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Through the Budgetary Process

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THROUGH THE BUDGETARY PROCESS**

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# EXPANDING VOICE AND ACCOUNTABILITY THROUGH THE BUDGETARY PROCESS

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## **I. Introduction**

Budget is one of the most important economic tools available at the disposal of governments. The methods of revenue collection and the patterns of expenditure that are adopted in the budget go a long way towards determining both the rate at which an economy will create wealth and the manner in which it will distribute wealth among different groups of people. This is especially true when one considers the cumulative effects of annual budgets over a period of time. There are of course other tools of government policy that usually fall outside the purview of the budget but can have a significant influence on the creation and distribution of wealth – for example, monetary policy, labour market policies, regulatory policy for trade and investment, policies regarding property rights and enforcement of contracts, and a whole range of institution-building activities. The effects of most of these policies, however, do get reflected in the budget in one way or the other. In any case, the sheer range of effects the budget can have on the structure of incentives and the allocation of resources makes it perhaps the most potent instrument of government policy.

While budgets can thus have a profound effect on the well-being of the people, the people generally have very little say in the formulation of budgets. In all societies, democratic or otherwise, budget preparation has traditionally been almost an exclusive prerogative of the executive. The legislature sometimes participates, but generally towards the very end of the process and with varying degrees of influence. The wider public, however, has remained virtually excluded. Moreover, the budgetary process tends to remain shrouded in extreme secrecy, unmatched by any other aspect of government activity with the sole exception of matters related to national security.

The combination of seclusion with secrecy renders the budgetary process one of the most obscure aspects of governance. This veil of obscurity is not just a minor irritant, however. Seclusion stifles voice and secrecy dilutes accountability – together they open the way for abuse of power, whose victims are generally the most vulnerable groups in the society. The attribute of seclusion does not constrain all segments of the society equally. Those in a position to exercise power – either political or financial – can often find their way to the ears of those in charge of formulating the budget. The disadvantaged groups, who lack power and access, cannot do so. They fail to have any sort of voice – let alone an effective one – in the making of the budget. The attribute of secrecy then renders it difficult to hold the government accountable for its actions. Even if the budget offers a palpably raw deal to some groups, it is easy for the government to get away with it by arguing that there were no other feasible

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alternatives consistent with the stated goals, because secrecy ensures that outsiders have no knowledge of what alternatives were actually available. The traditional budgetary process – characterised as it is by seclusion and secrecy – is thus inherently antithetical to the ideal of good governance, for which voice and accountability are essential preconditions.

It follows that if good governance is to be promoted, through the expansion of voice and accountability, then the budgetary process should be a prime target for change. This will not be easy, because the vested interests that have benefited from traditional practices will stand in the way. But changes have begun to occur. In a growing number of countries, seeds are being sown for a more inclusive and a more transparent budgetary process. This is happening partly through enlightened government actions following democratisation of erstwhile undemocratic polities, but mainly through bold and innovative actions by civil society organisations. This paper reviews some of the experience that is being spawned by this wind of change. The objective is to draw some lessons regarding the preconditions that need to be met and the methods that need to be adopted for effectively expanding voice and accountability in the budgetary process. Section II deals with the issue of voice, section III is concerned with accountability, and section IV brings the arguments together to draw some lessons.

## **II. Expanding Voice through the Budgetary Process**

Budget is one of the most important arenas of decision-making in which the potentially conflicting interests of different groups of the society have to be confronted with each other. This is true about every aspect of budget formulation, the most obvious case being that of allocation of public expenditure. Any decision on the pattern of allocation necessarily involves a decision as to whose interests are to be given precedence over the interests of others. But a similar confrontation of interests also arises in the context of financing the expenditure. For example, when the government wants to raise a certain amount of revenue, it will find that there are many alternative ways of doing so, each with its own distribution of tax incidence. Some groups will sacrifice more than others, in terms of paying taxes, depending on which alternative is chosen. Similarly, when the government wants to run a deficit budget, it will find that there are several alternative ways of financing the deficit, and each financing mechanism will entail its own distribution of welfare among the people. Experience suggests, for example, that inflationary financing of the deficit will typically harm the poorer segments relatively more.

One could argue, therefore, that confronting opposing interests is the very quintessence of the budgetary process. In whose favour this confrontation will be resolved will depend in part on whose interests are better represented in this process i.e., whose voice is heard louder and stronger. Typically, the poor and the marginalised segments of the society have no direct voice in this process at all – thanks to the feature of seclusion that characterises budget formulation almost everywhere. Where some form of democracy exists, the legislature is supposed to act as an indirect mechanism for expressing their voice, but in practice it often turns out to be a very poor substitute of direct voice. It is the rich and the powerful who manage to represent their interests better. Unless this state of affairs is fundamentally altered

so that the poor and the marginalised groups can have a better voice in the budgetary process, the development process will continue to remain unjust.

It is of course true that having a voice is not sufficient for making sure that one's interests will be safeguarded. For it is entirely possible that a voice will be heard but not listened to. Voice can be effective only when people have sufficient power to influence decision-making and to hold the decision-makers accountable for their actions. These issues of empowerment and accountability will be addressed below, but it is important to recognise at this stage that having a voice is a necessary first step. The groups that are traditionally excluded from the budgetary process must find a way of bringing their voice to the table first so as to confront their interests against those of others if there is to be any chance of safeguarding their interests. The unfortunate fact of life is that even this first step proves a step too far for most of them.

In order to safeguard their interests the excluded groups must be able to express their voice at several stages of the budgetary process. As an organising principle, one can identify three stages at which having a voice may be of crucial importance – the stage of preference revelation, the stage of conflict resolution, and the stage of impact evaluation. In the first stage, people are to express what they want; in the second stage they are to participate in the process of reconciling conflicting interests of various groups; and in the final stage they are to articulate what they think to be the successes or failures of the authorities concerned. There are hopeful signs from different parts of the world that the groups that are traditionally excluded from the budgetary process are slowly but surely beginning to express their voice in all three stages.

### ***Voice in Preference Revelation***

The stage of preference revelation is the very first stage. Formulation of any budget necessarily involves consideration of alternatives – e.g., alternative ways of raising revenue, alternative ways of spending revenue, alternative ways of financing the deficit if there is any, alternative ways of disposing of surplus if there is any, and so on. When these alternatives are being considered, or even before their formal consideration begins, it is essential that all social groups be able to say what they want – i.e., to reveal their preferences over possible alternatives.

This is important from the point of view of both equity and efficiency. The equity concern is obvious enough – if the marginalised groups are unable to reveal their preferences, it is very likely that their interests will continue to be ignored. The concern with efficiency arises from the fact that unless the preferences are known, even a well-meaning government may not be able to allocate resources in a way that best meets the needs of the people; this will result in inefficient allocation of resources. In the private sector of the economy, preferences are revealed and catered to indirectly, through the price mechanism. But no such indirect mechanism exists in the public sphere.<sup>1</sup> If the allocation of public resources is to respect the preferences of

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<sup>1</sup> In theory, one might be able to devise some pseudo price mechanism even in the public sphere – such as Lange-Lerner socialist prices, or the Lindahl prices for public goods, which would provide an indirect means of revealing preferences, but these methods generally come up against the problem of what is known as incentive compatibility – namely that they do not induce the people to reveal their preferences truthfully.

the marginalised groups, or any group for that matter, then those groups must be able to reveal their preferences directly. Hence the importance of voice in preference revelation.

There are many alternative channels through which the voice of the stakeholders can be made audible. Civil society organisations are perhaps best placed to take the lead in this matter, but so can academic institutions; even a government committed to democracy can do so. There are examples of all three channels being effective under different circumstances.<sup>2</sup>

In perhaps the most elaborate process of preference revelation conducted by the civil society, the South African National NGO Coalition has recently co-ordinated a two-year process of poverty hearings throughout the length and breadth of the country. These public hearings gave the poor everywhere an opportunity to express what they want. Their revealed preferences were then systematically collated into a set of coherent priorities and delivered to the government for consideration during the process of budget formulation.

In Kenya, the lead has been taken by an academic institution, namely the Institute for Economic Affairs. It organises civil society meetings every year with a view to providing inputs to the budgetary process. The meetings are attended by a wide range of stakeholders, not just the poor; and the voice of the poor is probably heard more through others representing the poor than directly through the poor themselves. Nevertheless, these annual meetings have for the first time provided an opportunity for the poor to put their preferences on to the agenda. The process has by now acquired sufficient legitimacy for even the government to request the Institute for their findings as a regular input into the drafting of the budget.

The most prominent case of a democratic government taking the initiative on its own is Uganda. After decades of authoritarian rule, Uganda had the first taste of participatory democracy when the National Resistance Movement came to power in 1986. From its earliest days, the new government tried to involve various components of the civil society in a participatory approach towards priority setting for poverty reduction plans. The poor themselves were not directly involved in this exercise at the beginning. But that changed in the 1990s, when under the HIPC initiative the government of Uganda set about formulating a Poverty Reduction Strategy Paper (PRSP) through a remarkably inclusive process. In order to identify the priorities that should guide the PRSP, the government set up the Uganda Participatory Poverty Assessment Project (UPPAP). Under this project, which was piloted in ten districts, evidence was collected from the poor people as to how they themselves perceived poverty and what their own priorities were for action against poverty. The preferences revealed by the poor through this process have played a prominent role in shaping the eventual contours of the Ugandan poverty reduction plans.

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<sup>2</sup> Further details of the examples given below, and many more, can be found in Krafchik (n.d.).

### ***Voice in Conflict Resolution***

Once the preferences have been revealed, the next stage is to fight for one's corner in the struggle between opposing preferences. Given the fact that resources are always scarce, it will never be possible to satisfy all groups fully, no matter how skilfully a budget is crafted. A certain amount of give and take must occur and compromises will have to be made. In that sense the budgetary process is essentially a bargaining process, even if the nature of bargaining is often implicit and incomplete. The process is implicit in the sense that different groups of people seldom come together to thrash out a compromise through an explicit exchange of views. Much of the bargaining takes place surreptitiously, under the cloak of secrecy, whereby pressure is exerted directly or indirectly on the authorities in charge of formulating the budget. The process is incomplete in the sense that not all groups can participate in this act of surreptitious bargaining. Only those who have sufficient political or financial clout to carve out an avenue to the corridors of power can do so. Almost by definition, this leaves out the marginalised groups. The bargaining process is, therefore, highly asymmetrical.

The importance of voice in this context is best understood by combining some elementary concepts of game theory with the notions of 'exit' and 'voice' introduced by Hirschman. In the standard asymmetric bargaining models of game theory, the outcome of the bargaining process depends on three sets of factors - the preferences of the bargaining parties, their breakdown position, and the degree of asymmetry in their bargaining power. With given preferences, the latter two turn out to be the crucial parameters that determine how favourable the final bargaining outcome will be for different parties. Breakdown position refers to the position where a bargaining party would be if the bargaining process were to fail. A party with a strong breakdown position can gain advantage in the bargaining process by threatening to walk away from the table if its demands are not met. It knows that if the negotiations were to break down as a result of its 'exit', those with weaker breakdown positions would suffer more as a consequence. These weaker parties would, therefore, have an incentive to make compromises in favour of the party threatening to exit, in order to keep the bargaining process alive. This threat of 'exit' is a ploy that is routinely used by negotiators in bargaining situations.

It is obvious, however, that in a bargaining game involving the budget, the threat of 'exit' is not an option. If a party threatens to exit, the bargaining process will not break down, the budget will still be formulated; all that will happen is that the party in question will have to exit empty-handed. In this situation, the only way to strengthen one's position is to exercise 'voice' - by staying in the bargaining room and arguing for one's case as loudly and as persuasively as possible. Those who can exercise their voice better will, other things remaining the same, change in their favour the third factor determining the bargaining outcome - namely, the degree of asymmetry in bargaining power. It is inevitable that the marginalised groups will find themselves at the wrong end of the asymmetry to begin with. Only by exercising voice can they begin to redress this initial disadvantage and make the outcome of the budgetary process more favourable towards them than it would otherwise be.

The most remarkable instance of this idea being put into practice is the municipal budget of the city of Porto Alegre in Brazil. In a revolutionary change in the

budgetary process initiated in 1989 by Mayor Olivio Dutra, the budget of the municipality is now prepared through an elaborate participatory process involving citizens from all walks of life, including the poor. Legally, the mayor's office and the elected Chamber of Deputies still remain responsible for defining and approving the budget. But most of the details of the budget are actually worked out by a three-tier institutional structure involving popular participation.

The lowest tier is composed of a number of plenary assemblies whose function is to allow the citizenry to reveal their preferences. There are thematic assemblies and regional assemblies. The thematic assemblies elicit people's preferences about resource allocations within specific sectors such as transportation, education, health, social welfare, etc. The regional assemblies collate citizens' opinions about what needs to be done for the overall development of their specific localities.

One these revealed preferences are collated in a systematic manner, they are passed on to the next two tiers – the Fora of Delegates and the Council of the Preparatory Budget, which are smaller bodies whose members are elected by the plenary assemblies. The Councillors are charged with the delicate task of ranking the various demands put forward by the assemblies and to recommend allocation of funds. This is the stage of conflict resolution and the participation of the poor in the whole process, starting from attending the assemblies to electing the Councillors, has ensured that their interests would not be sacrificed. Indeed, the Council operates a weighting system that gives precedence to poor-oriented projects while allocating scarce funds.

The results speak for themselves. When the experiment of participatory budgeting was first started in 1989, the city was in a precarious financial state owing to pressures of de-industrialisation, influx of migrants from rural areas, and a legacy of financial crisis stemming from high debt burden and widespread tax evasion. Despite these impediments, between 1989 and 1996, the number of households with access to water services went up from 80 per cent to 98 per cent, and the percentage of population with access to sewage facilities more than doubled - from 46 per cent to 85 per cent. During the same period, the number of children enrolled in public school also doubled (de Dousa Santos 1998; Cagatay et al. 2000).

### ***Voice in Impact Evaluation***

To formulate a budget is one thing, to implement it is another. Traditionally, budgets have discriminated against the poor and the marginalised groups not only by providing less for them at the stage of formulation, but also by not giving them their due at the stage of implementation. There are numerous instances where the ration that was supposed to feed the needy had found its way in the black market, the medicine that was supposed to come to a rural clinic had just disappeared, and the road that was supposed to be built to provide market access to people living in remote areas had collapsed even before it was completed. Most of these incidents occur due to corrupt practices, or sheer negligence, rather than to genuine contingencies beyond the control of implementing agencies. To bring the instances of such malpractice out into the open is a necessary first step towards eradicating them.



The media and the civil society can play an important role here. Their role will be elaborated in the next section, where we discuss the conditions for enhancing accountability. But the poor themselves must raise their voice in protest against things such as missing ration, vanishing medicine and collapsing roads, if their interests are to be safeguarded in the budgetary process. The general point is that the poor must be able to let the authorities know in what way budgets have actually affected their lives. When they are able to voice their own evaluation of the budget's impact in terms of their life experiences, the effect can be much more telling than anything that can be achieved by an expert evaluation in terms of bare statistics. This is not meant to denigrate statistical evaluations, which are an essential tool for improving performance. But there is a strong case for supplementing them with the more vivid evaluations offered by the poor when they give voice to their life experiences as evidence of the budget's impact.

This idea has recently spawned a new practice called social auditing, an outstanding example of which can be found in one of the poorest regions in the Indian state of Rajasthan. The leading actor is a mass-based organisation called *Mazdoor Kishan Shakti Sangathan* (MKSS; translated as Movement for the Empowerment of Peasants and Workers). It all began when MKSS first noted a discrepancy between the minimum wage officially sanctioned and the wages actually being paid to the workers and peasants. This discovery alerted the organisation to the possibility that many local government (*panchayat*) expenditures are not made according to plans. It wanted to match plan allocations to actual expenditures, but found it extremely difficult to obtain the necessary information. It took nearly seven years to prepare the documentation that made a prima facie case that corruption was widespread.

But not content with prima facie evidence, MKSS decided to check the validity of official records against the actual experiences of the villagers. Starting in December 1994, it began to hold public hearings, in which everyone, including elected representatives and local government officials were invited to attend. In these hearings, detailed accounts of official records were read out in public, who were then asked to testify whether their own experiences were congruent with what the records claimed to have achieved. The testimonies revealed striking discrepancies. For example, these hearings revealed that many villagers who had been listed as beneficiaries of anti-poverty programmes had never received any payment and that local contractors had received payments for works that were never performed (Jenkins and Goetz 1999). The effect of all this did not remain confined to mere revelation of corruption. In some cases, these hearings led to irresistible public pressure on corrupt officials to return the embezzled funds and also acted as a deterrent to further corruption (Roy 1997). By exercising their own voice in impact evaluation, the poor had thus made sure they would benefit more from the use of local government funds than they had traditionally done.

At the national level, the voice of the poor in impact evaluation is heard most prominently in Uganda. In 1998, the Ugandan government established a Poverty Action Fund (PAF) as a mechanism for monitoring the use of funds released by the HIPC initiative and other programmes for poverty alleviation. The Fund involves civil society organizations in selecting projects for evaluation and in the actual task of evaluation itself. This task is co-ordinated by a coalition called the Uganda Debt Network, which undertakes periodic field surveys through a team of researchers and

community members. The field visits give the researchers the opportunity to hear from the people themselves whether and to what extent the intended beneficiaries had actually benefited. In a short period of time, this initiative has helped to identify and then to remove many problems, resulting in increased funding to poverty relief programmes and shifting of expenditure to priority sectors (Krafchik, ).

### **III. Expanding Accountability Through the Budgetary Process**

If the interests of the poor are to be safeguarded in the budgetary process, it is essential that they have a voice in what goes into the budget and what comes out of it. But the mere expansion of voice is never going to be enough to protect the poor if the budget-making authorities cannot be held accountable for their actions. If the authorities disregard the interests of the poor, then either the poor themselves or someone on their behalf must be able to make the authorities answer for it. In short, people must be empowered to secure their rights – empowerment and accountability are two sides of the same coin. Expanding accountability, therefore, presupposes expanding empowerment.

Empowering the powerless is necessarily a slow process, except in the aftermath of a social revolution. But this process can be strengthened and accelerated by taking appropriate social actions. The most important of these actions have to do with the promotion of three essential pre-requisites of accountability – viz. transparency, participation, and knowledge. Transparency is essential for accountability because it will enable people to determine who is responsible for what. Participation will give the people the opportunity to exercise their own power to hold the authorities to account, and knowledge will provide them the weapon with which to do so.

#### ***Transparency***

Even though a particular department may be officially the home of a budget – for example, the Ministry of Finance in the case of national budgets - the whole process of formulating as well as implementing the budget is actually a collective enterprise involving a large number of individuals and agencies. Given the veil of secrecy behind which budget work normally takes place, it is practically impossible for outsiders to know who is responsible for what. This lack of transparency about the budgetary process is a serious stumbling block towards ensuring greater accountability. Legislative and executive actions are needed to make the budgetary process more transparent so that responsibilities can be more clearly assigned and the culpability for failure more easily attached to specific agencies and individuals.

South Africa is an outstanding example of progressive actions of this kind. Since the democratic election in 1994, the South African budget process has been significantly reformed to make it more transparent. The following measures were especially helpful in bringing about this transformation.

- The new Constitution, enacted in 1996, called for specific measures to translate the ideal of transparency in the entire area of governance – including the budgetary process – into practice.

- In 1997, the executive embarked on a drive to introduce performance-oriented management, combined with devolution of power.
- A legal framework was created for the division of revenue and assignment of roles and responsibilities between spheres of government.
- In February 1999, the Public Finance Management Act (PFMA) was passed with a view to establishing stringent transparency requirements, including regular reporting and the assignment of accountability.
- An Amendment of PFMA, enacted in March 1999, extended the requirements of PFMA to the sub-national levels of government.

Few other developing countries have gone as far as South Africa. But those who wish to proceed in the direction of greater transparency can draw upon not just the experience of South Africa but also a lot of groundwork that has already been done in the recent past by institutions such as the European Union, OECD and the IMF for clarifying the requirements of a transparent budget. Of special significance is the IMF code of Good Practices for Fiscal Transparency, which gives detailed practical guidelines to establish a sound and viable transparency framework for fiscal policy. The codes are designed to fulfil the following specific objectives: (a) roles and responsibilities in government should be clear, (b) information on government activities should be provided to the public, (c) budget preparation, execution and reporting should be undertaken in an open manner, and (d) the integrity of fiscal information should be subjected to independent scrutiny.

The IMF codes are very general in nature and they may need to be adapted in specific country contexts, but they are as good a starting point as any. Already, these codes are being adapted in Africa and Latin America to measure transparency in the budgetary process. Pioneering work has been done in this area by the Budget Information Service of the Institute for Democracy in South Africa (IDASA) undertaken in collaboration with the International Budget Project (IBP) of the Centre on Budget and Policy Priorities in Washington, D. C. IDASA conducts interviews with various stakeholders to solicit their views on the degree of transparency they find in different aspects of the budgetary process. Analyses based on these interviews have led to a scoring system for measuring the degree of transparency in the budget.<sup>3</sup> This system has been adapted and applied in at least five Latin American countries – Argentina, Brazil, Chile, Mexico and Peru, and four African countries – Ghana, Kenya, Nigeria and Zambia. While the numerical scores may provide a convenient tool for advocacy, the real value of these exercises lies in identifying the areas where transparency is limited. The information generated in the process of this identification can provide an objective basis for undertaking corrective actions at legislative and executive levels.

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<sup>3</sup> For a comprehensive overview of the system developed in South Africa and an analysis of the major findings, see Folscher *et al.* (2000).

## ***Participation***

The importance of participation for accountability is obvious enough. If people do not participate in the decision-making process at some stage, i.e., if budget-making continues to remain a secluded exercise, then the budget-makers will find it all too easy to hide their actions. This will compromise accountability.

Ideally, participation should take place at every stage of the budgetary process – specifically, at the three stages of preference revelation, conflict resolution and impact evaluation discussed earlier in the context of ‘voice’. It could be argued, however, that even though all three stages are equally important from the point of view of ‘voice’, from the point of view of accountability it is the last stage where participation is most important. If participation does occur in all three stages, this will enable people to hold the authorities accountable by comparing the outcomes of the budgetary process with the stated goals in which the people themselves had a say. But even if they had no say in setting the goals and participation occurred only in the last stage, it would still help people to hold the authorities accountable in terms of the goals set by the authorities themselves. This is no mean an achievement in itself, as demonstrated by the case of social auditing in Rajasthan discussed in section II.

In fact, participation can enhance accountability even if the poor and the marginalised groups themselves have no voice in the budgetary process. Around the world, participatory budgeting has been flourishing in the last decade, spurred mainly by the success of the Porto Alegre experiment in Brazil (see section II). Not in all cases, however, the poor and the marginalised groups are directly involved. In many instances, civil society organisations and academic institutions that claim to speak for the poor have successfully engaged themselves in a participatory budget process. Many of these experiences are discussed illuminatingly by Krafchik (n.d.).

## ***Knowledge***

‘Knowledge is power’ is a popular cliché, but it is especially true in the context of expanding accountability in the budgetary process. Anyone who has looked into a budget document immediately knows how difficult it is to decipher its contents, unless one already happens to be one of the cognoscenti. The arcane language in which the budget is normally couched and the labyrinthine accounting procedures it tends to employ create an almost impregnable wall for most outsiders. The result, as one prominent social activist engaged in independent budget work has remarked, is that “The word ‘budget’ is enough to turn off most social activists” (Mistry, 1999).

But if people do not understand the budget, there is little chance that they would be able to either influence the content of the budget or to hold the budget-makers accountable for what it contains and how it is implemented. This point was realized very early on by a mass-based organization in the Indian state of Gujarat, called the Development Initiative for Social and Human Action (DISHA). It was founded in 1985 with a view to organizing and unionising forest labourers and building capacity in local organizations on issues that affected the tribal people. It soon realized, however, in the course of its advocacy work that lack of understanding about the budget was a severe handicap. In the words of the organization’s own spokesman:

“DISHA began to see the need for budget analysis when we lobbied the government to raise the collection rate for 1 million tribal Tendu leaf-plucker women, to regularise land rights for tribal forest land cultivators, and on other issues relating to the general welfare of communities living in the tribal areas of Gujarat state in Western India. With each struggle, a realization grew: unless we had information on the money spent by the national and state governments, it would be difficult to fairly represent the issues of tribal development. Eventually, this realization forced us to learn how to analyze the state budget.”(Mistry 1999).

Many other organizations around the world are discovering the merit of learning how to understand the budget. Some of them are actually specialising in the creation and dissemination of budget knowledge. These activities fall into two broad categories – analysis and training. Analysis itself is of two types – one may be called structural analysis and the other impact analysis. All these activities are important for providing people with the weapon with which to hold the budget-makers accountable.

### Structural analysis

Structural analysis essentially means translating into plain language what the budget document has to say. The first task in this enterprise is to explain the meaning of the terms frequently used in a budget document and then to give some idea about the accounting procedures so as to achieve certain amount of transparency about the contents of a budget. Once the budget is understood, it immediately empowers the users by giving them the capacity to subject the budget to independent scrutiny – which by itself goes a long way towards expanding accountability.

Spurred by this realization, many independent organisations around the world have been trying to make the budget more accessible to outsider. The work of DISHA in the Indian state of Gujarat has already been mentioned. The recent work of the Institute of Public Finance in Croatia is another successful example. The Institute has recently published the first Guide to the Croatian budget. Apart from providing a general introduction to the budget and analyzing the major expenditure and revenue trends, the Guide also deals with extra-budgetary funds and provides a consolidated budget of the entire fiscal operation of the government. The Guide was published at the same time as the government’s own budget proposal was being discussed at the parliament, and proved a very useful tool for the parliamentarians with which to scrutinise those proposals. It has been reported for instance that during the course of the parliamentary debate, one of the members of parliament stood up, flashed the Guide and said to the Deputy Minister of Finance: “Now we don’t have to (only) listen to you anymore, we have a (alternative) guide!” (Krafchik n.d.).

Another illuminating example of how analysis can enhance accountability is a campaign launched by the Civic Alliance, a broad coalition of Mexican NGOs, to make the President of the country accountable for his ‘secret fund’. In 1994, the Civic Alliance began its right-to-information campaign, and specifically targeted the ‘secret fund’ for this purpose. After years of legal tussle, in which the President resolutely denied to provide the necessary information, the Alliance eventually gained access to

detailed budget information with the help of certain progressive members of the Congress. Through a painstaking analysis of the overall budget of a number of years, the members of the Alliance finally unearthed what the President had tried to hide – namely, that the secret fund had grown from \$47 million in 1983 to \$191 million in 1994. At the same time, many other irregularities in the salaries and benefits paid to the public officials were also revealed. The publicity that this research received in the media put enormous pressure on the government. The President, while never yielding on the issue of providing information, did decrease the size of the secret fund sharply, until allocations to this fund were eliminated entirely. The research on public officials' abuse of discretionary spending was bore fruit, as the federal government started to regulate salary benefits and to make their operations more transparent.

### Impact analysis

The potential impact of a budget on specific groups of people cannot be easily ascertained. This is because the manner in which the budget is presented does not permit a straightforward analysis of its potential impact on specific target groups. The focus of a budget is either on macro aggregates or on sectoral allocations. To ascertain how the macro and sectoral aggregates translate into costs and benefits for specific population groups such as the poor, or women, or some ethnic minorities, is an extremely challenging task.

The analysis of a budget's actual impact is even more difficult. In most countries, even though the budget itself is a public document, evaluations of the how different provisions of the budget have actually been implemented often lie hidden in departmental files or in the auditor-general's office. Yet, without a proper understanding of how the budget has been implemented in relation to its goals, - i.e. whether the outcomes have diverged from the goals, and if so, why – it is impossible to identify failures, to assign culpability and to hold anyone accountable.

Social auditing of the kind discussed in section II is one example of participatory impact analysis. There are many other examples, not all of which are equally participatory, but have nevertheless proved to be powerful tools for enhancing accountability.

One such case is the Budget Analysis Project launched by the Adva Center of Israel, a non-partisan action-oriented policy analysis centre. The project aims to analyze the social service allocations of the national budget of Israel via a series of reports entitled *Looking at the Budget*. Its most important moment came in 1998 when the government proposed deep cuts in social spending with a view to stimulating economic growth. Such cuts included reducing child allowances and old-age pensions, abolishing the uniform health care system, limiting eligibility for unemployment compensation, providing less support for schools in disadvantaged areas, and son on. The Adva Center carefully analysed the potential impact of these cuts and concluded that these would result in serious harm to the welfare state and the people who depended on it. Armed with their findings, the Centre set upon forging a wide coalition around efforts to preserve social services, particularly the public health care system. The lobbying activities undertaken by this coalition created such a widespread awareness of the deleterious consequences of the spending cuts that it

made it difficult for the government to ignore their demands completely. Eventually, three important restorations were made in the social services budget. The universal package of health services was preserved, cutbacks in teaching hours and housing assistance were reduced, and deep cuts in child allowances and old-age pensions were withdrawn.

A special kind of impact analysis that has gained a strong momentum in the recent years is known as the Gender-sensitive budgeting. The movement first started in Australia as a government-led initiative between 1984 and 1996. Within each budget cycle, the government departments were asked to produce expenditure analyses of their gender impacts. The analysis involved isolating expenditures into three categories:

- Expenditures targeted to groups of men and women, such as expenditure on women's health.
- Equal opportunity expenditures by governments agencies.
- General budget expenditures to be analysed for their gender impact.

While it was relatively easy to assess the allocation in the first two categories, the third component posed a real challenge. A variety of tools were developed for this purpose. The Australian experiment has now been terminated as a result of an ideological shift in political power, but it has inspired new initiatives around the world. The prime example is the Commonwealth Secretariat's Gender Budget Initiative, which has in turn spawned such well-known movements as the Women's budget Initiative in Africa and the Gender Budget Initiative in Tanzania. All these movements aim at holding the budgetary authorities accountable for the commitments they have made in various international fora (such as the Beijing Platform) to make economic policymaking more sensitive to the interests of women.

### Budget training

Budget training is a natural extension of budget analysis. To be able to analyze the budget effectively one has to have highly specialised skills, which most people cannot be expected to possess. Yet those who are in a position to influence the budget – such as members of the legislature, or social activists, journalists and other influential members of the civil society – need to be armed with the basic concepts and major findings of the analysis, if they are to play their advocacy roles effectively. Only a few might choose to analyse, but many more need to be trained with the help of that analysis.

As in most other types of applied budget work by the civil society, South Africa leads the field in imparting budget training as well. The Budget Information Service (BIS) of the Institute for Democracy in South Africa (IDASA) has already been referred to. One of the major programmes of this service is to impart budget training. Initially, its work focussed on two primary target groups – legislators and civil society organizations.

The idea of educating the legislators originated from the realization that vast majority of those elected in 1994 had little experience in parliamentary democracy, having

recently emerged from exile or underground internal movements. Yet, within the first few weeks of office they were faced with the task of approving a budget they barely understood. BIS was the response to this perceived weaknesses of the legislature in budgetary matters. The next target group was the thousands of NGOs, who were faced with the need to redefine their role from liberation advocacy to economic and social advocacy in the post-apartheid regime, but were ill-equipped to do so. Over time, BIS came to realize the importance of working with two other actors, the media and the executive. By now, BIS has developed a very sophisticated training programme geared to the needs of specific target groups.

An academic institution of Mexico, called CIDE, is one of the leading examples in Latin America of what can be achieved by way of budget training. As in the case of South Africa, the political changes in Mexico in recent years have allowed for more open discussion of the national budget than ever before, but the scope and quality of discussion was seriously hampered by the lack of knowledge of potential discussants. To counter this problem, CIDE has organized several training courses for people concerned with the budget process – journalists, government officials, and interested members of the civil society. It has also produced information brochures for wider dissemination, explaining why budget is important, how budget affects the life of the average citizen, and the nature of the budget process. Today, CIDE is regularly invited by various institutions such as the Gender and Equity Commission of the Mexican Congress, the Chamber of Deputies, and even the Treasury Ministry to undertake research on their behalf and to educate them on the budget's impact.

Another outstanding example is DISHA of India. As note earlier, DISHA first taught itself how to carry out simplified structural analysis of the state budget of Gujarat. They then learnt how to use the information derived this analysis as the benchmark against which actual performance at the field level can be judged. Once they discovered that the comparison of budget information with actual field experience provides a simple tool with which to hold the officials accountable for their failures, they began to arm many other NGOs with this tool, by giving them training in budget analysis. So far, DISHA has provided this training to NGOs in the Indian states of Tamil Nadu, Rajasthan and Maharashtra, as well as more than 50 groups in Nepal, all of whom are now conducting the work themselves.

These and many other instances of successful attempts to influence the nature of the budgets through the power of knowledge clearly underline the principle that fulfilling people's right to information is an essential pre-requisite for enhancing accountability in the budgetary process.

#### **IV. Concluding Observations**

This paper has tried to achieve two things. First, it has tried to clarify at the analytical level the kinds of actions that must be taken in order to expand voice and accountability in the budgetary process. Secondly, it has reviewed, in the light of the proposed analytical framework, a number of case studies from around the world that have attempted to expand voice and accountability in the budgetary process.



In the context of voice, the paper has identified three analytical categories – voice in preference revelation, voice in conflict resolution and voice in impact evaluation. It has been argued that all three categories are important, at different stages of the budgetary process, if marginalised groups are to gain more from the budget than they have in the past. Voice is not sufficient, however, to achieve that goal because it alone cannot ensure accountability. In the first place, the voice of marginalised groups must be subsumed under the broader notion of participation by the society at large. But even participation alone is not enough. The paper has emphasised three distinct, but inter-related, pre-requisites of accountability – viz. transparency, participation, and knowledge. The case studies were then reviewed in the light of these analytical categories of voice and accountability. In this concluding section, we draw upon this review to make some points of a general nature.

(1) The paper has reviewed some, and referred to many other, types of social action undertaken in a large number of countries for promoting voice and accountability in the budgetary process. The cumulative experience of these multifarious activities clearly suggests that, with determination and innovative thinking, even as inscrutable an entity as a budget can be made sufficiently accessible to ordinary people so that they may use it as a vehicle for fighting for their rights – the right to a decent human living and the right to participate in the process of development. This does not, however, mean that a strategy that has led to success in one context will necessarily yield similar success elsewhere. Replicability and scalability of innovative strategies is always a difficult issue – the need for adaptation to particular contexts must always be borne in mind.

Consider for instance the kind of social auditing that takes place in the villages of Rajasthan, India (section II). This has proved to be an excellent strategy for confronting officials and elected representatives at the lowest level of government with the consequences of their actions. But it is not easy to imagine how such an approach can be scaled up to enhance accountability for national-level budgets. The strategy works well at the local level because the budgetary provisions at that level have direct correspondence with activities whose impact is directly perceived by the local people in their daily life. By contrast, the effects of national-level provisions are much too diffuse and usually affect people's daily lives only indirectly through a chain effect involving multiple channels. Furthermore, these indirect effects are confounded by factors that are beyond the realm of budgetary provisions – for example, unexpected change in the business climate, or in the international terms of trade, and so on. In this situation, it is not easy to hold the budget-makers accountable by comparing budget provisions directly with the life experiences of affected people.

Or consider the case of Porto Alegre in Brazil where people have earned a chance to express their voice directly in all three stages of the budgetary process – i.e., preference revelation, conflict resolution and impact evaluation. What this pioneering effort has achieved is truly remarkable and has justly inspired similar experiments in many other cities in Latin America and elsewhere. Once again, however, it is difficult to imagine how this kind of direct participation can work at the national level.

This is not to suggest that voice and accountability are not achievable at higher levels of government, only that the strategies would have to be different. Of the three pre-requisites of accountability discussed in this paper – transparency, participation, and

knowledge - all three would have to be satisfied, regardless of the level of government in question. But when it comes to budgeting at higher levels – especially, the national level – participation may have to be indirect, through representatives. And the methodology of bringing budget-makers into account may have to rely more on careful statistical analyses than on the direct life experience of affected individuals.

(2) This brings us to the second set of issues. If people have to be represented by others, doesn't it bring back all the old worries about the poor and powerless not having any voice because there is nobody to represent them? If one looks around the fledgling democracies around the Third World, even in the well-established ones such as India, it is obvious that the practice of democracy does not necessarily ensure that the interests of the disadvantaged groups will be safeguarded when resources are allocated at the national level. Their interests can be safeguarded much better when they can participate directly in the decision-making process, as in the case of the recently revamped *Panchayat* system of local-level governance in India. Decentralisation of governance should therefore be accorded a high priority in any programme for expanding voice and accountability.

But there are obvious limits to decentralisation; certain important decisions will always have to be taken at higher levels, including the national level. So the question arises, what can be done to expand voice and accountability at higher levels, where participation will have to be indirect?

A useful lesson can be learnt from the experience of local-level governance itself. Experience has shown that even at the local level the mere introduction of participatory democracy through legal and administrative fiat does not ensure effective participation by the disadvantaged groups. These groups have to be organised, often through years of social activism, before they can be sufficiently empowered to take advantage of the opportunities opened up by formal introduction of participatory democracy. It is notable that behind the success of social auditing in Rajasthan lay years of social mobilisation by the MKSS. Similarly, the success of the Porto Alegre experiment in Brazil was preceded by many years of dedicated work to organise various disadvantaged groups around demands for better access to the city's resources. This kind of social activism has an even more important role to play in the national context. It is essential that the civil society organisations that have struggled for years for the rights of their target groups be able to participate in budget-making at the national level, because they more than anyone else can be expected to represent the voice and the interests of their people. It is not being suggested that these groups be allowed to usurp the powers and rights of elected representatives. The idea is really to allow them to act as a countervailing power so that the elected representatives as well as government officials can be reminded of their obligations to those they are supposed to serve. South Africa in particular, and to a lesser extent Uganda, have already proceeded quite far along this route towards implementing a participatory process of budget-making at the national level. Other countries have much to learn from them.

(3) While noting the importance of social activism in the context of budget-making, it should be emphasised that the reach of social activism must extend far beyond the budgetary process, even for the sake of pro-poor budgeting itself. This is because it will be difficult, if not impossible, to achieve voice and accountability in the

budgetary process unless similar reforms occur in the overall structure of governance. A governance structure that is not open, participatory and transparent in any other sphere cannot be expected to be so simply in its budgetary process. On the contrary, it is quite likely, given the crucial importance of budgets, that an otherwise open government might like to hold on to the budgetary process as the last bastion of secluded and secretive decision-making.

The other side of the coin of course is that if a social movement succeeds in piercing the veil of obscurity surrounding the jealously guarded process of budget-making, then it should open the way for greater transparency and participation in other spheres of governance as well. In other words, greater voice and accountability *in* the budgetary process has a rich potential of transforming itself into greater voice and accountability *through* the budgetary process. There is thus a potential synergy between efforts to ensure greater voice and accountability in the budgetary process and the move toward introducing greater transparency and participation in the overall structure of governance – the two are mutually reinforcing. Social activism must try to exploit this synergy in full.

(4) It is sometimes argued that the very nature of the budget imposes severe limits to how far voice and accountability can be reasonably introduced in the budgetary process. Secrecy, allegedly, is a virtue at the stage of budget preparation because openness might lead to undesirable consequences such as uncertainty in the financial market, or undue pressure from vested interest groups, and so on. When scrutinised, most of these arguments are found to be hollow and rather self-serving in nature.<sup>4</sup> Even if there are genuine limits to openness, however, that cannot be allowed to be an excuse for shielding the budgetary process completely from the movement for open government that is currently under way. In fact, the very existence of limits calls for maximum possible openness and participation, for two reasons.

First, if genuine limits do exist, the executive should be able to explain in a rational manner how and why they exist. In that case, a genuinely participatory and informed decision-making process will accept the explanation, thereby legitimising the part of budget-making that remains beyond the realm of public scrutiny. In the absence of such legitimisation, any attempt to shield the budgetary process from public gaze would remain subject to abuse, and even sincere pleading would appear self-serving.

Second, the executive still has to be accountable for the protected domain, and this is only possible through a participatory process. The non-executive participants in the budgetary process may agree to relinquish their right to join the deliberations that take place inside the executive over the protected domain, but they can still require the executive to set measurable targets in respect of that domain. These mutually agreed targets will be the benchmarks against which they would then be able to hold the executive accountable. The point is simply that if the executive is to be allowed to have an exclusive control over a part of the budget and cannot be questioned on its formulation, then at least it must be questioned on performance, if there is to be any accountability at all. But such questioning can only be effective within a framework of participatory budgeting.

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<sup>4</sup> For an especially thorough scrutiny, undertaken in the context of economic governance as a whole but also applicable to the specific context of the budget, see Stiglitz (1999).

(5) This paper has emphasised the importance of instituting a participatory process of decision-making for ensuring effective accountability, but it is also important to recognise the limits of participation. It has already been noted that participation can only be indirect at higher levels of decision-making and in some cases participation may not be possible at all, e.g. in the protected domain of the budgetary process that may have to remain secretive for tactical reasons. A more general limitation is that people may not want to participate in each and every instance of decision-making, even if they had the right and the opportunity to do so. The time and effort that people need to invest in order to exercise their right to participate have an opportunity cost, and in many cases the expected return from participation may not be worth the cost. All this makes it unreasonable to expect that it will always be possible to hold the authorities to account through a process in which their actions are directly scrutinised by the people.

This raises the difficult question of how to ensure accountability when participation is of necessity limited or absent altogether. It may be useful to distinguish here between two approaches that may be characterised as *ex ante* and *ex post* accountability. *Ex post* accountability refers to the case where the authorities are held to account *ex post* on the basis of observed actions and their outcomes. Participation will have to play a big role in this approach. By contrast, *ex ante* accountability refers to the approach in which accountability is ensured not by observing the actions or their outcomes once they become apparent but by laying down certain procedures beforehand that the authorities are required to follow. The idea is to devise ‘incentive compatible’ procedures. These will have the dual property that the authorities will have the incentive to abide by those procedures of their own accord and in doing so they will automatically promote the goals that the people want them to pursue. The virtue of *ex ante* accountability is that once the right procedures are put in place, the people need not monitor the detailed actions or their outcomes. The need for direct participation can thus be minimised in this approach, even though an initial round of participation will still be needed while devising the incentive compatible procedures. How to devise such procedures remains an important challenge in any programme to improve accountability in the budgetary process, and in the process of governance in general.

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