

Legislative financial scrutiny in developing countries

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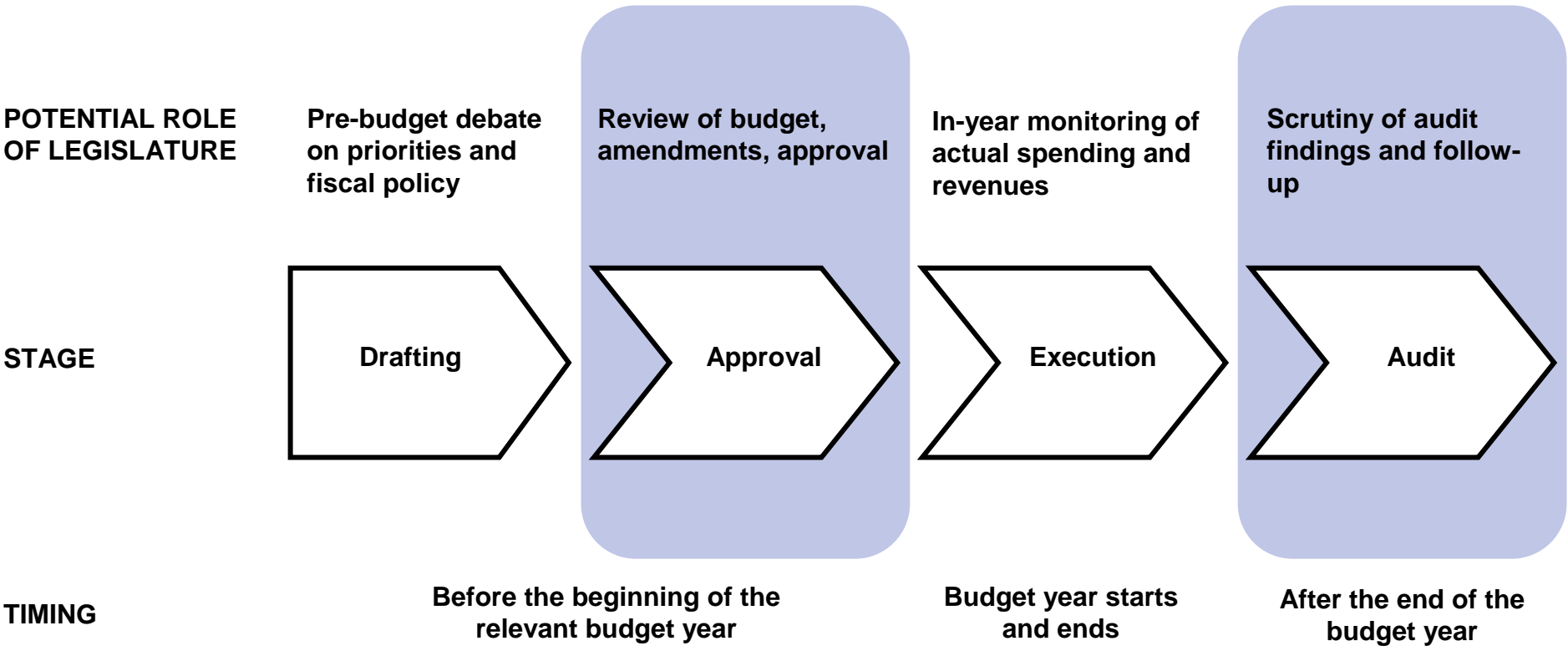
the London School of **Economics**
and **Political Science**



Introduction

- Presentation based on a report prepared for DFID
- Context of direct budget support
- Here, focus on two issues:
 1. What role can/should parliaments play in financial scrutiny?
 2. How can donors strengthen legislative financial scrutiny?

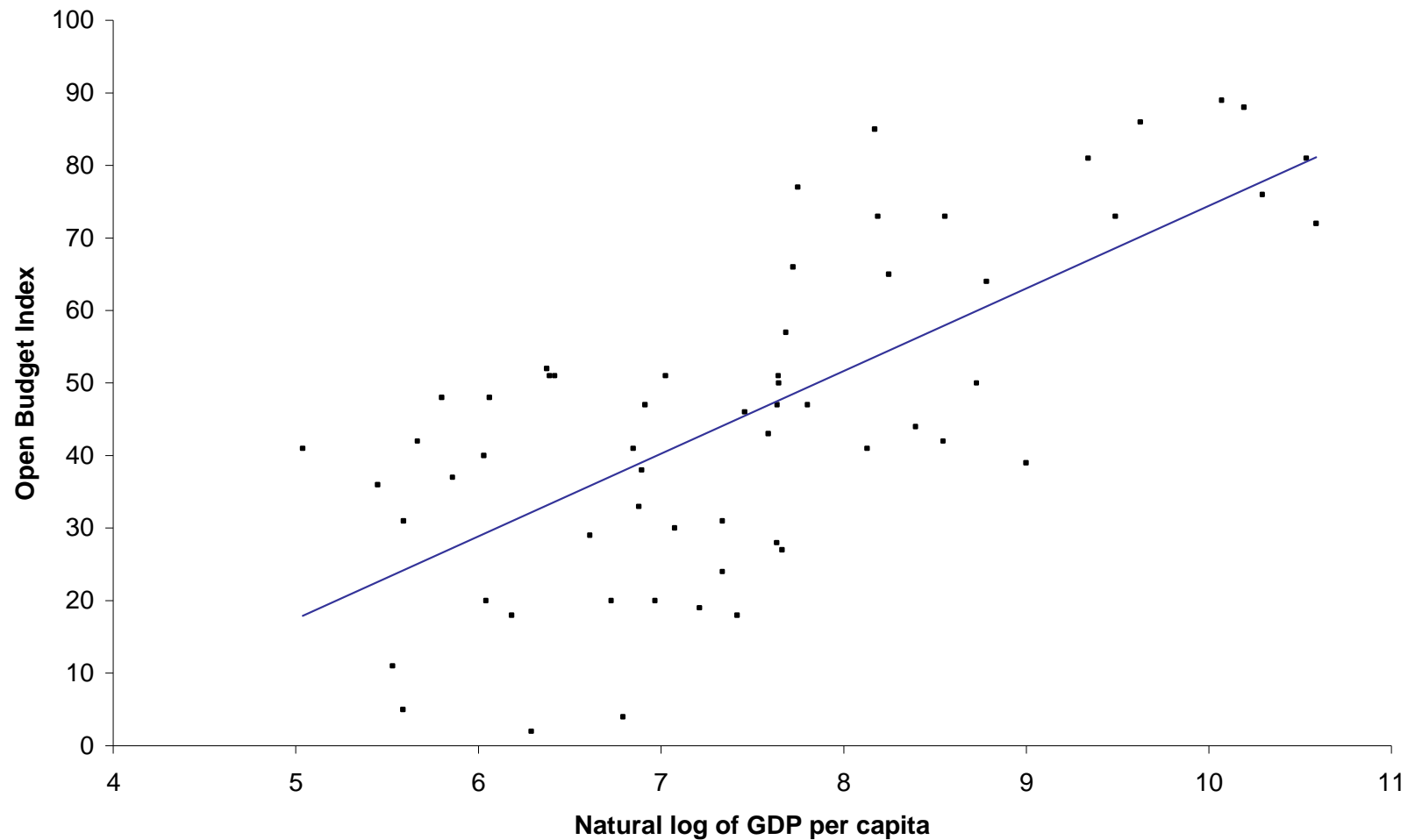
The potential budgetary role of legislatures



Typical challenges in developing countries

- Lack of parliamentary involvement in setting strategic priorities
- Rubber-stamp approval – capacity and political constraints
- Meaningless budgets – actual spending differs from approved budget
- Ineffective audit and accountability – quality of audits and legislative capacity
- Lack of transparency – hinders oversight throughout the budget process

Developing countries have less transparent budgets

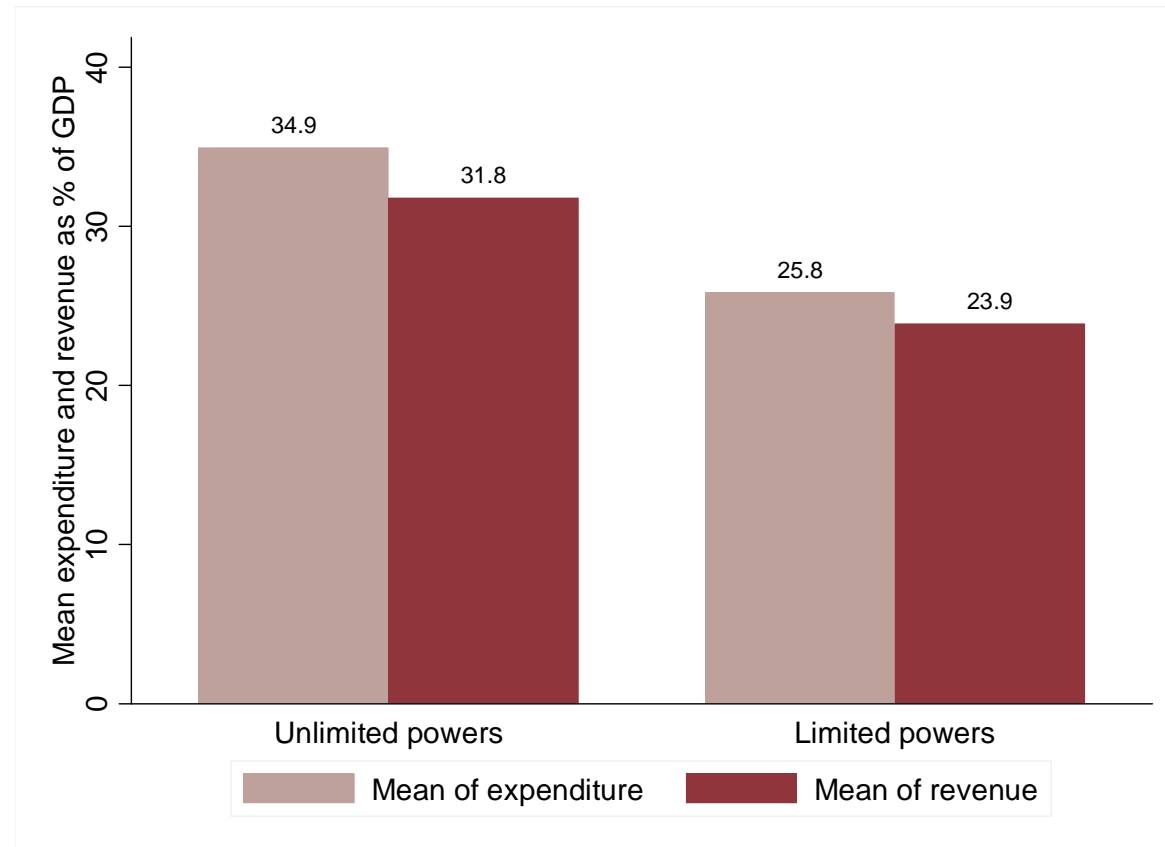


Notes: Open Budget Index data are from IBP (2006); high scores indicate a high level of budget transparency. GDP per capita in constant 2000 US\$ data are for 2005 and from the World Bank (2006). Pearson's $r = .704$ and $N = 59$.

Potential benefits and risks of legislative involvement

- Accountability of the executive
- Reduced space for corruption
- Democratic consolidation
- Public debate and wider participation
- Enhanced transparency
- BUT risks to fiscal discipline that have to be managed
 - ▶ amendment limits, fiscal rules, procedural constraints

Parliamentary powers and fiscal policy



Note: Based on data from Persson and Tabellini (2003) plus own research on parliamentary powers. 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.

Diverse models

Four alternative legislative budget scenarios:

1. More information, but no real power to influence policy
2. Independent budget-making capacity – US
3. Focus on performance, strong ex post role – UK
4. Co-operative approach in fiscal policy-making – Sweden (?)

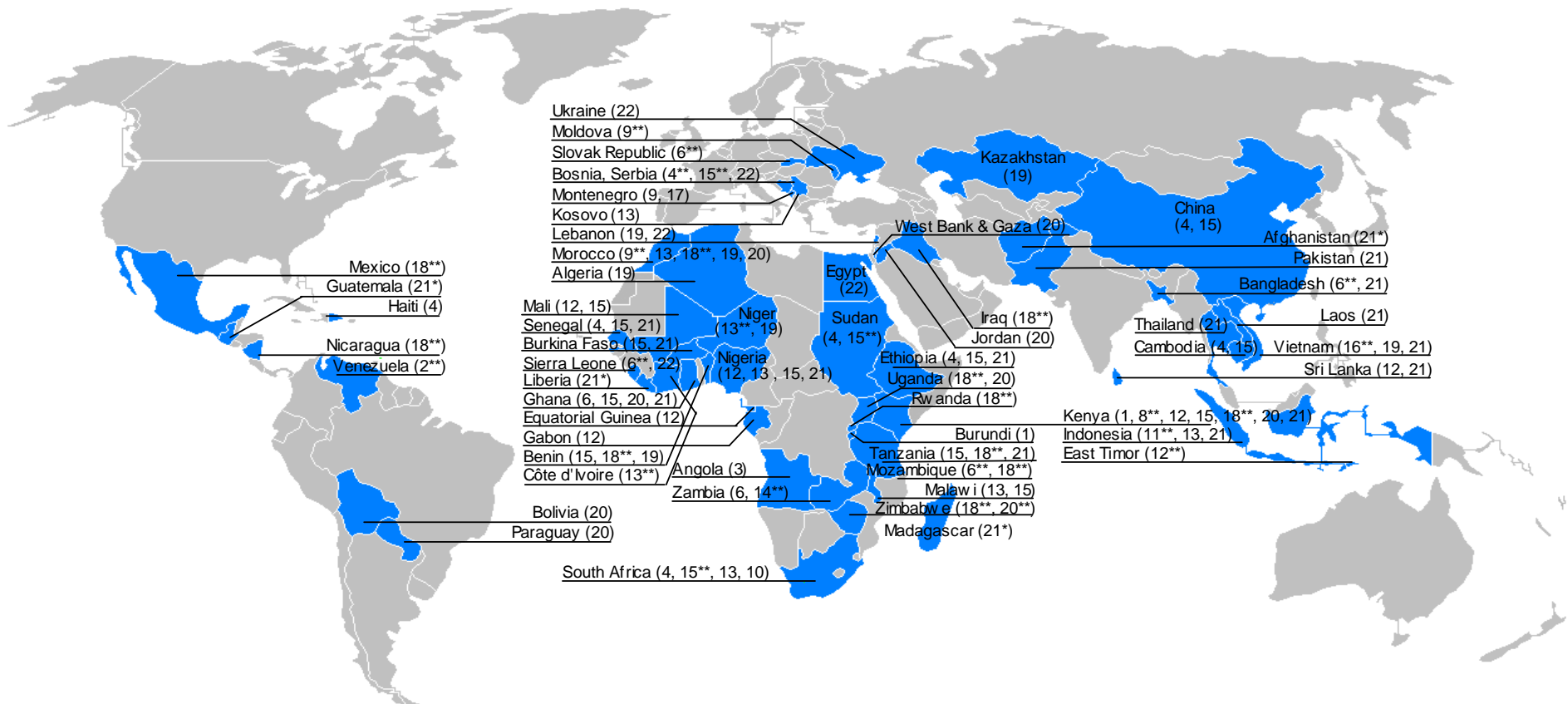
Source: Schick (2002).

Core strengthening actors by type

- Parliamentary – AWEPA*, CPA, IPU
- Bilateral – CIDA, USAID
- Multilateral – EuropeAid, IDB*, SPSEE*, UNDP, WBI
- Partisan – NDI
- Non-profit or academic – IDASA*, PC, SUNY-CID, WFD

* Core actors with a regional focus.

Worldwide strengthening activity



1 AWEPA
2 BID
3 CMI
4 CIDA

5 CPA
6 DFID
7 EuropeAid
8 FES

9 GTZ / BMZ
10 IDASA
11 IIDEA
12 IPU

13 NDI
14 NORAD
15 PC of Canada
16 SIDA

17 SPSEE
18 SUNY-CID
19 UNDP
20 USAID

21 WBI
22 WFD
* planned project
** past project

Types of activities

- Technical assistance in legal reform
- Developing structure and process – committees
- Improving information access – budget analysis units
- Physical infrastructure development
- Budget training
- Study trips, conferences and network-building
- Analytic work – guidelines, toolkits

Relevant DFID activities

- South Africa – financial committees ✓
- Bangladesh (2001-2005) – financial committees ✗
- Sierra Leone (2004-2005) – PAC ✗
- Vietnam (2003-2008) – comprehensive package ✓
- Nigeria (since 2005) – parliamentary budget office (?)
- Zambia (since 2005) – financial committees (?)
- Ghana (2007-2009) – PAC (?)

Key lessons

- Long-term process, long-term commitment
- Comprehensive approach, not only selected elements
- Parliamentary independence and general capacity come first
- Indigenous demand and broad-based support
- Perceived neutrality of assistance provider
- Not expensive, potentially high impact

Conclusions

- Effective scrutiny is crucial for the success of direct budget support
- Requires continuous oversight, throughout the stages of the budget cycle
- Legislatures in developing countries face additional challenges
- Globally, few organisations are significant strengthening actors
- Scope to scale up this type of strengthening work