

Budget transparency and development in resource-dependent countries

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Introduction

A considerable number of developing countries, while endowed with large amounts of natural resources, are still trapped in a vicious cycle of poverty and stagnation. Over the past decade and more recently due to the global boom in commodity prices this contradiction has become the focus of increasing interest. Some past research has highlighted how natural resource abundance is often linked to slower growth rates (Auty 2001), and actually seems to increase the likelihood that resource-dependent countries will experience negative economic, political and social outcomes. This phenomenon has been commonly referred to as the resource curse or the paradox of plenty (Karl 1997; Sachs and Warner 2001). Sachs and Warner use cross-sectional data on resource exports between 1970 and 1989 to demonstrate the resource curse hypothesis, claiming that it might be due to the high price structure that characterises resource-abundant countries, causing them to miss out on export-led growth. Collier and

Goderis (2007) confirm the existence of a resource curse with richer time-series data, finding that commodity booms have positive short-term but adverse long-term effects on output. A substantial part of the explanation for this, they claim, lies in high consumption and low investment rates and in an overvalued exchange rate.

Some of this literature has emphasised economic factors underlying the resource curse, citing the Dutch disease effect – the pinch on the manufacturing sector caused by the currency appreciation driven by resource exports. In addition, other studies have demonstrated some of the political consequences of resource dependency, including authoritarian government and the onset of civil war (Collier *et al.* 2003; Wantchekon 1999). Expanding the resource-growth contradiction to issues of human welfare, Bulte *et al.* (2005) find that resource-dependent countries tend to suffer lower levels of human development. Their main explanation, however, posits an indirect link through the quality of institutions.

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In other words, bad governance and poor institutions are the main factor causing the poor performance of resource-dependent countries. This claim seems to be supported by the fact that not all countries blessed with abundance of natural resources experience economic failure. Botswana, for example, is one exception: a resource-rich country demonstrating strong economic growth averaging growth rates of 7.8 per cent since the 1980s (40 per cent of which is due to mining) and characterised by good governance, political stability and strong fiscal discipline (Iimi 2007).

The growing weight and explanatory power attributed to issues linked to politics, governance and economic management (see also Ross 1999) highlights the limitations of more economic, technical approaches, and is part of a growing trend among economists and development practitioners to eschew the technocratic approaches that minimise or ignore political factors. In the words of Eifert *et al.* (2003) such technical approaches “often confront the reality of opaque, highly politicised fiscal systems that lack the checks and balances needed to ensure that resources are well employed and to provide the fiscal flexibility needed to adjust spending in line with changes in resources” (p. 86). In an attempt to deconstruct critically the political factors underlying the resource curse and its influence on policy, Rosser (2006) presents five perspectives: behaviouralist, rational-actor, state-centred, historico-structuralist, and social-capital.

The behaviouralist and rational-actor explanations both emphasise the role of political elites in poor economic policy and institutional deterioration. However, while the former perspective highlights in particular loose expenditure policies based on the over-collateralisation of commodity resources in state borrowing, the latter emphasises the voracity effect of predatory rent-seeking and the inefficient redistribution of economic rents which ensues. The state-centred view, on the other hand, argues that responsibility for policy errors stems from the lack of political accountability common in rentier states, arguing that both the abundant resource rents and the redistributive policies undermine political accountability and the development of more market-oriented institutions. Looking beyond government, historico-structuralist and

social-capital explanations focus upon differences in economic and political power, as well as upon social cohesion between different socio-economic groups within the economy. They argue that the concentration of wealth favours the policies of specific business groups, with negative consequences for economic reforms.

Rosser (2006) contends, however, that these explanations ignore a country’s specific background and initial conditions, as well as the role and mediating effect of external and domestic social forces. External factors have become increasingly important, mostly because of the broadening and deepening of economic interdependence faced by all countries, including resource-dependent ones. In this area, increasing civil society involvement in campaigning against corruption and human rights violations linked to the relationships between multinational extractive industry companies and governments of resource-dependent countries has played an important part.

In recent years a number of international initiatives have been launched in response to these governance challenges. For example, the IMF has introduced special guidelines on resource revenue transparency to complement its focus on fiscal transparency (IMF 2007a). The Extractive Industry Transparency Initiative (EITI) and the Publish What You Pay campaign have encouraged the publication of payments made by extractive industry companies to governments (EITI 2005). The Revenue Watch Institute and the International Budget Project (IBP) have focused instead on developing independent domestic capacity to monitor government earnings and expenditures (Shultz 2005). Shedding light on some of the domestic social forces at play will potentially provide some insight into the mechanisms through which domestic actors with power come to support, or even advocate, institutional change (Dietsche 2007).

Issues of transparency, accountability and civil society involvement in the budget process have therefore increasingly come to the fore as one of the main governance challenges that resource-dependent countries need to face in order to correct the distortions at the heart of the resource curse. The objective of this chapter is to examine empirically the nature and extent of budget transparency in resource-dependent

countries as a potential foundation for improving governance and development impact. Budget transparency is here defined as “the full disclosure of all relevant fiscal information in a timely and systematic manner” (OECD 2001, p. 1). Transparency is viewed as a means of improving economic governance through a combination of mechanisms, strengthening accountability and legitimacy as well as facilitating policy consistency and predictability and promoting the better functioning of government (Heald 2003). The linkage between transparency, governance, policies and development outcomes, however, is not automatic, but is achieved through the interaction of various actors, including government, multinational extractive industries and civil society (Hameed 2006). Transparency enables understanding and participation in policy decisions by the public and serves to build trust in government (IBP 2006; Ramkumar and Krafchik 2007).

Although civil society would seem to offer considerable long-term potential for bringing about a sustainable strengthening of domestic institutions for more accountable and effective fiscal management (Petrie 2003), its increased role in promoting fiscal transparency – alongside that of other accountability institutions such as legislatures and audit institutions is quite recent. The limited research that exists on the role of civil society and its impact (see, for example, de Renzio and Krafchik 2007, Robinson 2006) shows that while access to budget information is one of the major hurdles that civil society organisations face, groups in various countries have played a vital role in interpreting and disseminating budget information, in fostering debate to improve transparency and accountability and in significant instances of improving budget policies and outcomes.

This first section of this chapter introduced the discourse on the resource curse and budget transparency, and the relationship between the two for economic governance. The second section develops an index of budget transparency and accountability for resource-dependent countries using data from the IBP’s Open Budget Initiative (OBI), and compares these scores with the UN Human Development Index (HDI) for each country, using it as a proxy for development outcomes. The third section

provides a more in-depth discussion of the nature of linkages between resource dependency, budget transparency and development outcomes in Peru, Vietnam and Angola. The final section offers a summary of the main findings and arguments, as well as suggestions for future research.

Measuring budget transparency in resource-dependent countries

Starting in 2002 the IBP aimed to develop a survey instrument that could provide an independent evaluation of budget transparency across countries. Over a three-year period, the “Open budget questionnaire” was designed to collect comparative data on the public availability of budget information and other budgeting practices. The questionnaire contains a total of 122 questions based on generally accepted good practice related to public financial management.¹ The responses to 91 of these, focusing on the content and timeliness of the seven key budget documents that all countries should issue, were averaged to form the Open Budget Index, scoring countries on a 0–100 scale. A country’s score on the Index reflects the quantity of publicly available budget information, but not the quality or credibility of such information. For example, the questions do not evaluate whether information about government expenditures, revenues, or debt may have been deliberately omitted, withheld or diverted from government accounts. They do not consider either the credibility of macroeconomic forecasting or economic assumptions used in estimates in a country’s budget.²

Table 1 summarises the overall results for the Open Budget Index 2006, which covered 59 countries. As expected, there is great variation across countries on the extent to which governments produce and publish budget information. France and the UK achieved the highest scores (89 and 88 respectively) while Vietnam and Angola were at the bottom of the ranking (with scores of 2 and 4).

According to Table 1 of these 59 countries, 24 are resource dependent.³ The resource-dependent countries (set in bold) also vary

TABLE 1. Open Budget Index 2006

OBI score	Countries
Provides extensive information to citizens (81–100)	France, New Zealand, Slovenia, South Africa , UK, USA
Provides significant information to citizens (61–80)	Botswana , Brazil, Czech Republic, Norway , Peru , Poland, Romania, South Korea, Sweden
Provides some information to citizens (41–60)	Bulgaria, Colombia , Costa Rica, Croatia, Ghana , Guatemala, India, Indonesia , Jordan , Kazakhstan , Kenya, Malawi, Mexico , Namibia , Pakistan, Papua New Guinea , Philippines, Russia , Sri Lanka, Tanzania, Turkey
Provides minimal information to citizens (21–40)	Albania, Algeria , Argentina, Azerbaijan , Bangladesh, Cameroon , Ecuador , El Salvador, Georgia, Honduras, Nepal, Uganda, Zambia
Provides scant or no information to citizens (0–20)	Angola , Bolivia , Burkina Faso, Chad , Egypt, Mongolia , Morocco, Nicaragua, Nigeria , Vietnam

OBI, Open Index Budget

Source: Adapted from International Budget Project (2006). Resource-dependent countries are marked in bold

greatly in their budget transparency scores, with South Africa, Botswana and Norway ranking among the best performers, while a significant number, (Nigeria and Chad, for instance) still provide scant or no information to their citizens. Only four of these countries provide extensive or significant budget information to their citizens through the publication of various budget documents. This highlights the existence of a significant transparency gap that characterises resource-dependent countries. This gap can also be noticed by analysing average scores across the two groups. Countries that are not resource dependent fare considerably better (in that they have more transparent budget systems) than resource-dependent ones. For the first group the average OBI score is 49.9, while the latter scored on average 39.7. Assuming that budget transparency is a reliable proxy for good economic governance, this seems to indicate that resource-dependent countries suffer from a governance deficit and are characterised by unaccountable governments that are able to divert resource rents from productive uses, fuelling waste and corruption.

Yet the variation in performances within the group of resource-dependent countries calls for a more detailed analysis. In order to arrive at a more precise assessment of budget transparency issues linked to resource dependency we developed a separate index based on a sub-set of questions from the Open Budget questionnaire which are more directly linked to issues likely to be relevant for resource-dependent countries. This index, focusing on budget transparency and

accountability in resource-dependent countries, targets three main areas:

Revenue transparency

A first set of questions assesses the degree to which governments produce and publish information on revenue collection in different phases of the budget cycle. While resource revenues may not be separately accounted for within the budget, the general management of government revenues is here used as a proxy.

General budget transparency

This part of the index covers certain issues related to the macroeconomic framework, debt and expenditure. Medium-term projections of revenue streams based on credible forecasts, the use of resource revenues to back government borrowing and the use of resource wealth are all important factors shaping the potential impact of resource rents.

Budget accountability

Here we focused on some of the additional questions that assess the degree of oversight carried out by the legislature, supreme audit institutions and the public. Opportunities for external scrutiny and debate on executive action on budget matters are important in holding governments accountable for the collection and use of revenues from the extractive sector.

TABLE 2. Transparency and accountability index for resource-dependent countries

Country	Hydr/min	Revenue transparency	General budget transparency	Budget account	Total	HDI (2005)
South Africa	Min	95	83	85	88	0.921
Norway	Hydr	72	88	85	81	0.968
Peru	Min	95	75	61	77	0.773
Russia	Hydr	79	63	58	66	0.802
Botswana	Min	79	63	49	63	0.654
Colombia	Hydr	50	63	70	61	0.791
Kazakhstan	Hydr	60	40	55	51	0.794
Mexico	Hydr	50	48	55	51	0.829
Jordan	Min	62	46	39	49	0.773
Indonesia	Hydr and Min	38	69	27	45	0.728
Namibia	Min	60	56	18	45	0.650
PNG	Min	69	44	12	42	0.530
Ghana	Hydr	50	40	27	39	0.553
Zambia	Min	38	31	46	38	0.434
Ecuador	Hydr	48	29	18	32	0.772
Bolivia	Hydr	33	29	27	30	0.695
Cameroon	Hydr	38	42	9	30	0.532
Algeria	Hydr	36	40	6	27	0.733
Mongolia	Min	26	10	39	25	0.700
Azerbaijan	Hydr	38	31	6	25	0.746
Nigeria	Hydr	26	27	21	25	0.470
Vietnam	Hydr	5	8	30	14	0.733
Chad	Hydr	7	13	9	10	0.388
Angola	Hydr	5	13	6	8	0.446
Averages	General	48	44	36	43	
	Hydr	40	40	32	37	
	Min	62	53	42	52	

Source: Authors' calculations based on International Budget Project (2006) and UNDP (2007)

About 10–15 questions were selected for each of the three areas, for which we calculated separate and joint averages for resource-dependent countries, following the OBI methodology (see Appendix 1 for a detailed list of the questions used). Table 2 presents the results of this exercise, indicating for each country whether it is dependent on hydrocarbons or minerals, its separate and joint index scores, and the value of its latest HDI in assessing its transformation of resource riches into tangible development outcomes (the HDI is a composite indicator based on income as well as health and education outcomes).

Among the 24 resource-dependent countries, 14 are rich predominantly in hydrocarbon resources, while 10 are predominantly endowed with mineral resources. South Africa and Norway emerge as the countries with higher degrees of transparency and accountability, while Vietnam and Angola remain at the bottom of the table, together with Chad. On average, countries that are dependent on mineral

resources score much better (52) than hydrocarbon-dependent countries (37), with the greatest difference being in revenue transparency.⁴

Countries score very differently on the various components of our index. For example, both South Africa and Norway do much better than all countries on budget accountability issues, with Colombia not too far behind. On the other hand, the overall scores of countries such as Peru, Namibia and Cameroon are reduced due to their low budget accountability scores. Along with Vietnam and Indonesia, Norway's position suffers from a lower score on revenue transparency.

Some of the more striking differences, however, can be seen when a country's performance in terms of transparency and accountability is compared with overall development performance, for example, measured through the HDI. Generally speaking, there is a clear correlation between higher values in the transparency and accountability index and human development performance (see Fig. 1). This

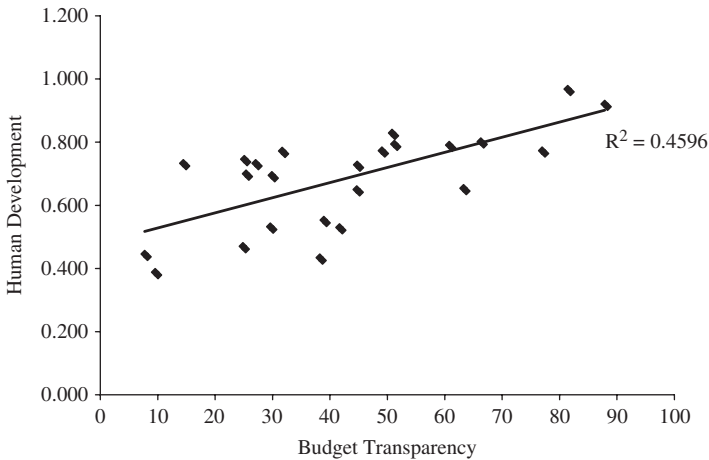


FIGURE 1. Budget transparency and human development in resource-dependent countries

cannot be interpreted as indicating causality, that is, that more transparency brings better development outcomes. Yet this clear statistical association deserves further attention. One way of trying to disentangle the possible linkages between budget transparency and development outcomes is to look at specific countries for which the relationship between the two variables is less obvious.

Short tales of three countries: Peru, Vietnam and Angola

In order to examine in greater depth the relationship between budget transparency and development in resource-dependent countries, we analysed three countries that performed very differently both with regard to transparency and to development outcomes. Peru combines high degrees of budget transparency with high human development results. Vietnam has an HDI score similar to Peru, but a much lower degree of budget transparency. Finally, Angola scores very low in both areas. The three country summaries presented in Table 3 derived from limited desk-based research, aim to assess to what extent factors such as the type and degree of resource dependency, the nature of the political regime and of budget institutions and the existence, strength and role of civil society activism were instrumental in forging such striking differences in performance.

Peru: Increased budget transparency and an active civil society

Peru's resource wealth lies mostly in mineral resources, although the country is also a natural gas producer. It is the world's fifth largest producer of gold and copper and the second largest producer of silver, and ranks highly in its output of lead and zinc. A key characteristic of Peru's resource revenue profile is that the government enjoys diversified sources of revenues. This includes revenues from several types of mineral extraction and from hydrocarbons as well as significant revenues from economic activities that are not associated with the extractive industries. Between 2000 and 2005 minerals constituted 50 per cent of the country's export earnings. Nonetheless, their growth was softened by strong increases in non-traditional exports over the same period. Mineral rents, therefore, comprise a relatively small share of Peru's fiscal revenue (see Table 3).

Peru's key budget documents were made publicly available (see Table 4) as part of an effort to increase transparency in public finances during the mid-1990s. In 2003 laws on fiscal prudence and transparency as well as transparency and access to public information required detailed multi-year economic and fiscal information to be published within specific time limits, as well as government compliance reports at the end of each semester (IMF 2004). The move towards transparency was a continuation of fiscal stabilisation, liberalisation and structural

TABLE 3. Overview of case studies as at 2005

Country	Natural resources ^a	Natural resources (2000–2005)				OBI score	HDI ^b (2005)	Gini coeff ^c (2005)	Polity IV ^d (2005)	Free press ^e (2005)
		% of fiscal revenue	% of GDP	% of export earnings	% of GDP					
Peru	Gold, copper, silver, (oil, gas)	3.3	1.5	50.8	8.1	77	0.773	0.52	9	Partially free
Vietnam	Oil, gas	31.2	7.4	21.3	11	14	0.733	0.34	–7	Not free
Angola	Oil, (diamonds)	79.8	33.4	91.8	68	8	0.446	0.61	–2	Not free

^aSee IMF (2007a). Resources indicated in parenthesis are not included in IMF calculations of natural resource wealth. Some caveats on the IMF definition of resource dependency are presented in note 3 at the end of this chapter.

^bThe Human Development Index (HDI) is a summary composite index that measures a country's average achievements in three basic aspects of human development: health (measured by life expectancy); knowledge (adult literacy rate and the combined primary, secondary and tertiary gross enrolment ratio); and a decent standard of living (GDP per capita in purchasing power parity \$US) (UNDPa n.d.)

^cThe Gini coefficient is a statistical measure of income distribution. Values range between 0 (complete equality) and 1 (complete inequality). For Peru (UNDP, n.d.), for Vietnam (UNDP, n.d.) and for Angola, World Bank (2007a)

^dPolity IV (2005) focuses specifically on the institutionalised authority patterns that characterise states. The Polity IV combined polity score measures the relative institutionalised democratic and autocratic elements in each country. Its scale ranges from +10 (strongly democratic) to –10 (strongly autocratic). See website: www.cidcm.umd.edu/polity/ Accessed 1 December 2007.

^eDegree to which each country permits the free flow of news and information. Classification ranges from free, partly free, to not free. See Freedom House (n.d.) homepage

TABLE 4. Peru's budget documents

Pre-budget statement	Exec. budget proposal	Supporting documents	Enacted budget	In-year reports	Mid-year report	Year-end report	Audit report
P D	P D	P D	P D	P D	P D	P D	P D

D, distributed to public; P, produced

Source: International Budget Project (2006)

reform measures and followed a financial crisis between 1988 and 1992. It offered a means to address the country's economic problems, which were rooted in the shift to state-led development in the 1960s and in an over-reliance on external borrowing, weak state organisations and poor ties with organised societal interests (Wise 1994).

Although it has been labelled an oligarchic state with predatory tendencies in the past (Auty 2001), Peru returned to democracy in 1993. Constitutional reforms in 2000 increased the independence of the judiciary and the media, as well as congressional checks on the executive. However, Santiso and Belgrano (2004) note that the contribution of the Peruvian legislature to budget supervision has been inhibited by both external and internal structural factors, including formal and informal rules shaping executive–legislative relations, a fragmented political party

system, the procedures of legislative budgeting and organisation, and resources capacity. Similar constraints in expertise and resources have been noted for the Office of the Comptroller General (IMF 2004) and are important in its ability to complete audit reports for the legislature and monitor the follow up of its recommendations.

Through the emergence of a number of civil society organisations (CSOs), social supervision complements the role played by the legislative and audit bodies. A number of CSOs focus specifically on budget oversight such as Pro-puesta Ciudadana, Ciudadanos al Dia, and Centro de Investigación de la Universidad del Pacífico. Collaboration also exists between different CSOs – for instance, the formation of the Asociación Civil Transparencia in 2001, the embryo of Proetica and the Peruvian Chapter of Transparency International in 2003.

Vietnam: limited oversight in a developmental context

Vietnam's mining sector is dominated by the oil and gas industry – South-East Asia's third largest, which constitutes a considerable portion of fiscal revenues and export earnings (see Table 3). The development of this resource sector has been linked to the country's *doi moi* (renovation) and economic liberalisation in the mid-1980s to late-1980s. Of the US\$20 billion in foreign direct investment Vietnam targeted for 1994–2000, US\$8 billion was earmarked for the oil and gas sector (Anon 1994). Foreign direct investment has fuelled growth and facilitated the introduction of advanced technology through joint ventures (Mai 2003). Despite Vietnam's impressive recent growth performance, some doubts exist over its sustainability, due to macroeconomic risks and vulnerability to external shocks (IMF 2007b).

Some information on the central government budget started to be published in 1998 with the 1997 accounts in the wake of the Asian financial crisis. This crisis represented the first stalling of the economy since the adoption of *doi moi*, which can be linked, at least in part, to a lack of fiscal transparency (Thayer 2000). Further disclosure of budgetary policies, supporting data and materials, as well as information on the budget process, came into effect in 2004 as mandated by the 2002 State Budget Law. However, the dissemination of the budget and year-end reports serves more for notification than for policy debate, and is limited to the enacted budget and year-end reports (see Table 5).

Policy and legal changes over the last five years have resulted in a limited expansion of the role of the National Assembly. The 2002 Budget Law, for example, increased the role of the National Assembly in approving overall budget allocations and underlying macroeconomic

figures. However, as part of its socialist legacy, the Constitution continues to concentrate power, including on budgetary matters, in the hands of a few very powerful individuals in the legislature's Standing Committee whose membership consists of members of the Communist Party of Vietnam. In fact, the National Assembly is somewhat disempowered by the fact that it meets rarely and the Standing Committee is granted all decision-making powers when it is not in session. As characterised by Salomon (2007, p. 215), the relationship between the executive and legislative powers therefore “must not be considered in terms of opposition or confrontation but in terms of cooperation, ... but [is] generally limited to more technical problems”.

Structural constraints also exist for the State Audit Vietnam (SAV), which is not fully independent from the executive and reports to the Standing Committee rather than the full National Assembly. Its responsibilities overlap with those of the Government Inspectorate and the Ministry of Finance, its capacity to enforce auditing recommendations is weak, and there is little evidence that the government acts on SAV reports.

While many forms of CSOs exist in Vietnam, none is independent. The state regulates their activities and the avenues they have to engage in decision-making and supervisory functions. Increased numbers of CSOs – mass organisations, professional associations, Vietnamese non-governmental organisations (NGOs) and community-based organisations – now engage in local community development and poverty reduction (Nørlund 2007). Information is published at the commune level and in government services with the publication of specific budget information (World Bank 2007a), but little exists in relation to the budget at a larger scale, and specifically in relation to revenue. Generally speaking, therefore, weak

TABLE 5. Vietnam's budget documents

Pre-budget statement	Exec. budget proposal	Supporting documents	Enacted budget	In-year reports	Mid-year report	Year-end report	Audit report
PI	PI	PI	PD	PI	PI	PD	PI

D, distributed to the public; P, produced; I, for internal purposes only

Source: International Budget Project (2006)

policy advocacy has been compounded by a lack of information about policies, laws and regulations, and socioeconomic development strategies (Bach 2001).

Angola: low transparency and a predatory regime

The Angolan government is highly dependent on a single commodity – oil – for its revenues. Angola's oil sector, the second largest producer in Africa after Nigeria, accounts for 90 per cent of its export earnings and 80 per cent of government fiscal revenues. Originally a large agricultural exporter before the 1970s, Angola achieved high oil production levels in the early 1980s. Even with its oil and diamonds, the country's second largest export, the resource sector accounts for less than 1 per cent of the workforce and most of the economy subsists in the informal sector (Economist Intelligence Unit 2007). Its offshore location meant that production could continue to boom and remain undisturbed while the country was affected by war, macroeconomic instability and poor policy choices.

Little information is available to the public in Angola about the state budget, with the exception of the enacted budget (see Table 6). Documents are primarily produced for internal purposes but sometimes they are not, for lack of adequate capacity, as in the case of in-year reports or audited accounts. Increased transparency has been a key condition for cooperation with the IMF since the mid-1990s, but the government has often been unwilling to release information (Human Rights Watch 2004). A 2002 "Oil diagnostic", part of the government's efforts to reform the country's public financial management system, found major discrepancies in incoming oil revenues, receipts of taxes and royalties and the accounts of state-oil company SONANGOL, as well as government

expenditures not accounted for, poor record-keeping and missing data (Human Rights Watch 2004). Budgets submitted to parliament are seldom opposed, highlighting the limited role of parliamentary oversight. A Court of Accounts with strong legal powers became operational in 2001, but suffers from serious limitations and has yet to produce an audit report (World Bank 2007b) There is no anti-corruption commission in Angola and the statistics agency is weak (Isaksen *et al.* 2007).

Constitutional amendments in 1992 allowed for NGO registration. This change has seen a growth in the number of active NGOs – over 100 international NGOs and 350 local NGOs (US Department of State in Amudsen and Abreu 2006, p. 1). However, with a few exceptions, such as the Angolan Catholic University and *Associação Fiscal*, civil society groups are not actively engaged in public finance issues. The situation stems from the weak capacity to analyse policy and from government restrictions. As stated by Amudsen and Abreu (2006, p. 41), "the more directly CSOs work on issues of central government accountability and transparency, public financial management and budgeting, the smaller, weaker and less legitimate . . . the organizations tend to be viewed" by government.

Discussion and conclusions

This chapter attempted to bring together different strands of evidence linking issues of budget transparency, resource dependency and development performance across the world. Recent research has increasingly focused on the importance of poor governance and weak institutions as a key factor behind the resource curse. Based on data drawn from the IBP (2006) we found that resource-dependent countries do, indeed, suffer from a significant transparency gap in their budget systems. Moreover, we

TABLE 6. Angola's budget documents

Pre-budget statement	Exec. budget proposal	Supporting documents	Enacted budget	In-year reports	Mid-year report	Year-end report	Audit report
P I	P I	P A	P D	NP	N P	P A	N P

A, available on request; D, distributed to the public; NP, not produced, P, produced; I, for internal purposes only
Source: International Budget Project (2006)

TABLE 7. Overview of case study findings

Country	Resource dependency	Political regime	Civil society
Peru	Heavy dependence for export earnings only; diversified economy	Democratic regime with increasing transparency and strengthening accountability	Strong (domestic/international)
Vietnam	Medium dependence for both fiscal revenues and export earnings; diversified economy	Undemocratic regime with limited transparency and accountability	Weak (domestic/international)
Angola	Heavy dependence for both fiscal revenues and export earnings; undiversified economy	Predatory regime with low transparency and underdeveloped accountability	Weak (domestic) Strong (international)

developed an index rating the transparency and accountability of budget systems in 24 resource-dependent countries, showing not only that resource-dependent countries are characterised by very different degrees of budget transparency and accountability, but that they also differ in their levels of human development. While the numbers show that our index and the HDI are positively correlated, this relationship cannot be assumed to imply causation in either direction.

In order to try and shed some light on the linkages between budget transparency and accountability on one side and human development outcomes on the other, we looked at countries with extremely different performances on both: Peru, Vietnam and Angola. The short, desk-based case studies are not in any way exhaustive, but they nonetheless highlight a series of factors that contribute to shape these linkages. These include, first, the type and degree of dependency on natural resource revenues, and whether the economy as a whole is diversified and integrated with the global economy. They also include the nature of the political regime – whether it is democratic or autocratic, developmental or predatory – and the nature of budget institutions, including the process through which they were reformed to increase transparency and accountability. Third, they include the existence of an active civil society that is interested and engaged in issues of fiscal transparency and oversight. These factors are not independent from each other, and in some cases they are heavily interrelated.

Table 7 summarises the case study findings. Peru's reliance on mineral resources rather than hydrocarbons and its diversified economy may have been combined with deepening democratisation, increasing degrees of fiscal transparency and growing civil society involvement to deliver better development results. In Vietnam's case, successful growth-oriented policies were coupled with timid attempts at improving transparency and encouraging participation, given the autocratic – but developmental – nature of the state. Growth and development outcomes were achieved despite weak transparency and accountability, but these may not be sustained in the future. Angola remains locked in a vicious cycle of poverty and poor governance, with limited domestic accountability and mobilisation, despite increasing international pressure and scrutiny.

While none of these findings gives a clear and uncontroversial answer to the question of how budget transparency can contribute to improved governance and development impact, and what the role of civil society might be, we hope that this chapter has contributed interesting data and ideas to the ongoing debate around the resource curse. But the limited evidence garnered in the three desk-based case studies calls for further investigation and different uses and combinations of the rich information generated by the Open Budget Index, in combination with other data sources, in an effort to contribute to a better understanding of the linkages between governance and development in resource-dependent countries.

Appendix 1. OBI questions used in index

Category	Question	OBI No.
Revenue transparency	Does the executive's budget or any supporting budget documentation identify the different sources of tax revenue (such as income tax or VAT) for the budget year?	7
	Does the executive's budget or any supporting budget documentation identify the different sources of non-tax revenue (such as grants, property income, and sales of goods and services) for the budget year?	8
	In the executive's budget or any supporting budget documentation, are estimates of the aggregate level of revenue presented for a multi-year period (at least two years beyond the budget year)?	9
	In the executive's budget or any supporting budget documentation, is more detail than just the aggregate level presented for revenue estimates that cover a multi-year period (for at least two years beyond the budget year)?	10
	Does the executive's budget or any supporting budget documentation present information for at least the budget year that show how policy proposals in the budget as distinct from existing policies, affect revenues?	17
	In the executive's budget or any supporting budget documentation, what is the most recent year presented for which all revenues reflect actual outcomes?	32
	Does the executive's budget or any supporting budget documentation present information for at least the budget year on tax expenditures?	45
	Does the executive's budget or any supporting budget documentation identify all earmarked revenues?	46
	Does the executive make available to the public a description of the tax rate or fee schedule for all revenue sources?	56
	How often does the executive release to the public in-year reports on actual revenue collections by source of revenue?	87
	What share of revenue is covered by the in-year reports on actual revenue collections?	88
	Do the in-year reports released to the public compare actual year-to-date revenue collections with either the original estimate for that period (based on the enacted budget) or the same period in the previous year?	89
	Does the executive release to the public a mid-year review of the budget that includes updated revenue estimates for the budget year underway?	96
	Does the year-end report, or another document released to the public by the executive (please specify below), explain the difference between the enacted levels (including in-year changes approved by the legislature) and the actual outcome for revenues?	106
General transparency	Does the executive's budget or any supporting budget documentation present the macroeconomic forecast upon which the budget projections are based?	14
	Does the executive's budget or any supporting budget documentation show the impact of different macroeconomic assumptions (i.e., sensitivity analysis) on the budget (including expenditures, revenues, and debt)?	15

	Does the executive release to the public a mid-year review of the budget that discusses the changes in economic outlook since the budget was enacted?	93
	Does the year-end report, or another document released to the public by the executive (please specify below), explain the difference between the original macroeconomic forecast for the fiscal year and the actual outcome for that year?	107
	In the executive's budget or any supporting budget documentation, are estimates of the aggregate level of expenditure presented for a multi-year period (at least two years beyond the budget year)?	5
	Does the executive's budget or any supporting budget documentation present information for at least the budget year that shows how policy proposals in the budget, as distinct from existing policies, affect expenditures?	16
	Does the executive's budget or any supporting budget documentation present information for at least the budget year on extra-budgetary funds?	35
	Does the executive's budget or any supporting budget documentation present information for at least the budget year on transfers to public corporations?	37
	Does the executive's budget or any supporting budget documentation present information for at least the budget year on quasi-fiscal activities?	38
	Does the executive's budget or any supporting budget documentation explain how the proposed budget is linked to government's stated policy goals, by administrative unit (or functional category), for the budget year?	48
	Does the executive release to the public a mid-year review of updated expenditure estimates for the budget year underway?	94
	How long after the end of the budget year does the executive release to the public a year-end report or another document that discusses the budget's actual outcome for the year?	102
	Does the year-end report, or another document released to the public by the executive (please specify below), present the actual outcome for extra- budgetary funds?	111
	Does the executive's budget or any supporting budget documentation present data on the total government debt outstanding for the budget year?	11
	Does the executive's budget or any supporting budget documentation present interest payments on the debt for the budget year?	12
	Does the executive's budget or any supporting budget documentation present information related to the composition of government debt (such as interest rates on the debt, maturity profile of the debt, currency denomination of the debt, or whether it is domestic and external debt) for the budget year?	13
Accountability	Does the executive publish a "citizens budget" or some non-technical presentation intended for a wide audience that describes the budget and its proposals?	61
	Do citizens have the right in law to access government information, including budget information?	64
	Are citizens able in practice to obtain financial information on expenditures for individual programs in a format that is more highly	65

disaggregated than that which appears in the executive ministry or agency)?	
Does a legislative committee (or committees) hold public hearings on the macroeconomic and fiscal framework presented in the budget in which testimony from the executive branch and the public is heard?	76
Does the executive present more details or provide a better explanation of any budget proposal, if members of the legislature (including from minority parties) request such information?	80
Does the legislature have authority to amend the budget presented by the executive?	82
Does a committee of the legislature view and scrutinize the audit reports?	119
How long after the end of the fiscal year are the final expenditures of national departments audited and (except for secret programs) released to the public?	112
Two years after the completion of a fiscal year, what percentage of expenditure has been audited and (except for secret programs) the reports released to the public?	113
Does the Supreme Audit Institution release to the public audits of extra-budgetary funds?	116
Does either the Supreme Audit Institution or the legislature release to the public a report that tracks actions taken by the executive to address audit recommendations?	121

OBI, Open Index Budget

Source: International Budget Project (2005)

Notes

1. Most of the criteria used are similar to those developed by multilateral organisations, such as the International Monetary Fund's *Code of good practices on fiscal transparency* and the *Lima declaration of guidelines on auditing precepts* issued by the United Nations International Organization of Supreme Auditing Institutions.

2. For further details on the background and methodology, see IBP 2005 and the International Open Budget Initiative (2006).

3. In identifying resource-dependent countries, this chapter adopts the IMF's definition that distinguishes between countries

rich in hydrocarbons (oil and gas) and those rich in minerals (such as gold, silver, diamonds and platinum). Resource dependency is defined as either an average share of resource revenues in total fiscal revenues of at least 25 per cent during the previous three years, or an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 per cent during the previous five years (IMF 2007a). Two important caveats to the IMF definition are that it examines hydrocarbon and mineral data separately and does not capture countries where collective measures of hydrocarbon and mineral

revenues/exports are above the dependency threshold. Additionally, the definition is based on current production and does not examine reserves or potential future production.

4. The reasons for this difference are not entirely clear. It might be due to the fact that hydrocarbons are more commonly under state control because of high capital-intensity and technology, and therefore are more prone to opacity. Or it could be due to distortions in the the data, given the small sample size. This is an area that requires further research.