Strengthening Legislative Financial Scrutiny in Developing Countries

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Acronyms

ACPAC	Australasian Council of Public Accounts Committees
APAC	Association of Public Accounts Committees (South Africa)
AWEPA	European Parliamentarians for Africa
BID	Banco Interamericano de Desarrollo
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
CAD	Canadian Dollar
CEBA	Committee for Economic and Budgetary Affairs (Vietnam)
CIDA	Canadian International Development Agency
CMI	Christian Michelsen Institute
CPA	Commonwealth Parliamentary Association
DFID	Department for International Development (UK)
ECA	Economic Commission for Africa
FACT	Financial Accountability and Anti-corruption Team (DFID)
FES	Friedrich Ebert Stiftung
GDP	Gross Domestic Product
GPPS	Global Programme for Parliamentary Strengthening (UNDP)
GTZ	German Technical Cooperation
IBP	International Budget Project
IDASA	Institute for Democracy in South Africa
IDB	Inter-American Development Bank
IIDEA	International Institute for Democracy and Electoral Assistance
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPU	Inter-Parliamentary Union
MOFNP	Ministry of Finance and National Planning (Zambia)
MP	Member of Parliament
MTBPS	Medium Term Budget Policy Statement (South Africa)
MTEF	Medium-term expenditure framework
NAO	National Audit Office (UK)
NDI	National Democratic Institute for International Affairs
NORAD	Norwegian Agency for Development Cooperation
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PC	Parliamentary Centre

PEFA	Public Expenditure and Financial Accountability Program
PEMFA	Public Expenditure Management and Financial Accountability reform programme (Zambia)
PRSP	Poverty Reduction Strategy Paper
SAI	Supreme Audit Institution
SCOPA	Standing Committee on Public Accounts (South Africa)
SIDA	Swedish International Development Cooperation Agency
SPSEE	Stability Pact for South Eastern Europe
SUNY-CID	State University of New York Center for International Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USD	United States Dollar
WBI	World Bank Institute
WFD	Westminster Foundation for Democracy

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Executive summary

The success of direct budget support requires robust oversight at the country level, including financial scrutiny by the legislature, to ensure that resources are utilised to combat poverty and to mitigate fiduciary risk. This calls for effective legislative engagement with all four stages of the budget process, i.e. drafting, approval, implementation and audit, underpinned by the provision of comprehensive, accurate, appropriate and timely information.

However, legislative bodies in developing countries frequently encounter obstacles to fiscal oversight. These include insufficient legislative involvement in medium-term planning, as well as limited formal authority and organisational capacity to review the annual budget. Moreover, large deviations from approved budgets during implementation and ineffective audit processes undermine parliamentary authority. Low levels of fiscal transparency hinder oversight. Moreover, political dynamics may not be conducive to independent parliamentary scrutiny.

The promise of effective financial scrutiny is that it enhances accountability, participation and transparency and that it deepens democracy. On the other hand, there is evidence that powerful legislatures can undermine fiscal discipline, which highlights a possible dilemma for legislative strengthening work. However, institutional safeguards can mitigate the risk of legislative financial indiscipline, in particular disallowing amendments that lead to higher spending or deficits.

The global survey carried out as part of this project indicates that legislative strengthening work focusing on financial scrutiny is not widespread. Out of 71 organisations considered, only 15 are core actors, 11 of which are active globally and four are regional core actors. Donors employ a variety of strategies and approaches to enhance legislative capacity, but their activities tend to focus on the approval stage and parliamentary audit. The impact of these capacity building activities is often hard to assess.

DFID's own work in this area is not extensive. Some projects relate to legislative financial scrutiny as part of a broader set of activities, such as parliamentary reform or public financial management programmes, but most lack a comprehensive approach to this work. Support for financial committees is the main focus, in particular Public Accounts Committees. Projects are vulnerable to political risks beyond their influence, and achievements are fragile and require long-term commitment to be entrenched. Nonetheless, where the approach is comprehensive, takes a long-term view and builds on local demand and broad-based support, this work is potentially very cost-effective and can deliver substantial governance improvements.

The report recommends that DFID should:

1. Significantly scale up this work;
2. Avoid simplistic institutional replication of the Westminster model, which may not be suitable in other contexts;
3. Consider the wider political context and build on indigenous demand and broad-based support for greater parliamentary oversight of the budget;
4. Develop a comprehensive approach that considers the requirements for legislative scrutiny throughout the budget process, acknowledges linkages to other actors, complements other reforms, and is prioritised and sequenced;
5. Develop a long-term approach in a core set of priority countries that allows for temporary setbacks and takes on board the lessons;
6. Invest in analytic work on legislative budgeting to assess the effectiveness of fiscal oversight and relevant donor support;
7. Pool information on legislative strengthening to maintain an up-to-date overall picture of its activities and as a resource for staff; and
8. Enhance co-ordination on the overall approach to this work and exchange experiences with other main actors at regular intervals.

1 Background and approach

The Department for International Development (DFID) supports a move to direct budget support, which is gaining in importance as an aid modality (De Renzio 2006). However, the success of this strategy relies heavily on the robustness and integrity of the recipients' own systems to ensure economic, efficient and effective use of resources. Strengthening governance capacity in partner countries is also part of a proactive strategy of managing the risks associated with this approach (DFID 2004: 10). The UK National Audit Office (NAO) is currently conducting an audit of direct budget support, and fiduciary risk as well as the effectiveness of this approach will be in the spotlight. Recognising these challenges, the 2006 White Paper demands 'continuing efforts to improve the management of public finances' (DFID 2006: 24). It emphasises that oversight institutions have an important role to play in this regard and pledges (ibid: 28): 'The UK will... [w]ork in our partner countries to help make public institutions more accountable, for example by strengthening parliamentary… oversight.'

The Financial Accountability and Anti-corruption Team (FACT) at DFID commissioned this report to present recommendations on: (a) how to work with legislatures to improve financial accountability and promote public budgeting; and (b) how to improve donor co-ordination and harmonisation in legislative strengthening, particularly in the context of Poverty Reduction Budget Support. This includes the identification of key issues and trends in legislative strengthening for improved budget oversight; a review of lessons learned in donor support to legislative budgeting and the identification of entry points; practical, operational guidance to country offices; and contributing to internal policy review processes.

While the focus on financial scrutiny might appear quite narrow, it should be noted that this report builds on an excellent earlier report compiled for DFID by Alan Hudson from the Overseas Development Institute (ODI) and Claire Wren from the One World Trust, which looked at parliamentary strengthening from a broader perspective (Hudson and Wren 2007). Given the move towards direct budget support, strengthening financial scrutiny in particular is likely to gain considerably in importance in future years, both to safeguard UK taxpayers' money as well as to ensure the effectiveness of this approach by enhancing institutional safeguards in recipient countries. This report acknowledges the contribution of the earlier report, and deepens the discussion with an analysis of this particularly important aspect of legislative scrutiny.

The budget process is a fundamental accountability mechanism because of its highly periodic nature and because it allows a comprehensive review of government activities.[1] In modern democracies, the approval of the budget is typically required on an annual basis and follows an explicit timetable. This means that the legislature has a regular and predictable opportunity to scrutinise the policy and administration of the government. The centrality of supply for the ability to govern means that the executive has an incentive to take legislative scrutiny seriously, if it is effective. Framing the debate over financial scrutiny as a struggle of executive versus legislature can be misleading, however, because sound budgeting requires both a competent executive as well as a legislature that has the capacity for effective scrutiny and responsible decision-making. How DFID can contribute towards realising this vision of a constructive legislative role in the budget process is the subject of this report.

To address the key questions set out in the Terms of Reference for this project, the report is structured as follows. The second section provides a generic overview of the annual budget process from a legislative perspective. This entails an outline of the four stages of the budget process (drafting, approval, execution, and audit) as well as identifying the specific potential contribution of a legislative body at each stage of this process. This section draws on survey data to sketch broad cross-national patterns and trends (OECD 2002b, OECD and World Bank 2003, IBP 2006, Wehner 2006a). The third section provides an overview of frequently encountered obstacles to effective legislative financial scrutiny in developing countries, drawing mainly on case study literature. Section four reviews the pros and cons of strengthening legislative involvement in the budget process. The section outlines how the benefits of increased legislative involvement might be realised while at the same time managing possible pitfalls. The section draws on secondary literature on the determinants of fiscal performance, case study literature highlighting the benefits of legislative scrutiny, fortified with empirical analysis using an extended version of a large cross-national dataset (Persson and Tabellini 2003 and 2004).

[1] Other practices for legislative oversight include, for example, question time and commissions of inquiry (Pelizzo and Stapenhurst 2004).

Section five summarises the results of a survey of organisations that carry out activities with the aim to strengthen legislative financial scrutiny. It draws on a web-based survey of potentially relevant institutions, as well as a follow-up email survey and a series of telephonic interviews conducted with officials in particularly relevant institutions. Section six adds a review of relevant activities by DFID, which draws on a review of project documentation and interviews with staff involved in relevant projects. These two sections aim to draw together the lessons from this work to date, and deepen the work by Hudson and Wren (2007) with a focus on financial scrutiny. The analysis in sections five and six forms the basis for the final section, which summarises the main findings and develops a set of recommendations for DFID.

2 The budget process from a legislative perspective

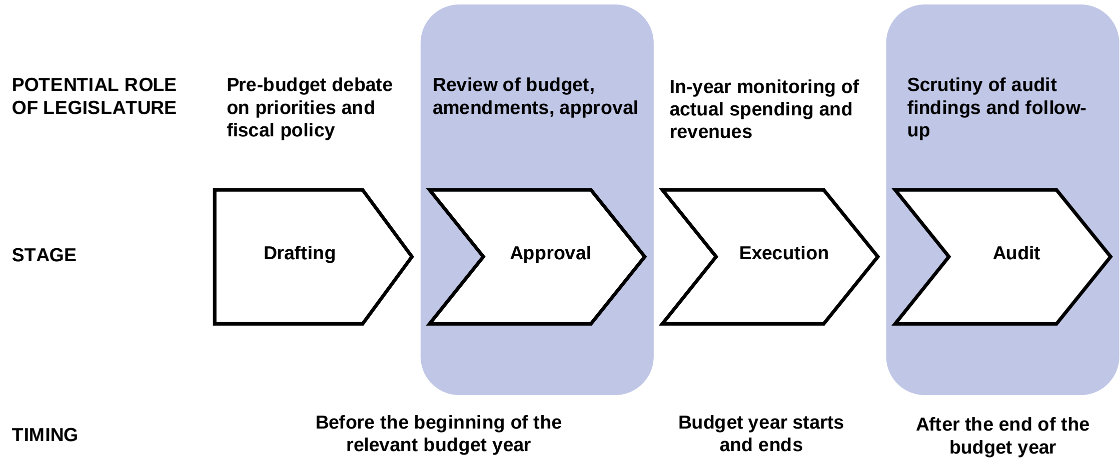
The purpose of this section is to provide an outline of an annual budget process, and to highlight the potential role of a legislature at each stage. Budgets have to be passed regularly, usually on an annual basis, in order to ensure that the government continues to operate.[2] A typical annual budget process in the public sector follows a timeline that can be separated into four different stages: drafting, legislative approval, execution, and audit and evaluation (Lee and Johnson 1998). This basic sequence is represented in Figure 1, which provides a guide to this section of the report.

The stages heuristic is useful for studying budget processes, but there are many differences across countries for instance with regard to the influence of various actors and the timing of the process. Moreover, while the annual budget process remains the main building block, many countries have extend the time horizon of budgeting with medium-term expenditure frameworks (MTEFs) as well as, in some of the industrialised democracies, long-term fiscal projections (Tarschys 2002, Heller 2003). In developing countries, Poverty Reduction Strategy Papers (PRSPs) may provide the basis for a multi-year framework. Moreover, the annual budget process is embedded within a broader socio-economic and political environment that affects the potential for legislative scrutiny (Hudson and Wren 2007). I return to this point in the following section. Here, I start with exploring the

[2] In some jurisdictions, mostly at subnational level, two-year budgets are preferred to an annual budget. In the US, a move to biennial budgeting at the federal level is a perennial reform idea, which is unlikely to be implemented (Whalen 1995, Fisher 1997). Slovenia provides a rare example of a national government that uses biennial budgets (Kraan and Wehner 2005).

potential role of legislatures at each stage of the budget process, and then consider budget transparency as a cross-cutting issue that affects legislative potential to engage with each stage of the budget cycle.

Figure 1: The basic sequence of an annual budget process



2.1 Drafting stage

The drafting stage is concerned with compiling a budget proposal that can be submitted to the legislature. Realistic macroeconomic projections are the basis for crafting a sound budget because revenues, as well as expenditures, are sensitive to economic performance (Crippen 2003). The fiscal policy of a government sets overall limits within which tax and spending choices have to be made. These choices are increasingly guided by medium-term fiscal frameworks (Boex et al. 2000), also in developing countries (Le Houerou and Taliercio 2002, Walker and Mengistu 1999). In most countries the drafting stage involves negotiations between spending departments and the central budget office about the allocation of funds across different functions. A consolidated draft is typically approved at the highest political level, which is also appropriate for final decisions on contentious issues that could not be resolved at the administrative level.

The drafting stage has traditionally been a very secretive affair, and in most countries it remains largely internal to the executive. However, there are possibilities for legislative involvement in the drafting process. For instance, a finance or budget committee in the legislature can request briefings on the preparation of an upcoming budget, or powerful legislators may be involved in informal discussions and negotiations. In addition, some parliaments engage with the process through formal pre-budget debates that focus on broad priorities and fiscal policy objectives for the medium-term. One third of legislatures in OECD countries hold formal pre-budget debates (OECD 2002b: 161). Elsewhere, South Africa's Medium Term Budget Policy Statement (MTBPS), which was tabled for the first time in 1997, is an example of this practice. Pre-budget reports facilitate a discussion of broad picture issues, and can stimulate public debate, but it is often not clear to what extent this substantively influences budget policy. Very few legislatures formally approve budgetary parameters over the medium-term prior to the tabling of the annual budget, as the Swedish Parliament did for some years in the Spring Fiscal Policy Bill (Blöndal 2001, Wehner 2007). In most countries, the role of the legislature during the drafting stage remains limited.

2.2 Approval stage

During the legislative stage parliament takes centre stage and scrutinises the expenditure and revenue proposals of the executive. The principle of parliamentary consent to taxation first gained constitutional recognition in the Magna Carta in 1215, and the 'power of the purse' became a foundation of modern liberal democracy. Once a comprehensive budget has been drafted, it has to be approved by the legislature to become effective. Arguably only the US Congress retains the technical capacity, in the form of an extensive legislative budget office, to draft a budget on its own (Anderson 2005). In most countries, the legislature approves, rejects or amends the budget tabled by the executive. The exact form of legislative approval is less important than the fact that it must be comprehensive. In some cases, the legislature passes separate legislation for appropriations and changes to the tax code; in others it considers a unified budget bill. The principle of legislative authorisation of all public spending and taxation ensures the rule of law in public finance. In many countries, this is the most visible stage of parliamentary engagement with public finances.

The comparative literature on legislative budgeting has expanded in recent years, and highlights key institutional factors that affect the extent of legislative influence at the approval stage of the budget process (e.g. Santiso 2004a, Wehner 2006a). A first requirement is that the budget has to be tabled sufficiently in advance of the fiscal year to which it relates to allow for proper legislative scrutiny. The Organisation for Economic Co-operation and Development (OECD

2002a) recommends a minimum of three months.[3] Second, a developed committee system enables specialisation that generates expertise across policy areas (Mezey 1979: 64). Legislatures typically have a dedicated finance or budget committee, and some also involve sectoral committees. Moreover, without a minimum of constitutionally guaranteed powers, a meaningful role in the approval of the budget is unlikely. Most legislatures have formal powers to at least reduce existing expenditure items and many have more permissive powers (Wehner 2006a, Inter-Parliamentary Union 1986: Table 38A). In presidential systems of government, amendment powers may be counterbalanced with an executive veto (Haggard and McCubbins 2001, Cameron 2000).[4]

In addition to institutional features, the crucial impact of broader political dynamics has to be acknowledged. Clear political majorities in the legislature enhance the predictability of voting outcomes. By contrast, if the legislature comprises several parties without one of them having a majority of seats, the executive has 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 (Volkerink and De Haan 2001). However, clear party majorities only enhance the predictability of legislative voting behaviour when they are matched with tight party discipline, which partly depends on the incentives created by the electoral system (Carey and Shugart 1995, Hallerberg and Marier 2004). The overall political environment can also be decisive. When democratic fundamentals such as freedom of speech are impaired, this clearly limits the potential of an open and frank legislative debate on budget policy.

2.3 Execution stage

Implementation of the budget commences with the beginning of the fiscal year, unless approval is delayed and interim measures are executed (Wehner 2006a: 770). The implementation stage is mainly in the hands of the executive. Funds should be apportioned to spending departments in line with the approved budget. Sometimes, however, cash availability constraints lead to certain expenditures

[3] However, actual practice amongst its members varies between eight months in the US and less than a single month in the UK and some other countries (OECD and World Bank 2003: 2.7.b).

[4] There are two main types of veto. A package veto allows the executive to reject a piece of legislation in its entirety, whereas a line item veto allows the executive to reject particular items or provisions in a piece of legislation approved by the legislature. The effect of different types of vetoes on public spending is contested (Carter and Schap 1990).

being cut below voted amounts and other adjustments to approved spending. Frequent adjustments may reflect uncertainties in the economic environment but 'continuous' budgeting is also a symptom of a poorly functioning budget system (World Bank 1998). Some countries use contingency reserves to cover unforeseeable spending needs. However, such reserves need to be clearly accounted for and should not be excessive in size. Any significant adjustments to the budget should be captured in adjustment or supplemental appropriations that are tabled in the legislature for approval. In-year monitoring by the legislature provides an opportunity to pick up problems before they result in significant deviations between the approved budget and actual spending. This requires that regular, e.g. monthly, expenditure and revenue updates are available.

2.4 Audit stage

The audit and evaluation stage follows the end of the fiscal year. A Supreme Audit Institution (SAI), such as an auditor general or audit court, is tasked with assessing government accounts and financial statements (Stapenhurst and Titsworth 2001, White and Hollingsworth 1999). The International Organisation of Supreme Audit Institutions (INTOSAI) has adopted fundamental standards for national audit that stress constitutional and functional independence, moral integrity, as well as comprehensive and accessible reporting (INTOSAI 1998). Traditionally, supreme auditors have focused on compliance and financial audit, but more recently performance or 'value for money' audit has gained in importance in most OECD countries. The timely production of audit reports requires that departments produce their financial statements in time for the audit institution to meet the prescribed deadline. If the audit process is effective, its findings are reflected in future budgets. For this purpose, some audit institutions produce regular tracking reports that assess the extent to which the executive is addressing the issues that were raised.[5]

The relationship between parliament and the audit institution can take a number of forms. In the court model tradition, where the audit institution has judicial status, parliamentary engagement leads to a formal vote on public financial

[5] The Results Report of the German Federal Court of Audit is produced two years after each Annual Report and systematically monitors the implementation of each recommendation. The Status Reports published by the Canadian Auditor General since 2002 have a similar function, but they are more selective and focus on the most significant issues. In the UK, particularly important issues are occasionally followed-up with a new audit report (e.g. NAO 2005).

management.[6] In contrast, the purpose in the Westminster tradition is primarily to generate recommendations on how to improve public spending. In this model, parliament is the principal audience of the auditor general. 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. Parliament is the forum in which these reports receive public attention, which creates pressure on government to respond to 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, as for instance in the UK.

Legislative committee capacity is widely regarded as essential for effective scrutiny of audit findings (SIGMA 2002, Santiso 2006b). There are different options, including the use of audit sub-committees of the budget committee (Germany), the devolution of audit scrutiny to relevant departmental committees (New Zealand), or a dedicated Public Accounts Committee (PAC). The UK House of Commons created its PAC in 1861 as part of the Gladstonian reforms and received the first complete set of accounts in 1870 (McGee 2002). In the UK, the chairperson of the committee is traditionally a member of the opposition, and the committee fosters a non-partisan approach that was identified as an important success factor in a recent study (see Box 1). In the UK PAC and many of its counterparts the committee questions the accounting officer rather than the relevant minister, which is related to the fact that it has no mandate to question underlying policy, only its administration (Wehner 2003).[7] Many Commonwealth countries in particular have adopted similar institutional setups.

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[6] This practice dates back to 1819, when the French National Assembly in 1819 decided to pass an annual law to approve the execution of each budget (Stourm 1917: 595). Accounting officers were held personally responsible for any misspent funds until the passing of a formal vote by parliament for granting discharge. Although nowadays the procedure tends to be a formalistic affair in most cases, refusal to grant discharge remains 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.

[7] This distinction between political and administrative responsibility is, of course, not watertight. However, the focus questioning the administrative rather than political head of a department is one useful mechanism to try to ensure that committee debates do not become overly politicised.

Box 1: Factors ensuring the effectiveness of Public Accounts Committees

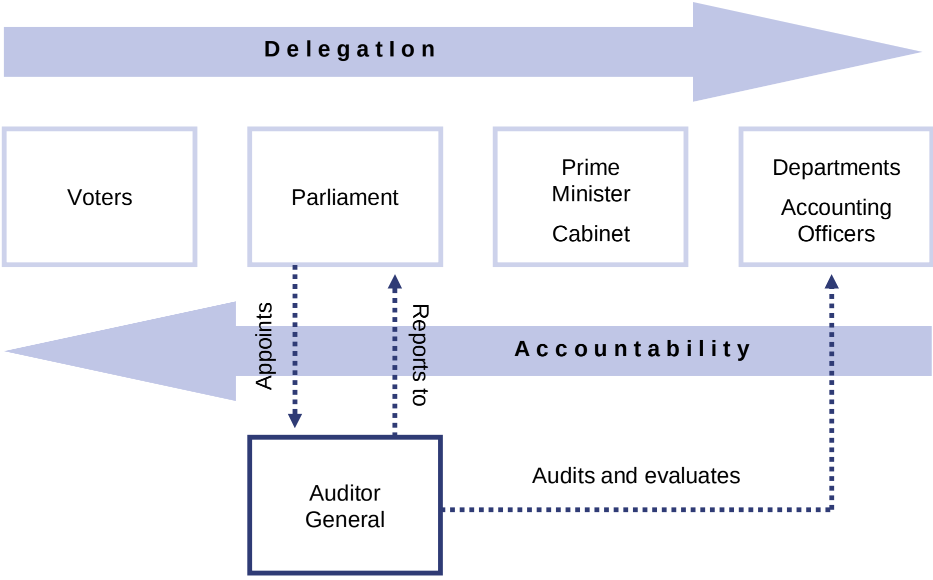
In a survey of 35 PACs respondents were asked to identify which factors are important for ensuring the effectiveness of the committee. Frequent answers include:

- A broad scope to investigate all expenditures of government.
- The power to choose subjects for examination without government direction.
- The power to make recommendations and publish conclusions.
- Solid technical support from the auditor and research staff.
- The maintenance of a non-partisan climate.
- Involving the public and encouraging media coverage.

Source: Pelizzo et al. (2006).

Given the fact that DFID is very active in Commonwealth countries, and supports several projects with PACs, it is worth to briefly expand on this particular model of accountability. Figure 2 depicts the institutional relationship in the Westminster model of government as a chain of delegation where voters elect parliamentarians, to whom the government is responsible. The political executive in turn relies on the bureaucracy for the implementation of policies, and the accounting officer of a department (such as the Permanent Secretary in the UK) is formally responsible for its administration. The audit process supports the accountability process and facilitates oversight by channelling information about the implementation of policy directly to the House of Commons. The institutional setup for accountability is different where the SAI has judicial character rather than explicitly linked to the legislature and in presidential systems with a directly elected executive. Whatever the exact institutional setup, legislative access to audit information can contribute towards minimising agency problems and strengthening oversight of the bureaucracy (Bendor et al. 1985, Banks 1989).

Figure 2: Audit and accountability in the Westminster model



Source: Adapted and expanded from Murray and Nijzink (2002: 89).

The four stages outlined above provide a useful framework for thinking about different budget systems and the roles of legislatures. However, the stages heuristic is also simplistic. At any one time a number of budgets are at different stages of the process. For example, while one budget is being drafted, another budget might be awaiting legislative approval, yet another is in the process of being implemented, and a fourth one that has already been implemented might be subject to audit and evaluation. The overlapping nature of budget cycles means that the maintenance of legislative oversight is a complex challenge. It is not surprising that there may be trade-offs involved. A legislature such as the US Congress, which spends eight months or more on formulating budget policy, puts relatively less emphasis on ex post scrutiny and does not maintain a specialised audit committee. On the other hand, parliaments that have ceased to make changes to the budget during the approval stage, such as the UK House of Commons, can devote more time to audit-related activities. In short, there is no single model for legislative financial scrutiny (Box 2).

Box 2: Diverse models of legislative budgeting

Schick (2002: 33-35) proposes four scenarios for legislative budgeting: The first involves a legislature with more information, but no real influence on budget policy. In the second scenario, the legislature develops a fully fledged capacity for budgeting, along the lines of the US model, which requires strong political will and may exacerbate conflict. The third scenario focuses parliamentary scrutiny on government performance and results, with a strong ex post emphasis, as in the UK. Finally, a legislature might enter a co-operative partnership with the government in shaping medium-term frameworks and budgets. Only a few contemporary legislatures can be said to approximate this role, possibly the Swedish Parliament.

2.5 Transparency

Legislative scrutiny and oversight throughout the budget cycle require comprehensive, accurate, appropriate and timely information to be supplied by the executive. The OECD (2002a) has spelled out what types of budget documentation ideally should be available (see Box 3; also refer to IMF 1998 and 2001). The supply of budgetary information is often regulated in public financial management legislation, but other mechanisms can also be powerful tools to ensure fiscal transparency, in particular freedom of information laws. In Finland, for example, spending requests from ministries are publicly available as a result of the country's Freedom of Information Act. This has broadened access to information relating to the drafting process. Moreover, it appears to have had a positive effect on fiscal responsibility, as spending ministers submit more realistic proposals to avoid embarrassing cuts or revisions (Blöndal et al. 2003: 126-127).

To make effective use of available fiscal information, a legislature requires analytic capacity. In particular specialised budget research offices can support legislators to deal with this often complex information. The US Congressional Budget Office (CBO) with about 230 staff is by far the largest such body (Anderson 2005). Some legislatures have smaller research units that specialise in budget analysis, and yet others have general research units that can deliver some budget analysis when needed. However, many legislatures lack budget research capacity (Wehner 2006a, OECD and World Bank 2003: 2.10.e). Independent think tanks, private sector economists and academics can be additional sources of independent analysis. In some countries, political parties in the legislature employ specialised budget researchers.

Box 3: What types of budget documentation should be available?

The OECD Best Practices for Budget Transparency deal with the availability of budget reports and specific disclosure requirements. The OECD recommends the following documents:

- A comprehensive budget that includes performance data and medium-term projections.
- A pre-budget report that states explicitly the government's long-term economic and fiscal policy objectives, economic assumptions and fiscal policy intentions for the medium-term.
- Monthly reports that show progress in implementing the budget, including explanations of any differences between actual and forecast amounts.
- A mid-year report that 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 that should be audited by the supreme audit institution and released within six months of the end of the fiscal year.
- A pre-election report that illuminates the general state of government finances immediately before an election.
- A long-term report that assesses the long-term sustainability of current government policies.

Source: Adapted from OECD (2002a).

3 Challenges to financial scrutiny in developing countries

The purpose of this section is to provide an overview of some of the key challenges to effective legislative financial scrutiny in developing countries, with reference to the framework outlined in the previous section. Examples of where these were tackled are also provided. This section again relies on survey data to highlight broad patterns, as well as specific examples and case study material. To structure the discussion, I closely follow the stages framework outlines in the previous section, but there is an additional emphasis on cross-cutting issues and broader environmental factors. I conclude with a summary of typical problems with legislative financial scrutiny in developing countries.

3.1 Lack of involvement in setting strategic priorities

The potential for parliamentary involvement during the drafting stage and in strategic policy setting remains severely hampered in many developing countries. First of all, budget secrecy remains a strong tradition. Moreover, many legislatures are insufficiently involved in debating and setting medium-term priorities to guide resource allocation. For instance, a number of studies confirm that many parliaments in Africa have played a limited role in the drafting of PRSPs (Eberlei and Henn 2003, Mfunwa 2006). Involvement in MTEF processes has often been similarly limited, as documented, for instance, in a recent study by the Economic Commission for Africa (ECA 2006).

One reason is that the MTEF is not always fully integrated into the annual budget process. In Zambia, for example, there is an MTEF (Green Paper) but it is not sent to Parliament with the set of annual budget documents. Another reason for limited parliamentary involvement is that the budgetary time horizon in many developing countries is too short for medium-term plans and policies to have credibility. In their review of the experience with MTEFs in Africa, Le Houerou and Taliercio (2002: 26) point out that 'where budget execution… bears little resemblance to the voted budget… an MTEF is not likely to be taken seriously… by parliamentarians'. To make legislative engagement with medium-term plans and policies meaningful and worthwhile requires a close enough match between budgeted and actual figures to ensure budget credibility.

3.2 Rubber-stamp approval

Many parliaments in non-OECD countries have limited powers to amend the budget. A survey of parliamentary powers over the budget in 80 countries (see Table 6 in the Appendix) carried out for this research shows that during the 1990s, the majority of legislatures in traditional OECD countries had unfettered powers to amend the budget (14 out of 23). In a large sample of non-OECD countries, however, only about one fifth of legislatures had unconstrained powers (13 out of 57). Some developing countries have very severe formal restrictions. In Bangladesh, for instance, Parliament may not vary the amount of a grant or expenditure (article 90 of the Constitution). In Malawi, amendments require a recommendation of the Finance Minister (article 57(1) of the Constitution).

A lack of formal authority is frequently paired with other constraining factors, in particular under-resourced financial committees. A survey of nine African legislatures carried out by the ECA asked parliaments to assess the effectiveness of committees concerned with the budget (ECA 2006: Table 6). Not one of them reported to have strong financial committees, and only a single legislature (Rwanda) assessed effectiveness as 'moderate'. In addition, the amount of time available for budget deliberations was in most cases only about one month or less (ECA 2006: Table 5), whereas many legislatures in the industrialised democracies have several months to deliberate and decide on the budget (OECD and World Bank 2003: 2.7.b). Moreover, the timing of the budget is often not supportive of legislative financial scrutiny. In Zambia, the Constitution (article 117) requires the Minister of Finance to table the budget only within three months *after* the start of the fiscal year. The budget is typically passed well into the fiscal year and until then expenditures are undertaken on the basis of presidential warrants. Draft changes to the Constitution have been proposed to require approval before the beginning of the fiscal year, in line with a set of recommendations made by Parliament (Republic of Zambia 2000: 112).

In addition to such frequently encountered constitutional and institutional constraints, the political environment in which legislatures operate may not be conducive to strong fiscal oversight. Robust legislative deliberation requires a political environment that respects civil and political rights by guaranteeing fundamentals such as freedom of expression, the rule of law, and free and fair elections. Where these conditions are impaired, the independence of legislators can be severely undermined. Tightly controlled dominant parties that do not tolerate internal debate can also stifle legislative scrutiny. When parliament is merely a stepping stone to executive office, pleasing party leaders is more important than independent parliamentary oversight. Expectations of clientelism and patronage may undermine formal roles (Rakner et al. 2004, DFID 2007). Moreover, where only the opposition has incentives to criticise government, the majority may seek to curtail or undermine such debate (Messick 2002). In short, deficiencies in legislative financial scrutiny have at least as much to do with institutional problems as with political factors that affect the dynamics of the budget process and the incentives facing key actors (see also Power 2007, Wildavsky 1961). A prerequisite for successful strengthening work is to recognise the politics of the budget (see Box 4).

Box 4: Understanding the politics of the budget

In 2004, DFID commissioned three country studies (Ghana, Malawi and Mozambique) to conduct a political analysis of the budget process in developing countries. The studies highlight a gap between formal systems and informal practices, including clientelism and patronage, leading to distortions at all stages of the budget process. The work shows that public budgeting is inherently political rather than a purely technical process. This is important, because political factors impact on the potential for reform and provide both challenges as well as opportunities. Donors need to become more attuned to the political economy of the budget process, and can impact on the incentives for reform by encouraging transparency, participation and accountability. The work also highlights that well-timed and phased reforms are more likely to succeed than 'big bang' approaches seeking to impose models from abroad.

Source: DFID (2007).

3.3 Meaningless budgets

Perhaps the primary challenge to budgeting in developing countries is poor execution. Ad hoc adjustments during execution can result in some sectors receiving substantially more than budgeted and others only a small fraction thereof. For example, to curb financial indiscipline and improve macroeconomic performance, Zambia implemented a cash budget system in 1993, which prohibits net monetary financing of deficits. The Ministry of Finance and National Planning (MOFNP) was given authority to decide how much of the voted budget would be released each month, as well as how to distribute the released amount between different ministries and line items. This system improved aggregate fiscal discipline, but at the cost of increasing spending volatility and distorting the composition of spending (Stasavage and Moyo 2000), thereby reducing the budget to an 'inconsequential document' (Republic of Zambia 2000: 117).[8] Moreover, even when funding gets disbursed, it may not always reach the intended recipients (Ablo and Reinikka 1998).

[8] For 1997, the Auditor General reported a net under-expenditure of 31 per cent, but at the same time 25 per cent of all actual expenditures were unauthorised (Republic of Zambia 2000: 108). Absolute deviations between budgeted and actual figures remain high, averaging 30.3 per cent of primary spending on principal budget heads in 2004 (Republic of Zambia 2005: 20).

Where budgets are meaningless documents, the formal process of voting the budget in parliament is simply part of an elaborate 'theatre' (Rakner et al. 2004, DFID 2007). Without credible budgets, the legislature does not exercise control over public finances. One typical obstacle is insufficient in-year reporting on budget execution, which is often patchy and delayed. In such cases, the first opportunity to assess budget execution is when the annual audit report is tabled, which also may be delayed (see below). However, in-year scrutiny can be strengthened relatively quickly and effectively by forcing disclosure. For example, when the South African Parliament passed the Public Finance Management Act of 1999, one important change was to require the publication of actual revenue and expenditure from the National Revenue Fund within 30 days after the end of each month, and quarterly for provinces. The act also regulates the content of these disclosures (section 32). This substantially strengthened legislative access to information and capacity to oversee the execution of the budget.

3.4 Ineffective audit and accountability

The level of legislative audit scrutiny depends crucially on sound audit reporting. In developing countries, many SAIs cannot compete with the private sector in terms of conditions of employment, resulting in shortages of appropriately skilled staff. For instance, at a recent count, Zambia was home to 511 qualified accountants registered with the Zambia Institute of Chartered Accountants. Of these, 416 were Zambians and only four worked for the government (Burnell 2001: 45). This affects both the quality and timeliness of audit. A study of five African countries showed that the legislature receives audit reports, on average, about two years or more after the end of a financial year, whereas the statutory deadlines varied between six and 11 months (Fölscher 2002: 42). Such delays undermine legislative ability to hold the executive to account for past spending. Donor support to SAIs has strong potential to enhance audit scrutiny if it recognises legislative linkages (Santiso 2004b and 2006a).

Wehner (2003) outlines a range of other challenges, including government non-response to audit recommendations, the politicisation of the audit process, overbearing and intolerant executives, and lack of basic facilities and resources for parliamentary committees concerned with audit scrutiny (see also Pelizzo et al. 2006). In Ghana, for instance, donor support helped to substantially reduce delays in the finalisation of audit reports, but the under-resourced PAC was unable to keep up with the improved flow of audit reports. In South Africa, the

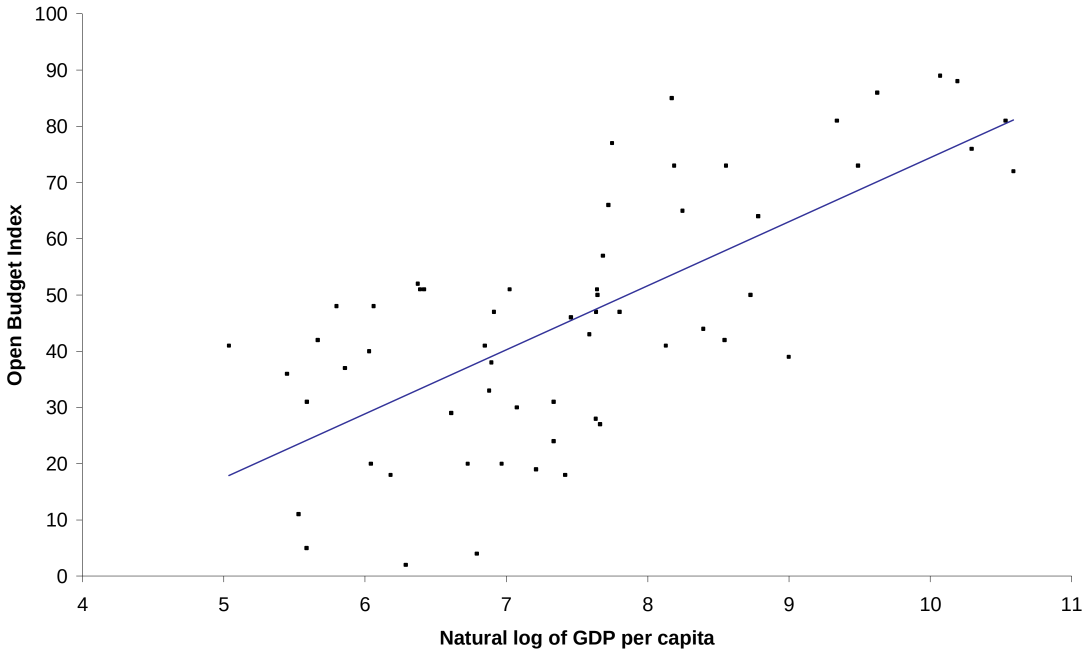
Standing Committee on Public Accounts (SCOPA) became heavily politicised after its attempt to play an active role in the investigation of a major arms procurement package met strong criticism from the governing party, which moved to tighten control over its independently minded members on the committee (Wehner 2003: 26).

3.5 Lack of transparency

A survey conducted by the International Budget Project (IBP) during 2005 highlights that developing countries have, on average, far less transparent budgets than richer countries. Based on data for a sample of 60 countries, the IBP constructed an Open Budget Index (IBP 2006; see also Gomez et al. 2005).[9] Although some country assessments have stirred controversy, this provides a comprehensive cross-national dataset on budget transparency. The index measures information provision at all stages of the budget process discussed above, drawing on the OECD Best Practices as well as the Code of Good Practices on Budget Transparency by the International Monetary Fund (IMF 1998 and 2001). There is a clear association between economic development and budget transparency (see Figure 3). This highlights that legislators in DFID partner countries are likely to lack the high quality fiscal information that their counterparts in most of the industrialised democracies can take for granted.

[9] The researchers in China withdrew their submission shortly before the official release date, so the results for this country were not published.

Figure 3: Developing countries have less transparent budgets



Notes: Open Budget Index data are from IBP (2006); high scores indicate a high level of budget transparency. GDP per capita in constant 2000 USD data are for 2005 and from the World Bank (2006). See Table 6 in the Appendix for details. Pearson's r = .704 and N = 59.

In addition, very few legislatures in developing countries have a critical amount of independent research capacity to assess budgetary information. Committees are often poorly resourced in terms of research staff, and most legislatures do not have a budget office (Wehner 2006a, OECD and World Bank 2003: 2.10.e, ECA 2006: Table 6). There are, however, some exceptions. Notably, in Uganda the Budget Act in 2001 established the Parliamentary Budget Office, and in Latin America countries such as Chile, Mexico and Venezuela have set up budget research bodies in the past few years (Santiso 2006a: 85-86). Such institutions can play an important auxiliary role in legislative oversight of the budget and support transparency (Anderson 2005). In addition, some civil society budget groups have forged effective linkages with legislators, raising their understanding of both budget process and policy issues (Robinson 2006).

Box 5: Common problems with financial scrutiny in developing countries

While there is substantial variation among the performance and role of national legislatures, there are also challenges that legislative bodies in developing countries frequently encounter:

- Lack of legislative involvement in medium-term planning and the setting of priorities that guide the annual resource allocation process.
- Limited formal legislative authority to engage with budget policy, for instance severely curtailed powers to amend the budget proposal tabled by the executive.
- Poorly resourced and ineffective financial committees that struggle to engage with the budget approval process, oversight of implementation, as well as the scrutiny of audit findings.
- Lack of access to independent research and analysis capacity in the form of a legislative budget office or a national audit body with close and effective linkage to the legislature.
- Dysfunctional budget systems that produce substantial gaps between approved and actual budgets, undermining the credibility of the annual budget and legislative authority in general.
- Overbearing executives that stifle the potential of legislative bodies to conduct frank debates about resource allocation, and informal institutions that undermine the formal process.
- Insufficient budget literacy within the legislature, both amongst elected members as well as support staff, and lack of political incentives to invest effort into financial scrutiny.
- Low budget transparency, which curtails legislative access to relevant information throughout the budget process and hampers debate, decision-making and oversight.

The issues highlighted in this section, summarised in Box 5, point to some of the entry points for legislative strengthening work, such as support for financial committees and budget analysis capacity. At the same time, this discussion underscores that many of the factors that undermine financial scrutiny in developing countries stem from broader problems, for instance in the public financial management system. More open budget preparation, credible medium-term planning, enhanced capacity for budget execution and timely audit reporting are bound to positively affect legislative potential for effective oversight. Moreover, political constraints and informal practices may limit the role of legislators in the budget process. Legislative strengthening work has to be sensitive to this wider systemic and political context.

4 The potential benefits and risks of legislative strengthening

Opinions on the desirability of active legislative involvement in budgeting differ greatly. Some regard legislative scrutiny as essential for accountable and transparent government; others highlight the risks to fiscal discipline that may be posed by legislatures that actively amend executive budget proposals. In this section, I review the pros and cons of a strong legislative role in the budget process, by outlining the potential benefits and risks associated with it. I then discuss to what extent the risks can be mitigated while realising the benefits.

4.1 Potential benefits

Legislative scrutiny is fundamental for ensuring accountability of the executive. In broadest terms, accountability can be thought of as an obligation to answer for the execution of one's assigned responsibilities (Murray and Nijzink 2002: 88). Answerability has to be matched with consequence if performance falls short of expected standards (White and Hollingsworth 1999: 6). In democratic countries ultimate accountability of the executive is to the electorate, but several years can pass in between elections. During this interval 'horizontal accountability' in the form of independent checks and balances plays an essential role in safeguarding government integrity (O'Donnell 1998). Ex ante scrutiny of the draft budget supports accountability for policy, and ex post scrutiny of audit findings supports accountability for its implementation. A lack of accountability is widely regarded as a precondition for corruption (Klitgaard 1998). Case study evidence confirms that budgeting without effective checks and balances can provide an open door to corruption and poor fiscal mismanagement (Santiso 2004a, Burnell 2001).

The importance of horizontal accountability is more than academic. A recent study finds a strong correlation between legislative strength and democratisation. Fish (2006) combines 32 items into a Parliamentary Powers Index, which covers parliament's ability to monitor the executive, its freedom from presidential control, its authority in specific areas, including public finance, and the resources at its disposal. Using data for a sample of all post-communist countries, he finds that strong legislatures are associated with substantial democratic consolidation: 'the presence of a powerful legislature is an unmixed blessing for democratization' (Fish 2006: 5). This suggests that young democracies may benefit from enhanced horizontal accountability engendered by robust legislative scrutiny.

Second, legislatures provide forums for public debate on the budget and policy more broadly. Where the executive drafting process is highly secretive, the tabling of the budget in the legislature is the first opportunity for public scrutiny. The budget speech is usually a major media event that is widely covered. Legislatures can further support public debate by allowing access to committee deliberations on the budget. In OECD countries, almost two-thirds of legislatures (17 out of 27) have open committee meetings when discussing the budget (OECD 2002b). Moreover, more than half of PACs in the Commonwealth hold meetings that are open to the media and the general public (McGee 2002: 99). The reorientation of legislative bodies towards openness and accessibility is supported by bodies such as the Commonwealth Parliamentary Association (CPA), which has developed recommendations for media access (CPA 2003). Through open deliberations on the budget, legislatures can help to broaden and deepen public debate, leading to better understanding of constraints and enhancing commitment to the budget.

Moreover, legislatures can help to ensure a balance of views and inputs into budgetary decisions by calling for submissions on the budget. 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. Often, such groups offer unique and pro-poor perspectives on budget policy, focusing attention on how resource allocation affects marginalised and vulnerable groups in society. This is also one aspect where work with civil society and legislatures can produce synergies. A recent study identified the marginalisation of legislative bodies as a key obstacle to civil society engagement with the budget process (Robinson 2006). Hence, support to civil society and legislative strengthening work are complementary.

The promise of effective financial scrutiny is that it enhances accountability of the executive, facilitates public debate and broadens participation. By generating demand for the disclosure of financial information, legislative scrutiny can enhance the transparency of the budget process where it was previously shrouded in secrecy, and minimise the possibility that executive corruption will go unnoticed. Accountability, public debate, participation and transparency are all concepts that are associated with a vibrant democracy. However, there is also a more sceptical perspective on the role of legislative bodies in the budget process, to which I turn in the following paragraphs.

4.2 Potential risks

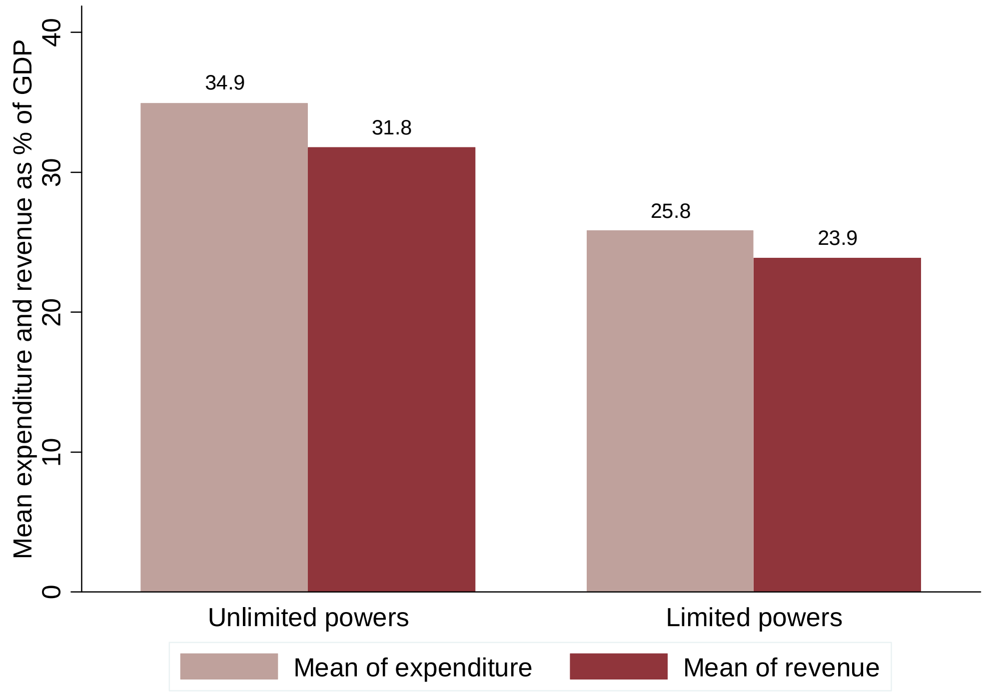
A large body of literature on the fiscal effect of budget institutions builds on the basic insight that the possibility for legislators to disperse costs and target benefits leads to higher spending the greater the number of decision-makers (Weingast et al. 1981: 654). Von Hagen and Harden (1995) develop the idea of ‘fiscal illusion’, where decision-makers do not internalise the full cost of their actions, and explore the aggregate implications of different decision-making procedures. Their response to what is also referred to as the ‘common pool resource’ or ‘fiscal commons’ problem is to impose hierarchical budget institutions. These are institutions that centralise budgetary decision-making in the hands of the finance minister, who is more likely to consider overall costs than spending ministers, and hence contain free-riding and support fiscal discipline (Poterba and Von Hagen 1999, Strauch and Von Hagen 1999).

This approach has spawned a substantial body of empirical work on the fiscal effects of budget institutions, which includes findings relating to the budgetary role of legislatures. In a groundbreaking study prepared for the European Commission, Von Hagen (1992) argues that institutions that weaken the role of special interests in the budget process affect fiscal stability. Based on fiscal data for European Community countries in the 1980s, his empirical analysis finds support for the ‘structural hypothesis’ that a budget process with, amongst others, restricted powers of amendment for parliament is strongly conducive to fiscal discipline (ibid.: 53).

A widely cited paper by Alesina and colleagues (1996) was the first to extend the geographical application of this approach to include developing countries. Using a sample of 20 Latin American and Caribbean countries, they present evidence that the amendment powers of the legislature are a significant determinant of primary deficits. Using the same set of countries, Hallerberg and Marier (2004) argue that the common pool resource problem is particularly acute when the electoral system establishes strong incentives for legislators to seek spending targeted at particular constituencies, in which case institutional constraints are especially important for safeguarding fiscal discipline (Hallerberg and Marier

2004).[10] Other studies confirm that unfettered parliamentary powers over the budget undermine fiscal performance with evidence from the European Union (Hallerberg 2004), OECD countries (Wehner 2006b), as well as Central and Eastern Europe (Gleich 2003, Yläoutinen 2004, Fabrizio and Mody 2006).

Figure 4: Parliamentary powers and fiscal policy



Note: To ensure comparability, only countries for which both expenditure and revenue data were available are included (N = 76). Of these, 26 had parliaments with unlimited powers and 50 with limited powers.

Since most of the studies carried focus on industrialised or transition countries, I use a larger dataset by Persson and Tabellini (2003) to check whether these findings hold for a more diverse sample. This dataset includes central government fiscal data for a cross-section of 80 industrialised, transition and developing countries during the 1990s, including a number of DFID partner countries. Based on the data reported in Table 6 in the Appendix, I grouped countries into those with parliaments that have unlimited powers to amend the budget and those that restrict legislative amendment authority. Figure 4 displays the mean central government spending and revenue levels relative to Gross

[10] Moreover, global survey work has repeatedly found that parliaments are rated among the most corrupt institutions in a range of countries (Transparency International 2006: 13 and Table 6).

Domestic Product (GDP) for each group of countries. Spending in countries with unrestricted parliaments is 9 percentage points of GDP higher compared with those that impose amendment limits. Moreover, the gap between expenditures and revenues is greater in the former group, which as a result has an average deficit of -3.1 per cent of GDP, compared with -1.9 in the latter group. This suggests that fiscal performance is better with restricted legislative powers.

Of course, fiscal policy is influenced by a range of variables. To control for relevant economic, political, demographic, as well as geographical and historical factors, requires multiple regression analysis. To the dataset used by Persson and Tabellini (2003) I added a variable labelled AMLIMIT, which is coded one if there are formal constraints on the legislature's power to amend the budget and zero otherwise (based on Table 6 in the Appendix). The dependent variable is central government spending against GDP, and I include a range of controls discussed by Persson and Tabellini (see Table 8 for full definitions and sources).

Table 1 reports the results. Model one includes AMLIMIT plus the set of controls. The coefficient for AMLIMIT has the correct sign and is significant at the 5 per cent level. As a further robustness check, in column two I include the two main constitutional variables that Persson and Tabellini find to be associated with lower spending, i.e. presidentialism and a plurality rule electoral system. In column three, the sample is restricted to 'better' democracies, here defined by a Freedom House average score of below 3.5. Across these specifications, the coefficient for AMLIMIT remains statistically significant at the 10 per cent level or higher. While further in-depth econometric work is needed, which is beyond the scope of this report, these results are in line with other evidence that limits on legislative amendment powers mitigate the pro-spending bias in legislative budgeting. Even with a range of controls, unfettered amendment powers are associated with an increase in central government spending by more than 3 percentage points of GDP. This is evidence enough to take seriously the possible fiscal risks associated with powerful legislatures.

Table 1: OLS estimates of institutional effects on public spending

	(1)	(2)	(3)
AMLIMIT	-4.38	-3.51	-4.10
	(2.02)**	(2.00)*	(2.38)*
PRES		-5.72	-7.57
		(1.80)***	(2.71)***
MAJ		-4.87	-4.19
		(1.94)**	(2.64)
GASTIL	-2.05	-1.92	-1.38
	(1.17)*	(1.10)*	(2.69)
LYP	-0.14	-0.73	-0.14
	(1.92)	(1.90)	(2.62)
TRADE	0.02	0.02	0.01
	(0.02)	(0.02)	(0.03)
PROP1564	-0.15	-0.18	-0.19
	(0.35)	(0.34)	(0.40)
PROP65	1.06	1.00	0.78
	(0.39)***	(0.39)**	(0.51)
FEDERAL	-5.20	-3.89	-4.62
	(2.58)**	(2.40)	(2.81)
OECD	-3.53	-2.08	-2.48
	(3.49)	(3.26)	(3.70)
AFRICA	-1.79	2.19	0.94
	(4.39)	(4.73)	(6.02)
ASIAE	-5.41	-3.17	-7.38
	(2.84)*	(2.93)	(4.85)
LAAM	-7.62	-5.80	-6.42
	(2.75)***	(2.37)**	(3.14)**
COL_ESPA	2.02	8.00	11.53
	(4.86)	(5.32)	(5.99)*
COL_UKA	5.31	6.33	4.38
	(2.98)*	(3.15)**	(4.20)
COL_OTHA	-1.15	-2.45	-1.97
	(2.67)	(2.61)	(3.06)
Constant	40.29	48.84	47.52
	(18.03)**	(16.91)***	(22.99)**
Observations	80	80	62[a]
Adjusted R-squared	0.61	0.65	0.62

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%. Robust standard errors in parentheses. The dependent variable is CGEXP. See Persson and Tabellini (2003) and Table 8 for full definitions. [a] Sample restricted to countries with an average Freedom House score of less than 3.5.

4.3 Realising the benefits and managing the risks

The discussion highlights a possible dilemma for legislative strengthening work. Strong legislatures appear to be associated with several long-run benefits, notably democratic consolidation, but extensive legislative powers over budget policy are also associated with fiscal indiscipline. In particular in the initial phases of economic reform, executive dominance may even be desirable to ensure decisive decision-making. In the medium to long-run, however, excessive executive power and the absence of checks and balances can easily degenerate into autocratic rule and poor fiscal management (Santiso 2004a: 52). In other words, there might be a trade-off between a system's decisiveness and its resoluteness (Haggard and McCubbins 2001: 6). From a public financial management perspective, the challenge is to protect aggregate fiscal discipline, while allowing legislative scrutiny of government priorities and the implementation of programmes (see Table 2; Schick 2002).

Table 2: Basic elements of public expenditure management

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 programmes. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programmes.
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: 2).

The discussion in this section implies that legislative strengthening work should carefully consider the broader context. Institutional safeguards can mitigate the risk of legislative financial indiscipline, in particular disallowing amendments that lead to higher spending or deficits. If this is not possible, for political or other reasons, there might be second-best procedural mechanisms that might help to contain a pro-spending bias in legislative decision-making, notably the centralisation of legislative decisions on fiscal aggregates in a finance or budget committee (Hallerberg and Von Hagen 1997, Crain and Muris 1995, Wehner 2007) or fiscal rules (Schick 2003). Technical assistance to enable responsible budgetary decision-making may be particularly important where legislative powers are being enhanced, or where legislative influence increases due to political changes.

5 A global survey of actors and activities

This section summarises the findings of a stock-take, review and impact assessment of worldwide legislative strengthening activities relating to financial scrutiny, carried out from October 2006 to March 2007 (Brösamle et al. 2007). The aim was to identify the core actors in the field, the instruments they use, and to assess how they evaluate the impact of their activities. The findings presented here draw on web-based research covering 71 organisations, five of which were excluded because at the time they did not have websites. Of the remaining 66 organisations, 33 were subsequently short-listed as potential key actors, and 22 of the most relevant organisations were ultimately sent questionnaires and interviewed (see Table 9 in the Appendix for a complete listing). This section provides an overview of the actors and their activities. The last part briefly addresses evaluation issues and summarises some of the lessons.

5.1 Actors and their reach

The stock-take and review of strengthening activities yielded a large amount of mostly qualitative data of great diversity. At least 61 countries have received, will receive or are currently receiving development assistance of this kind (see Figure 6). Certain countries such as Kenya, Morocco, Ghana, South Africa and Nigeria have been the main focal points. In terms of regions, Africa is by far the geographical region where the survey detected the most activity, followed by Eastern Europe and Southeast Asia. Activity in Southeast Asia seems to be on the rise, in contrast with Latin America where it appears rather low.

In order to better structure the data on the actors, this section uses a typology similar to Hudson and Wren (2007: 23) and differentiates actors based on who they are accountable to (see Table 3).

Table 3: Classification of actors

Organisation type	Accountable to	Core actors in this category
Parliamentary	One or more parliaments	AWEPA*, CPA, IPU
Bilateral	One national government	CIDA, USAID
Multilateral	Several national governments	EuropeAid, IDB*, SPSEE*, UNDP, WBI
Partisan	One or more political parties	NDI
NGO or academic	Independent, civil society	IDASA*, PC, SUNY-CID, WFD

Note: * Core actors with a regional focus.

Figure 5 illustrates the range of potentially relevant actors: 13 parliamentary, 17 bilateral, 15 multilateral, five partisan and 21 non-governmental or academic organisations. However, only 15 out of these 71 organisations support significant relevant activities: three out of 13 parliamentary organisations, two out of 17 bilateral and five out of 15 multilateral organisations, as well as four out of 21 non-governmental or academic outfits. Moreover, there seem to be very few significant partisan bodies; only the National Democratic Institute for International Affairs (NDI) is a crucial actor in this category. Out of these, 11 organisations are active globally. The following part provides further details on these core actors and the instruments they employ.

Figure 5: Number of actors by type

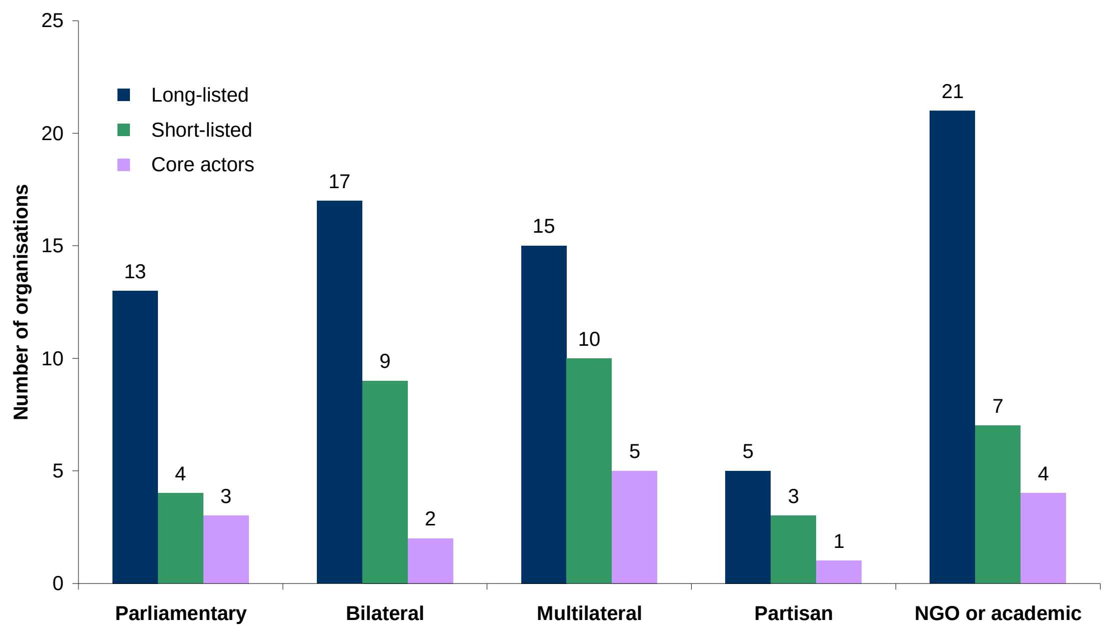
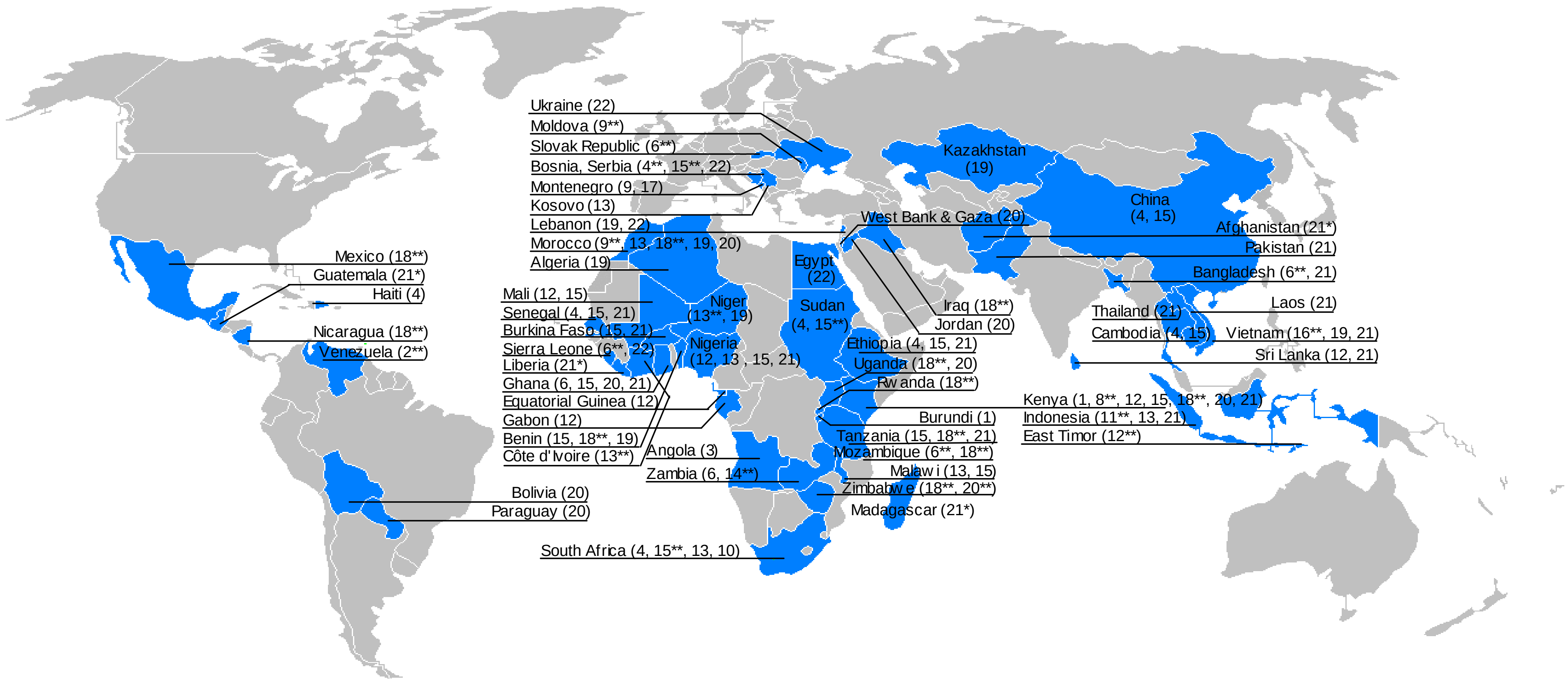


Figure 6: Worldwide activity for strengthening legislative financial scrutiny



1 AWEPA	5 CPA	9 GTZ / BMZ	13 NDI	17 SPSEE	21 WBI
2 BID / IDB	6 DFID	10 IDASA	14 NORAD	18 SUNY-CID	22 WFD
3 CMI	7 EuropeAid	11 IIDEA	15 PC	19 UNDP	* planned project
4 CIDA	8 FES	12 IPU	16 SIDA	20 USAID	** past project

5.2 Activities

The survey research identified seven main types of activities that donors engage in to strengthen legislative financial scrutiny. Table 4 provides an overview and brief description. Some of these activities can be further broken down into sub-categories, e.g. budget training for staff versus for members, or analytic work might be further grouped into more practical handbooks and guidelines versus more evaluative work using indices and the like (refer to Brösamle et al. 2007: chapter 2).

Table 4: Types of strengthening activities

Activity	Description
Technical assistance in legal reform	Consulting and expert advisory work in the design of legal frameworks that regulate the legislature's role in the budget process, both ex ante and ex post.
Developing structure and processes	Activities strengthening the functioning of parliament as an institution, in particular its committees, if these target financial scrutiny.
Improving information access	Activities aiming to provide the legislature with better information on budget-related issues, in particular by developing budget information units within parliament.
Physical infrastructure development	Providing the physical and technological preconditions for effective parliamentary work, especially where this serves financial oversight, e.g. relevant IT or meeting space for committees.
Budget training	Activities which aim to transfer subject knowledge on financial oversight to MPs or parliamentary staff.
Study trips, conferences and network-building	Projects which bring together legislators, and sometimes staff, from different parliaments to learn from each other.
Analytic work	Publications on budget-related issues, e.g. indices, cross-country and single-country studies, best practice guidelines, assessment frameworks and toolkits.

Table 5: The activity portfolios of globally active core actors

	Technical assistance in legal reform	**Developing structure and processes**	**Improving information access**	**Physical infrastructure development**	**Budget training**	**Study trips, conferences and network-building**	**Analytic work**
Funding	**5** EuropeAid UNDP USAID WBI WFD	**5** EuropeAid UNDP USAID WBI WFD	**4** CIDA EuropeAid UNDP USAID	**3** CIDA UNDP USAID	**8** CIDA CPA EuropeAid IPU UNDP USAID WBI WFD	**6** CIDA CPA EuropeAid IPU UNDP USAID	**4** CPA IPU UNDP USAID
Implementation	**4** SUNY-CID UNDP USAID WFD	**4** PC SUNY-CID UNDP WFD	**3** NDI SUNY-CID UNDP	**2** SUNY-CID UNDP	**7** CPA IPU NDI PC SUNY-CID UNDP WFD	**5** CPA IPU NDI SUNY-CID UNDP	**8** CPA IPU NDI PC SUNY-CID UNDP USAID WBI

Note: Detailed organisational profiles are provided in Brösamle et al. (2007: 31-48). See Box 6 to Box 9 for a selection.

Table 5 summarises the activities carried out by the 11 globally active core actors. The numbers indicate how many of them engage in either funding or implementing each of the seven types of activities and how they divide into funding and implementing organisations. It appears that there are more funding than implementing actors for all activity types except analytic work (last two columns), which suggests that local implementing organisations have a role to play in contributing ‘on-the-ground’ expertise. The following paragraphs elaborate on these findings.

Training seminars and workshops are a very popular and widely used instrument. Training activities can be stand-alone events or support long-term parliamentary co-operation as need arises from other project activities, for instance IT training after installing a new information system. Given that many MPs and staff in developing countries do not have formal training in budgetary matters, such workshops can be a relatively inexpensive way to transfer knowledge of the budget process and methods of analysis to a larger number of participants.

Box 6: The United States Agency for International Development

The United States Agency for International Development (USAID) is a bilateral donor organisation accountable to the US Secretary of State. USAID’s Office of Democracy and Governance has a Governance Program with a budget of USD 2.85 million in 2006. This programme has five main components, one of which is legislative strengthening. Out of about 20 countries where USAID is currently pursuing legislative strengthening activities, approximately half have a component specifically aimed at improving fiscal scrutiny (including Ghana, Kenya, Morocco, Uganda and Zambia). USAID’s portfolio covers virtually every type of activity identified in Table 4. The agency has published a number of reports on legislative strengthening. An important aspect of its work is building parliamentary budget offices, drawing on the unique experience of the US in this area. The Center for International Development at the State University of New York (SUNY-CID) is involved in implementing a number of USAID's parliamentary strengthening projects.

Study trips and network-building exercises are a second widely used instrument for capacity building. Broadly, one can distinguish between South-South study trips and exchanges or regional conferences, where peer-to-peer learning is the core lever for improvement, and trips to mature democracies. While it is difficult to measure the effectiveness of such activities, in many circumstances the opportunity for MPs to both observe other parliaments and their role in the budget process and/or engage in dialogue with MPs from other legislatures can be an important early step in breaking through barriers in their home countries. However, there are few instances of institutionalised networks that specifically target parliamentary public finance practitioners.[11]

Box 7: The United Nations Development Programme

The United Nations Development Programme (UNDP) is a key multilateral player with respect to legislative strengthening in general and budgetary aspects in particular. Its work with parliaments has steadily increased in recent years, from six projects in the mid-1990s to currently about 50. UNDP's Global Programme for Parliamentary Strengthening (GPPS) was launched in 1999 and has an overall funding volume of Euro 6 million between 2004 and 2007. Several projects are specifically aimed at strengthening financial oversight. For instance, in Benin the GPPS helped to establish a budget analysis unit which was absorbed into the Parliament's permanent administration. Country offices are largely autonomous in choosing partners and approaches. Budgetary oversight is frequently mainstreamed into a more general programme of parliamentary strengthening. UNDP's work benefits from its extensive on-the-ground presence and its non-partisan image as an international organisation.

In particular at early stages of their development, parliaments might lack the basic structures and processes for day-to-day work, such as rules of procedure, competent support staff, a committee system, or procedures to manage public access. Addressing these fundamental issues falls under general parliamentary strengthening and was therefore largely outside the scope of this study. However, as fiscal oversight work requires basic parliamentary functionality, financial strengthening projects may include some of these components. For instance, financial committees may have to be created from scratch or, where they are formally in place, they may require technical assistance in developing strategies, guidelines and processes, and help with their implementation.

Arguably the most significant contribution of capacity building activities falling under the heading of improving information access is assistance towards developing legislative budget offices. Other activities may concentrate on setting up databases, developing software to facilitate the analysis of trends in budgeted and actual spending over a number of years, or starting entirely from scratch with an assessment of a legislature's most urgent information needs.

[11] Examples are the Association of Public Accounts Committees (APAC) in South Africa and the Australasian Council of Public Accounts Committees (ACPAC). In contrast, institutionalised networks of executive senior budget officials are proliferating (Matheson 2006).

Box 8: The Parliamentary Centre

The Parliamentary Centre is a Canadian not-for-profit, non-partisan organisation specialising in parliamentary development worldwide. Since its founding in 1968, financial oversight has been an important issue for the centre – initially to improve the capacity of the Canadian Parliament. The centre has expanded substantially in recent years. Between 2003 and 2005, revenues increased from CAD 2.8 million to about CAD 9 million and its staff grew from about a dozen to more than 30. Currently, the centre maintains a large pan-African programme with a number of projects relating to financial oversight (Benin, Ghana, Kenya, Malawi, Mali, Rwanda, Senegal, Tanzania and Uganda) and it pursues similar work elsewhere. For instance, it has provided general training to Russian legislators and staff since 1994. In 2001 an oversight component was added and the Accountability Strengthening Program (2004-2007) focused on developing the capacity of the Accounting Chamber in its work with the legislature. In Cambodia, starting in 2003, the centre worked to build the capacity of the budget committee of the National Assembly. The centre implements most of the parliamentary strengthening activities of the Canadian International Development Agency (CIDA), with a large degree of autonomy.

Many of the larger organisations provide an array of handbooks, self-assessment tools and other analyses. For instance, USAID has several publications which include sections on budgetary oversight, such as the ‘Handbook for Legislative Strengthening’ (2000) and indicators for measuring the effectiveness of parliamentary fiscal oversight (USAID 1998: 206). NDI has published a survey titled ‘Legislatures and the Budget Process’ (2003) that includes a synthesis of information on international trends in legislative budgeting and resources available for budgetary analysis, as well as a discussion document proposing international standards for democratic legislatures, including for their role in the budget process (NDI 2007: 43-45).

As one of the variables that condition the ability of parliaments to effectively engage in the budget process, the formal powers of parliament are a prime candidate for capacity building activities, while bearing in mind the caveat developed in section four of this report. However, there are several reasons why it is difficult for donor and implementing organisations to pursue such legal reform aspects. In some cases legal reform might be seen as the long-term outcome that follows years of groundwork in a host country. In several interviews, staff from donor organisations emphasised the fact that technical assistance on legal reform must build on gradual increases in the level of trust and co-operation between external experts and the parliament. Sometimes, however, constitutional reforms in post-conflict and democratisation settings can provide significant opportunities to shape parliamentary powers through technical assistance that may have to be followed by other capacity building measures.

Box 9: The World Bank Institute

One of the objectives of the Parliamentary Strengthening Program of the World Bank Institute (WBI) is to enhance the capacity of parliaments to oversee the allocation and use of public funds. The programme has one full-time employee (plus three to four part-time staff) and an annual budget of about USD 1.25 million. Its work covers 12 focus countries: Ghana, Nigeria, Ethiopia, Kenya, Tanzania, Pakistan, Sri Lanka, Bangladesh, Thailand, Laos, Vietnam and Indonesia. Further countries are covered in co-operations or smaller projects. It conducts mainly workshops and seminars that address the role of parliament in poverty reduction and financial oversight. Improving the efficiency and effectiveness of audit committees is a major focus. Currently, the WBI and CPA work with PACs in Ghana, Nigeria, Malawi, Sri Lanka, Pakistan, Bangladesh, Solomon Islands and Papua New Guinea. This involves support for drafting and implementing action plans. Similarly, the WBI and several partners (UNDP, CPA, PC and the Finnish Parliament) also help parliaments develop and implement PRSP action plans to enhance their role in poverty reduction, mainly in Africa (e.g. Ghana, Nigeria, Ethiopia, Kenya and Tanzania). Together with the CPA, the WBI carries out a staff training programme, which has been tested in several countries (Thailand, Sri Lanka, Nigeria and Ghana) and will soon be available online.

5.3 Evaluation and lessons learned

The review of donor and implementing organisations' evaluation practices confirms the difficulty in assessing both the effectiveness of donor projects on legislative fiscal scrutiny, and the impact on governance and development in general. There are large differences in how organisations measure the output and impact of their projects, and most are reluctant to disclose detailed documentation. However, several lessons can be distilled from the responses to the survey of core actors, which are summarised in Box 10. While this list may not be exhaustive, it covers a range of salient issues that have to be considered in the design of projects aimed at strengthening legislatures in general, and their capacity for financial scrutiny in particular.

Box 10: Designing successful projects – some lessons

Survey respondents broadly agreed on several features to enhance the impact of projects aimed at strengthening legislatures in general, and their capacity for financial scrutiny in particular:

- Legislative development is a long-term process and requires long-term commitment;
- Strengthening the independence and general capacity of parliament is a necessary precondition for budget-specific work;
- Activities should involve key stakeholders and build cross-partisan trust;
- The target parliament in question should have the institutional functionality to constructively channel partisan conflicts;
- Measures must not neglect building capacities at the level of institutions and thereby minimise the impact of MP turnover;
- Programmes that operate at a cross-national level may have advantages in promoting reform and providing frameworks for country-level work;
- The perceived partisanship or neutrality of the assistance provider is an important factor in maximising the effectiveness of a programme; and
- Projects should be harmonised with other donors and reform processes within the parliament.

Broader conditions such as the political and social environment of the recipient country also affect project success. Capacity building efforts in the absence of some minimal standards are unlikely to succeed. The external conditions that ought to be considered include:

- The sufficiency of political stability and legislative functionality;
- The possible impact of changes in political rule or leadership;
- The strength of demand for transparency and oversight from civil society and the public; and
- The political incentives of MPs.

Source: Brösamle et al. (2007: 55-58)

6 Relevant DFID activities

The report on legislative strengthening prepared by Hudson and Wren (2007: Appendix D) lists 29 legislative strengthening projects funded or carried out by DFID. Six of these, or about one fifth, have a more or less explicit link to financial scrutiny, and I add information on another relevant project co-financed by DFID. The partner countries involved are South Africa (timeframe unclear), Bangladesh (2001-2005), Sierra Leone (2004-2005), Vietnam (2003-2008), Nigeria (since 2005), Zambia (since 2005) and Ghana (2007-2009). For this study, I reviewed the relevant project documentation where it was available and interviewed involved DFID officers where possible (see Table 10 in the Appendix). This section provides a brief overview and draws together some main points.

6.1 Past projects

In **South Africa**, DFID supported three parliamentary committees for several years starting in the late 1990s. This involved funding researchers for three important committees in the National Assembly, two financial committees as well as a third dealing with local government matters. Documentation on this project was not made available, but one DFID official involved stressed the importance of personality factors. He felt that this support was successful for two of the three committees, which were headed by strong and independent chairpersons, but felt that support for the third committee was less successful because the chairperson was less dynamic. The project eventually was wound up as DFID consolidated its activities in the country.

In this case, the effectiveness of the financial committees was hampered by wider factors. Parliament plays a very limited role in the budget approval process, since there remains legal uncertainty about its powers to amend the budget. The effectiveness of the SCOPA was undermined by the politicisation of the audit process in the wake of the committee's decision to investigate corruption in a major arms procurement package.

In **Bangladesh**, DFID between 2001 and 2005 supported a project by UNDP, entitled 'Strengthening Parliamentary Democracy'. DFID undertook to fully fund a sub-component of this project that was directly targeted as strengthening the financial committees: the Estimates Committee, the PAC (which is required by the Constitution), as well as the Public Undertakings Committee. The objectives of the sub-component were to rationalise the Secretariat to better support these committees, to improve their effectiveness and to promote public awareness of their work. The project documentation mentioned political instability as one potential source of risks associated with this project.

Consultants evaluated the project in 2002 and found that it was not on track and should be redesigned. The purpose of the project was adjusted in 2003, but implementation continued to be hampered mainly by political issues, as well as poor leadership, lack of co-ordination between the project partners, and administrative glitches.[12] The most substantial limitation on the effectiveness of the project was the confrontational nature of politics. The main opposition boycotted Parliament for extended periods and disputes about the membership and chairpersonship of committees undermined their basic functionality. As a result, the project underperformed, resulting in substantial underspending (actual spending of £569,967 compared with the approved £2,077,554). The completion report concludes that 'the project might be regarded as an example of how *not* [emphasis added] to approach strengthening Parliamentary Committees, particularly where the political incentives to allow Parliament to function are very limited' (DFID 2005a: 7).

In **Sierra Leone**, DFID supported a project between 2004 and 2005 that aimed at strengthening parliamentary committees, including financial scrutiny capacity, with NDI as the implementing partner. The project was never fully implemented (Hudson and Wren 2007: 63; only £285,039 of the approved £1.1 million were spent). Disagreement arose because the parliamentary administration wanted computers and equipment, but was far less keen on training and capacity building. Ironically, MPs took a different view and at one point attended courses provided by NDI, even though the Clerk had instructed them not to attend.

DFID staff highlight several reasons for the failure of the project. First, Parliament is formally independent but de facto subservient to the executive, which commands a large parliamentary majority. This explains resistance to changes that could be swiftly made if political will existed. For example, Standing Order 75 prevents audit reports from being made public before the PAC has considered them. A simple amendment that deletes this requirement would result in a substantial increase in transparency. Second, the issue of patronage and the desire for equipment over training are indicative of an institution that does not receive enough resources for its basic functioning. In addition, the Clerk and Speaker held the view that the design of the project was not sufficiently consultative, and the implementing partner was not to their liking. Key lessons are that project design needs to be embedded in a firm understanding of the political context and has to ensure ownership.

In July 2006, the four development partners providing direct budget support to Sierra Leone (the African Development Bank, the European Commission, the

[12] For example, an administrative oversight resulted in DFID not formally accepting the redesign of the project, whereas UNDP and Parliament had the expectation that this had been approved.

World Bank and DFID) signed an ‘Improved Governance and Accountability Pact’ with the government, which is a statement of intent outlining ten critical governance reforms (Government of Sierra Leone et al. 2006). The second priority reform relates to the audit process, and its agreed actions include a commitment to strengthen follow-up to PAC reports by achieving progress in the recovery of losses, including by withholding payments. It also promises to make public losses identified in PAC reports and to state explicitly the actions taken to recover funds. Whether this improves the situation remains to be seen.

6.2 Current projects

In **Vietnam**, DFID co-finances, with CIDA and other donors, a UNDP-led project (USD 3 million) aimed specifically at strengthening the budgetary process and oversight capacity of the National Assembly and Provincial People's Councils (UNDP 2002). The project centres on the Committee for Economic and Budgetary Affairs (CEBA) in the National Assembly and has six components. Between 2003 and 2008, it supports the review of parliamentary processes in the wake of constitutional changes that have enlarged legislative responsibilities in public finance. It also aims at improving scrutiny of development policies, building analysis capacity through training, improving information provision, enhancing executive-legislative interaction and strengthening audit capacity.

The CEBA project is the most comprehensive strengthening project that DFID is currently involved in, covering all of the stages of the budgetary process and a wide range of associated issues that are crucial from a parliamentary perspective. Moreover, in addition to raising the level of parliamentary debate on the budget, the project has been successful in addressing structural impediments to effective legislative oversight of public finances. It supported the revision of the State Budget Law in 2002, which gave the National Assembly powers to approve the total budget and its composition, as well as the State Audit Law in 2005, which increased the independence of the external audit body and enhanced its links with the legislature. The creation of a PAC has been endorsed to unburden the CEBA and enhance capacity for audit scrutiny. The project might be extended by another five years, with an increased focus on the provincial level.

The CEBA project offers several important lessons. First, it demonstrates that legislative strengthening support can make a significant impact even in the seemingly adverse political context of a one-party state. One reason is that demand for the project came directly from the National Assembly. Moreover, although the project affects the executive-legislative balance of power, which makes it politically very sensitive, it succeeded in maintaining commitment from key stakeholders, including the executive. It helped that UNDP is perceived as politically neutral, which makes it an ideal lead organisation for such a politically delicate task.[13] Finally, the CEBA project coincided with broader public financial management reforms, including the introduction of an MTEF and an integrated financial management system, thus building the budgetary capacity of the National Assembly at a crucial moment.

In addition, DFID is involved in several other but less comprehensive projects. In **Nigeria**, the World Bank and DFID have a 'Country Partnership Strategy' for 2005 to 2009, which includes support for setting up a National Assembly Budget Office (World Bank 2005). However, while there seems to be strong demand to set up such a body, this activity has not yet moved beyond conceptual work. In November 2006, WBI organised a two-day workshop on the potential value, structure and functions of an independent legislative budget office.

In **Zambia**, a group of donors including DFID are supporting a five-year (2005-2009) Public Expenditure Management and Financial Accountability (PEMFA) reform programme. The overall objective is to improve efficiency, effectiveness and accountability in the management and utilisation of public financial resources to support the implementation of the Poverty Reduction Strategy. PEMFA has 12 components, one of which, component ten, aims at 'enhancing parliamentary oversight' (total commitment USD 1,763,114). While the timeliness of audit reporting has improved in recent years, effective follow-up to PAC reports is still problematic, and the Committee on Estimates only recently started to play a more active role in analysing the draft budget (Republic of Zambia 2005: 41-43). Some of the support is used for the construction of facilities for committee meetings that allow increased public access.

In principle, PEMFA is an example of an approach to public financial management reform that acknowledges the potential contribution of effective parliamentary scrutiny. However, one issue from a parliamentary perspective

[13] The demand-led approach and the degree of local ownership that characterise the CEBA project contrast with an earlier parliamentary strengthening project in Vietnam, funded by the Swedish International Development Cooperation Agency (SIDA). This was initiated by Swedish MPs without a proper assessment of assistance needs, and is an example of an ill-conceived supply-driven project (Hudson and Wren 2007: 30, Andersson et al. 2002).

might be the strong role of the MOFNP in the implementation of the project. The project's secretariat is in the MOFNP, which also chairs regular meetings of a broader technical working group that brings together all relevant actors, including the Auditor General and Parliament. This might be a reason why it could be preferable from a parliamentary perspective to maintain an approach where Parliament receives donor support separately from a broader variety of sources.

In **Ghana**, DFID support directly targets the PAC. The PAC is one of the stronger parliamentary committees, but overall the status of standing committees is weak and they struggle to enforce their authority. For instance, when the PAC conducted a hearing with the Minister of Finance on the 2005 accounts, the Minister failed to appear and instead sent the Deputy Minister, who arrived one hour after the meeting was supposed to start.[14] Members of the governing party are hesitant to criticise the government. The PAC is also hampered by a lack of analytical support and basic facilities to hold meetings. Given the importance of direct budget support in Ghana, the local DFID office identified the need to enhance financial scrutiny by the PAC.

CIDA already supports the PAC along with several other standing committees through the Canadian Parliamentary Centre, but this work does not address several urgent needs expressed by the Chairperson of the PAC. DFID support is channelled via the Parliamentary Centre, and addresses a number of practical needs through interrelated activities (about £150,000 per year for three years are envisaged). Between 2007 and 2009, the Parliamentary Financial Scrutiny Project aims to provide a meeting space for the PAC to hold regular meetings and hearings, which also functions as a liaison office with the Auditor General, and support through a budget expert attached to the office. The project also aims to facilitate tracking of the implementation of audit recommendations.

The Ghanaian experience is particularly interesting because there is a long history of support for legislative financial scrutiny. The Parliament is somewhat privileged in that a major implementing agency, the Parliamentary Centre, maintains its regional headquarters in the country and has actively supported Parliament since 1994. Parliament has received support for the PAC and Finance Committee since the mid-1990s, and Stapenhurst (2004: 2) reports that early activities already had a 'considerable impact'. At the same time, the current

[14] The incident occurred during a visit organised by DFID of the Honourable John McFall, MP, Chair of the Treasury Select Committee of the UK House of Commons, in November 2006.

DFID support to the PAC underlines how the basic functionality of the PAC remains fragile. A key lesson is that it is unrealistic to expect quick results from support for legislative strengthening. In particular a change of basic attitudes towards legislative scrutiny within the executive and members of the ruling party is likely only to be achieved after substantial and sustained support.

6.3 The record thus far

The above list is certainly not complete. It is difficult to gain a comprehensive picture of DFID's work in this area, due to the fact that a lot of the knowledge about individual projects resides in country offices, or with particular individuals who were involved at a particular point in time before moving on to other postings or leaving the organisation. Nonetheless, it is possible to draw together some tentative conclusions:

First, while there appears to be a good level of awareness amongst its staff of the importance of legislative financial scrutiny, DFID's work in this area is not extensive. Some legislative projects relate to financial scrutiny as part of a broader set of activities (South Africa, Sierra Leone), some are specific to it (Ghana), but very few take the comprehensive approach of the CEBA project in Vietnam, which systematically tackles a full range of issues affecting legislative financial scrutiny throughout the budget cycle. This may partly reflect a lack of relevant analytic work.[15]

Second, work with committees is the main focus (six out of seven projects), and in particular PACs (five out of seven). This is a very plausible area of focus, since DFID is well acquainted with the Westminster system that remains influential in many of its partner countries, more so than most other significant donors. Still, local traditions and practices may differ substantially from the Westminster blueprint, and the temptation of simplistic institutional replication has to be resisted.

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[15] There are standards for public financial management, such as those by the OECD (2002a) and the indicators developed by the Public Expenditure and Financial Accountability Program (PEFA 2005). There is also an initiative by NDI (2007: 43-45) to develop international standards for democratic legislatures. All of these cover legislative financial scrutiny, but not comprehensively, and the extent of their use in project design is unclear.

Third, as highlighted in the global survey, DFID projects, too, are vulnerable to political risks, as illustrated by the experience in Bangladesh, Sierra Leone and South Africa. Gains can easily be eroded or reversed. Even if such risks are acknowledged in the planning process, which should be the case, they are frequently beyond the influence of individual projects. However, it is crucial that projects build on indigenous demand for parliamentary financial scrutiny and ensure broad-based political backing.

Fourth, and related to the above, the strengthening of legislative financial scrutiny is promising, but it offers no quick fix. Even in Ghana, where there is a comparatively long history of support for financial committees and Parliament was privileged in its access to some of the leading organisations active in this field, achievements are fragile and require long-term commitment to become entrenched.

Finally, where the approach is comprehensive, takes a long-term view and builds on local demand and broad-based support, as in Vietnam, the impact of this work can be substantial. Since funding needs for strengthening legislative financial scrutiny are very minimal compared with many other reform areas supported by donors, this work can make a potentially very cost-effective and substantial contribution to strengthening governance.

7 Conclusions and recommendations

The importance of effective financial scrutiny is bound to increase as donors increasingly move beyond conditionality to direct budget support. To be effective, and to mitigate fiduciary risk, this approach requires robust oversight institutions at the country level. Central to this is the role of legislatures in financial scrutiny. The following parts draw together the main conclusions in the report, and develop several recommendations for DFID based on these.

7.1 Main findings

Legislative financial scrutiny and oversight relates to all stages of the budget process, i.e. drafting, approval, implementation and audit. Traditionally, the main focus of legislative involvement has been the approval stage as well as ex post scrutiny of audit findings. However, to be fully effective, scrutiny should be continuous. Legislatures can become more involved in the formulation stage by formally debating medium-term priorities, and they should closely monitor in-year information on budget execution as well. Underpinning the ability of a legislature to exercise effective financial scrutiny is access to comprehensive, accurate, appropriate and timely information throughout the budget cycle.

The maintenance of continuous scrutiny is difficult enough, but in addition there is a range of challenges that legislative bodies in developing countries frequently encounter. Often, there is little legislative involvement in medium-term planning, which may lack credibility, and the legislature may have limited formal authority to engage with the budget. Poorly resourced and ineffective financial committees struggle to fulfil their roles effectively, and legislators lack access to independent research and analysis capacity. During budget execution, substantial gaps between approved and actual budgets undermine the credibility of the annual budget and legislative authority in general. Moreover, political dynamics and informal practices may hinder legislative scrutiny. In addition, developing countries suffer from low budget transparency, and budget literacy may be insufficient.

The promise of effective financial scrutiny is that it enhances accountability of the executive, facilitates public debate and broadens participation. By generating demand for the disclosure of financial information, legislative scrutiny can enhance the transparency of the budget process and minimise the possibility that executive corruption will go unnoticed. All of these benefits are associated with a vibrant democracy. However, there is also evidence that powerful legislatures can undermine fiscal discipline, which highlights a possible dilemma for legislative strengthening work. Institutional safeguards can mitigate the risk of legislative financial indiscipline, in particular disallowing amendments that lead to higher spending or deficits. Technical assistance to enable responsible budgetary decision-making may be particularly important where legislative influence increases due to political or legal changes.

The global survey carried out as part of this project indicates that legislative strengthening work focusing on financial scrutiny is not widespread. Out of 71 organisations that were considered, only 15 were identified as core actors, 11 of which are active globally and the remaining four at a regional level. Donors employ a variety of strategies and approaches to enhance legislative capacity for financial scrutiny, but their activities tend to focus on the approval stage and parliamentary audit. The analysis confirms that it is difficult to measure the impact of their activities. While this review identifies conditions for success and good practices, further in-depth work is needed to fully assess the impact of capacity building activities.

DFID's own work in this area is not extensive. Some projects relate to financial scrutiny as part of a broader set of activities, but hardly any take a comprehensive approach. Work with committees is the main focus, in particular PACs, which is a plausible since DFID has an advantage compared with other donors not as acquainted with the Westminster system and its traditions. Projects are vulnerable to political risks beyond their influence, and achievements are fragile and require long-term commitment to be entrenched. Nonetheless, where the approach is comprehensive, takes a long-term view and builds on local demand and broad-based support, this work is potentially very cost-effective and can deliver substantial governance improvements.

7.2 Recommendations

Despite its high relevance in the context of direct budget support, there is surprisingly little strengthening activity that systematically targets parliamentary financial scrutiny. To support accountability and systemic integrity, DFID should lead the way and **significantly scale up this work**. DFID is well positioned to do so, due to its commitment to and expertise in governance work more broadly, as well as its understanding of the Westminster system, which is replicated in many of its partner countries.

However, DFID should **avoid simplistic institutional replication**. The Westminster version of legislative financial scrutiny is only one possible model, which places heavy emphasis on ex post scrutiny but limits parliamentary involvement in setting budget priorities. Many other legislatures in OECD countries and elsewhere have a more active role in budget approval. The Westminster model may not be suitable in contexts where the budget process needs to be opened up to facilitate wider debate on allocational choices. At the same time, the parliamentary audit process in the UK is supported by long-standing conventions, such as the prominent role of the opposition and commitment to cross-partisan co-operation, which cannot be exported through replication of formal structures.

Efforts to strengthen legislative financial scrutiny must **consider the wider political context**. Projects that fail to adequately factor in the incentives of politicians are unlikely to succeed. The fundamental starting point must be that there is indigenous demand and broad-based political support for greater parliamentary oversight of the budget. Technical support for financial scrutiny may not be an effective entry point to broader legislative or political reform. Rather, in adverse political conditions, it would be better to focus first on other dimensions of legislative strengthening to achieve basic functionality and on the political system more broadly, including elections and political parties.

There is a broad menu of activities that can be pursued, but most frequently projects narrowly target particular aspects of legislative financial scrutiny. Isolated activities can help to address specific ad hoc needs, but are unlikely to lead to fundamental change. DFID should develop **a comprehensive approach** with projects that consider the overall requirements for effective legislative scrutiny throughout the budget process, not only isolated aspects such as parliamentary audit. This can be achieved by collaborating with other donors to design and implement a basket of support measures. Support for legislative financial scrutiny should acknowledge important linkages, notably with audit institutions and civil society, and complement other reform measures. It must also be prioritised and sequenced, stressing basic functionality before moving on to more ambitious improvements.[16]

Ad hoc, flexible and small-scale support can play an important role in addressing immediate needs and challenges, but significant achievements are only likely to be entrenched through comprehensive and long-term support. For this reason, DFID should develop **a long-term approach** to this type of work in a core set of priority countries. It should be avoided to prematurely discontinue or downscale support due to initial setbacks and failures, but rather learn the lessons and persist. The potential payoffs are significant.

[16] On sequencing, the principles of the platform approach offer some guidance (DFID 2005b).

The link between strengthening activities and their governance and development impacts is still insufficiently understood. There is a need to further invest in evaluating not only the performance of individual activities, but also the overall impact of strengthening fiscal oversight. DFID should **invest in analytic work** on legislative budgeting to assess the effectiveness of fiscal oversight and relevant donor support. One starting point may be for DFID to carry out analyses of all donor interventions in this area in a sample of countries.

To maintain a better overview of its activities in this area, DFID should create a system to **pool the information available** on legislative strengthening, including for fiscal oversight. This would enable DFID to maintain an up-to-date overall picture of the activities it carries out. Such information would also constitute a resource that staff in country offices could draw on in designing projects.

While co-operation with a range of organisations at the country level appears to be well established, there is significant scope to **enhance co-ordination** on the overall approach to legislative financial scrutiny. The UK is home to a number of organisations that are involved in legislative strengthening work, which could institute regular meetings, and there could be broader international events that bring together the main actors identified in this report at regular intervals. These should involve both public financial management practitioners as well as legislative specialists, to promote understanding between their perspectives and to facilitate the transfer of different types of expertise relevant to this work.

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Appendix

Table 6: The budgetary powers of legislatures in the 1990s

Country	**Budget amendment powers of the legislature**
Argentina	Not restricted until 1992, then may not increase the deficit.
Australia	Can cut existing items only.
Austria	No restrictions.
Bahamas	Can cut existing items only.
Bangladesh	May not vary the amount of a grant or expenditure.
Barbados	Can cut existing items only.
Belgium	No restrictions.
Belize	Can cut existing items only.
Bolivia	No restrictions.
Botswana	Can cut existing items only.
Brazil	Cannot increase the deficit, but the correction of 'errors or omissions' is used to fund new spending.
Bulgaria	No restrictions.
Canada	Can cut existing items only.
Chile	Can only reduce expenditures.
Colombia	Can increase or create new expenditures only with executive approval.
Costa Rica	No restrictions reported by Alesina et al. (1996), but Filc and Scartascini (2006) report deficit restriction.
Cyprus (G)	Cannot increase spending.
Czech Republic	Cannot increase the deficit.
Denmark	No restrictions.
Dominican Republic	Amendments require a two-thirds majority, unless initiated by the executive.
Ecuador	Cannot increase expenditures.
El Salvador	Can only reduce or reject credits demanded.
Estonia	Must specify sources of income to cover proposed expenditures.
Fiji	Can cut existing items only.
Finland	No restrictions.

France	Cannot reduce public resources, increase or create expenditure.
Gambia	Cannot impose or alter spending or taxes.
Germany	No restrictions.
Ghana	Can cut existing items only.
Greece	A bill resulting in expenditure or reduction of revenues requires a special report specifying how these will be covered.
Guatemala	No restrictions.
Honduras	No restrictions reported by Alesina et al. (1996) and IBP (2006), but Filc and Scartascini (2006) report deficit restriction.
Hungary	No restrictions until Parliament has voted on budget totals.
Iceland	No restrictions.
India	Can cut existing items only.
Ireland	Cannot make amendments.
Israel	No formal restrictions on types of amendments.
Italy	No restrictions.
Japan	There is a dispute about the extent to which the Diet can amend the budget.
Latvia	Must allocate funds to cover additional expenditures.
Luxembourg	No restrictions.
Malawi	Amendments require recommendation of the Finance Minister.
Malaysia	Amendments of a ‘substantial nature’ need to be moved by a minister.
Malta	Can cut existing items only.
Mauritius	Can cut existing items only.
Mexico	Cannot increase the deficit.
Namibia	No restrictions.
Nepal	Amendments to the finance bill require approval of the King.
Netherlands	No restrictions.
New Zealand	Previously as in UK; since 1996 the Crown has a financial veto over amendments with more than a minor impact.
Nicaragua	Cannot increase the deficit.
Norway	No restrictions.
Pakistan	Can only reduce expenditures.
Papua New Guinea	Can cut existing items only.
Paraguay	Not restricted until 2000, then may not increase the deficit.

Peru	Until 1990 no restrictions, now cannot increase nor create new expenditures.
Philippines	Cannot increase appropriations for the operation of the government.
Poland	Until 1998 no restrictions, now cannot increase the deficit.
Portugal	Not restricted.
Romania	Until 2003 no restrictions, now cannot increase the deficit.
Russia	No constitutional restrictions on amendments, but contained in Budget Code that came into force in 2000.
Singapore	Amendments of a 'substantial nature' require a recommendation of the President.
Slovak Republic	No restrictions.
South Africa	Cannot make amendments; the legislation required by section 77(2) of the Constitution has not been enacted.
South Korea	Cannot increase or create new expenditures without the consent of the executive.
Spain	An increase of spending or a reduction of revenues requires executive approval.
Sri Lanka	Cannot increase spending without executive approval.
St. Vincent & Grenadines	Can cut existing items only.
Sweden	No restrictions.
Switzerland	No restrictions; debt containment rule became effective in 2003.
Thailand	May not add any item or amount to an appropriation bill.
Trinidad & Tobago	Imposition or increase of a tax or expenditure requires consent of the cabinet.
Turkey	Cannot increase expenditures or decrease revenues.
Uganda	Can cut existing items only.
United Kingdom	Can cut existing items only.
United States	No restrictions.
Uruguay	Cannot increase expenditures.
Venezuela	Cannot increase spending.
Zambia	Can cut existing items only.
Zimbabwe	Can cut existing items only.

Sources: Constitutions, Alesina et al. (1996), Filc and Scartascini (2006), OECD (2002b), Wehner (2006a), OECD (2006), Yläoutinen (2004), IBP (2006), Meyer and Naka (1998), Kraan and Ruffner (2005), Blöndal and Curristine (2004). Sample countries as in Persson and Tabellini (2003).

Table 7: Budget transparency and GDP per capita data

Country	Open Budget Index	GDP per capita (in constant 2005 USD)
Albania	24	1535.1
Algeria	28	2065.7
Angola	4	890.6
Argentina	39	8095.5
Azerbaijan	30	1181.5
Bangladesh	40	415.2
Bolivia	20	1061.0
Botswana	65	3819.3
Brazil	73	3596.7
Bulgaria	47	2071.2
Burkina Faso	11	252.1
Cameroon	29	742.7
Chad	5	266.7
Colombia	57	2173.9
Costa Rica	44	4422.3
Croatia	42	5138.5
Czech Republic	64	6515.4
Ecuador	31	1534.2
Egypt	18	1661.9
El Salvador	27	2126.8
France	89	23641.3
Georgia	33	971.2
Ghana	42	288.7
Guatemala	46	1734.4
Honduras	38	986.8
India	52	586.5
Indonesia	41	941.9
Jordan	50	2090.5
Kazakhstan	43	1972.5
Kenya	48	428.4
Malawi	41	154.1
Mexico	50	6172.0
Mongolia	18	483.5
Morocco	19	1354.2
Namibia	51	2083.1
Nepal	36	232.2
New Zealand	86	15133.1
Nicaragua	20	834.2
Nigeria	20	420.3
Norway	72	39665.5
Pakistan	51	595.6
Papua New Guinea	51	612.8

Peru	77	2319.4
Philippines	51	1123.9
Poland	73	5194.4
Romania	66	2258.9
Russia	47	2443.9
Slovenia	81	11382.4
South Africa	85	3534.6
South Korea	73	13209.6
Sri Lanka	47	1004.1
Sweden	76	29531.8
Tanzania	48	329.9
Turkey	41	3389.8
Uganda	31	267.4
United Kingdom	88	26688.0
United States	81	37574.1
Vietnam	2	539.0
Zambia	37	350.2

Sources: **I**BP (2006), World Bank (2006).

Table 8: Variables used in the regression analysis

AFRICA: regional dummy variable, equal to 1 if a country is in Africa, 0 otherwise.

AMLIMIT: amendment powers dummy variable, equal to 1 if there are formal limits on the right of the legislature to amend the budget proposed by the executive, 0 otherwise.

ASIAE: regional dummy variable, equal to 1 if a country is in East Asia, 0 otherwise.

CGEXP : central government expenditures as a percentage of GDP, constructed using the item Government Finance - Expenditures in the IFS, divided by GDP at current prices and multiplied by 100.

COL_ESP : dummy variable, equal to 1 if the country is a former colony of Spain or Portugal, 0 otherwise.

COL_ESPA: Spanish colonial origin, discounted by the years since independence (T_INDEP), and defined as COL_ESPA = COL_ESP * (250 − T_INDEP)/250.

COL_OTH: dummy variable, equal to 1 if the country is a former colony of a country other than Spain, or Portugal, or the UK, 0 otherwise.

COL_OTHA: defined as COL_OTH * (250 − T_INDEP)/250. See also COL_ESPA.

COL_UK: dummy variable, equal to 1 if the country is a former UK colony, 0 otherwise.

COL_UKA: defined as COL_UKA = COL_UK * (250−T_INDEP)/250. See also COL_ESPA.

FEDERAL: dummy variable, equal to 1 if the country has a federal political structure, 0 otherwise.

GASTIL: average of indexes for civil liberties and political rights, where each index is measured on one-to-seven scale with one representing the highest degree of freedom and seven the lowest. Countries whose combined averages for political rights and for civil liberties fall between 1.0 and 2.5 are designated ‘free’, between 3.0 and 5.5 ‘partly free’ and between 5.5 and 7.0 ‘not free’.

LAAM : regional dummy variable, equal to 1 if a country is in Latin America, Central America or the Caribbean, 0 otherwise.

LYP : natural log of per capita real GDP (RGDPH). RGDPH is defined as real GDP per capita in constant dollars (chain index) expressed in international prices, base year 1985.

MAJ: dummy variable for electoral systems. Equals 1 if all the lower house is elected under plurality rule, 0 otherwise. Only legislative elections (lower house) are considered.

OECD: dummy variable, equal to 1 for all countries that were members of OECD before 1993, 0 otherwise, except for Turkey coded as 0 even though it was a member of OECD before the 1990s.

PRES: dummy variable for forms of government, equal to 1 in presidential regimes, 0 otherwise. Only regimes where the confidence of the assembly is not necessary for the executive (even if an elected president is not chief executive, or if there is no elected president) are included among presidential regimes. Most semi-presidential and premier-presidential systems are classified as parliamentary.

PROP1564: percentage of population between 15 and 64 years old in the total population.

PROP65: percentage of population over the age of 65 in the total population.

T_INDEP : years of independence, ranging from 0 to 250 (the latter value is used for all non-colonized countries).

TRADE: sum of exports and imports of goods and services measured as a share of GDP.

Sources: AMLIMIT is based on data in Table 6, all other data from Persson and Tabellini (2003).

Table 9: Organisations included in the global survey

Organisation	Type	Web-researched	Interview requested	Interview conducted	Identified as core-actor
Africa Leadership Forum	NGO or academic	X			
African Parliamentary Association	Parliamentary				
ASEAN Parliamentary Forum	Parliamentary				
Asia Foundation	NGO or academic	X	X		
Asia Pacific Parliamentary Forum (APPF)	Parliamentary	X			
Association of Public Accounts Committees (APAC), South Africa	Parliamentary	X	X		
Australasian Council of Public Accounts Committees (ACPAC)	Parliamentary	X			
Austrian Development Agency (ADA)	Bilateral	X			
AWEPA - European Parliamentarians for Africa	Parliamentary	X	X	X	(X*)
Belgian Development Cooperation (DGDC)	Bilateral	X	X		
BMZ Germany	Bilateral	X	X	X	
Canadian Council of Public Accounts Committees (CCPAC)	Parliamentary	X			
Canadian International Development Agency (CIDA)	Bilateral	X	X	X	X
Carter Center	NGO or academic	X			
Center for Democratic Institutions	NGO or academic	X			
Centre for Legislative Development, Inc. (CLD)	NGO or academic				
Christian Michelsen Institute (Norway)	NGO or academic	X			
Commonwealth Parliamentary Association (CPA)	Parliamentary	X	X	X	X
Commonwealth Secretariat	Multilateral	X			
Danish International Development Agency (DANIDA)	Bilateral	X	X	X	
Deutscher Entwicklungsdienst (DED)	Bilateral	X			
Deutsches Institut für Entwicklungspolitik (DIE)	NGO or academic	X			
European Commission (EC) - EuropeAid	Multilateral	X	X	X	X
Finnish International Development Agency (FINNIDA)	Bilateral	X	X		
Ford Foundation	NGO or academic	X			
Friedrich-Ebert Stiftung (FES)	Partisan	X	X	X	
Gesellschaft für technische Zusammenarbeit (GTZ)	Bilateral	X	X	X	
Governance and Social Development Resource Centre	NGO or academic	X			
Institute for Democracy in South Africa (IDASA)	NGO or academic	X	X		(X*)
Institute for Multiparty Democracy (IMD)	Partisan	X			
Inter-American Development Bank (BID / IDB)	Multilateral	X	X		(X*)
International Budget Project (IBP)	NGO or academic	X	X	X	
International Foundation for Election Systems (IFES)	NGO or academic	X			
International Institute for Democracy and Electoral Assistance	Multilateral	X	X	X	
International Republican Institute (IRI)	Partisan	X	X	X	
Inter-Parliamentary Union (IPU)	Parliamentary	X	X	X	X
Irish Aid	Bilateral	X			

Jean Jaurès Foundation (FJJ)	NGO or academic	X			
KfW Development Bank	Bilateral	X			
Konrad-Adenauer Stiftung (KAS)	Partisan	X			
National Conference of State Legislatures (NCSL)	Parliamentary				
National Democratic Institute for International Affairs (NDI)	Partisan	X	X	X	X
National Endowment for Democracy (NED)	Bilateral	X			
Netherlands Development Cooperation	Bilateral	X			
Netherlands Ministry of Foreign Affairs	Bilateral	X			
Norwegian Agency for Development Cooperation (NORAD)	Bilateral	X	X		
OECD Development Assistance Committee (DAC)	Multilateral	X	X	X	
Open Society Institute, Open Society Justice Initiative	NGO or academic	X			
Organization of American States (OAS)	Multilateral	X	X		
OSCE Office for Democratic Institutions and Human Rights	Multilateral	X			
Overseas Development Institute (ODI)	NGO or academic	X	X		
Pan African Parliament	Parliamentary	X			
Parliamentarians for Global Action (PGA)	Parliamentary	X			
Parliamentary Centre	NGO or academic	X	X	X	X
Parliamentary Network on the World Bank (PNoWB)	Parliamentary				
Portuguese Development Cooperation Institute (IPAD)	Bilateral	X			
Public Expenditure & Financial Accountability (PEFA)	Multilateral	X			
Southern African Development Community (SADC)	Multilateral	X	X		
Stability Pact for South Eastern Europe	Multilateral	X	X	X	(X*)
State University of New York: Center for International Development	NGO or academic	X	X	X	X
Swedish International Development Agency (SIDA)	Bilateral	X	X	X	
Transparency International (TI)	NGO or academic	X			
UNICEF	Multilateral	X			
United Nations Department of Economic and Social Affairs	Multilateral	X	X		
United Nations Development Programme (UNDP)	Multilateral	X	X	X	X
United Nations Fund for Women (UNIFEM)	Multilateral	X			
United States Agency for International Development (USAID)	Bilateral	X	X	X	X
Vienna Institute	NGO or academic	X			
Westminster Foundation for Democracy (WFD)	NGO or academic	X	X	X	X
Women, Law and Development International	NGO or academic	X			
World Bank (WB), World Bank Institute (WBI)	Multilateral	X	X	X	X
TOTAL		**66**	**33**	**22**	**11 (15*)**

Notes: * indicates / includes regional actors. For full details of personnel contacted, refer to Brösamle et al. (2007: Appendix E).

Table 10: DFID staff contacted

Name	Relevant work	Response
Arghiros, Daniel	Ghana	Yes
Duncan, Charlotte	Sierra Leone	Yes
Glenworth, Garth	Governance	No
Harding, Alan	Zambia	Yes
Hogg, Richard	Sierra Leone	Yes
MacKiggan, Keith	Vietnam	Yes
Nguyen Huu Hieu	Vietnam	Yes
Osborne, David	Bangladesh	Yes
Sharples, Stephen	Africa region	Yes
Thomas, Richard	South Africa	Yes
Whyte, Kate	Georgia	Yes
Zaidi, Mosharraf	Pakistan	No