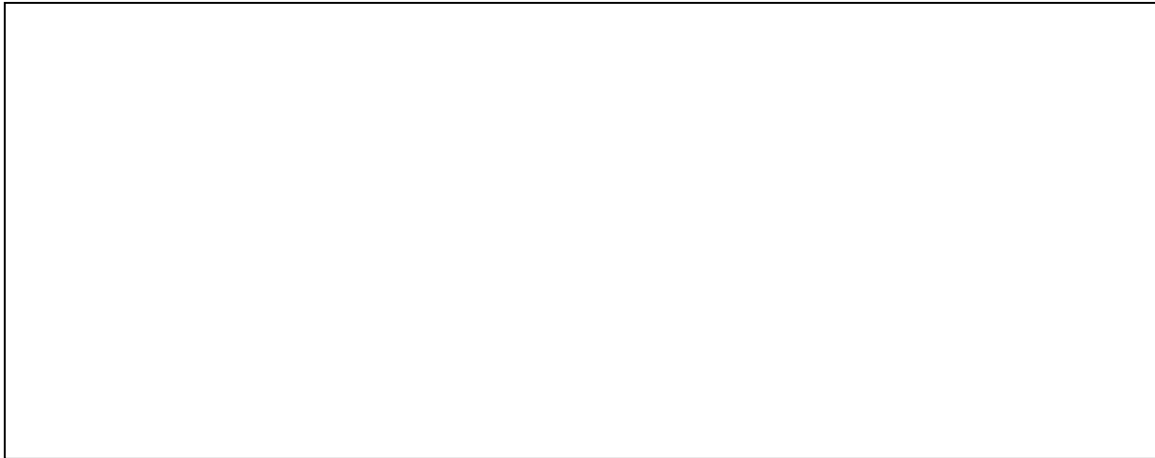
Budgeting takes place in a broader political context; it is an expression of the power relations of political actors that participate in the process. How much de facto rather than theoretical influence the legislature actually has, is to a large extent determined by political party majorities. The existence of strong or dominant political majorities in the

legislature enhances the predictability of voting outcomes. On the other hand, if the legislature features several parties without one of them having an outright majority of seats, the executive will have to assemble support of a number of parties to have its budget passed. It is likely to have to bargain and make concessions during this process. Presidential systems can generate divided government when the president's party does not have a majority of seats in the legislature. A similar effect can occur in parliamentary systems during times of minority government.

A second and related variable is party cohesion or discipline, which entails voting along party lines even if the outcome does not fully match the preferences of the individual parliamentarian. Party majorities only ensure predictability of legislative voting behavior when they are matched with tight party discipline. Low levels of party cohesion are usually associated with candidate centered electoral systems, where party affiliation is not the strongest factor in parliamentary elections. Party centered electoral systems on the other hand tend to ensure higher levels of party discipline because the electoral fortunes of individual parliamentarians are strongly correlated with party affiliation. For instance, in countries that use a party list system of proportional representation the electorate votes for political parties rather than individual parliamentarians. The headquarters of political parties typically have a strong voice in choosing candidates.

Conclusion

A number of factors combine to determine the role and impact of the legislature in the approval stage of the budget process. A legislature needs sufficient constitutional powers over budgets in order to influence decision making, notably powers to amend the budget proposal tabled by the executive. But formal constitutional powers alone are not enough. A thorough review of financial proposals requires time for scrutiny and a properly timed budget process, where the budget is tabled sufficiently in advance of the beginning of the fiscal year. Furthermore, parliamentary expertise on the budget is most likely to develop in specialized committees, in particular a dedicated budget committee. Sectoral committees can contribute valuable subject expertise. Legislative decision making also should be based on full access to relevant and high quality information and parliament should have the ability to independently analyze budgetary information. Finally, constitutional and technical capacity to engage with budgets is not likely to be utilized unless the legislature has a degree of political independence from the executive.



Relevant internet resources

Constitution Finder

<http://confinder.richmond.edu/>

International Constitutional Law Index

<http://www.oefre.unibe.ch/law/icl/index.html>

International Budget Project:

Legislatures and Budget Oversight

<http://www.internationalbudget.org/themes/LEG/index.htm>

Congressional Budget Office:

<http://www.cbo.gov>

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Unit 5: Parliament and the audit of public accounts

Learning objectives

What is parliament's role in the audit of public accounts?

After studying this unit you should be able to:

- Recognize different types of supreme audits institutions
- Explain some of the different types of public audit systems
- Assess your country's procedures against accepted norms for national audits
- Discuss various approaches of parliamentary engagement with the audit process, including the role of committees in reviewing audit reports
- Understand the importance of effective follow-up procedures to ensure that audit recommendations are implemented

Introduction

The purpose of this unit is to introduce the function of public audit and the way in which parliament engages with this process. There is growing recognition of the importance that supreme audit institutions play in ensuring accountability and good governance (Pope 2000; O'Donnell 1998). Good linkages of the audit process with parliament are essential for its effectiveness (SIGMA 2002). The following sections look at different types of supreme audit institutions; the different types of audit they produce; how supreme auditors interact with parliaments; the role of parliamentary committees in reviewing audit findings; as well as follow-up mechanisms to ensure that action is taken to address issues raised in audit reports.

Types of supreme audit institutions

There are two basic types of supreme audit institutions, the court model and the auditor general model. While across the world there are many variations of these models and a number of hybrids, several basic distinctions are noteworthy. In particular, the auditor general model is based on closer interaction with the legislatures than the traditional audit court model. The court model has tended to focus on the legality of spending whereas the auditor general model has proven innovative in developing different types of audit, such as performance audits. These differences will be discussed in the following

sections. Here is a brief summary of the institutional fundamentals of these two types of supreme audit institutions (Stapenhurst and Titsworth 2001).

In the Napoleonic system the audit court has both judicial and administrative authority. It is independent of both the legislative and executive branches of government and an integral part of the judiciary (Prétot 2000). The court makes judgments on government compliance with laws and regulations and can also consider whether public funds are well spent. The court audits every government body, including ministries, departments, and agencies; commercial and industrial entities under the purview of ministries; and social security bodies. Napoleon put in place the first modern *cour des comptes* in 1807. This model is used in particular in Roman Law countries. It can be found in the Latin countries of Europe (France, Italy, Spain, Portugal), Turkey, and many Latin American and francophone African countries.

In the Westminster system, the office of the auditor general is an independent body that reports to parliament. Made up of professional auditors and technical experts, the office submits periodic reports on the financial statements and operations of government entities. The office serves no judicial function but, when warranted, its findings may be passed to legal authorities for further action. The auditor general model has its origins in the United Kingdom, where the Exchequer and Audit Departments Act of 1866 required all departments, for the first time, to produce annual appropriation accounts to be investigated by the Comptroller and Auditor General. Similar institutional setups are widely used across the world and can be found in many Common Law countries. This model is most prevalent among Commonwealth members including Australia, Canada, New Zealand, the United Kingdom, and many Caribbean, Pacific, South West Asian and Anglophone Sub-Saharan African countries.

One variant, the board system is similar to the Westminster model in that an audit board is independent of the executive and helps the legislature to perform oversight. The system involves an audit board composed of an audit commission, which functions as the decision making body, and a general executive bureau as the executive organ. The president of the board is the de facto auditor general. The board's primary mandate is to analyze government spending and revenue and report its findings to the legislature. Audit boards are prevalent in Asia and can be found for example in Indonesia, Japan and South Korea.

Box 1

Lima Declaration of Guidelines on Auditing Precepts

The International Organisation of Supreme Audit Institutions (INTOSAI) has put down fundamental standards for national audit in the Lima Declaration of Guidelines on Auditing Precepts. Here are some key excerpts:

- The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and accounting.
- In addition to this type of audit, which retains its significance, there is another equally important type of audit – performance audit – which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration.
- Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
- Supreme Audit Institutions shall have the functional and organizational independence required to accomplish their tasks.
- The independence of the members shall be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members. The method of appointment and removal of members depends on the constitutional structure of each country.
- Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks.
- The relationship between the Supreme Audit Institution and Parliament shall be laid down in the Constitution according to the conditions and requirements of each country.
- Supreme Audit Institutions shall audit in accordance with a self-determined program. The rights of certain public bodies to request a specific audit shall remain unaffected.
- The members and the audit staff of Supreme Audit Institutions shall have the qualifications and moral integrity required to completely carry out their tasks.
- The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published.
- The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand.
- The basic audit powers of Supreme Audit Institutions shall be embodied in the Constitution; details may be laid down in legislation.
- All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions.

Source: INTOSAI (1998), http://www.intosai.org/2_LIMADe.html

Types of audits

As the Lima Declaration recognizes, the work carried out by public sector auditors falls into two broad categories, namely the audit of financial transactions and the audit of performance or 'value for money.' This section outlines some of the key differences between these two categories (White et al 1999; Kristensen et al 2002; Stapenhurst and Titsworth 2001). Reports produced by the supreme audit institution should generally be available to the general public, although exceptions might in some countries be considered permissible.

Table 6: Are the findings of the national audit body available to the public?		
	Number of countries	Percentage of total
Always	20	50%
Generally, but with some exceptions*	18	45%
Never or rarely	2	5%
Total	40	100%

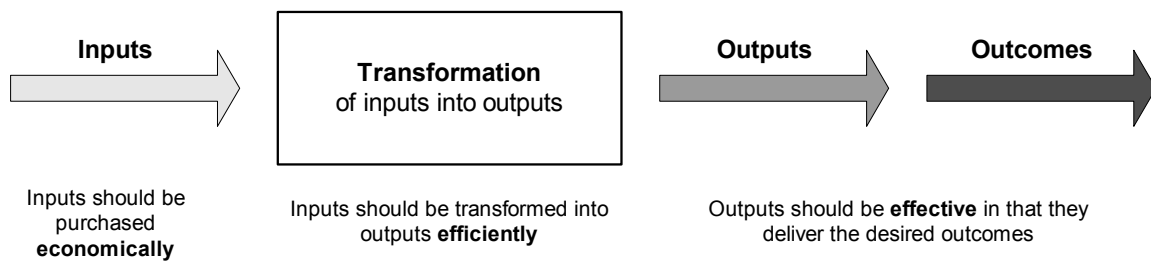
Source: OECD (2003), <http://ocde.dyndns.org/>

Note: * For example audits of the military.

Financial audit is the traditional focus of public sector auditing. In the auditor general model, financial audit focuses on the accounts of government departments in order to present a judgment about the accuracy and fairness of an organization's financial statements. Because it is impossible to check every single transaction, auditors use strategies such as sampling techniques or the examination of the auditee's financial system to arrive at their judgment. The main skill needed for financial audit in the auditor general tradition is knowledge of accountancy. In the audit court model, the emphasis of financial audit is on certifying the legality of spending, to see whether government revenue and spending have been authorized and used for approved purposes, and whether departments and agencies have conformed to all pertinent laws and regulations. This means that financial audit in the court model requires mainly legal skills.

In addition, many audit institutions increasingly perform value for money or performance audits. This is a comparatively recent development that has emerged over the last twenty to thirty years. The term value for money captures the 'Three Es' of economy, efficiency and effectiveness. Economy is concerned with minimizing the monetary cost of inputs (such as staff and buildings). Efficiency is concerned with the output (a particular good or service) achieved for a set of inputs. Effectiveness considers whether outputs deliver the desired outcomes (the impact on society).

Value for money audit



The following might be a simple example from the health sector to illustrate some of the concerns of value for money audit. A hospital purchases inputs such as staff, equipment and medical supplies; it transforms these inputs into outputs in the form of medical services to the community, for example operations performed; the outcomes of the operations are the effects on patient health. The purpose of performance auditing would be to check for economy, efficiency and effectiveness in this process. This might entail asking, respectively, whether the relevant medical supplies, equipment and staff are purchased for the cheapest possible price; whether an adequate number of successful operations are carried out with these inputs; and whether the operations improve patient health and the health status of the community that the hospital serves. It is sometimes summarized that the 'Three Es' each require spending less, spending well, and spending wisely.

Interaction between supreme auditors and parliament

The relationship between parliament and the audit institution varies between systems. In the court model tradition, parliamentary engagement with the audit process leads to a formal vote on public financial management. The French National Assembly in 1819 adopted the practice of passing an annual law approving the execution of each budget. The practice evolved because accounting officers were held personally responsible for any misspent funds until the passing of a formal vote by parliament for granting discharge. To this day, a formal vote on budget execution closes the cycle of financial control in public finance systems that were influenced by the French traditions (National Audit Office 2001). Refusal to grant discharge can be a serious political threat. For instance, when the European Parliament rejected the discharge motion for the 1996

budget, this eventually led to the resignation of the entire European Commission in March 1999.

By contrast, the purpose of parliamentary audit in the Westminster tradition is not to pass a vote on the basis of audit findings but primarily to generate recommendations for improving public spending. In the auditor general model, parliament is the principal audience of the auditor. All audit reports are addressed to parliament, and the latter might also request advice or comments on specific issues under consideration. While parliament depends on high quality audit reporting to exercise effective scrutiny, the auditor general in turn requires an effective parliament to ensure that departments take audit outcomes seriously. The power of the auditor general is to issue independent reports, but s/he cannot force government to adopt any recommendations. Parliament is the forum in which these reports receive public attention, which creates pressure on government to respond to and address issues of concern. The mutual dependency of parliament and the audit institution is underlined where the auditor general has been made, by statute, an officer of parliament.

In a number of countries supreme audit institutions have established parliamentary liaison offices and accompany audit related work of parliament on an ongoing basis. Such support may involve answering questions from parliamentarians and the provision of requested information. Some public accounts committees draw on the auditor general's office for secretariat assistance either on an ad hoc basis or through a program of regular secondments. More recently, many supreme audit institutions have also developed a more ad hoc advisory function, whereby the legislature requests advice or opinions on specific issues under consideration. Especially in the absence or lack of dedicated legislature research capacity, this can broaden the access of parliament to independent expert analysis and advice.

The role of parliamentary committees in national audit

A few legislatures do not consider audit findings in detail, but to ensure effective scrutiny most parliaments use committees to examine the reports of the public auditor on the accounts of government departments. There are different options for establishing committee capacity to consider audit findings. In some legislatures the same committee that is responsible for approving the budget is also tasked with considering audit reports. Another option that is closely linked to the auditor general model of public audit is to use

a dedicated public accounts committee for the scrutiny of audit findings. Other parliaments involve departmentally related committees, such as those responsible for health, education or defense, to scrutinize audit findings in their relevant area.

Germany is an example of a country that uses the first option of tasking the budget committee with the scrutiny of audit findings. In Germany, audit reports are considered in the audit subcommittee of the Budget Committee, where membership is proportionately distributed according to party representation in parliament. Each member is assigned the role of rapporteur for a specific ministry, and has to scrutinize the remarks on this entity in the audit report. The relevant ministers, or at least high-ranking bureaucrats, finance ministry officials and auditors take part in the discussions.

The second and more elaborate option for parliamentary audit is a dedicated audit committee. Parliament in the United Kingdom created its Public Accounts Committee as part of the Gladstonian Reforms in 1861. The committee acquired full functionality when the first complete set of accounts was presented and examined in 1870. These reforms established an audit model predicated on close interaction between a specialized audit committee of the legislature and the auditor general, which has been adopted in most Commonwealth countries (McGee 2002). It is often a long-standing (but not universal) tradition that the chairperson of the public accounts committee has to be a member of the opposition. This supports the nonpartisan tradition of these committees and indicates the government's willingness to promote transparency.

The public accounts committee process has its starting point with a report from the auditor general. After receiving an audit report, hearings are the principal mechanism by which officials from departments, agencies or other relevant bodies answer to the committee. The summoned officials appear in front of the committee during the hearing. In most public accounts committees, interrogation focuses not on the relevant minister but on the accounting officer. The accounting officer is the civil servant in a department who is accountable to the legislature for financial management, usually the administrative head of a department. A draft report on the hearing is prepared and debated in the committee. While it is not normally required that reports have to be adopted unanimously by the committee, some committees have found it useful to hold back reports until consensus has been established.

Table 7
Selected results from a survey of public accounts committees

	Yes	No
Is the chairperson from an opposition party?	67%	33%
Are departmental officials normally summoned?	97%	3%
Is the auditor general normally summoned?	79%	21%
Are ministers normally summoned?	31%	69%
Is the committee required to be unanimous in its decisions?	33%	67%
Are committee reports freely available to the general public?	87%	13%
Are hearings open to the press and the general public?	55%	45%
Does the committee depend primarily on the auditor general's report?	85%	15%
Is the committee report debated in the legislature?	57%	43%
Is the executive required to respond to committee recommendations?	80%	20%
Are mechanisms in place for the measurement of committee performance?	33%	67%

Source: McGee (2002); based on a survey of 70 branches of the Commonwealth Parliamentary Association.

Not all legislatures use a single dedicated committee to consider audit findings. Some legislatures have found it useful, where appropriate, to devolve the consideration of audit reports to departmental or sectoral committees, for instance in New Zealand. This can inject subject relevant expertise into the audit process in the legislature. In turn, sectoral committees might benefit from more intimate knowledge of the audit outcomes with regard to their respective departments. Proponents argue that scrutiny can be enhanced by involving sectoral committees, as audit reports would get more attention than the capacity of one single committee allows. Skeptics of this approach suggest that the strong and in-depth relationship that can be developed between auditors and legislators when interaction is focused in one dedicated committee might not be replicable for a larger number of committees, at least unless the audit institution receives commensurately more resources to meet increased legislative demand.

Follow-up mechanisms

The finalization of a report on audit findings by a legislative committee should not be the end of the ex post scrutiny process. In some countries, committee reports have to be followed by a formal response from the government. However, such reports only have practical value if the government addresses the issues they raise, and implements the recommendations of the committee. In practice, while experiences vary, a formal response from the government is not always sufficient for ensuring that the committee's recommendations are acted upon.

Some countries, such as Germany, go further in their follow-up through the use of a formal tracking report produced regularly by the audit institution. Such a report

systematically considers or 'tracks' the extent of implementation of each recommendation made in an earlier report. Rather than a separate tracking report, some auditors include a chapter that reviews departmental action on previous recommendations in their annual audit report, for instance in Canada. In addition, with regard to particularly important issues, the legislature might consider interim reporting requirements to ensure that the government takes remedial action as speedily as possible. This can take the form of periodic committee briefings by relevant officials.

Box 2

The Public Service Accountability Monitor in South Africa

Lack of government responsiveness can present a major challenge. An example of an innovative response is the work of an independent initiative, the Public Service Accountability Monitor (PSAM) in South Africa. One of the activities of the PSAM is to follow-up reported cases of corruption and misconduct with the departments concerned. Once the relevant details of the case have been established, a summary of these details together with a list of potential breaches in regulations is faxed to the head of the department. After one month, the head of department is contacted to establish what the disciplinary outcome of the case was. This response is recorded by way of a telephonic interview and is made available in text and audio format on the internet. In the event of a non-response the PSAM will then request this information in terms of the Promotion of Access to Information Act. The success of the initiative demonstrates how legislative scrutiny can be actively supported and complemented by civil society.

Source: Public Service Accountability Monitor, <http://www.psam.org.za>

Conclusion

Supreme audit institutions have evolved according to different traditions. The audit court and auditor general models are the two main types, but there are variations and hybrids. Public audit has focused on financial audit, but the past few decades this has been complemented increasingly with performance or value for money audits. The independence of supreme audit institutions has been recognized as a core fundamental of effective audit. Supreme auditors interact in various ways with parliament, in accordance with national traditions. The closest linkage is between auditor generals and public accounts committees, but there are various models for parliamentary committee involvement in national audit. Devising effective follow-up mechanisms is important for parliament to ensure that audit findings and any recommendations are actually implemented to improve public expenditure and administration in general.

Unit 5 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- In what ways do the auditor general and court models of public sector auditing differ? Which audit model is used in your country?
- What is the difference between financial audit and value for money audit? What types of reports are produced in your country?
- To what extent would you say that public audit in your country complies with the Lima Declaration?

Relevant internet resources

Argentina: Auditor General
<http://www.agn.gov.ar/>

Australia: Joint Committee of Public Accounts and Audit
<http://www.aph.gov.au/house/committee/jpaa/index.htm>

Canada: Office of the Auditor General
<http://www.oag-bvg.gc.ca/>

Canadian Council of Public Accounts Committees
<http://www.ccpac.ca>

Chile: Comptroller General
<http://www.contraloria.cl/>

France: Court of Accounts:
<http://www.ccomptes.fr/>

Germany: Federal Court of Audit
<http://www.bundesrechnungshof.de/>

Hungary: State Audit Office
<http://www.asz.gov.hu/>

India: Committee on Public Accounts
<http://parliamentofindia.nic.in/committee/p17.htm>

International Organisation of Supreme Audit Institutions
<http://www.intosai.org>

Philippines: Commission on Audit
<http://www.coa.gov.ph/>

Public Service Accountability Monitor
<http://www.psam.org.za>

South Africa: Office of the Auditor-General

<http://www.agsa.co.za/>

South Korea: Board of Audit and Inspection
<http://www.bai.go.kr/>

Sweden: National Audit Office
<http://www.riksrevisionen.se/>

United Kingdom: National Audit Office
<http://www.nao.org.uk/>

United Kingdom: Public Accounts Committee
<http://www.parliament.uk/commons/selcom/pachome.htm>

United States: General Accounting Office
<http://www.gao.gov/>

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Unit 6: Opening up the parliamentary process

Learning objectives

How do public meetings influence the budget process?

After studying this unit you should be able to:

- Discuss the pros and cons of opening committee proceedings to the public
- Assess practices for media access to parliament in your country
- Understand the steps involved in organizing public hearings on the budget

Introduction

The legislative stage offers an opportunity to enhance transparency and broaden public debate about budget choices. Participation in the budget process through public hearings also allows parliament to benefit from access to independent expertise on the budget. But the benefits of openness are not uncontested. This unit considers the pros and cons of opening proceedings to the public and the media and the role of public hearings by parliamentary committees.

The pros and cons of open committees

A substantial number of legislatures open their proceedings and committee meetings to the media and the general public. Half of the legislatures recently surveyed by the OECD report that committee proceedings related to the consideration of the budget are open to the public. With regard to the audit process, more than half of the public accounts committees surveyed by the Commonwealth Parliamentary Association reported open access.

Open committees provide a number of opportunities. Increased transparency can help to build trust in government, in particular in systems where secrecy in budgeting in the past allowed the diversion of funds for corrupt purposes. Open proceedings also allow the media to report on parliamentary debates and the legislative process. This gives individual parliamentarians and parliamentary committees a channel for making their

views heard. The media is likely to give more attention to budgetary debates when it has access to parliamentary deliberations on the budget in both the chamber and committees. By transforming into a platform for open discussion on the contents of the budget, legislatures can help to broaden and deepen public debate. The general public is likely to be better informed on the constraints facing budget makers, which can help to build greater consensus around difficult tradeoffs.

But the benefits of open committees are not automatic. An unintended effect might be to simply shift decision making from parliamentary committees to other forums such as working groups and party caucuses that are closed to the public eye. If this is the case, the gain in transparency from opening up committee meetings to the public is an illusion. Moreover, some critics warn that there are risks involved in ending secrecy in legislative deliberations. The apprehension is that opening the doors of committees to the media and the public might politicize committee debates and undermine effectiveness (Messick 2002):

Industrial countries show that partisanship and committee effectiveness are inversely related: the less partisan the committee, the more effective it is likely to be. Partisanship is greater when committee meetings are open to the public. While there are risks to conducting public business in private, there are tradeoffs between the benefits of open meetings and the need for more effective legislative committees.

Reformers should be sensitive to these issues. However, there appears to be no example of a legislature that implemented reforms to open committee proceedings related to the budget, and subsequently felt the need to reverse this decision and return to secrecy. It is true that there might be grounds for barring the public in exceptional circumstances, for instance for discussions that relate to a central intelligence agency or highly sensitive defense matters. But generally there are few good reasons to prevent open access of the media and the general public. The following years are likely to see the reorientation of more legislative bodies towards greater openness and accessibility. A recent study group of the Commonwealth Parliamentary Association on 'Parliament and the Media' came out strongly in favor of opening up committee proceedings to the media.

Table 8: Are committee meetings generally open to the public?		
Country	Yes	No
Argentina	X	
Australia	X	
Austria		X
Belgium	X	
Bolivia	X	
Cambodia		X
Canada	X	
Chile	X	
Colombia	X	
Czech Republic	X	
Denmark		X
Finland		X
France		X
Germany		X
Greece		X
Hungary	X	
Iceland		X
Indonesia	X	
Ireland	X	
Israel	X	
Italy		X
Japan	X	
Jordan		X
Kenya		X
Korea		X
Mexico		X
Morocco		X
Netherlands	X	
New Zealand	X	
Norway		X
Portugal	X	
Slovak Republic	X	
Slovenia	X	
South Africa	X	
Spain		X
Suriname		X
Sweden		X
Turkey		X
United States	X	
Uruguay		X
Number of countries	20	20
Percentage of total	50%	50%

Source: OECD (2003), <http://ocde.dyndns.org/>

Box 3: Recommendations for media access to parliament

A Study Group of the Commonwealth Parliamentary Association on 'Parliament and the Media' has published 'Recommendations for an Informed Democracy.' The following are excerpts from the recommendations dealing with access of the media to parliament:

- Parliaments should provide as a matter of administrative routine all necessary access and services to the media to facilitate their coverage of proceedings. Parliament should not use lack of resources as an excuse to limit media access and should use its best endeavors to provide the best facilities possible.
- Questions of eligibility for media access should be determined by the media itself. Parliaments should retain the right to suspend access for media representatives who violate Standing Orders or otherwise disrupt parliamentary proceedings.
- Parliaments should employ public relations officers to publicize their activities, especially to the media which do not cover Parliament, and education staff to run outreach programs to stimulate interest in parliamentary democracy. Both services should operate in an apolitical way under guidelines set by the House.
- Parliaments should provide the media with as much information as possible. Attendance and voting records, registers of Members' interests and other similar documents should be made readily available. Members have an obligation to update their entries in the register of interests and registers should be kept in such a way as to give a clear and current picture of both a Member's full interests and changes to those interests.
- Parliaments should consider the extent to which disclosure of Members' interests should be applied to their families and, if so, how this should be done while protecting their families' individual rights to privacy.
- The development of professional and ethical standards for journalists is a matter for the media. Integral to this is the media's responsibility to ensure that a journalist's private interests do not influence reporting.
- To assist in the information flow, Parliaments should publish as much of their material as possible on online.
- Given the importance of broadcast and other electronic access to the proceedings of Parliament both in Chambers and committees, Parliament should either provide an uninterrupted feed or access for broadcasters to originate their own feed, if appropriate on a pool basis. Guidelines for electronic coverage should be as flexible as possible.
- Guidelines for electronic coverage should ordinarily be put in place in consultation with broadcasters. Terms of availability should not be discriminatory between different media outlets and access to such feeds should not be used for censorship or sanctioning.
- Parliaments should be encouraged to provide live coverage of their proceedings on a dedicated channel and/or online.
- Committee meetings should be open to the public except in cases where it is determined in public that it is necessary to hold parts of a committee's proceedings in private. The Group notes that this is the practice, for example, in South Africa and commends this to other Parliaments.

Source: CPA (2003), http://www.worldbank.org/wbi/governance/journalism/pdf/perth_conclusions.pdf

Public hearings on the budget

To actively stimulate participation and to access independent expertise, parliamentary committees can issue calls for written submissions on the budget and related legislation and invite outside experts to give evidence. Calls for submission can be placed in newspapers, in the broadcasting media, or on the internet. Once written submissions have been received, committees can select witnesses for public hearings. Public hearings provide a structured way to bring the perspectives

of outside experts into committee deliberations on the budget. Committees can benefit from independent analysis not only when parliamentary budget research capacity is limited or nonexistent, but also to supplement the overall level of information that is available on the budget.

How widespread is the use of public hearings on the budget? A survey by the OECD covering 40 countries found that budget committees and other committees involved in the budget approval process draw on a broad mix of expertise, many of them supplementing evidence from politicians and government officials with inputs from private sector institutions such as banks or large consulting companies, think tanks, academics and civil society organizations. With regard to the audit stage, a survey by the Commonwealth Parliamentary Association covering 70 of its branches found that hearings in public accounts committees focus on the auditor general and departmental officials, but also that about one third of audit committees summons civil society or interest groups to appear as witnesses.

Table 9: Who typically appears before committees to answer questions or testify?*		
	Number of countries	Percentage of total
Ministers	34	85%
Heads of departments	30	75%
Civil Servants	24	60%
Other parliamentarians	5	12,5%
Experts employed by legislature	8	20%
Outside experts	12	30%
Interest groups**	13	32,5%
Individual citizens	1	2.5%

Source: OECD (2003), <http://ocde.dyndns.org/>

Notes: * Question refers to the budget approval process. ** Nongovernmental organizations, labor associations etc.

Table: Who is normally summoned as witness to the public accounts committee?		
	Number of committees	Percentage of total
Ministers	22	31%
Departmental officials	68	97%
Auditor-General	55	79%
Civil society and interest groups	20	29%

Source: McGee (2002); based on a survey of 70 branches of the Commonwealth Parliamentary Association.

In contexts where public hearings are a new development opening up the proceedings of parliament to broader participation will involve a learning experience. To maximize the benefits from public hearings outside participants need to respect parliamentary procedures and be aware of the information needs of committees. They should arrive punctually, behave appropriately and be fully prepared. Parliament, in turn, should

publicize all relevant information to allow thorough preparation for hearings and the drafting of written submissions in accordance with its rules and procedures. All information before parliament should be publicly available, including committee evidence and reports on public hearings. Means of dissemination typically include parliamentary websites and public information offices.

Box 4: Process for committee hearings in the Australian Parliament

The process may vary from inquiry to inquiry as circumstances demand but usually consists of the following steps:

- Reference received by the committee.
- Reference advertised through various media, and submissions sought from individuals and organizations.
- Submissions received and authorized for publication.
- Committee conducts on-site inspections, background briefing and seminars (where appropriate).
- Committee conducts public hearings with selected individuals and organizations requested to give oral evidence.
- Committee considers evidence and prepares report.
- The report is tabled in the Parliament and may be debated.
- Copies of the report are made available through various means including the Internet.
- Government considers report.
- Government responds to report by presenting response in the Parliament.

Source: Parliament of Australia, <http://www.aph.gov.au/house/committee/documnts/Howsub.htm>

Conclusion

Parliaments increasingly decide to open their proceedings to the media and the public. This practice increases the transparency of the parliamentary process. Good media coverage provides a platform to publicize the work of budget committees and offers an opportunity to deepen public debate on the budget. In addition, the legislature can use public hearings to complement the budgetary information produced by the executive and to subject it to independent interrogation. A number of parliamentary committees regularly invite outside experts to public hearings to supplement evidence by politicians and government officials. The process of moving from a closed parliament to one that is open to the media and the public will involve a learning experience for all participants. To manage access and participation effectively, parliaments need to devise and publicize clear guidelines and procedures.

Questions for discussion

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- Given the context of your country, how would you describe the pros and cons of a parliamentary budget process that is open to the media and the public?
- How does media access to parliament in your country compare against the recommendations of the Commonwealth Parliamentary Association?
- Does parliament in your country hold hearings on the budget? Who participates in these?
- In your opinion, what is the quality of media reporting on the budget in your country? What can be done to strengthen reporting on the budget?

Relevant internet resources

International Budget Project
<http://www.internationalbudget.org>

Parliament of Australia:
Appearing as a Witness at a Parliamentary Committee Hearing
<http://www.aph.gov.au/house/committee/documnts/Witadv.htm>

Parliament of Australia:
Preparing a Submission to a Parliamentary Committee Inquiry
<http://www.aph.gov.au/house/committee/documnts/Howsub.htm>

World Bank Institute:
Journalism and Media Program
<http://www.worldbank.org/wbi/governance/journalism/>

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<http://www1.oecd.org/publications/e-book/4203011E.PDF>

Unit 7: Strengthening parliamentary involvement

Learning objectives What can you do with what you've learned?

After completing this exercise you should be able to:

- Present an assessment of the budgetary role of parliament in your country.
- Suggest possible areas for reform and propose relevant initiatives.

The purpose of this unit is to draw together the issues that have been discussed in a practical exercise. Below follows a diagnostic questionnaire that can be used in assessing the role of parliament in the budget process. Use this questionnaire to conduct an assessment of the budgetary role of parliament in your country. Does parliament in your country exercise effective financial scrutiny? Write a short essay addressing this question. The essay should summarize your key findings, clearly identify areas for reform and conclude with some concrete proposals for improvements.

Table 10: Questionnaire

Question	Yes	No	Comment
1. Is the budget tabled at least three months in advance of the beginning of the fiscal year?			
2. Does parliament have at least three months to review the draft budget?			
3. Is the information in the budget or tabled with the budget comprehensive, accurate and reliable?			
4. Does parliament have a finance or budget committee to scrutinize the draft budget?			
5. Are sectoral or departmental committees involved in the process of scrutinizing the draft budget?			
6. Do parliamentary committees and individual legislators have access to budget research capacity in the form of a parliamentary budget office?			
7. Are there budget researchers attached to political parties or individual legislators?			
8. Does parliament have a degree of political independence from the executive in order to carry out an independent review of the budget?			
9. Does parliament have powers to amend the budget proposed by the executive?			

10. In practice, does parliament use its powers to amend the budget?			
11. Does the executive have a line item or package veto for budget bills passed by parliament?			
12. If so, is the veto used in practice?			
13. Are debates in the chamber and parliamentary committees open to the public and the media?			
14. Is media reporting on budgetary debates in parliament extensive and of high quality?			
15. Do parliamentary committees hold public hearings on the budget?			
16. Does parliament monitor the execution of the budget during the fiscal year?			
17. Is there a supreme audit institution to audit government accounts following the end of the fiscal year?			
18. Is the audit institution independent from the government in functional and organizational terms?			
19. Does the audit institution have sufficient resources to carry out its mandate?			
20. Is all public spending subject to independent audit?			
21. Does the audit institution carry out financial and performance audits?			
22. Are audits produced and tabled in parliament within one year after the end of the financial year?			
23. Does parliament have a committee that is dedicated to scrutinizing audit reports?			
24. Are effective follow-up mechanisms in place to ensure that government implements recommendations for improvements that are generated from the audit process?			

Glossary

Accounting officer: In the Westminster tradition, the civil servant in a department who is accountable to the legislature for financial management, usually the administrative head of the department.

Accounting system: System for recording financial transactions. The two major accounting systems are cash accounting and accrual accounting. Cash accounting systems recognize transactions and events when cash is received or paid, whereas accrual accounting systems record payments and receipts when parties enter into a commitment, not when cash changes hands. Most governments rely on cash accounting systems.

Allocative efficiency: The capacity of the government to allocate resources and select programs and projects in conformity with its objectives. In economic theory, allocative efficiency, also called Pareto efficiency, occurs when resources are allocated in such a way that any change in the amounts or type of outputs currently produced would make someone worse off.

Amendment powers: The legal powers given to parliament to amend legislation. Some constitutions limit the right of parliament to amend the budget by prohibiting certain types of amendments, for example increases in expenditures.

Apportionment: Authorizations or distributions of funds generally made by the ministry of finance to line ministries and other spending units permitting them to either commit or pay out funds, or both, within a specified time period and within the amounts appropriated and authorized.

Appropriation: Legal authority granted to the executive by the legislature to spend public funds. Appropriation legislation varies in terms of its detail. In some countries, there are a number of appropriation laws passed each year, covering different departments or spending areas, whereas other countries have a single budget law. Budget legislation typically provides spending authority for a single fiscal year. However, permanent appropriations or standing appropriations provide spending authority over several years, and do not require annual approval. Supplemental or adjustment appropriations are sometimes granted subsequent to the annual appropriation law if the amounts provided in that appropriation prove to be insufficient to meet the intended purpose.

Audit court: A supreme audit institution that has judicial status and is independent from both the legislature and the executive. The main focus of audit in the court model is on the legality of spending.

Auditor general: An auditor general is the head of a supreme audit institution that is independent from the executive and that has responsibility for assisting parliament in its scrutiny of public expenditure.

Balanced budget: A budget where total revenues equal total expenditures for a given fiscal year. When the budget is not in balance, it is either in deficit or surplus.

Balance sheet: A financial statement showing the values of the stocks of assets and liabilities held by an entity at a particular point in time. A balance sheet is typically

compiled at the beginning and end of an accounting period. Balance sheets summarizing starting balances, incomes and outflows, and ending balances are generally required for each distinct fund within a government's accounting structure. In practice, very few governments prepare statements of their financial position that can genuinely be described as comprehensive balance sheets covering all assets and liabilities.

Baseline: The benchmark against which proposed fiscal policy changes are measured. There is no universally accepted approach for measuring proposed budget changes. One is to use actual spending and revenue levels from the preceding fiscal year, another to calculate the cost of continuing current policies.

Budget: An itemized summary of estimated or intended expenditures for a given period along with proposals for financing them. The budget is the main economic policy tool of the government and indicates how it plans to use public resources to meet policy goals.

Budget committee: A permanent and specialized parliamentary committee responsible for the scrutiny of the draft budget and related matters.

Budget process: The sequence by which a budget is drafted, approved by the legislature, executed, and audited.

Capital expenditure: See 'expenditure.'

Cash budget: A system of budget execution that rations actual spending on the basis of available money. This means that no cash is released to line ministries for payment of their expenditures before sufficient funds are available from the central or general revenue fund.

Consolidated fund: The account into which tax revenues and other current receipts not specifically directed elsewhere are pooled and from which payments for the bulk of central government expenditure is made.

Contingency reserve: Funds set aside for unforeseen and unavoidable expenditures that may become necessary during the fiscal year, such as costs arising from a natural disaster.

Current expenditure: See 'expenditure.'

Debt: The outstanding amount the government owes to private lenders at any given point in time. Governments can borrow by taking out a loan directly from a financial institution, such as a bank, or issue bonds that are purchased by domestic and foreign businesses and individuals.

Debt service costs: The cost of interest on government debt.

Deficit: The difference produced when spending exceeds revenues in a fiscal year. Also see 'structural deficit.'

Direct tax: A tax paid directly to the government, for example a tax imposed on the income of individuals or companies.

Earmark: The dedication of funds to a specific program. A particular stream of revenue can also be earmarked for a specific purpose.

Excise taxes: Taxes on the manufacture or sale of certain domestic or imported products that are often charged on products such as alcoholic beverages, tobacco and petroleum.

Expenditure: Spending to fulfill a government obligation, generally by issuing a check or disbursing cash. Expenditures are sometimes distinguished between capital and current. Capital expenditures are investments in physical assets, such as roads and buildings that can be used for a number of years. Current expenditures reflect spending on wages, benefit payments, and other goods or services that are consumed immediately. Furthermore, actual expenditure may differ from the amounts in the budget. Significant and persistent differences between actual expenditure and budgeted amounts are a sign of a weak budget system.

External audit: Refers to audit carried out by a body that is external to, and independent of, the organization being audited, the purpose being to give an opinion and report on the organization's accounts and financial statements, the legality and regularity of its operations, and its financial management procedures and performance.

External debt: Debt owed to nonresidents of the country concerned.

Extra-budgetary: Government transactions not included in the annual budget. A wide variety of extra-budgetary arrangements are used, including funds set up under separate legislation that are financed by revenue earmarked specifically for that purpose. In other cases, state sponsored businesses such as utilities or airlines have independence in certain respects, but the government may ultimately be responsible for bailing out these businesses when they run into financial trouble. Extra-budgetary activities may not be subject to the same level of scrutiny or accounting standards as programs in the annual budget, although they should be.

Finance ministry: See 'treasury.'

Financial audit: The traditional focus of public sector auditing. One output is usually a certification whether the figures in the accounts are properly stated, the money was used as intended by parliament, and payments and receipts accord with relevant legislation and regulations.

Financial initiative: The right to initiate spending and revenue measures. In some countries, only the executive can introduce financial legislation.

Fiscal decentralization: The devolution of expenditure responsibilities and/or revenue powers to lower levels of government, for example from a national or central government to regions or states, or to local authorities.

Fiscal discipline: The control of key measures of fiscal performance, including total spending, total revenue, the financial balance and the public debt.

Fiscal policy: Policy on tax, spending and borrowing by the government, which is used to influence macroeconomic conditions. An 'easy' fiscal policy is intended to stimulate short term economic growth by increasing government spending or reducing revenues. A 'tight' fiscal policy restrains short term demand by reducing spending or increasing taxes, and is often intended to restrain inflation. The government sets and implements fiscal policy through the budget.

Fiscal stance: Measures how deflationary or reflationary the government's budget is. If after adjusting for the effects of the economic cycle the budget surplus is still large we say that the government has tightened the fiscal stance - it is seeking to control aggregate demand through the use of fiscal policy.

Fiscal year: A 12 month accounting period on which most government budgets are based. In some countries, the fiscal year does not coincide with the calendar year.

Functional classification: A way of government expenditure plans in a budget according to various activities and policy objectives, such as health care, education, defense or justice.

Gender analysis: Approaches, methods and tools used to examine policies, programs and projects for their likely impacts on women and men.

Grants: Funds that the national government disburses directly to lower levels of government, corporations, nonprofit organizations, and individuals. Some grants are given for specific purposes, requiring the recipients to meet certain conditions or requirements.

Gross Domestic Product (GDP): A measure of total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, nor of goods and services that are produced outside the market economy, such as work within the household.

Horizontal equity: A key principle in taxation that holds that similarly situated taxpayers should face a similar tax treatment or tax burden. In other words, taxpayers earning the same amount of income or capital should be accorded equal treatment.

Incremental budgeting: A budget formulation process that focuses only on one year and how the budget for each program differs from the levels adopted in the previous year. Incremental budgeting is often criticized as having a narrow focus, concentrating on funding changes to existing programs rather than shifts in policy priorities.

Indirect tax: A tax paid to a second party, for example a shop owner, who then passes it on to the government. Examples are value added tax and custom duties on imported goods.

Inflation: The rate of general price increase.

Inputs: What government has available to achieve an output or outcome. For instance, typical inputs funded by a health budget would be the salaries of doctors and nurses, the construction of clinics and hospitals, and the purchase of medical supplies and drugs. All are used to provide government health care services. Costs are the expenses incurred in using the inputs.

Internal audit: Refers to audit carried out by a department or unit within a ministry or another government organization, entrusted by its management with carrying out checks and assessing the organization's systems and procedures in order to minimize the likelihood of errors, fraud and inefficient practices. Internal audit units must be functionally independent within the organization they audit and report directly to the organization's management.

Liability: A debt owed to someone else. For governments, their outstanding public debt is their primary liability, reflecting amounts borrowed from the public that must be repaid at some future date. A contingent liability is one that depends on the occurrence of a specific event. For instance, if government provides crop insurance to farmers, it faces a liability only in the event of a drought or other weather conditions that reduce crop yields.

Lima Declaration of Guidelines on Auditing Precepts: A comprehensive list of issues, goals and norms relating to government auditing that was adopted by delegates representing supreme audit institutions in 1977.

Line item veto: The power of the executive to veto particular items in legislation passed by the legislature. The legislature may have the power to override an executive veto with a supermajority.

Macroeconomic: Referring to the variables or performance of an economy as a whole, or its major components, as opposed to that of individual industries, firms, or households. Opposite of microeconomics.

Medium term expenditure framework (MTEF): A multi year framework of rolling budgets where forward estimates produced with the annual budget, usually covering another two to four years, serve as the starting point for preparing the following annual budgets.

Microeconomic: Relating to the behavior of small economic units, such as individual consumers or households. Opposite of macroeconomics.

Monetary policy: Policy in relation to interest rates, the exchange rate and the supply of money in the economy. Monetary policy aims at affecting macroeconomic conditions, in particular the control of inflation.

Money bill: Proposed legislation that contains revenue measures or appropriates funds. Outside the Commonwealth, the distinction between money bills and other bills is less common. In the Westminster tradition of parliamentary government, the constitutional powers of parliament to amend money bills are circumscribed.

Multi year budgeting: Budgets that take into account more than one year. In some cases, legislatures enact into law budgets that specify spending and revenue amounts for more than a single year.

Operational efficiency: The ratio of the resources expended by government agencies to the outputs produced or purchased by them.

Outcomes: The impacts on, or consequences for, the community from the outputs or activities of the government, for instance whether an increase in hours taught improved student test scores, whether more immunizations reduced sickness, or whether higher welfare benefits increased social equity. Outcomes reflect the intended and unintended results from government actions and provide the rationale for government interventions.

Outputs: The goods or services (usually the latter) government provides. Examples are teaching hours delivered, immunizations provided, or welfare benefits paid.

Package veto: The power of the executive to veto entire pieces of legislation passed by the legislature. The legislature may have the power to override an executive veto with a supermajority.

Performance budgeting: A budget process that integrates information about the impact of government spending. In its simplest form, performance budgeting places more emphasis on the outputs and outcomes associated with government expenditure and takes this information into account when setting future funding levels. However, gathering such information is a difficult task.

Power of the purse: This concept is defined by the British politician William Ewart Gladstone as 'the control of the House of Commons over public expenditure.'

Primary deficit or surplus: The amount by which total government expenditure exceeds total revenue, minus interest payments on government debt.

Progressive tax: A tax that increases as a percentage of income as one's income increases.

Public accounts committee: A parliamentary committee charged with ensuring propriety, efficiency, economy and effectiveness in the spending of public money.

Regressive tax: A tax that decreases as a percentage of income as one's income increases.

Revenue: The total annual income of the state derived from taxation and other sources, for instance user charges.

Reversionary budget: The default budget that is implemented should the legislature not approve a budget for the fiscal year, for example last year's budget or the executive's budget proposal.

Stabilization: The use of monetary and fiscal policies to stabilize GDP, aggregate employment and prices.

Structural deficit: The size of the government's budget deficit after allowance has been made for the level of economic activity. If after a period of sustained economic growth, the government is still running a budget deficit, it is likely that the causes of the deficit are structural.

Supreme audit institution: A public organization that is independent of government and has responsibility for auditing and reporting on the government's financial operations.

Surplus: The amount by which revenues exceed outlays or expenditures.

Tax: Money extracted from the public by the government on the basis of its sovereign powers. Typical sources of tax revenue include individual and corporate income taxes, payroll taxes, value-added taxes, sales taxes, levies, and excise taxes.

Tax base: The aggregate value of income, sales or transactions on which particular taxes are levied. Competition between jurisdictions may erode the tax base, for instance when a business moves to a jurisdiction with a lower rate.

Tax expenditures: Concessions or exemptions from a 'normal' tax structure that reduce government revenue collections, typically granted in order to achieve some policy objective. Because the policy objective could also have been achieved through a subsidy

or other expenditures, the tax concession is essentially regarded as equivalent to expenditure. Estimating tax expenditures is difficult and requires a precise definition and estimation of revenues under the 'normal' tax structure and subsequently the revenues lost as a result of the tax break.

Tax gap: A measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources.

Tax incentives: Specific provisions in the tax code that provide favorable tax treatment to individuals and businesses to encourage specific behavior or activities, for instance accelerated depreciation provisions to encourage investment and provisions to encourage retirement saving.

Tax incidence: The final distribution of the burden of tax. Statutory incidence defines where the law requires a tax to be levied. Economic incidence refers to those who experience a decrease in real income as a result of the imposition of a tax.

Transparency: The public availability of comprehensive, accurate, timely, and useful information on the financial activities of government.

Treasury: The treasury or ministry of finance of the central government is typically responsible for such functions as collecting taxes, budgeting for and controlling government expenditure, and the management of the national debt. Treasury functions vary across countries.

User charges: Fees paid voluntarily by the public in return for a service or good provided by the government. Because the purchaser receives a direct benefit in return for paying the fee, the payment is not considered a tax.

Value for money audit: refers to examinations of the economy, efficiency and effectiveness with which a body has used its resources in discharging its functions.

Vertical equity: A doctrine in taxation that holds that differently situated taxpayers should be treated differently in terms of income tax provisions. In other words, taxpayers with more income and/or capital than others should pay more tax.

Virement: The shifting of resources from one program to another within the same department during the fiscal year and according to defined rules. In some countries, shifts of funds within appropriations are known as transfers or reprogramming.

Vote on account: Authorization for the executive to spend prior to formal approval of the detailed estimates.

Appendix 1

Back from the Sidelines?: Redefining the Contribution of Legislatures to the Budget Cycle

By Joachim Wehner¹

The struggle over parliamentary participation in financial decisions defined key moments in the evolution and rise of modern democratic government (Harris 1975, Reid 1966). As the budget is the key economic policy tool of the government, and constitutes arguably its most comprehensive statement of priorities, one would expect that once gained, powers over financial decisions would be jealously guarded by the national legislature.¹

Year after year, legislatures across the globe consider the annual state budget and authorize governments to raise revenues and carry out expenditures. Following budget execution, independent audit institutions produce reports that inform the legislature whether the budget it approved was properly implemented. But a formalized process of scrutiny does not automatically translate into a meaningful budgetary role for legislatures. It appears that parliamentarians across countries are asking very similar questions as to how they can engage more effectively with the budget process. While circumstances and challenges differ, many express a need to strengthen their role. Some legislatures have taken active steps to do so.

To answer to this quest, it is important that we improve our knowledge of the role of legislatures in budgeting. Historically, the study of the impact of legislatures on policy and budgets has been most fully developed in the United States (Oppenheimer 1983). But we still know little about these issues in non-congressional systems and particularly in developing countries. The purpose of this paper is to provide an initial overview of the emerging terrain of legislative involvement in budgeting.

At a time when there is renewed appreciation of the potential for active legislative participation in the budget process, fiscal architects are challenged to ensure that increased activism can contribute to, rather than detract from, sound budget outcomes. Ultimately, this paper argues that increased engagement in budgeting by national legislatures is desirable and can make a positive contribution to budget outcomes at various levels. But there are also risks involved in the expansion of legislative influence, which have to be recognized. The paper considers some possibly useful institutional devices for reconciling legislative activism and fiscal prudence.

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1. The changing landscape of legislative budgeting

From a long term perspective the influence of national legislatures on budget policy making has declined in most industrialized countries (Coombes 1976, Schick 2002). The budgetary decline of parliament is perhaps most evident in Britain, where the House of Commons has long ceased to amend or otherwise influence expenditure and revenue measures proposed by the executive (Davey 2000).

Several developments explain this trend. The emergence of disciplined political parties has reigned in legislative independence. Devolution of spending, and to a lesser extent of revenues, has chipped away at the comprehensive control of public funds by national legislatures. In addition, the massive expansion of entitlement spend in the 20th century has substantially rigidified budgets and commensurately decreased the remaining margin for active legislative engagement in annual budgets. With the growth of public spending and the increasing complexity of public finances, the executive budget proposal became the standard against which legislative action was measured.

But there are now signs that some OECD country legislatures are attempting a budgetary comeback and start to regain a more active role. In France, for instance, the National Assembly recently initiated a wide ranging set of budget reforms. The resulting changes include a reclassification of the budget in order to support parliamentary oversight and an expansion of powers to amend expenditures (Chabert 2001).

In developing and transition countries, a substantial number of legislatures are moving towards budgetary activism. Perhaps the primary reason for this development is that democratization and constitutional change have opened up possibilities for legislature participation in many previously closed systems, notably in parts of Latin America, Africa and central Europe. A good example is the Brazilian Congress, which historically played no significant role in the budget process. Democratization in the 1980s led to constitutional changes that gave Congress powers to modify the budget and have resulted in substantial levels of activism (Blöndal 2003).

In addition, there has been a recent shift in international financial institutions and donor agencies towards participation in setting development goals and strategies. Developing countries are now asked to access international finance on the basis of comprehensive Poverty Reduction Strategy Papers (PRSPs) that are meant to be compiled through an in-country participative process. This shift is linked to renewed interest by the international donor community in the quality of the budget process and the governance of the budget for a variety of reasons, in particular the realization of the failure of conditionality in development lending and evidence on the effectiveness of aid (World Bank 1998). This provides an opportunity for legislatures in poor countries to reengage with development policy and budgets (Stapenhurst & Pelizzo 2002).²

2. Why legislatures should have a role in budgeting

The call for greater legislative participation in budgeting is often met with skepticism. While there are indeed risks involved, which are discussed further below, the case for effective legislative involvement in the budget process is often not fully appreciated. Some pertinent arguments are discussed in this section.

2.1 Constitutional requirements and the 'power of the purse'

The 'power of the purse' is an incontestable democratic fundamental. This also means that there is an obligation on the legislature to ensure that the revenue and spending measures it authorizes are fiscally sound, match the needs of the population with available resources, and that they are implemented properly and efficiently. When legislatures fail to meet this obligation, a lengthy but ultimately ineffective legislative budget process is merely, as one parliamentarian honestly put it, 'a total waste of time' (quoted in Blöndal 2001b:54). A token involvement in the budget process relegates the legislative power of the purse to the realm of constitutional fiction.

2.2 Checks and balances as ingredients of 'good governance'

One central dilemma of 'good governance' is that unmitigated executive power might be an asset in the initial phase of economic reform, but progressively becomes a liability (Santiso 2003).³ Checks and balances are necessary to ensure good governance in budgeting in the medium to long term, which requires the answerability of the executive to the legislature, and the ability of the latter to take appropriate action in cases of poor performance (Marshall 1991).⁴ This is increasingly recognized as an essential ingredient of a sound budgeting system, for example in the OECD's Best Practices for Budget Transparency (OECD 2002a).⁵

Many economists have been skeptical of legislative participation in budgeting, backed up by an influential body of research that implies that weak legislatures are conducive to ensuring fiscal discipline (Von Hagen 1992). This perspective is not incontestable. First, legislatures are by no means the only source of overspending. As recent experience in the United States demonstrates, a deterioration of the fiscal balance can also be due to a significant degree of executive initiative.⁶ In such cases, legislatures can be a restraint on irresponsible or spendthrift executives.⁷ Second, legislative action does not necessarily need to weaken fiscal discipline. For instance, a recent paper on the budgetary impact of the German Parliament shows that the deficit was lower after parliamentary action, compared with the executive's draft budget, in three out of four years covered by the study (Wehner 2001).⁸

Generalized arguments against legislature's involvement in the budget process presume that executives automatically want to govern well and in the best interest of the public. Unfortunately, too often this has proven a naïve assumption. In particular where executive benevolence and integrity are not firmly entrenched in the culture of governance, and where electoral accountability is weakly developed, the absence of meaningful legislative checks and balances opens the door to waste and corruption and leads to a road of poor budget outcomes (Burnell 2001). In a few countries with deeply rooted and sound budgeting practices, it might be possible for the legislature to largely withdraw from the budget process without risking noticeably declining executive integrity. However, legislative withdrawal can be highly detrimental to fiscal health whereby the executive has not thoroughly internalized norms and standards of due process and an ethic of performance is largely lacking.

2.3 Openness and transparency

Traditionally, the drafting process of the budget in the executive has tended to be hostile to publicity.⁹ However it is when the budget is tabled in the legislature that in-depth public debate becomes possible. Open discussion on the contents of the budget in the legislature enhances transparency and enables effective scrutiny.

There appears to be a growing trend for legislatures to open their proceedings and committee meetings to the media and the general public. For instance, more than half of Public Accounts Committees in the Commonwealth now report that their proceedings are open to the media and the general public (McGee 2002:99). And 63 percent (17 out of 27) of legislatures surveyed by the OECD report that their committee proceedings are open to the public (OECD 2002b). The reorientation of legislative bodies towards openness and accessibility signals the decline of secrecy in policy making and budgeting.

Some warn that there are risks involved in ending secrecy in legislative deliberations. Will opening the doors of committees simply shift real decision making to other forums such as working groups and party caucuses that are closed to the public eye? Critics usually fail to provide concrete evidence that this is indeed the case (Messick 2002). To the knowledge of this author, no legislature that has opened the proceedings of financial committees to the press and the public subsequently felt the need to reverse this decision and return to secrecy. The skeptics have not convinced legislative reformers.

2.4 Participation and consensus building

Legislatures can help to ensure a balance of views and inputs into budget decisions and thus provide a platform for establishing broadly based consensus with regard to difficult budgetary tradeoffs. In many countries the business community traditionally has a strong voice during budget policy formulation. To complement and balance this perspective, legislatures can function as an entry point into the budget process for independent think tanks, academics and civil society groups. Increasingly, legislatures publicly call for submissions on the budget, in recognition of the value of broadly based input. As a result of civil society participation, some parliaments have been instrumental in pioneering important new perspectives on the budget (see box 1).

Box 1: Parliament and civil society partnership for gender budgeting in South Africa

A gender sensitive budget ensures that the needs and interests of individuals from different social groups are addressed in the government budget. In particular, it ensures that the needs and interests of women and men, girls and boys are sufficiently considered. The South African Women's Budget Initiative was set up in 1995 by the parliamentary Standing Committee on Finance and two nongovernmental organizations (NGOs). This partnership arrangement enabled parliamentarians to draw on research skills in civil society, while the NGOs benefited from direct access to policy makers. It took three years to carry out gender analyses of 26 votes of the national budget. In the following years the Women's Budget Initiative conducted further gender analyses, which dealt with issues such as local government finance, donor funding and government revenue. As well as longer reports, it put out simpler and shorter versions of the research, and published its work in different local languages to reach a broad audience.

Source: Budlender (various).

Demands for funds typically outweigh available resources, and difficult trade-offs become necessary. Will greater participation of civil society and interest groups polarize debates and lead to a multiplication of claims on the budget? This risk should be minimal if the legislature is empowered to independently assess the content of submissions, and debates them in an open and transparent manner. Rather, the effective involvement of a broad spectrum of participants can help to ensure that the constraints that shape the budget will be more widely appreciated and commitment to the budget is enhanced.

3. Assessing the impact of legislative participation

While there are good arguments for enhancing legislative participation in budget making, the actual role of legislatures differs markedly across countries. This section serves to highlight some of the differences with regard to the level and nature of engagement. The former refers to the *extent* to which a legislature can influence budget policy, the latter to the *effect* of its actions on budget outcomes. While this discussion sets out some important issues, further empirical research is needed for a comprehensive analysis of the budgetary impact of legislatures in particular with regard to budget outcomes.

3.1 Extent of budget policy impact

Legislatures can be distinguished in terms of the extent of their budget policy impact (see box 2). The most powerful legislatures are those that have the ability to write the budget. The United States Congress sometimes functions as a budget making legislature. Although the President submits a draft budget to Congress, the latter treats it as a proposal in only the strictest sense. In some years observers pronounce the presidential budget suggestion as 'dead on arrival' and Congress proceeds to independently define its own budget policy (Schick & LoStracco 2000:74-104). Aaron Wildavsky's seminal work on the politics of the budget process is, in essence, a study of congressional policy making (Wildavsky & Caiden 2000). Few other studies of national budget processes would have to focus on the legislature to such an extent, for the simple reason that the ability of the United States Congress to shape budgets is probably unique. Only a few other legislatures report to make significant changes to executive budget drafts on a regular basis (see table 1).

Box 2

A typology of the budget policy impact of legislatures

Budget making legislatures have the capacity to amend or reject the budget proposal of the executive, and the capacity to formulate and substitute a budget of their own.

Budget influencing legislatures have the capacity to amend or reject the budget proposal of the executive, but lack the capacity to formulate and substitute a budget of their own.

Legislatures with little or no budgetary effect lack the capacity to amend or reject the budget proposal of the executive, and to formulate and substitute a budget of their own. They confine themselves to assenting to the budget as it is placed before them.

Source: Adapted from Norton (1993: Table 4.1).

Table 1 In practice, does the legislature generally approve the budget as presented by the government?

	With no changes	With minor changes	With significant changes
Australia	X		
Austria		X	
Canada	X		
Czech Republic			X
Denmark			X
Finland		X	
France		X	
Germany		X	
Greece	X		
Hungary			X
Iceland		X	
Ireland		X	
Italy		X	
Japan	X		
Korea		X	
Mexico		X	
The Netherlands		X	
New Zealand	X		
Norway		X	
Poland		X	
Portugal		X	
Spain		X	
Sweden		X	
Switzerland		X	
Turkey		X	
United Kingdom	X		
United States			X
Total	6	17	4
Percent of total	22%	63%	15%

Source: OECD (2002b).

The largest group of legislatures appears to fall into the middle category of budget influencing legislatures, and approve the budget proposed by the executive with minor changes only. Sixty-three percent (17 out of 27) of legislatures surveyed by the OECD indicated that they generally make marginal adjustments. The group covered the legislatures of the Nordic countries, most of continental Europe, and Korea. To say that budget changes are minor does not necessarily mean that they are unimportant. When ministers fail to convince the legislature of the necessity of certain expenditures, cuts of the relevant items can free up additional resources to address more urgent needs elsewhere. A moderate level of amendment activity also demonstrates to the executive that it needs to take legislative scrutiny seriously, or face the consequences.¹⁰

At the other end of the spectrum are legislatures that do not exercise any significant influence on budget policy, and simply rubberstamp executive draft budgets without any changes. This group is primarily comprised of Westminster type parliaments, where any successful amendment to the budget is considered a vote of no confidence that would

prompt the resignation of the government (see box 3). A few other parliaments not guided by Westminster traditions also fall into this category, such as those of Japan and Greece (OECD 2002b).

Box 3

The confidence convention in Westminster type parliaments

The last time the British Parliament voted down a request for money was in 1919, when the Lord Chancellor was refused funding for a second bathroom. Amendment experience in many other Westminster type legislatures is similarly dated. It appears that the last time an allocation was reduced in the New Zealand Parliament, for instance, was in 1930 when the vote for the Department of Agriculture was reduced by five pounds. Nowadays, in the Westminster tradition, successful attempts by parliament to amend the budget proposal of the executive are considered tantamount to a vote of no confidence in the government. This interpretation has evolved from the historical constitutional convention of the right of the Crown to 'financial Initiative'. Notwithstanding the constitutional power of parliament to amend the budget, in many democracies inspired by the Westminster system the government would resign if any changes to its budget proposal were approved, for example in Australia, Canada, India and New Zealand.

Sources: Davey (2000), Lok Sabha (1998), OECD (2002b).

Are amendments the only way to measure the extent of legislative impact on budgets? Although some parliaments cannot or do not change the budget, the Westminster model has changed greatly in recent decades, and there is now substantial presentation of information on the fiscal framework ahead of the tabling of the budget, and often more parliamentary debate, backed by greater transparency. If the legislature's views are effectively taken into account during the drafting process of the budget or through a process of consultation on medium term budget policy, this might diminish the need for amendment activity.¹¹ In addition, much of public spending is a continuation of existing policy. There are substantial opportunities for parliamentarians to debate and seek change to policies when these are first introduced, or when legislation has to be amended. In this sense, the budget is to an extent the reflection in appropriations of policies that have already been discussed in parliament, although it is also important to continuously assess whether the existing base of expenditures is still relevant.¹² In other words, the absence of amendment activity might not have to be equivalent to a complete lack of legislative influence on budget policy. But it is usually difficult to quantify any non-amendment impact on the budget (Meyer & Naka 1998).

3.2 Impact on budget outcomes

What is the effect of legislative action on budget outcomes? While we have some comparative data on the level of legislative engagement, in particular thanks to the survey work of the OECD, the nature of legislative impact on budgets is under-explored. Public expenditure management theory postulates three interrelated objectives: the maintenance of aggregate fiscal discipline, the prioritization of funds in accordance with policy and program effectiveness, and operational efficiency in budget implementation (Schick 1998). These three objectives are also linked to the revenue side of the budget. Fiscal discipline is not possible without adequate revenue levels and accurate forecasting of available resources. Allocational decisions have a revenue flipside when we consider tax incidence - the distribution of the tax burden across different sectors and individuals. And efficient tax

administration is essential for ensuring that a maximum amount of revenues is available within the parameters set by fiscal and tax policies.

If a legislature decides to engage with aggregate and allocational decisions, it will have to do so through *ex ante* scrutiny during the approval stage of the budget process. By contrast, issues of operational efficiency are primarily considered by the legislature through *ex post* scrutiny on the basis of audit findings produced by the supreme audit institution after budget implementation. In other words, *ex ante* scrutiny focuses on the content and direction of budget policy, and *ex post* scrutiny on the quality of its implementation. If the process is effective, legislators can draw on the insights gained from audit findings during the consideration of future budgets.

It would seem that legislatures differ with regard to their emphasis of engagement (Schick 2002:33-35, Wehner 2003). For instance, the United States Congress pursues an elaborate *ex ante* process in which various financial committees decide fiscal parameters, tax policy and the allocation of available funds. The impact of Congress on aggregate and allocational choices can be substantial, but it has no dedicated committee for the consideration of audit findings. By contrast, most Westminster style parliaments rubberstamp the budget, which precludes substantial influence on budget policy. Instead, the emphasis is on operational issues through an in-depth *ex post* assessment of public spending in the Public Accounts Committee. Perhaps this is the only focus possible for parliaments that lack the capacity to amend the budget. In between is a group of legislatures that blend *ex ante* and *ex post* scrutiny functions in a single committee. In the German *Bundestag*, for example, the Budget Committee both approves the annual budget and later considers audit results. This 'mixed' model possibly strikes a more even balance between the scrutiny of policy and its implementation, and hence legislative engagement with the different objectives of public financial management.

Legislatures have to consider what balance of *ex ante* and *ex post* scrutiny is most appropriate in a particular context. For example, a legislative focus on changing budget policy during the approval stage might have little effect if operational management is weak and government has a poor record of budget implementation. A focus that combines legislative control of impoundments, continuous implementation oversight and effective *ex post* scrutiny might be more appropriate in such circumstances than trying to influence the direction of budget policy that does not get implemented.

Economists and political scientists have in recent years become interested in the impact of legislative institutions on fiscal outcomes, particularly the deficit.¹³ What has been neglected so far is to study the impact of legislatures at the allocational and operational levels. For example, is there a tendency for amendments to shift spending to certain sectors or particular programs; and if yes, why and under what conditions? Who benefits from legislative engagement with tax policy? How can we systematically assess the contribution of legislatures to forcing efficiency in government departments or agencies? Further methodological thinking and empirical research are needed to come to a fuller and more rounded appreciation of the impact of legislative action on public finances. Such a comprehensive assessment would have to look at budget outcomes at all three levels, and both the expenditure as well as the revenue sides of the budget. Another challenge is to explore, on the basis of systematic comparative research, precisely how an upward shift in legislative engagement, from budget approval to budget influence, and possibly to budget writing, affects budget outcomes.¹⁴

4. Explaining the differences

Why are there such differences in legislative impact on budgets across different countries? It is possible to distinguish a number of variables that interact to define the ability of parliament to engage with budget issues. These relate to the legislature's constitutionally intended role, as well as its legal, party political and technical capacity to deal with budgets. The presence of a critical number of enabling conditions is necessary to allow effective participation by the legislature. But no single variable is sufficient on its own, and the significance of and interaction between variables may differ from case to case (Krafchik & Wehner 1998).

4.1 Presidential versus parliamentary systems

The nature of the state has fundamental fiscal implications. Variance in the relative budgetary influence of the legislature vis-à-vis the executive is, to a large extent, a function of the system of government.¹⁵ Parliamentary systems tend to be, by virtue of their design, conducive to cooperative legislative-executive relations. The government is directly dependent on majority support in the legislature. As a result, the composition of parliament and the executive are inherently intertwined, as are their electoral fortunes. For parliament to fundamentally rewrite the entire executive budget proposal would be tantamount to a vote of no confidence in the government.

On the other hand, the separation of powers in presidential systems can lead to great antagonism in executive-legislative relations. The legislature is likely to be more critical of budgets and policy proposals tabled by an executive with whom it may have little in common. Some of the most bitterly fought budget wars have occurred in countries with presidential systems of government, such as the United States (Williams & Jubb 1996) or recently Nigeria (Aiyede & Isumonah 2002, Wehner 2002). The separation of powers does not automatically lead to high levels of legislative-executive conflict. But it has a built in propensity to do so when it is complemented with a 'separation of purpose', for instance at times of divided government or when the party political 'glue' between the president and the legislature is weak (Haggard & McCubbins 2001).

4.2 Design of parliamentary powers to amend the budget

A second important variable is the nature of the legislature's powers to amend the budget.¹⁶ Usually amendment powers are contained in a country's written constitution, but they can also be based on convention, determined by ordinary legislation, or spelled out in parliamentary rules. The more amendment powers are circumscribed, the more control over budget outcomes is centralized in the executive.

Many legislatures have constitutionally unfettered powers to shape budgets, including those in Scandinavia, much of continental Europe, and the United States (see table 2).¹⁷ To the contrary, 'reductions only' restrictions apply in the Westminster tradition, so that parliament may only reduce existing items but it may not include new ones or increase existing ones. This configuration evolved during the early days of the House of Commons, when it met to consider demands for subsidies made by the Crown. Its task was to decide whether and to what extent it would comply with the demand and, if so, within what limits and by what means. Many countries in the Commonwealth have copied this configuration. A third set of amendment provisions constrain the legislature's powers to modify budgets so as to promote the maintenance of the deficit or to protect aggregate totals proposed by the executive. Versions of this approach are used in some francophone and Latin American countries, for instance.

Table 2 Parliamentary powers to amend	
Rights	Number of
Unlimited powers to amend the budget	32
Reductions of existing items only	17
May reduce expenditure, but increase only with permission of	4
Increases must be balanced with commensurate cuts elsewhere	13
Rights not specified	15
Total	81

Source: Adapted from IPU (1986: Table 38A).

It is possible to consider amendment powers on a declining scale of potential for legislative input. Unfettered powers allow legislatures, in theory, to rewrite the entire budget proposed by the executive. More constraining are deficit neutral amendment powers that 'lock in' the fiscal policy of the executive, but still allow substantial space for legislatures to shape budgets by reprioritizing expenditures within given aggregates. Finally, the Westminster tradition precludes a creative role for parliament in budget policy through the amendment process. Any amount from an expenditure item that is cut cannot be shifted to increase spending on a different item elsewhere in the budget.

4.3 Party political dynamics

Budgeting takes place in a broader political context; it is an expression of the power relations of political actors that participate in the process. How much influence parliament actually has, the *de facto* rather than theoretical extent of its budgetary action space, is to a large extent determined by party politics. While legal frameworks and the constraints they establish tend to be relatively long lasting, party political dynamics can be far more fluent. The following paragraphs discuss two particularly important variables that shape the party political balance of power in the context of which parliament exercises its budgetary functions, vis-a-vis. party political majorities and party cohesion.

Party political majorities have been shown to have an important effect on the role of parliament in the budget process (Leston-Bandeira 1999, Young 1999). In essence, stable majorities ensure the predictability of voting outcomes. If the legislature features several parties without one of them having an outright majority of seats, the executive will have to assemble the support of a number of political parties to have its budget passed. It is likely to have to bargain and make concessions during this process. In this case the executive is faced with substantial strategic uncertainty as to whether it will be able to 'get through' its original budget proposal without significant changes.

A second and related variable is party cohesion or party discipline. It entails voting along party lines even if the outcome does not fully match the preferences of the individual legislator (Von Hagen 1992:34). Party majorities only ensure the predictability of legislative behavior when matched with tight party discipline, which is not always the case. In the United States, for example, over the past three decades the extent to which members of each party vote with their party colleagues has been as low as 66 percent in the case of Senate Republicans (Bowles 1998:170). Consistently low levels of party cohesion are usually associated with candidate centered electoral systems, where party affiliation is not a strong factor in the election of candidates. This contrasts with legislatures where the electoral fortunes of members are highly correlated with party affiliation, notably when party headquarters have a strong voice in choosing candidates and the electorate chooses mainly or exclusively according to party preference. Here, the

primary role of members is that of party loyalists. Apart from a few prominent mavericks who can afford occasions of rebellious behavior, parliamentarians who refuse to tow the party line risk damaging their prospects for a successful political career.

4.4 Legislative budget research capacity

Legislators have to understand the contents of the budget if they are to play a meaningful role in the process. Even when they have the legal and political space to shape budgets, technical capacity is necessary to optimally use this opportunity. Access to independent budget analysis can support legislators in assessing the integrity of the figures in the draft budget, deciding whether changes might be desirable, and evaluating the budgetary implications of proposed amendments.

Many of the more activist legislatures, in budgetary terms, have substantial own budget research capacity. Topping the list, the Congressional Budget Office in the United States has about 245 highly trained staff. There are almost 50 employees in the Congressional Planning and Budget Office of the Philippines. In Uganda the 2001 Budget Act has led to the establishment of a Parliamentary Budget Office staffed with 13 economists. But even research capacity on a lesser scale can play an important supporting role. Some parliaments have smaller research units that specialize in budget analysis, for example in Poland. Yet others have general research units that can deliver some budget related analysis when needed, such as the Scientific Services of the German *Bundestag*. Legislative research capacity can be supplemented with input from independent think tanks, academics and private sector economists.

Parliamentarians often complain that their access to budget research capacity is negligible or nonexistent. There are, for instance, no specialized budget researchers attached to the parliaments of many African countries, such as those of Zambia or Namibia. In some cases, this is because of a lack of resources or prerequisite skills. Career prospects and pecuniary benefits might not be sufficient to attract high caliber parliamentary support staff. In other cases, legislatures themselves are perhaps to blame for their insufficient research capacity. One parliament has only a staff of five to service two key financial scrutiny committees. But the same parliament employed approximately one hundred cooks! It would seem that substantial improvements in legislative budget research capacity could be achieved in a number of cases if parliaments themselves prioritized their own budgets accordingly.

4.5 Access to relevant information

Parliamentary decision making needs to be based on comprehensive, accurate, appropriate and timely information supplied by the executive and the audit institution (see box 4). Crucial in this is the amount of supporting documentation that accompanies the budget figures. In many countries, the budget document itself contains little narrative that outlining the policies underlying tax and spending proposals. Often the only source of additional information is the budget speech. This makes it difficult for legislators and their staff to understand the policy basis for the budget, and to evaluate whether the budget adequately reflects stated government policy.

Box 4 OECD best practices for budget documentation

The OECD has developed Best Practices for Budget Transparency that deal with the availability of budget information, specific disclosure requirements, and integrity and accountability fundamentals. The OECD recommends the following types of budget documentation:

A comprehensive budget encompasses all government revenue and expenditure, and includes performance data and medium term projections.

A pre-budget report states explicitly the government's long term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term.

Monthly reports show progress in implementing the budget, including explanations of any differences between actual and forecast amounts.

A mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term.

A year-end report should be audited by the supreme audit institution and released within six months of the end of the fiscal year.

A pre-election report illuminates the general state of government finances immediately before an election.

A long term report assesses the long term sustainability of current government policies. *Source:*

Summarized from OECD (2002a).

Comprehensiveness of budget information is another major concern. In developing countries, all aid financed spending should be included in budgets. When aid funds as much as half of all expenditures, it is obvious that budget priorities cannot be identified if only a proportion of public spending is reflected in annual budgets. In addition, budget information is often not presented in a user friendly format, and one would need to be a seasoned practitioner of budgeting to decipher what is being proposed. Ideally, legislators and other users of budget documentation should be consulted about the format and content of documentation to ensure usefulness.¹⁸

Also needed are current actual spending information and timely, thorough and well-presented audit reports, so that legislatures can scrutinize the implementation of the budget. The latter is a crucial issue in many developing countries, where unauthorized expenditures and budget variance are frequent, that is the difference between approved and actual numbers, not infrequently run into double percentage figures. Budgetary decisions should be made through actual spending information, as much as possible, rather than on the basis of budgeted figures that might be little more than fiction.

The provision of relevant audit information reflects the quality of institutional linkages between the legislature and the audit institution. While the legislature depends on high quality audit reporting to be effective, the auditor requires an effective legislature to ensure that departments take audit outcomes seriously. To ensure optimal coordination,

some audit institutions have legislative liaison offices and accompany the scrutiny of audit findings by the legislature on an ongoing basis; others are directly attached to the legislature (Stapenhurst & Titsworth 2001).

4.6 Legislative committees as the 'engine room' for financial scrutiny

Committees are the 'engine room' of the legislature (Mattson & Strøm 1995).¹⁹ It is here that in-depth and technical debate can take place, away from the political grandstanding that often characterizes proceedings in the chamber. When discussion takes place mainly on the floor of the house the budgetary influence of the legislature tends to be weak (Krafchik & Wehner 1998). Several factors make for strong committees, such as sufficient time for deliberation, resources in terms of support staff, and the length of average membership. Also important are the powers of committees to summons individuals and access all relevant information.

Internationally, committee involvement in the budget process appears to be growing. For instance, the Australian Senate introduced a departmental committee stage for the approval process in 1970, India in 1994, and the Ugandan and Zambian Parliaments have recently created new committees to consider budget issues. Although these initiatives may have been implemented with varying degrees of success, they give an indication that legislatures appreciate the value of committee involvement.

The exact structure of committee involvement differs across countries (Crain & Muris 1995). In many cases a budget or finance committee has overall responsibility for the approval process. In some legislatures, it has sole responsibility to consider the draft budget; in others it acts as a coordinating body for the work of sectoral committees on departmental budgets (OECD 2002b). In addition, to assure itself that the budget it approved is fully implemented, efficiently and effectively, the legislature also requires committee capacity for the *ex post* scrutiny of audit findings supplied by the supreme audit institution. The arguably most effective legislative vehicle for this purpose is a dedicated Public Accounts Committee (McGee 2002, Wehner 2003).

4.7 Time for scrutiny and the timing of the budget process

Legislatures require both sufficient time as well as a properly timed budget process to participate effectively in decision making. International experience suggests that a minimum of three to four months is required for the approval of the budget on the basis of meaningful analysis and scrutiny. However, sufficient time by itself is not enough. The budget should also be tabled sufficiently in advance of the fiscal year to which it relates in order to make decisions that matter. This is because interim spending, for instances through 'votes on account', continuing resolutions or interim executive spending authority based on constitutional or legal formulas too often distort budget priorities. Historically, the British Parliament devised a tactic of voting appropriations near the end of the session as a means of forcing the Crown to utilize its own resources before relying on tax revenue raised from the public (Schick 2002:18). In a modern context, this centuries old tradition weakens an approval process that should aim at advance scrutiny. Regrettably, many countries in the Commonwealth have copied this poor practice, for instance in much of Anglophone Africa. Elsewhere, most budget processes are geared to ensure timely passage under normal circumstances.

4.8 Other factors and considerations

There are quite certainly other possible factors that can, temporarily or permanently, alter the budgetary balance of powers between the legislature and the executive. New and urgent issues, coupled with diverse and strong public opinion, might give parliament increased action space to shape budget policy. Also, legislatures in poor countries often

face constraints on their room to maneuver due to high levels of foreign debt. When international financial institutions attach stringent conditions to loans, parliament's role might be severely diminished to rubberstamping budgets that reflect prior agreements between lenders and the executive. The above discussion of factors is therefore not exhaustive, although it points to some central variables that affect legislative capacity to purposefully engage with the budget. Legislatures operate in different contexts with varying challenges. Full understanding of a specific case requires thorough analysis of the particular factors that are relevant, as well as their interaction.

5. The search for supportive institutional mechanisms

'As legislatures enhance their budget role, one of the challenges facing budget architects will be to balance the impulse for independence with the need to be fiscally responsible. The future of legislative-governmental relations will be strongly influenced by the manner in which this balance is maintained.'
(Schick 2003:14)

Concerns have been raised that an expansion of legislative influence on budgets can lead to a deterioration of fiscal discipline. The central question in this regard is whether legislatures can be both more disciplined as well as more independent in budgetary matters. Whether this balance can be achieved is likely to differ from country to country. Sometimes, a price might have to be paid for proper scrutiny and debate on government budgets and macroeconomic policy. There is, however, evidence that certain institutional devices can help legislatures to reconcile budgetary activism with fiscal prudence.

It appears that fiscal aggregates can be protected when an overall constraint is fixed before the legislature proceeds to consider sectoral spending. To harden the aggregate budget constraint, legislatures are increasingly shifting to a system where they vote on budget totals before the consideration of departmental appropriations. Fifty-nine percent (16 out of 27) of OECD country legislatures proceed in this way, some of them by passing a separate piece of legislation to fix the aggregate totals before the annual appropriations and revenue measures are considered. This decision making structure can be complemented with a legislative process that tasks the budget committee with enforcing the constraint and dividing the total between sectors, and allows departmental committees to prioritize departmental allocations (see box 5).

Box 5

The reform of the parliamentary budget process in Sweden

In the past, the budget approval process in the Swedish Parliament, the *Riksdag*, was described as 'undisciplined'. The focus of debate used to be on individual appropriations with little consideration of the aggregate effect of parliamentary action. Parliament recognized a need to reform during a financial crisis in the early 1990s, and established a commission to formulate a reform proposal. The reformed parliamentary process has three key steps. Parliament fixes the aggregate level of expenditures and revenues in a Spring Fiscal Policy Bill, which is tabled in April and approved two months later. Following the tabling of the budget in September, the Finance Committee discusses and recommends the allocations for each of 27 'expenditure areas', such as justice, communications etc. Once the house has approved the division of aggregate expenditures, sectoral committees allocate funding to individual appropriations within their expenditure areas. The sectoral committees are permitted to change the composition of appropriations but must remain within the agreed total for their expenditure area. The budget is approved in December, before the beginning of the fiscal year in January. *Source:* Blöndal (2001:37-42)

It would seem that a process that fixes the totals before sectoral allocations are decided fulfills two interlinked objectives. On the one hand it protects the aggregates and therefore helps to maintain fiscal discipline, and at the same time it focuses attention on issues of prioritization within the overall hard budget constraint. Where legislative action simply consists of separate and isolated consideration of different expenditures and tax measures, and aggregates are only known at the end of the process, fiscal discipline is jeopardized and conscious prioritization cannot take place.

Other devices are available to safeguard fiscal prudence in the face of rising legislative activism. For instance, some countries have adopted fiscal rules that constrain budget makers (Schick 2003). Fiscal responsibility legislation and balanced budget requirements are some of the vehicles which are being tested, albeit with varying levels of success. In addition, legislatures should have reliable estimates of the budgetary effects of amendments over the short and medium term, and when appropriate, the long term. The costing of amendments can contribute to a transparent and thorough consideration of their fiscal effect in particular when projections are made publicly available.²⁰ This requires a strengthening of professional legislative budget research capacity, and an enhanced flow of relevant documentation provided by the executive.

Not all legislatures will be successful in reconciling budgetary activism and fiscal prudence. But it appears that institutional engineering can help to minimize the risk of legislative activism busting the bank. At a time when many legislatures are rethinking their contribution to the budget cycle, the challenge is to search for supportive institutional mechanisms, and to tailor these mechanisms to different national circumstances.

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Useful Websites

Commonwealth Parliamentary Association:

<http://www.cpahq.org>

Congressional Budget Office, United States:

<http://www.cbo.gov>

Institute for Democracy in South Africa (Idasa):

<http://www.idasa.org.za>

International Budget Project:

<http://www.internationalbudget.org>

International Organisation of Supreme Audit Institutions (INTOSAI):

<http://www.intosai.org>

Inter-Parliamentary Union:

<http://www.ipu.org>

Organisation for Economic Co-operation and Development:

<http://www.oecd.org>

Parliamentary Budget Office, Uganda:

<http://www.parliament.go.ug/budget%20office7.htm>

Parliamentary Centre:

<http://www.parlcent.ca>

World Bank Institute Parliamentary Program:

<http://www.worldbank.org/wbi/governance/parliament/>

Endnotes

¹ The focus here is on legislatures in democratic systems of government. This is not to ignore that there are important variations in the quality of democratic institutions across countries, although this discussion is beyond the scope of this paper (Collier & Levitsky 1997).

² It is important to point out that this opportunity has not been optimally utilized thus far. Many legislatures in developing countries have not participated significantly in the PRSP process. Comments by Warren Krafchik (International Budget Project).

³ George Philip highlights these 'dilemmas of good governance' in a recent study of economic policy making and its results in Latin America during the 1990s. His investigation shows that policy adjustments were most successful when either 'the product of dictatorship' or of 'very powerful presidentialism.. operating at best on the margins of constitutional government' (Philip 1999:235). In his analysis, the former applies to Chile, the latter to Peru and Argentina.

⁴ Guillermo O'Donnell (1998) provides a useful conceptual discussion on the importance of effective horizontal accountability through checks and balances as an essential complement of vertical accountability to the electorate at election time.

⁵ The IMF's Code on Fiscal Transparency is less well developed with regard to the contribution of the legislature than the OECD's Best Practices for Budget Transparency and other budget transparency frameworks developed by civil society groups. This might reflect the fact that international financial institutions have a traditional bias to work with the executive.

⁶ A surplus estimated in 2001 at \$5.6 trillion over the following ten years, has since turned into a deficit recently projected at \$455 billion for the 2003 fiscal year alone. According to the executive's Office of Management and Budget, only about half of the difference between the 2001 estimates and current projections can be attributed to economic hard times. Three tax cuts initiated by the President account for 23 percent of the difference, and spending increases played an equally large part (*Economist*, 19-25 July 2003).

⁷ A good example is the 1997 budget process in the Mpumalanga Provincial Legislature in South Africa. Here, the legislature discovered that the executive budget proposal was unbalanced, as income fell short of covering the executive's expenditure proposals by between R600 and R900 million. This forced the legislature to embark on an unprecedented reprioritization exercise, with several tense moments as departments attempted to resist the necessary spending cuts. Ultimately, the legislature produced a new appropriations bill that was more cognizant of aggregate constraints (Newham 1997).

⁸ In the remaining year covered, the deficit figure was not altered by legislative consideration.

⁹ The need for secrecy during the drafting stage is sometimes exaggerated, and more openness can have positive effects. In Finland, for instance, because of the country's progressive Freedom of Information Act, budget requests from spending ministries are made publicly available. One positive result has been a reduction in the number of politically motivated leaks in the drafting process (Blöndal *et al*/2002:126-127). At the same time, there is a case to be made for government to have sufficient space to discuss and test different options behind closed doors to ensure executive consensus and buy-in before the budget is tabled.

¹⁰ For instance, the former German Federal Minister of Defense (1988-1989), Rupert Scholz, failed to produce sufficient plans for a military flight project and the Budget Committee froze 50 percent of the relevant funds. When the committee was alerted that the minister preferred to attend the nearby Press Club instead of the discussion of 'his' budget, he was called to attend at half past midnight (Wehner 2001).

¹ The Scottish Parliament formally engages with the drafting stage of the budget process (Midwinter & McGarvey 2001:50-51). The relevant parliamentary committees consider departmental reports with details of past expenditure and forward spending plans that are published in April/May each year. This process is coordinated by the Finance Committee, which reports the findings to Parliament. Any recommendations are passed on to the executive for consideration during the finalization of the draft budget in September. The first consultation exercise resulted in an increase in funding for roads and transport, and three modest proposals for budget changes by the Finance Committee. When the budget bill is tabled in the following January, deliberations in the Finance Committee are confined to executive amendments. Parliament can reject or accept the bill, but it may not initiate its own amendments.

² This paragraph draws substantially on comments by Mike Stevens (World Bank) and Rick Stapenhurst (WBI).

³ Relevant work has been produced notably by Strauch & Von Hagen (1999), Heller (1997), Crain & Muris (1995), and Von Hagen (1992).

⁴ The author is currently involved in a comparative research project that explores these issues.

⁵ Presidential systems vest executive authority in a directly elected head of government, usually called a president, for example in the United States, the Philippines and Nigeria. In parliamentary systems, the executive authority is elected indirectly by parliament, for instance in Britain, South Africa and India.

⁶ For the sake of brevity, the issue of bicameral parliaments in which second chambers have budgetary powers is excluded from this discussion (see Heller 1997). Legislatures in federal countries are bicameral to facilitate regional representation in the federal lawmaking process. Bicameralism is not limited to federal countries, but only about one third of unitary states have bicameral legislatures (Patterson & Mughan).

⁷ A more recent but less comprehensive survey, compared with the IPU data, shows that 59 percent (16 out of 27) of OECD legislatures are not subject to restrictions on their right to modify the budget proposed by the executive (OECD 2002b).

⁸ In South Africa, for example, the Auditor General has in recent years periodically invited comments from a range of stakeholders, including civil society organizations, on the usefulness of audit reports and how their presentation could be improved.

⁹ Committees are defined here as a subgroup of legislators, excluding Committees of the Whole House.

¹⁰ This is not to deny some of the shortcomings and uncertainties involved in forecasting (Crippen 2003).



Appendix 2: The Legislature and the Budget

By Rick Stapenhurst

In most countries, the legislature is constitutionally mandated as the institution through which governments are held accountable to the electorate. The legislature can use several means, including the questioning of senior government officials, such as ministers, the review and confirmation of executive appointments, impeachment and/or the power to dismiss the government, question periods, the establishment of parliamentary committees and the formation of commissions of inquiry.

The accountability mechanisms available to any one legislature depends upon the constitutional provisions regarding the specific powers of the legislature, the institutional arrangements between the different branches of government and the division of authority between national, regional and local government (Dubrow 1999). Committee hearings and hearings in plenary settings and commissions of inquiry are more common in the legislatures of parliamentary systems (parliaments), while commissions of inquiry are used more in presidential systems (Pelizzo and Stapenhurst, forthcoming (a)).

Legislative oversight is nowhere more important than in its role over the budget. The role of the legislature in most countries is to scrutinize and authorize revenues and expenditures, and to ensure that the national budget is properly implemented. How governance affects the wellbeing of the populace depends on tax levels, spending patterns, the impact of policies on investment and interest rates, as well as on the ways that domestic priorities and choices interact with international economic and financial trends.

The evolution of the legislative *power of the purse* dates back to medieval times, when knights and burgesses in England were summoned to confirm the assent of local communities to the raising of additional taxes¹. By the early 14th century, the English Parliament had begun to use its power to condition the voting supply to the acceptance and redress by the monarch to public petitions presented by Parliament². This process was confirmed in 1341, when King Edward III agreed that citizens should not be "charged nor grieved to make common aid or to sustain charge" without the assent of Parliament (White, 1908).

In parallel, the English Parliament began to take an interest in how money was collected, as well as spent. As early as 1340, commissioners were appointed by Parliament to audit the accounts of tax collectors and where public officials were found to have been deficient, the House of Commons would impeach the officials and the House of Lords would try the case (Norton, 1993).

Parliament's power of the purse evolved gradually, and was particularly strengthened during the 16th century, when Tudor monarchs needed Parliamentary support and its voting of funds in their various political and religious battles; King Henry VIII, for example, accorded Parliament an enhanced status in policymaking, in return for support with his battles with Rome (Norton, 1993).

Since that time, the *power of the purse* function has been played by legislatures around the world as a means to expand their democratic leverage on behalf of citizens. There is great variation, however, in the nature and effect of legislative engagement. Some legislatures effectively write the budget; others tend to approve executive budget proposals without changes. In some legislatures, whether the debate takes place in plenary, on the floor of the house, or elsewhere, the emphasis is on committee review. Some legislatures fragment scrutiny of the budget across several committees while others have established a pre-eminent budget (or finance) committee that oversees the process. Ultimately, however, the final vote of approval on "the budget act" takes place in the chamber³ (Wehner and Byanyima, forthcoming).

It is useful to conceptualize the overall budget system as a continuing and integrated *budget cycle process*, with legislatures playing a key role at different stages of the cycle. This cycle includes many institutions which, among others, form a country's governance system, namely, the executive, the public service, civil society and the legislature. Certain facets of the budget process—government accounting, managerial reporting and internal audit, for example—are primarily the responsibility of the executive and the public service; these are shown *inside* the circle in Diagram 1. But for the overall budget cycle to work in a transparent, open and accountable way within the national economy, the various functions *outside* the circle—budget planning, revenue/expenditure allocation, financial reporting, external audit and evaluation and public accounting—should involve significant interaction with civil society groups, businesses and the public at large. It is here that legislatures have a key role to play (Langdon, 1999). It is useful to consider the role of the legislature both ex-post and ex-ante in the budget process.

Diagram 1: Heart of Executive-Legislative Relations: The Budget Process (Awaiting Jill)

The Legislature and the Budget Ex-Ante

Yet if legislatures around the world have the constitutional power to consider national budgets and authorize governments to raise revenues and carry out expenditures, there is a wide variation in the actual exercise in this power.

Allen Schick, for example, has noted the long-term decline in the influence of national legislatures on budget policy in industrialized countries, due to a combination of devolution of spending to state and local governments and, to a lesser extent, of revenues and the expansion of both entitlement spending and national debt service. This budgetary decline is perhaps most evident in Britain, where Parliament has long ceased to influence budget measures proposed by the executive (Davey, 2000).

Elsewhere, there is a mixed trend, with some OECD country legislatures launching efforts to regain a more active role in the budget process. In France, for example, the National Assembly recently initiated a wide ranging budget reform which includes a reclassification of the budget in order to support parliamentary oversight and an expansion of powers to amend expenditures (Chabert, 2001).


In developing and transition countries, too, there is a trend towards legislative budget activism, reflecting the process of democratization and the opening up of possibilities for legislative involvement in what were previously closed budgetary systems. In Brazil, for example, Congress had historically played no significant role in the budget process; now,

constitutional changes have given Congress powers to modify the budget (see Box 1). In Africa, too, changes are occurring: South Africa and Uganda have passed Financial Administration or Budget Acts which give more influence to the legislature during the budget formulation and approval processes.

Box 1: Brazilian Congress

Historically, the Brazilian Congress played no significant role in the budget process, but democratization in the 1980s led to constitutional changes that gave Congress powers to modify the budget, with the result that many amendments are now proposed each year. Constitutionally, the Brazilian Congress may only increase one appropriation by decreasing another. But a 'loop hole' also allows Congress to alter revenue figures when it concludes that the executive has made 'errors or omissions'. To exercise effective control, the Joint Committee on Plans, Public Budgets and Auditing has moved to a practice of imposing limits on congressional amendment activity. In a recent budget approval process, the following limits applied: (1) Up to 20 individual amendments for each representative, each one not reallocating more than a certain amount (of about \$750000). (2) Up to five amendments for each sectoral committee in each chamber of Congress, without a monetary limit. (3) Between 15 and 20 amendments proposed by two-thirds of the representatives elected from each state, with no monetary limit.

Source: Blöndal, J. R., C. Goretti & J. K. Kristensen (2003)



Even if the formal role of the legislature in amending the budget may be weak or non-existent, this does not necessarily mean that it cannot *influence* the budget. In Ghana, for instance, the Finance Committee has had some success, in particular by requiring pre-budget consultations with the Minister of Finance while the Public Accounts Committee requires quarterly statements from the Finance Minister on budget execution. One particular "success" was Parliament's influence in the introduction of a value added tax (see Box 2).

Legislative activism in the ex-ante budget process can cause problems for organizations such as the IMF and World Bank. Von Hagen (1992), reflecting the views of many economists and an influential body of research, notes that legislative activism may weaken fiscal discipline. Wehner (2004) counters this, by noting that legislatures are not the only source of overspending and that in some instances legislatures can reign in irresponsible government spending⁴. Wehner also argues that, even if greater legislative activism in budget formulation does lead to some fiscal deterioration, this may well be a price worth paying for greater public input into, and national consensus around, the budget.

Box 2: Ghana's Parliament Introducing a VAT

In 1995, Ghana's government introduced a value-added tax (VAT), in an effort to remedy the deficiencies of existing consumption taxes and to boost the revenue capacity of government. Following widespread civil unrest, which resulted in several deaths, and strengthened political opposition to the tax, Parliament repealed the VAT.

Subsequently, a National Economic Forum showed that there was broad agreement on the VAT initiative, but that such a tax would likely have implementation problems and—perhaps more significantly - that the opposition party in parliament increasingly believed that the solution to Ghana's chronic budget deficits were not new revenue measures but rather expenditure controls and reductions.

Despite government objections, parliament required national public hearings on the new proposals for VAT, resulting in public support for a VAT with a lower, but broader, base (10 percent compared with the previous 17.5 percent) but with the exclusion of certain basic goods such as unprocessed foods, drugs and health services. The revised tax was approved by Parliament in December 1998.

In 2000, Parliament voted to increase the VAT rate to 12.5 percent, with the additional funds being directed to a new General Education Trust Fund, that guaranteed that the new revenues would be spent on education and that this fund would be operated autonomously from the Ministry of Education.

Sources: Chapman (2001); Barkan et al (2003); Langdon (1999)

Often, legislatures may seek public input into their deliberations on the national budget, thereby helping to develop a balance of views and inputs and providing a platform for a more broadly based consensus than would otherwise be the case. Legislatures can be the entry point into the budget process for business groups, academics, civil society organizations and policy groups and many actively solicit submissions from civil society (Wehner, 2004). In South Africa, the Women's Budget Initiative was established by the parliamentary Finance Committee and two non-governmental organizations; this partnership enabled parliamentarians to draw on the research skills of civil society and gave direct access by the NGOs to policy makers. The outcome is more gender sensitive budgeting (Budlender, various).

But if legislative involvement in the ex-ante budget process is desirable, why are there still many legislatures which only play a minor role? Wehner (2004) notes six explanatory variables. First, the constitutional nature of the state itself has a bearing, with legislatures in presidential systems playing a more significant role in budget formulation and examination than those in parliamentary or semi-presidential systems. (Parliamentary systems encourage a collegial approach to relations between the executive and the legislature, since the former is directly dependent on majority support in the legislature for its existence. For a parliament not to approve the budget would, in essence, be equivalent to a vote of no confidence in the government and, in Westminster-type parliaments at least, the resignation of the executive. In presidential systems, by contrast, the separation of powers can lead to conflict between the executive and the legislature, nowhere more acute than in matters relating to the budget—as, for example, in Nigeria). Second, and related, are the legislature's powers to amend the budget—with legislatures in many of the semi-presidential and non-Commonwealth parliamentary systems having the power to amend the budget. Table 1 indicates the number of legislatures that have the power to amend the budget.

Table 1 Legislatures' Powers to Amend the Budget

Rights	No. of Countries
Unlimited powers to amend the budget	32
Reductions of existing items only	17
May reduce expenditure, but increase only with permission of the government	4
Increases must be balanced with commensurate cuts elsewhere	13
Rights not specified	15
Total	81

Source: Adapted from IPU (1986, Table 38A), quoted in Wehner (forthcoming)

Thirdly, some researchers (Leston-Bandeira, 1999 and Young, 1999) have stressed that budgeting takes place in a broader political context and that is, ultimately, an expression of the power relations of political actors that participate in the process. Thus, how much *de facto* rather than *de jure* influence the legislature has is largely determined by party political majorities. If the legislature comprises several parties, none of which have an overall majority, or if party discipline is weak, the executive will have to assemble a broad coalition of support for the budget, with a concomitant increase in the potential influence of the legislature in the budget (Ghana is, perhaps, a good case in point, where

the government currently has a majority of only one in parliament). By contrast, where there is a strong or dominant political majority and where political party discipline is strong, the legislature's ability to influence the budget will be weaker. In addition, informal caucuses in some legislatures, such as women's or environmental groups, can exert influence on legislation, including budget legislation (Leston-Bandeira (1999), Young (1999) and Von Hagen (1992), quoted in Wehner and Byanyima (forthcoming)).

Fourthly, the existence of a legislative budget research capacity can enable the legislature to make informed contributions to budget formulation. Contrast, for example, the Congressional Planning and Budget Office of the Philippines which has a staff of 50 and the newly formed Parliamentary Budget Office in Uganda, staffed with 13 economists, with the parliaments of Zambia, Namibia and Sri Lanka that have no specialized budget researchers. Box 3 presents the case of Poland's Budget Research Office, Pelizzo and Stapenhurst (2004) note a related factor: access to information. Parliamentarians need accurate and timely information if they are to make meaningful contributions to budget formulation.

Fifthly, Wehner notes the existence of specialized budget committees, in which in-depth and technical debate can take place, supported by adequate staff and related resources and given sufficient time for deliberation, having an important influence on the role that the legislature can play in budget formulation. In recent years, India, Uganda and Zambia, to name just three countries, have created committees to consider budget issues.

Box 3: The Polish Parliament's Budget Research Office

After years of lacking any real power, democratic changes in Poland during the late 1980s and early 1990s led to a belief that Parliament should exert greater influence over the budget. In 1991, a small research unit was established, with a staff of six employees. Despite numerous start-up difficulties, including the fact that none of the researchers had previously worked in parliamentary administration, early rivalries between parliamentary committee staff and the research office and a large majority of parliamentarians as newcomers for whom the budget process was completely unknown, the bureau's stature grew such that in 1995, the staff were increased from 6 to 12, co-operation was formalized with a university (with contracted analytical services provided by four academics) and the co-ordination by the research unit of the work undertaken by Committee staff. The result was an ability of the research unit to undertake in-depth analysis of the government's proposed budget—with the unit now completing over 300 pieces of analysis each year, and parliament introducing some 700 amendments to the budget in 2000 and 350 in 2001.

Source: Staskiewicz (2002)

The Legislature and the Budget Ex-Post

If there is controversy around the desirability of legislative activism in the ex-ante phases of the budget cycle, there is much less in the ex-post phases.

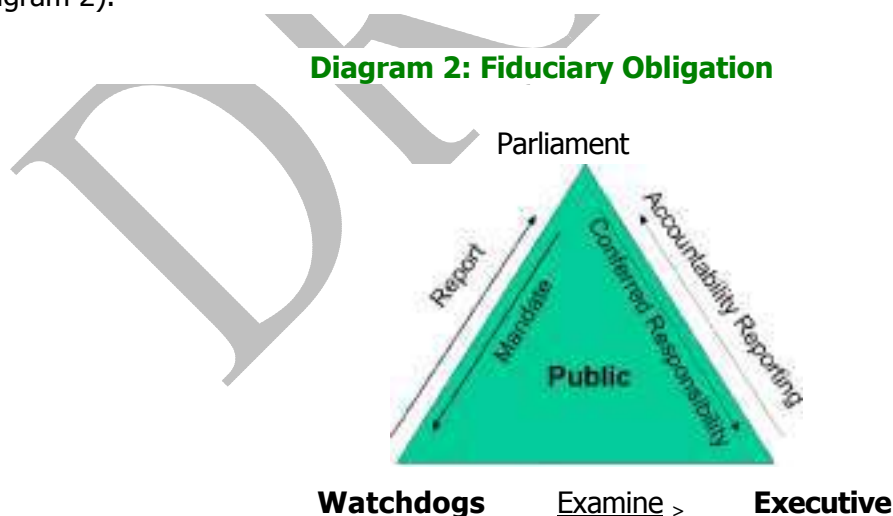
Following implementation of the budget, government accounts and financial statements are audited by a "supreme audit institution", such as the auditor general (in Commonwealth countries), or *Cours des Comptes* (in Francophone countries). In most

countries, this audit is followed by the consideration of the audit findings—which may include value for money and performance auditing as well as financial or compliance auditing—by the legislature. If the legislatures' role in the budget cycle is effective, legislative recommendations based on audit findings are reflected in future budgets, thus allowing for continuous improvements in public financial accountability.

Recent research (Pelizzo and Stapenhurst, 2004) suggests that government reporting and legislative scrutiny of public accounts is more common in parliamentary and semi-presidential legislatures than in presidential systems, although even here 84% of legislatures do actually analyze financial reports from government.

The exact nature of the interaction between the legislature and the auditors partly depends on the model of the supreme audit institution and its reporting structure. In most Commonwealth countries, the auditor general is a core element of parliamentary oversight he/she reports directly to parliament and a specialized committee—the Public Accounts Committee. This committee reviews audit findings, considers testimony by witnesses from government departments and sends its report to the full parliament for action; in some instances, the auditor general is an officer of parliament. In the board system, the audit board prepares and sends an annual report to the executive, which in turn submits it to the legislature. While in *cours des comptes* systems, the court can pass findings on to the legislature's finance committee, which can also request a specific audit to be undertaken (Stapenhurst and Titsworth, 2001).

The structure and function of Public Accounts Committees (PACs) dates back to the reforms initiated by William Gladstone, when he was Chancellor of the Exchequer in the mid-19th. Century. Replicated in virtually all Commonwealth and many non-Commonwealth countries, PACs are seen as the legislative apex for financial scrutiny in many parliamentary forms of government and have been promoted as a crucial mechanism to facilitate transparency in government financial operations (see diagram 2).



There is a huge variation in rules and practices affecting the operation of PACs in different countries. A large majority of PAC work focuses on the reports from the auditor general—indeed, the PAC is the principal client of the auditor general. Financial oversight is greater when a cordial relationship is maintained between the PAC and the auditor

general, since the PAC requires timely, high quality auditing while the auditor general needs an effective PAC to ensure that governments take audit outcomes seriously.

A recent survey by the Commonwealth Parliamentary Association (McGee, 2002) shows that several practices can enhance financial transparency by broadening access to information. More than four-fifths of Commonwealth PACs make their reports freely available to the public, while more than half have their reports debated in the parliamentary chamber. In many countries committee reports have to be followed by a formal response from the government, typically in the form of a Treasury (or Executive) Minute. Again, in more than half of the countries, PAC meetings are open to the public and the media, thus contributing to financial transparency.

Box 4:

Enhancing Financial Transparency by Broadening Access to Information

In a Commonwealth-wide survey conducted by the Commonwealth Parliamentary Association with the World Bank Institute, it was found that 87 percent of PACs release their reports to the general public while some 57% also stated that their reports are debated in Parliament (typically with public access and media coverage). A further commitment to transparency is reflected in the fact that 55% of PACs open their hearings to the general public and the media.

While some argue that the need to political consensus within the PAC requires that hearings be held in camera, there seems to be a general trend towards opening up hearings to the public and media. Indeed, some parliaments have reported significant improvements in the responses from governments when the PAC started holding its hearings in public—and it may be instructive that, even if there are advantages and disadvantages in holding public meetings, no PAC has reversed its decision to hold such meetings in public. After all, "... the PAC's work is performed through the Parliament for the public benefit; it is therefore fitting that the public should know as much about [its work] as possible, without interfering with its effective performance."

Source: McGee 2002

Building on this survey, Stapenhurst and Sahgal (forthcoming) have sought to identify potential "success factors" that influence the effectiveness of PACs. The factors include having a broad scope and mandate, thereby giving the PAC a greater potential to deter waste and wrongdoing; having the power to choose subjects for examination without government direction or advice; the power to undertake effective analysis and publish conclusions, including having effective follow-up procedures; and having solid support both from the auditor general and from dedicated parliamentary research staff.

At the same time, constraints to effective PAC performance have been identified. These constraints include a highly partisan climate, where, at an extreme, the executive may be unwilling to accept any criticism or act on valid complaints; government dislike of legislative oversight and, in some cases, its lack of interest in addressing the inherent weaknesses of the legislature; a lack of media and public involvement; and a weak ethical culture within both the executive and the legislature which leads to public distrust of politicians in general.

The examples of effective PACs are numerous. In Uganda, the Committee increased its activism by taking many more financial irregularity suspects to the courts while in South Africa the PAC and the media have kept the "defense budget scandal" in the public eye, demanding remedial action by the executive, and in Ghana, the PAC was able to take its own initiatives and tighten financial administration of local school authorities (Langdon, 1999).

Many non-Commonwealth countries having established committees similar to the PACs, while in some legislatures the same committee that is responsible for scrutinizing the budget is charged with considering audit reports.²

With the increasing complexity of public audit, so many PACs (or their equivalent committees in non-Commonwealth countries) have created sub-committees which examine particular subject areas such as education or health, while in others a close relationship is forged between the PAC and the departmental or sectoral committees that are charged with the oversight and scrutiny of government policy.

One weakness in many countries is that, despite debates in the chamber of the legislature and reports to the executive, the government fails to address the issues raised or implement the recommendations of the committee. To overcome this problem, different countries have adopted different follow-up procedures. In Canada, for example, government departments have the opportunity to include a chapter in the Auditor General's Report on their intentions for follow-up and implementation to the Auditor General's audit findings. Reports in subsequent years review departmental action against these announced intentions. In Germany, by contrast, the audit institution produces a regular "tracking report" which tracks the implementation of each recommendation made in earlier reports. Yet again, in other countries the legislature may require interim reporting (which can take the form of regular committee briefings by relevant officials) to ensure that the government takes timely remedial action (Wenhner and Byanyima, 2004).

² For example, Germany, France, several East European, Latin American and Francophone African Countries. In addition, New Zealand, a Commonwealth country, does not have a PAC; its functions are incorporated into the Finance and Estimates Committee.

Just as in legislative involvement in the budget ex-ante, so public input may be sought by the legislature in its ex-post review of government spending; many PACs call witnesses in addition to relying on input from the Auditor General. Moreover, civil society can play a supporting role: Wehner and Banyima (forthcoming) note a particularly innovative example from South Africa, where the Public Sector Accountability Monitor (PSAM)—a civil society initiative—follows up on reported cases of corruption and misconduct with the government departments concerned. After obtaining all relevant details, it sends a fax to the relevant departmental head; a follow-up contact is made a month later via telephone and the response, which is recorded, is made available in text and audio format on the internet. An alternative approach is for civil society groups to seek input at the *external audit* stage, prior to the submission of the Auditor General's report to Parliament and the PAC. In Colombia, for example, the Auditor General's program includes public forums and hearings in which complaints from citizens are heard and public feedback is generated regarding the work of the Auditor General; a particularly innovative program is the establishment of "Citizen Watchdog Committees" which monitor high-impact projects and report back to the Auditor General (Krafchik, 2003).

Conclusions

Legislatures both have and are using, their constitutional powers to oversee budget formulation and implementation. The challenge for legislatures in so doing is to both ensure that their influence and impact both reflect national—as opposed to partisan — priorities, allow for input from broader civil society, and that fiscal discipline is maintained. Indeed, Allen Schick noted that rather than act as controllers of public finance, legislatures should perhaps aim to promote fiscal discipline, improve the allocation of public money and stimulate public bodies to manage their financial operations more efficiently. In order to do this, it is necessary to, among other things, enhance the legislative capacity to deal with budget issues (Schick, 2002).

As noted above, resourcing the legislature involves, inter alia, the strengthening of the "money committees", the establishment of dedicated research staff, the capacity enhancement of national audit offices and the encouragement of public input at the various stages of the budget cycle. Over the past decade or so, numerous organizations, including bilateral donors, multinational organizations and international financial institutions have assisted legislatures in carrying out such financial oversight. Such assistance has ranged from supplying office and other equipment and information and training to helping establish legislative budget offices and strengthening committees. However, results have been mixed; indeed, Carothers (1999) notes that in the area of democracy assistance, it is support to the legislatures that most often falls short of its goals. Why is this—and are there any lessons learned from the 1990s that can assist legislatures and multilateral institutions alike in designing such projects in the future?

Messick (2002) highlights the needs to undertake a thorough analysis of the political environment within which the legislature operates—a fact reiterated by both Carothers, who noted that "... aid providers' lack of knowledge about the political and personal dynamics of the institutions they are trying to reshape" was a common deficiency, as was "the lack of interest in reform among the power-holders in the legislatures of [certain] countries" (1999). Clearly, political will is a prerequisite for legislative strengthening. In Bolivia, the multipartisan Committee for Legislative Modernization,

which was established in 1995, took ownership of the reform process and functioned as the internal locus for identifying problems, setting priorities and proposing future directions; despite partisan bickering, by 1999 it had survived three national elections and three changes of parties in power and had spearheaded constitutional and rules reforms which established direct elections for half of the lower house and required Congressional committees to conduct public hearings; similar mechanisms were established, with varying success, in Colombia and Nicaragua. In Uganda, a private-member bill established an independent Parliamentary Commission, a joint parliamentary-executive board that oversees the management and modernization of the National Assembly including, among other things, the creation of a permanent, independent non-partisan staff for parliament and the co-ordination of donor support to parliament (USAID, 2000). By contrast, in Nepal the first speaker was instrumental in legislative reform, but his successor showed less interest in the program (Lippman and Emmert, 1997). In the case of support to the budget oversight function, this means that the Chairs of the "money committees", as well as the parliamentary leadership, need to be fully supportive of the capacity building efforts.

Furthermore, legislative strengthening efforts should be seen as complements to related governance improvements. To quote Carothers (1999)

".. treating legislatures as self-contained entities that can be fixed by repairing internal mechanisms is unlikely to get very far. Rather,... it is more useful to think in terms of helping a society develop the capacity to enact laws that incorporate citizens' interests.. [this means] working with many people and groups outside the legislature, including political parties, citizens groups, the media, officials from the executive branch, jurists and others." (page 188)

In the case of money committees, this means dovetailing reform activities with broader efforts to enhance government accountability and strengthen public financial oversight and ensuring that training activities include participants from other stakeholder organizations, such as the Ministry of Finance, the Auditor General's Office and representatives from civil society.

Box 5: Analyzing the Political Context

Lippman and Emmert recommend using a typology to analyze the political context within which the legislature operates:

Type 1: No democratic legislature (pre-democratic country, failed state or "rubber stamp" legislature)—here, only limited success can be anticipated (at best)

Type 2: Just after a "defining" democratic event (such as the establishment of democratic institutions or the redrafting of the constitution), such as the East European and CIS countries in the early 1990s—often, timing is of the essence and the nature and extent of the event may determine the type of assistance

Type 3: Fledgling democratic legislature. Here, helping the legislature define its basic role and function may be helpful.

Type 4: Established democratic legislature. Here, focus could most usefully be on helping the legislature become more accountable, transparent and responsive.

It is also important to analyze the legislature's relationship with other branches of government, political parties and civil society. In particular, it is important to determine if the legislature has real power, to what extent political parties respect and cooperate with each other and how civil society organizations and interest groups interact with the legislature.

Source: Lippman and Emmert (1997)

And finally, legislative strengthening is a long-term process, which requires long-term commitment—but short term visible results are both possible and important. Sometimes there are time constraints in terms of training new legislators at the beginning of their term, but the requirements of sustainability and institutionalization typically require a more long-term process, and even then the results may not always be tangible. UNDP's program in Ethiopia faced this issue by the legislature holding regular public hearings as a visible impact of the project (UNDP, 2001).

That legislative assistance will continue to evolve, with growing emphasis on, *inter alia*, training legislators on budget processes and improving research and information capabilities, is inevitable (Manning and Stapenhurst, 2002). Indeed, while it is necessary to examine the legislature's needs holistically, including looking at the role of legislators and staff, and the legislature's relationships with other branches of government and the public, enhancing the legislature's role in the budget process can be a powerful tool in developing checks and balances within governance systems; in Bolivia, for example, support to the staff of Congress facilitated more capable analyses of the budget which in turn improved the ability of legislators to become more meaningfully engaged in a policy area that hithertofore had been the sole preserve of the Executive (Lippman and Emmert, 1997).

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