

Corrupt Budgeting

Fake Reform and the Consequences

U.S. Treasury, Office of Technical Assistance
Budget and Financial Accountability Team Meeting

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Overview



How does corruption work in budgeting?



What are the consequences?



What can be done about it?

How does corruption work in budgeting?

Auction Based-Budgeting

Auction-Based Budgeting

Corrupt budgeting

- **It's been going on for ages:** Emperors, kings and queens, lords and ladies, dictators and tyrants have all been doing it
- **Auction-based budgeting:** a form of budgeting where resources are provided on the basis of willingness to pay
 - *Handing out resources to the highest bidder*
- **Opposite of what is generally expected:** Allocating resources on the basis of altruistic means, such as good government policy, institutional performance and/or public good investment criteria

Auction-Based Budgeting

Good Ol' Fashioned Bribery

When, Where and How?

- **During formulation:** informal or formal budget hearings
 - Fees and favours
- **During negotiation:** legislative consideration
 - Fees and favours
- **After the legislature has approved the budget:** Allotments and commitments
 - Fees and favours
 - Power comes from not passing the budget (but...) and other legislation
- **Fees and Favours**
 - **To Officials:** Campaign funds, Rolex watches, cash, gold, drugs, promotions, incentives, rewards, blackmail etc
 - **To Legislators:** Projects and contracts, appointments to powerful positions for friends and family, cash etc
 - **To Businesses:** Contracts for projects, subsidies, grants, concessions, waivers, write-offs, asset transfers etc

What are the Consequences of Corruption in Budgeting?

Fake Reform and Fake Reformers

Catastrophic Collapse of National
Accountability

Government Failure to Deliver
Better Fiscal Performance

Fake Reform

- Distraction Reform
- Can you tell the reformers from the non-reformers, and the fake reforms?
- Look for the red flags

A National Accountability Framework

The foundation for democracy and good governance

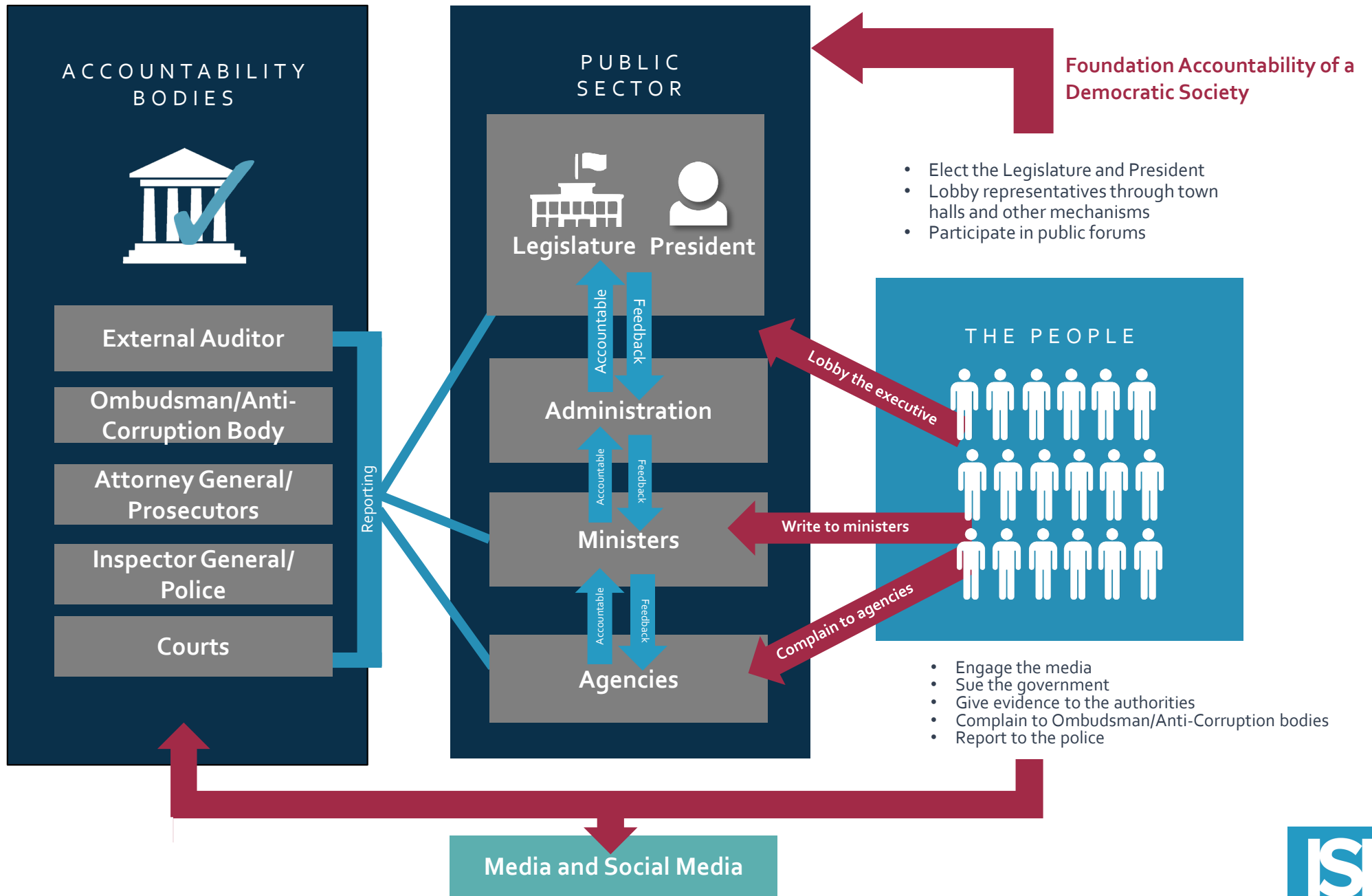


A National Accountability Framework

Empowering citizens to hold government to account

Being clear with officials of what is expected

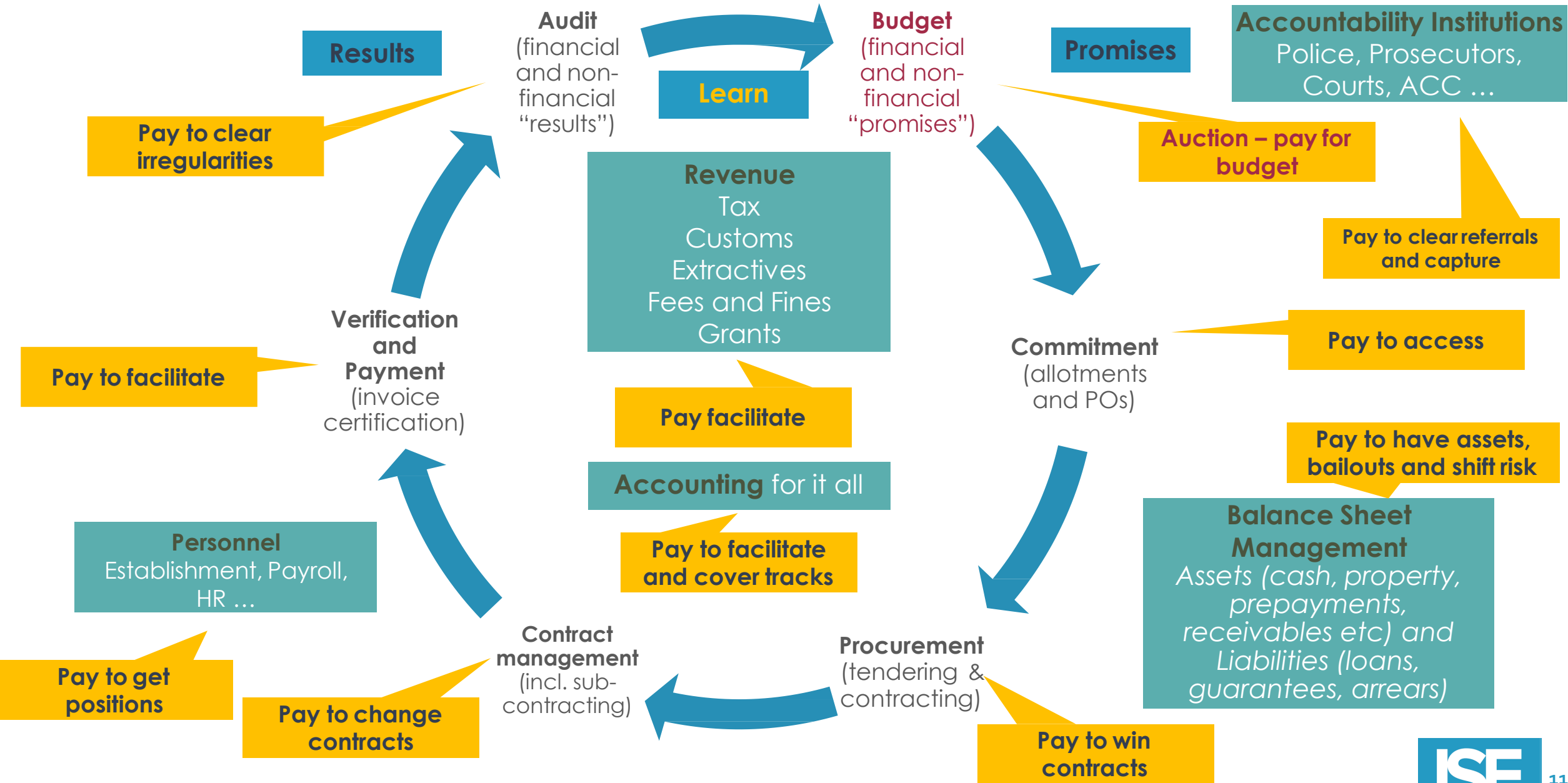
The Budget Cycle is a key secondary area where citizens can hold government to account in the space between elections



Viewing Corruption through a Public Finance Lens

A Systemic Problem

Follow-the-Money Corruption Cycle



Main Points

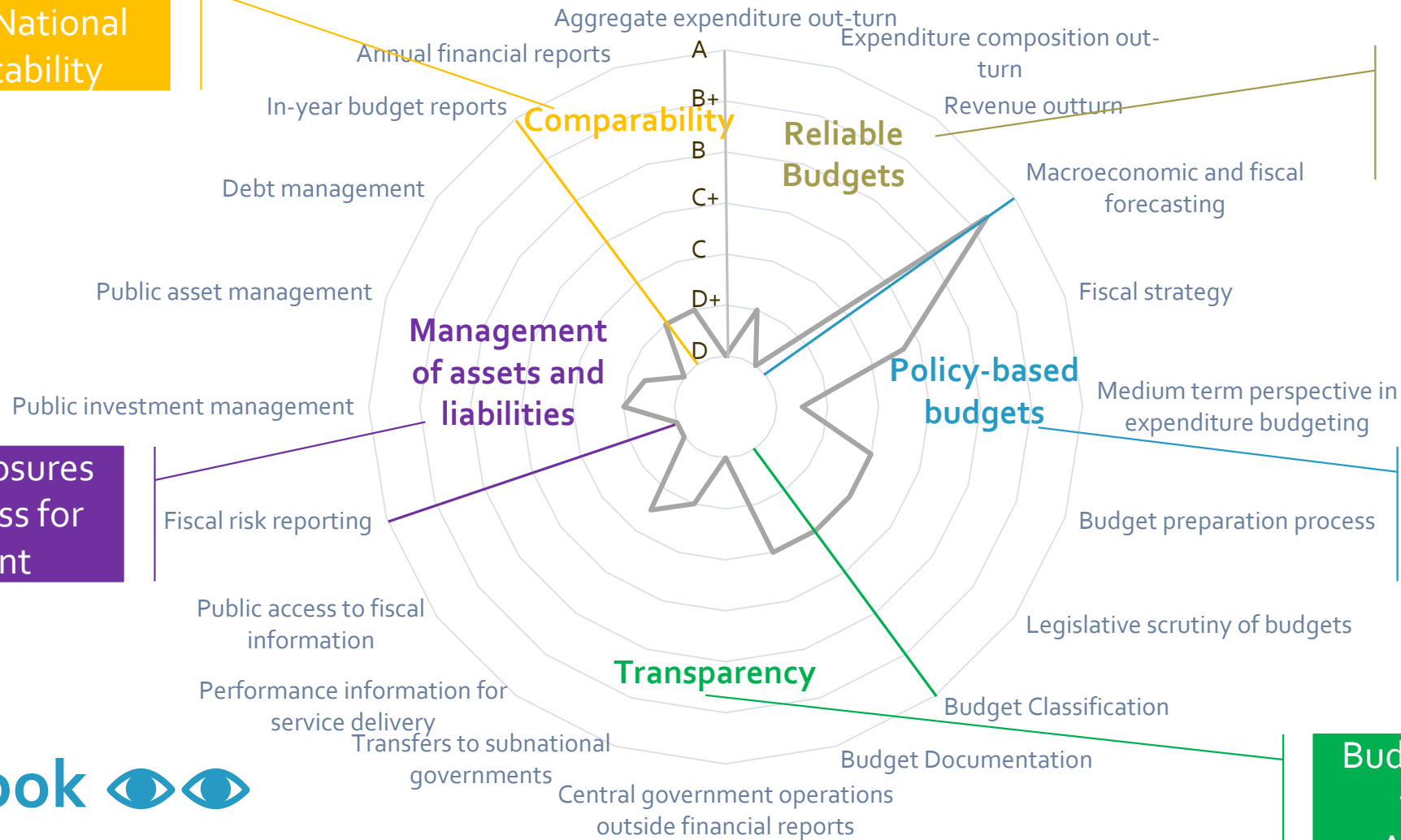
- **The Scale of the Problem**
 - Waste of time, money and effort
 - Catastrophic collapse of national accountability
- **Reform priorities and consequences**
 - Downstream and up stream effects
 - Systemic Effects
- **Theory of change**
 - Target Budget and Audit Corruption
 - For Better Learning and National Accountability
- **Aid Allocation**
 - Direct aid to most cost-effective but politically difficult interventions?
 - How can conditionality help?
 - Merging anti-corruption with fiscal reforms

What Can Be Done About Corrupt Budgeting?

Focus Where it Matters Most
Technical Reforms are Easy
Politics Reigns Supreme

Budgeting for National Accountability

Budget & EoY Fin Stats for National Accountability



Constrain: Realistic estimates / stop the auctions

Budget Disclosures & Due Process for Investment

Budget Negotiation: Policy change / stop the auctions

Budget Disclosures for National Accountability

First Look  For Evidence

Budget Reforms

- Performance and Policy Based Budgeting
 - Might not be a capacity problem but a corruption problem
- Political and Communications Strategies
 - Mobilising the winners (citizens and civil society)
 - Dealing with the spoilers
- Culture Change and Team-Based Performance Management
 - Targeting the institutional culture problem

POLICY-BASED BUDGETING

- Allows only good evidence-based policy ideas to get funded
- Solves problems with a medium-term/forward-looking perspective
- Reduces opportunity for corruption and incompetence

PERFORMANCE-BASED BUDGETING

- Gives clarity as to what the government is trying to achieve with the people's money
- Ensures consequences for good and bad performance
- Keeps government responsible for its promises and results

From Auction-Based Budgeting to Policy & Performance Based Budgeting

Key Concepts of Good Budgeting Generally

The 3 Budgetary Outcomes – What Every Budget is Supposed To Do

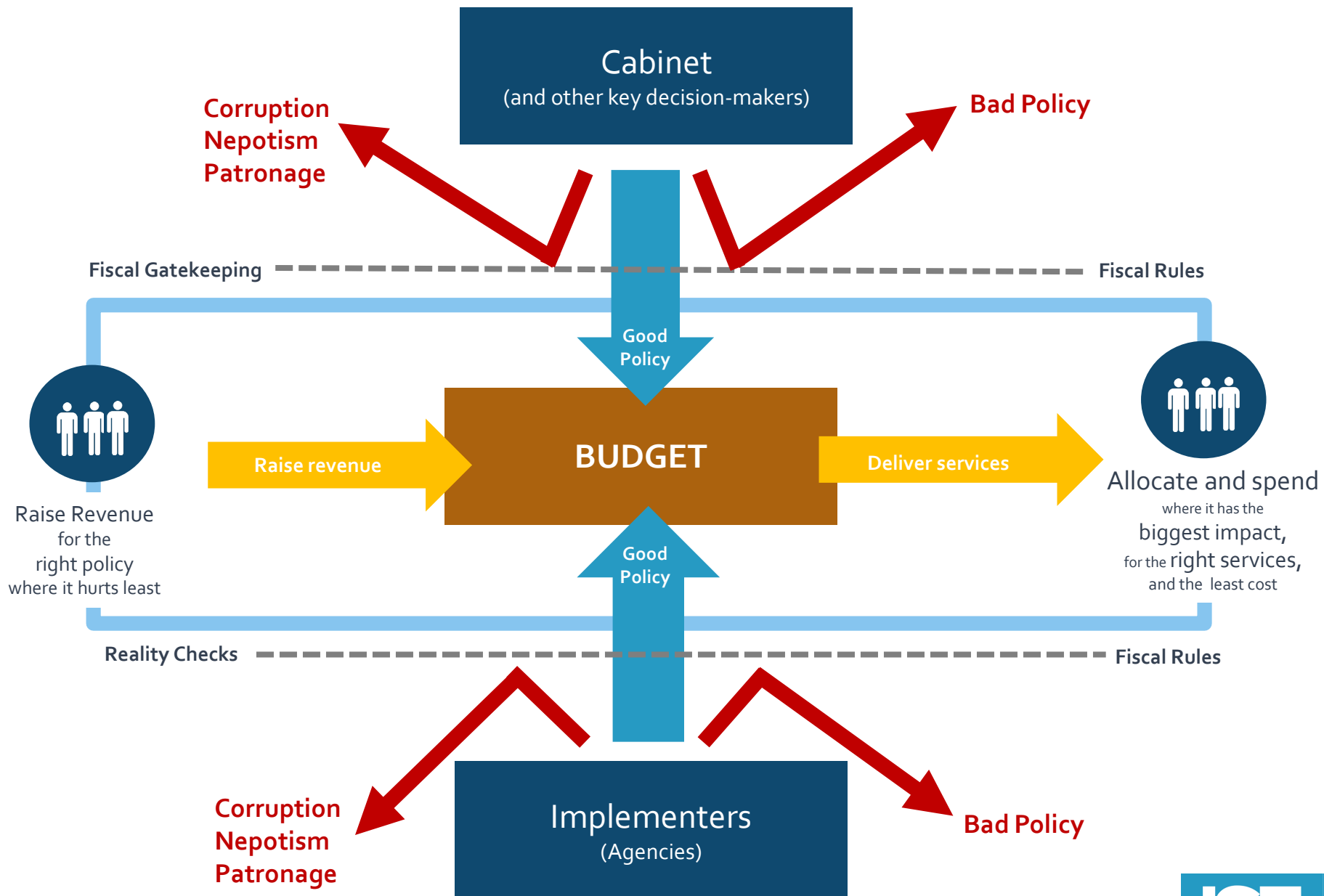
- **Aggregate fiscal discipline**
 - We hit our fiscal aggregate targets: Budget Balance, Revenue, Expenditures, Debt ...
- **Strategic allocation of resources**
 - We allocate resources in accordance with a fiscal strategy developed in accordance with clear priorities.
- **Efficient service delivery**
 - We get better at delivering services to the people

Key Concepts of Policy Based Budgeting

- **Fiscal Discipline**
 - Achieved by focusing on policy in the budget process
- **Fiscal Space**
 - The room for new policies. Every year low priority-low impact activities should be replaced with higher priority-higher impact activities.
- **Fiscal Rules and Fiscal Gatekeeping**
 - The Rules of the Game
 - Ensuring the Rules are Followed

Policy-Based Budgets

- ✓ Only good evidence-based ideas get funded
- ✓ Makes it harder for people to get away with corruption or incompetence
- ✓ Efficient revenue raising and Efficient spending

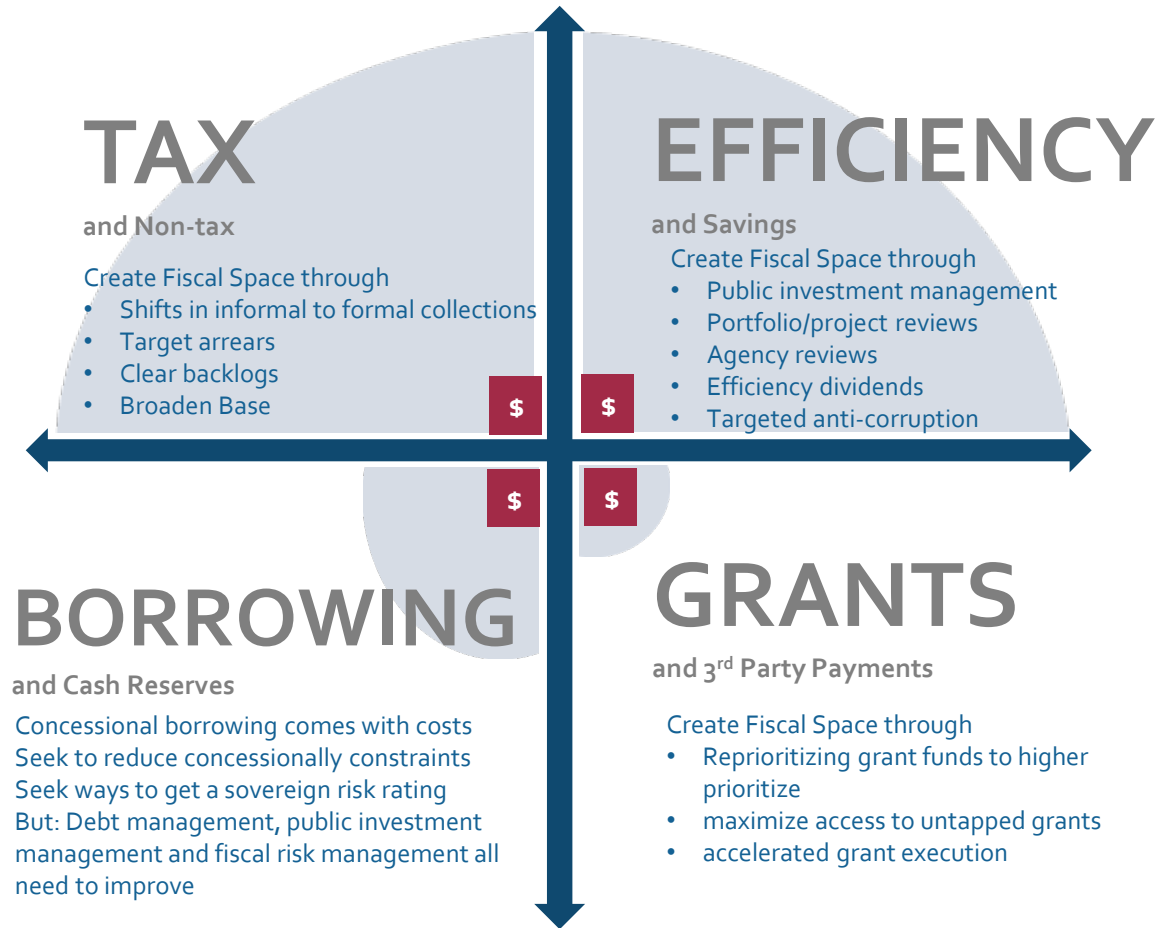
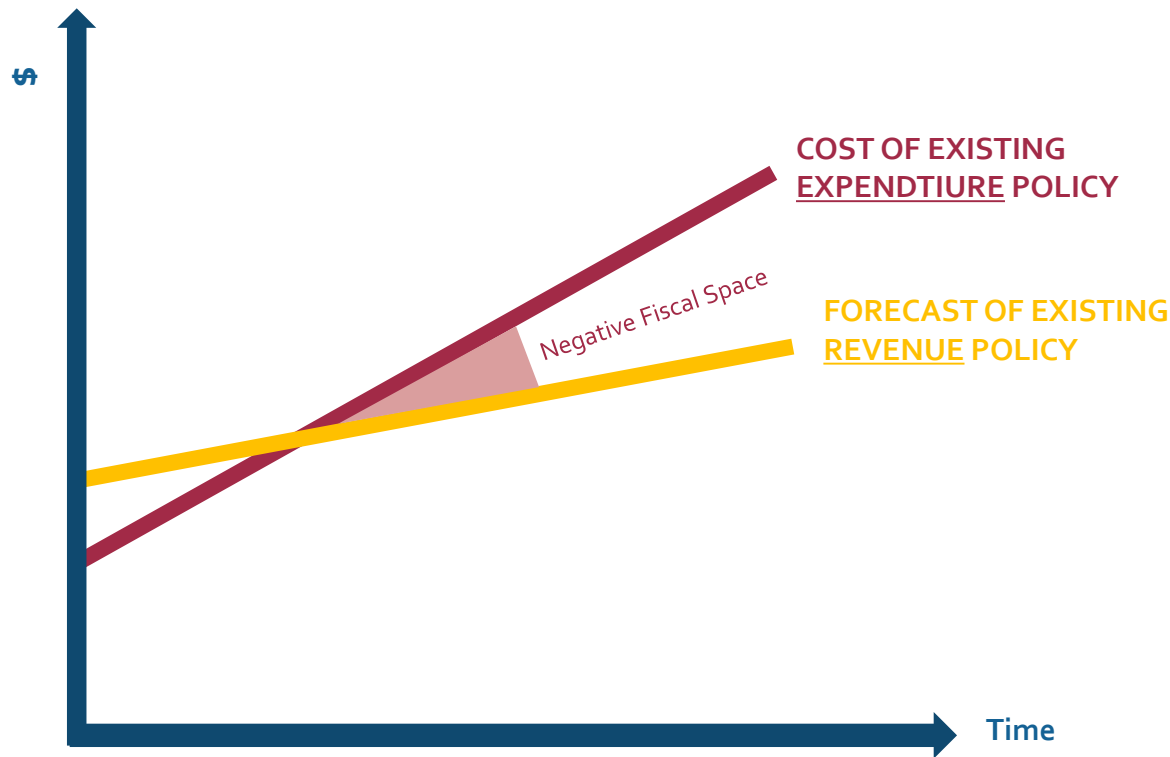


Busting Budget Auctions By Focusing On Policy Change

Fiscal Space Creation and Filling: Five Dimensions of Fiscal Space

How much fiscal space is needed for next year's budget headlines?

Cabinet Decides Early

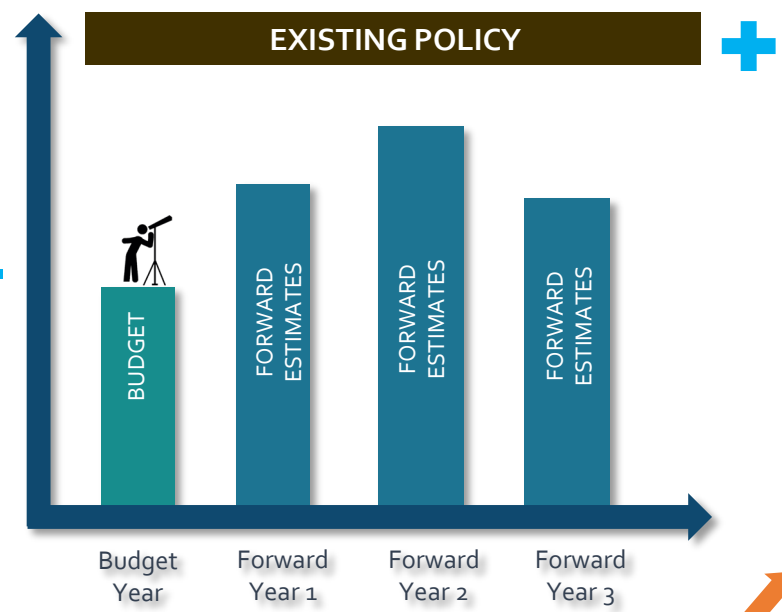


Key Concepts of Policy Based Budgeting

- **Medium-term perspectives to identify and resolve difficult problems**
 - Difficult problems take time to solve and can not be addressed with single year horizon.
 - Donor projects are often financed by lapsing multi-year grants.
- **Separation of existing and new policy**
 - The forward estimates (revenue and expense) are based on an agreed assessment of the costs to implement existing policies. New policy is considered every year, which once fiscal impacts [costings] are agreed get added to official estimates
- **Rolling forward estimates for budget building**
 - The principal rolling estimates is that the first forward year becomes the baseline for the new budget year. Current year new policies become existing policy in next budget year.

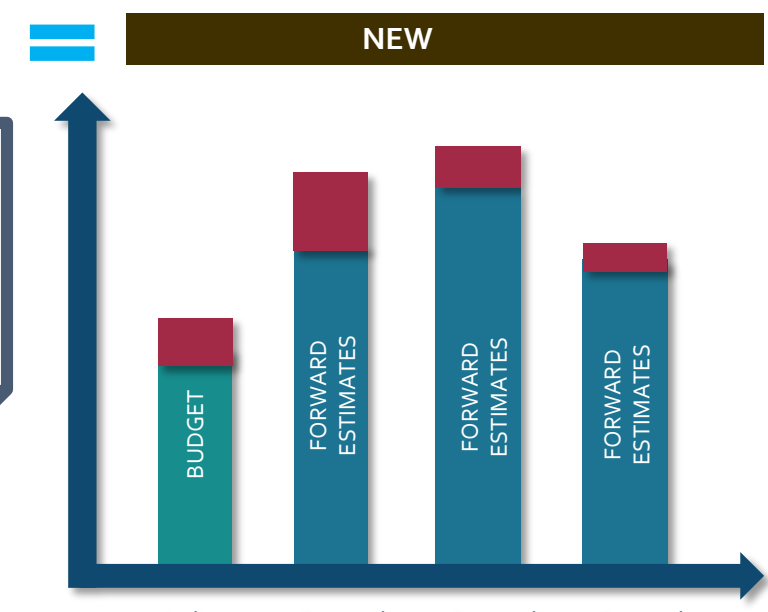
Rolling Forward Estimates

1 Key to Breaking the Budget Auctions

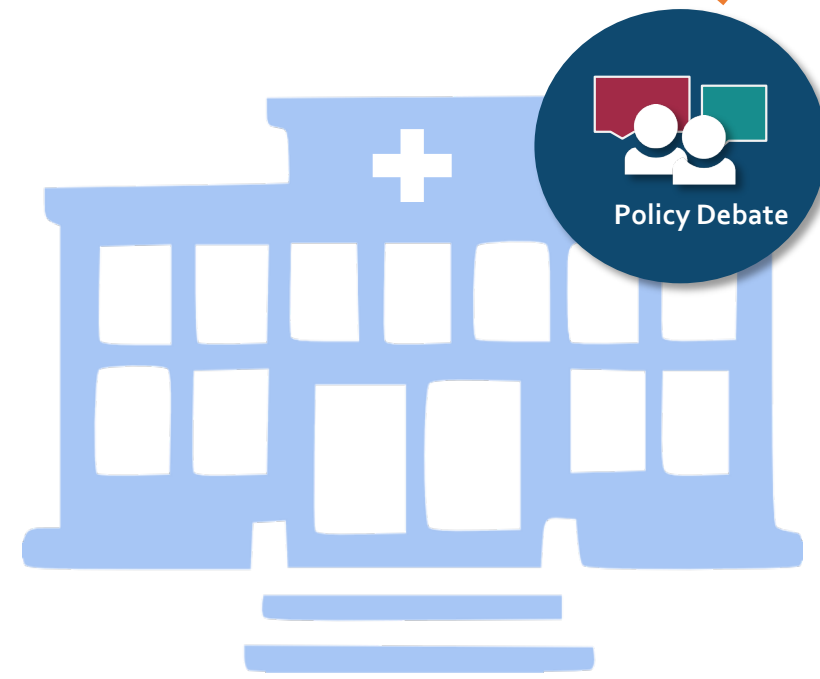


NEW POLICY

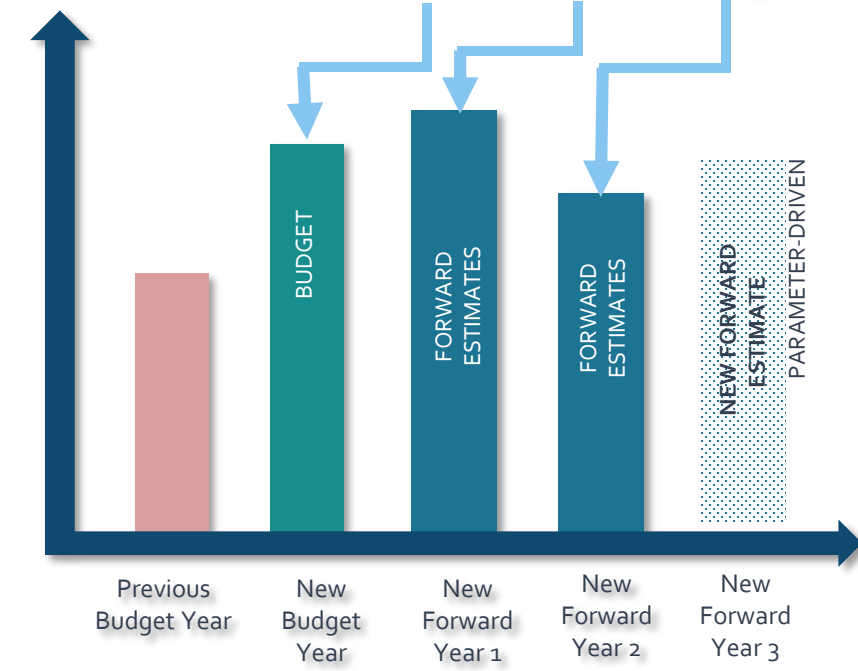
CAPITAL	10	20	5	
OPERATING			5	5
	10	20	10	5



New Health Policy Proposal: The government wants to build a new hospital at a capital cost of \$35 million. It will take 3 years to build and it has an operating cost of \$5 million per year



- Mechanisms to ensure good evidence-based policy decisions are brought forward**
- Independently validated costings of the policy proposals
 - Economic evaluations
 - Performance metrics



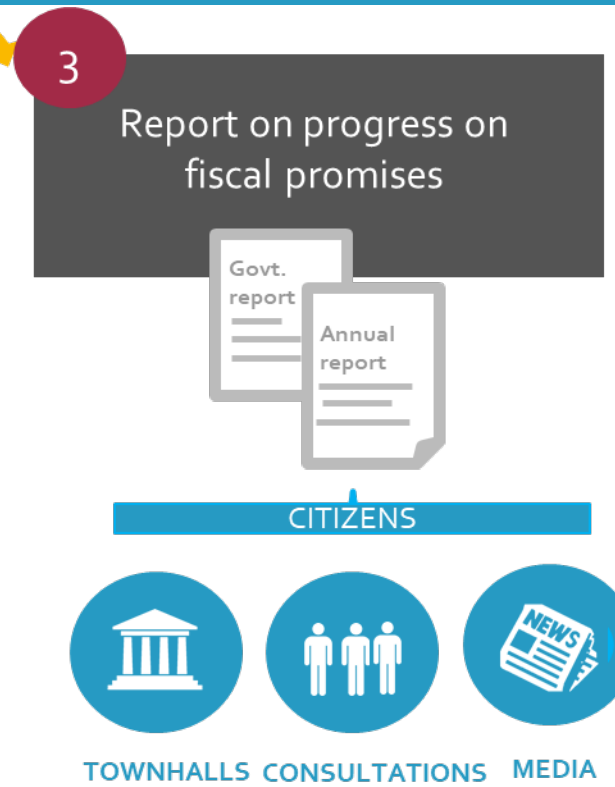
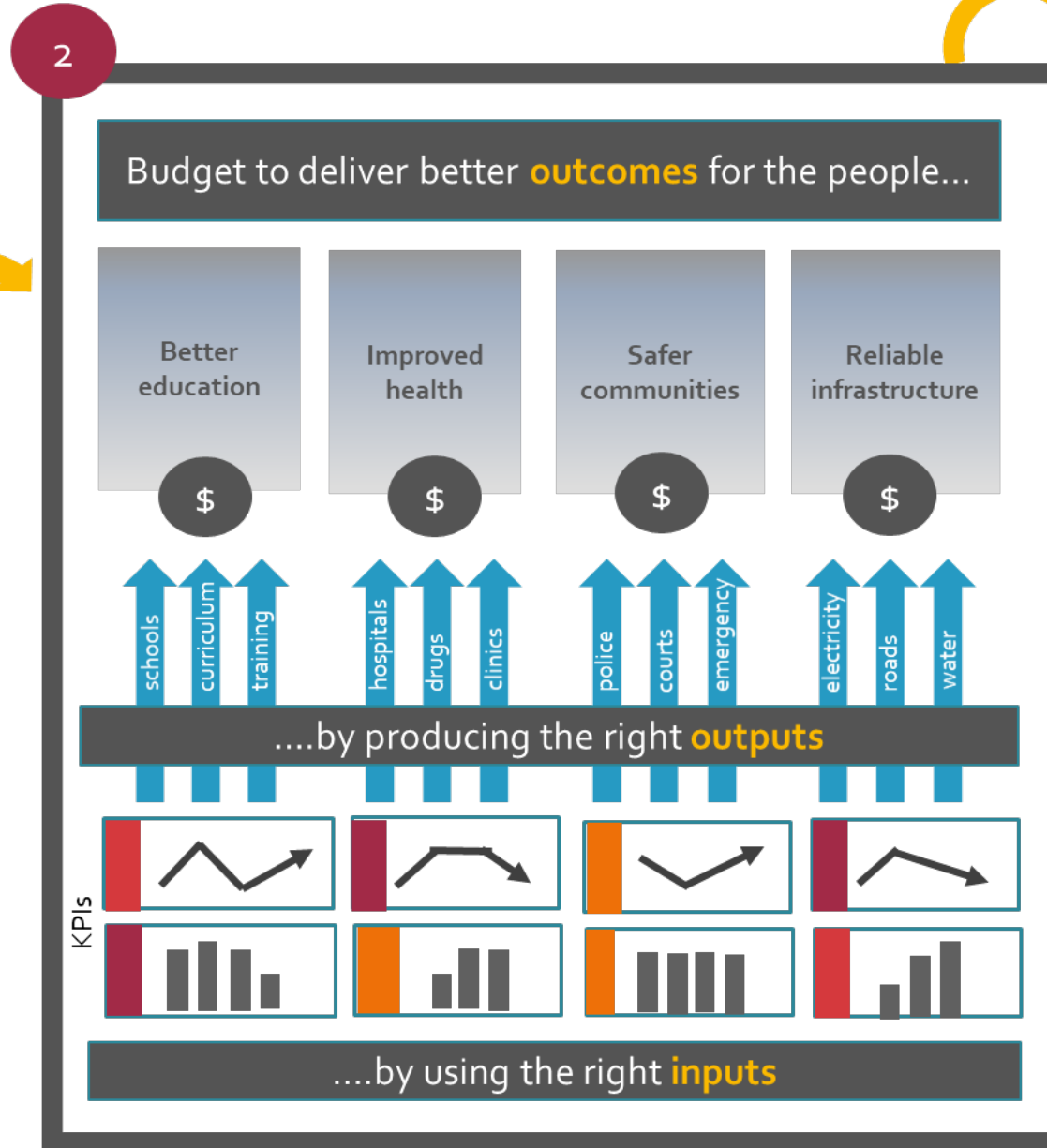
Overview of Performance Based Budgeting

- Transparency of planned and achieved performance
- Consequences for good and poor performance
- Announcing promises and reporting on results
- Informs the continuous improvement cycle

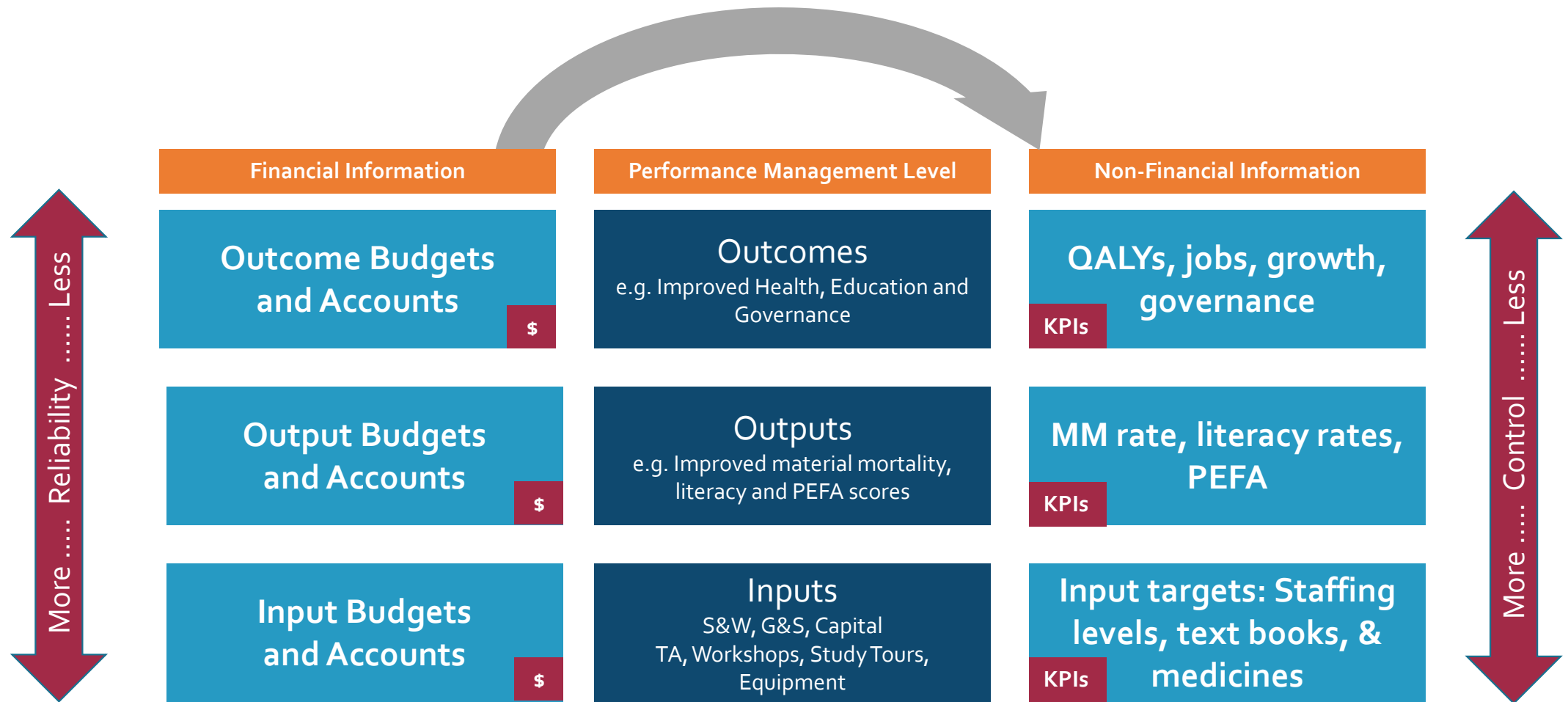
Fiscal Performance Analytics: Bringing Financial and Non-Financial Info Together

Performance-Based Budgeting Building the Learning Machine

Consequences for good and bad performance



Fiscal Performance Analytics: Bringing Financial and Non-Financial Info Together



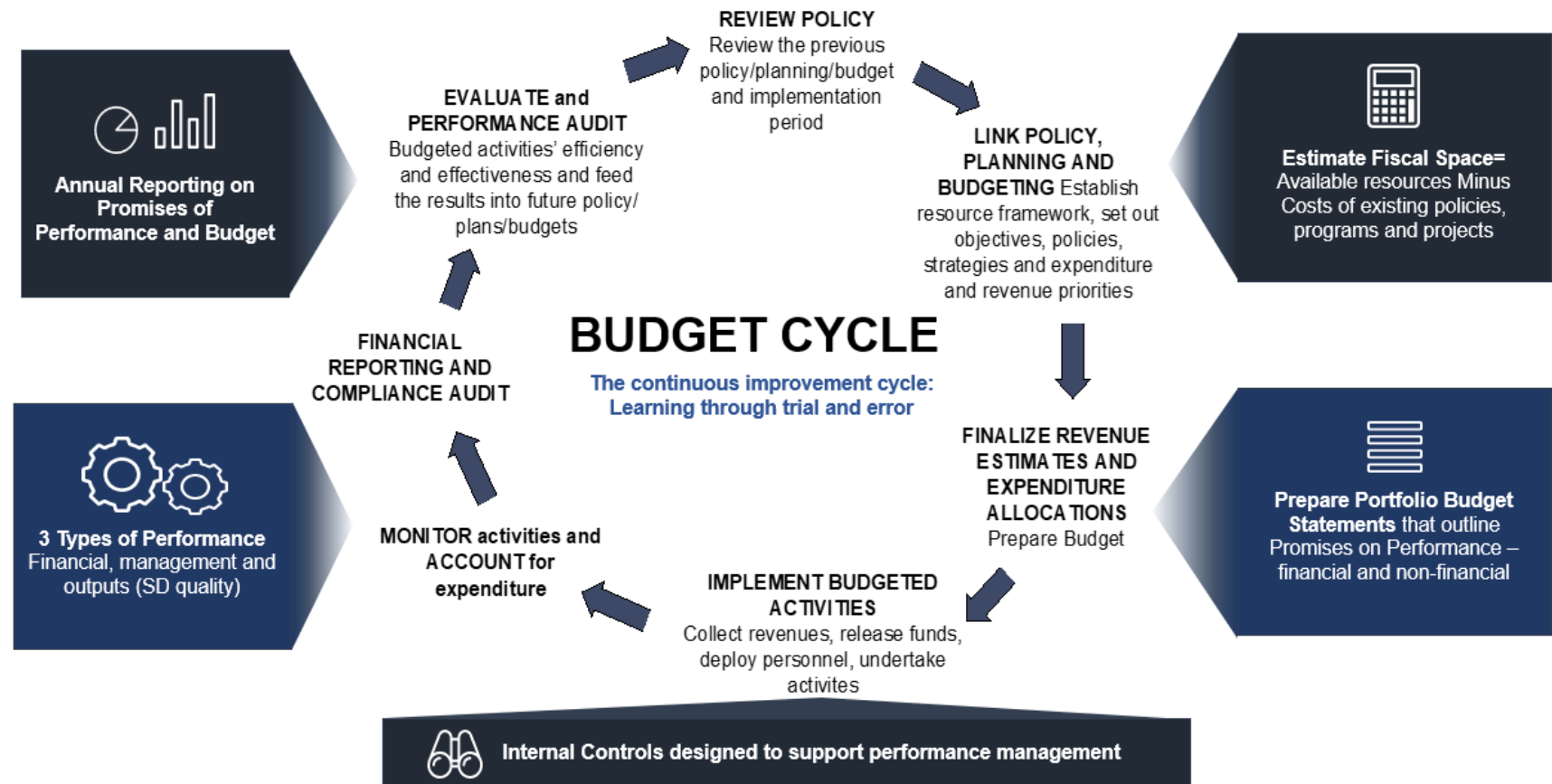
Core Performance Analytics

- **Mandatory Reports:** Financial and non-Financial Plans, Financial Statements and Non-Financial Performance Statements
- **Efficiency and Value for Money:** Avg Cost per staff member, Admin costs as %, Shares: Travel, International and Local Consultant Costs, Equipment Costs etc. Benchmarked with other “competing” programs
- **Cost-Effectiveness:** Average and Incremental Cost to Secure improvements in outputs or outcomes
- **Credibility:** Of Planning for Results
- **Consolidation:** Supports the bringing of cash and in-kind assistance on budget

Bringing Performance & Policy Based Budgeting Together

The Budget Cycle is :

- ❖ The M&E Cycle
- ❖ The Continuous Improvement Cycle
- ❖ The Institutionalized Learning Cycle



Policy Based Budgeting **Red Flags** for Fake Budget Reform

- 1. No medium-term perspective*
- 2. No rolling forward estimates*
- 3. Macro-fiscal models are being used outside the resource allocation process*
- 4. No explanation of the changes in the budget and fiscal strategy from the previous year*
- 5. No high-level debate on fiscal space creation and filing*

Performance-Based Budgeting **Red Flags** for Fake Budget Reform

6. *No reporting by standard functions of government*
7. *Annual reports are not easily comparable to the budget*
8. *No reliable reporting of performance information (targets and results)*
9. *Performance information is not actually used to manage performance or inform decision making.*
10. *Lack of linkages between agency level performance targets and the data monitored by the central budget office*

Institutional Culture Red Flags for Fake Budget Reform

- 11. *The administrative culture is not one that focuses on performance*** – in getting the basics right, the very first of the “basics first” principles was to “*foster an environment that supports and demands performance*”.
1998 World Bank PEM Handbook, p8
- 12. *There is no aggregate fiscal discipline*** – there are implausible estimates of fiscal aggregates over the medium term.

Political Strategies

For Busting Budget-Based Corruption

Political Strategies for Busting Budget-Based Corruption

1. **Building and Protecting a Reform Alliance** – can't do it without enough people at the top and in the middle
2. **Legitimise revenue sharing** with the most powerful – Don't need a culture of corruption to share the wealth (constraints)
3. **Amnesties** for past behaviour (save grand corruption)
4. **Targeted Sting Operations** to increase cost of being corrupt, and lower cost of being clean
5. **Communications Strategies** to Build Demand and Support
6. **Diplomatic, Security and Aid Strategy** Coordination
7. **National Accountability Strategies** that "Come Clean on Corruption"
8. **Technical Solutions:**
 - *Policy Based Budgeting: Policy Change, no project tables, etc etc*
 - *Performance Based Budgeting: Much more transparent disclosures*
 - *Using Appropriation Authorities: e.g. 1/12th rule, allotments/sequestration powers to withhold resources, administrative authorities etc)*

Corrupt Budgeting

Background Papers

- [Follow-the-Money Corruption Cycle: Revealing National Accountability Failures](#)
- [Performance and Policy-Based Budgeting: How to Spot the Fakes](#)
- [The Blight of Auction-Based Budgeting: What Is It and How Can We Deal With It?](#)