

Recommendations regarding Drawing Up Citizens Budget

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***Disclaimer***

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1. Introduction

Transparency and citizens participation in the budget process is an important component of good governance,[[1]](#footnote-1) which, in its turn, as recognized globally, plays a major role in ensuring sustainable growth[[2]](#footnote-2) and shared prosperity.

For the past two decades, governments and international organizations have been paying increased attention to transparency in general and, more specifically, fiscal transparency-related issues. Fiscal transparency defined as clear, accessible, reliable, regular, timely, and relevant fiscal reporting and government fiscal policy making open to the public is not a trivial thing or a fad but a decisive component of enhanced efficiency of fiscal management.[[3]](#footnote-3)

Thus, fiscal transparency means not only availability of adequate information regarding budget-related issues but also creating an enabling environment for the general public participation in decision-making. It follows from the above that in order to ensure an effective budget process, three conditions should be met where the Government has a defining role to play:

* The Government should disclose necessary (clear, accessible, reliable, regular, timely, and relevant) information
* The Government should be willing to make and should make necessary efforts to obtain as comprehensive feedback as possible from the general public at every stage (in relation to every component) of the budget process at all the budget levels;
* The general public should be able to provide relevant and appropriate feedback regarding the budget process components.

Fulfilling the above conditions does not require major funding but it can bring major benefits. Therefore, lack of solid action in relation to enhanced fiscal transparency can only be accounted for by lack of political or management will resulting from lack of understanding of the benefits of fiscal transparency or other reasons related to mentality and tradition of fiscal policy. A conclusion reached in the fiscal transparency assessment report prepared by EXPERT-GROUP in 2012 is that „public authorities are more focused on informing, and very little on communicating with, the general public.”[[4]](#footnote-4) It is the lack of interest in communication with, and in involvement of, the general public which accounts for the fact that the information provided is specifically intended for professionals and less so for people from outside of the field.

In accordance with good practices on fiscal transparency, in order to enhance the availability of the budget process-related information, it is necessary to prepare and present budget-related information intended for the general public. Experience also suggests that such information should be prepared for all the stages of the budget process.[[5]](#footnote-5) The importance of citizens budgeting is also supported by the fact that it has been gaining increased acceptance globally. The most recent fiscal transparency survey conducted by the International Budget Partnership (IBP) in 2012 showed that such documents were prepared in 27 countries versus 18 in 2010.

The recommendations that follow concern, first and foremost, the budgeting stage; however, adjusted, as necessary, they are also largely relevant to the documents in relation to other stages of the budget process.

The concept of preparing and presenting budget-related information for the general public does not have a standard name, it is referred to in different ways. At the same time, the name IBP has been using, Citizens Budget, has become quite well-known. Most countries use names excluding word „citizens,” employing terms such as „summary” or other descriptors suggesting that it is a document informing laymen about budget-related matters rapidly and in full. Depending on the core document, it would be more appropriate to use in the Republic of Moldova names such as Budget Summary, Budget in 5 Minutes, What the X Budget Has Accomplished and What It Has Not, Budget for All, etc. and to avoid the „citizens budget” term.

These recommendations build on the IMF,[[6]](#footnote-6) OECD,[[7]](#footnote-7) and IBP[[8]](#footnote-8) papers on good practices on transparency, some of which have been used in this paper, too. They also take into account the specificities and context of the Republic of Moldova.

1. Document Purpose

Budget documents for the general public are prepared with a view to increasing public access to budget-related information and facilitating their participation in decision-making. The exercise is a part of the Government policy in respect of decision-making transparency whereby the Ministry of Finance aims to achieve the following outcomes related to the budget process:

* Enhanced quality of the government’s decision-making regarding government budgets (state budget, Mandatory Health Insurance Fund (FAOAM), and State Social Security Budget (BASS));
* Increased responsibility of government entities for allocation and use of public funds;
* Increased public confidence in government actions;
* More effective fight against corruption;
* Promotion of macroeconomic stability.

The Government deems enhanced fiscal transparency necessary first and foremost for the Government so that it could fulfill its constitutional duties and improve public finance performance.

1. General Requirements

Key requirements to the Citizens Budget (CB) follow from the document purpose and are (in brief):

* It should be written in a neutral manner and explain objectively the budget goals and provisions rather than the budgeting process, avoiding political slogans and discourse;
* The document should be relatively brief yet cover the most important budget-related matters;
* The language used should be as close as possible to layman’s terms, avoiding as much as possible specialized terminology and sophisticated concepts;
* Issues covered in the CB should be of genuine interest for citizens both in the short run and in the distant future;
* The document should be well-integrated and include all the information necessary to understand it without reference to any other documents; at the same it, it will be a „window” for accessing other documents explaining issues at length;
* The document will be published concurrently with, or in the days immediately following, the publication of the core document (tentative budget, budget proposal, report, etc.);
* Importantly, regardless of the stage the citizens document concerns, in the Republic of Moldova it should include both revenue side and expenditure side. Fiscal policies should not be presented in a document separately from expenditure strategies.

As the document is prepared, it is necessary to take into account that the level of budget-related knowledge is very low in the Republic of Moldova; there is no experience with citizens involvement in the process; citizens are skeptical about the Government being genuinely interested in taking their opinion into account and are often misinformed about certain budget aspects. Therefore, first and foremost, the prepared document should contain reliable and straightforward information without concealing data which might be not welcome.

Also, in order to make the document content closer to what concerns citizens most, before it is drafted, it is recommended to conduct a small survey to identify key topics to be reflected in the Citizens Budget. Even if the survey does not aim to assess the level of citizens’ general knowledge about the state budget, it will be a source of useful information which will help find the most appropriate way to formulate the document. The survey should be designed so that the questionnaire could be filled out by telephone.

1. Document(-s) Content

The document content should cover the most important issues related to fiscal revenue, expenditure, deficit, debt, and major risks.[[9]](#footnote-9) Especially in the first few years the document should include an explanation regarding the key components of the budget system and how they are linked: state budget, state social security budget, mandatory health insurance fund, and budgets of territorial administrative units. Citizens usually do not distinguish between those components of the budget system, regarding them all together as money of the State. Such confusion creates many problems with proper orientation and motivation of citizens and often results in unrealistic expectations which might affect their lives, especially in the long run. The document will also include a very brief explanation regarding the budget cycle and a concise introduction to the role the Parliament and the Government play in the process.

It will describe the Government’s medium-term priority goals and role of the respective year budget in achieving them. It will present the most important goals, including those in respect of pensions, education, social assistance and health care, infrastructure and economic development, as well as the reforms implemented to achieve those goals. To facilitate the understanding of the goals, it is recommended to define them in a comparable and clear manner and, where possible, to present change versus the basic period or versus the goal and/or requirements. For instance, in order to have good roads, the Republic of Moldova needs to rehabilitate X km of roads each year; it is planned to rehabilitate Z km of roads in the fiscal year concerned for which MDL L has been allocated (allocation amount for respective year); and the government program goal is Y km.

Another issue to be brought to the general public’s attention is the background for a new fiscal year. This includes description of key social, natural, economic, security, demographic or other developments which have had a major impact on budgeting. The described developments include events which took place, are ongoing, or are very likely to occur in the future. Importantly, the described developments should not leave too much room for interpretation and it should be explained exactly how they affect the budget and what their impact period is (one-off, short-term, permanent, etc.). For instance, the impact of the 2012 draught will amount to MDL 50 mln of fiscal revenue from livestock production and MDL 70 mln of expenditure necessary to restore the situation.

Another topic to be described is medium- and long-term projection findings which informed fiscal revenue, budget expenditure and deficit estimates. This information could be shown in table format or as simple charts accompanied by short explanation or analysis of projected key developments or links. Data dynamics should be shown, covering previous years and projection for at least two years following the respective fiscal year.

The document will provide coherent information regarding the revenue strategy explaining fiscal revenue sources, key changes versus the previous years, and new policies and describing certain taxpayer categories. It should reflect only those changes which affect significantly a large number of citizens, social strata and/or if they contribute significantly to a change in revenue pattern. It would also be appropriate to present the information as part of a period from at least two years before and two years after the fiscal year concerned. Special attention should be paid to grants received, their purpose and donors. It would be appropriate to present estimated impact of the proposed adjustments on concerned groups’ income, economic growth, job creation, etc.

If the Government’s key goals have been described with an indication of allocation amounts for respective fiscal year, a summary table showing budget expenditure behavior by key group and by aggregate economic classification could be presented. It could also show expenditure on key programs (as a share of total expenditure) or other topics of major interest for citizens as per the survey or issues related to major reforms implemented by the Government, especially if they could entail risks for certain social strata. In case of the Republic of Moldova it is also important to present expenditure (and policies) related to the pension fund, the state budget contributions to the pension fund, and their substance. At the same time, expenditure on job creation, economic growth promotion, and use of grants is of great interest.

It will provide brief information regarding the government policy in respect of budget deficit, its funding level, means, and conditions, public debt level in absolute terms and on per capita basis, as well as major creditors of the Republic of Moldova.

It will also present key budget and fiscal risks. It would be appropriate to include revenue side risks, issued guarantees, and other contingent liabilities, as well as other risks which could lead to higher expenditure. Each risk will also include action the Government will take to mitigate or avoid them.

1. Document(-s) Structure

International experience shows Citizens Budget can be presented in a broad variety of formats. It equally concerns both the documents structure, presentation format, volume, and number and their language or amount of technical terms used. For the Republic of Moldova, it would be appropriate to prepare a single document for each stage of the budget process so that other information could be added to them later. Given that budget requires a holistic approach, having a „single” document would be a solution so that it could be updated at each stage of decision-making, highlighting key points for each stage. This would bring three important benefits: (i) uniform vision of the budget (and reduced political profiteering and turning the budget into a list of requirements impossible to cover), (ii) fiscal consistency throughout the budget cycle, and (iii) better understanding of documents.

Thus, the citizens budget preparation process begins with drawing up and presenting: (i) tentative budget (based on the MTEF) and continues with (ii) submitting the budget to the government, (iii) mid-year budget execution report, (iv) budget approval (which is, in fact, budget proposal update), and concludes with (v) end-year budget execution report. Out of all those documents, as a first step, it would be appropriate to publish and disseminate at least two documents: budget proposal and end-year budget execution report, and to disseminate the other ones by means of electronic media. A document should be not more than eight pages long, some of them could be shorter.

The core document could comprise several concise sections:

1. Welcoming remarks by the Minister of Finance as an institution responsible for the budget process and for preparing documents;
2. Budget system and process;
3. Government’s priority goals, including key challenges, barriers, or opportunities which will affect their achievement;
4. Economic projections the budget builds on;
5. Revenue policies;
6. State budget expenditure;
7. Expenditure policies;
8. State budget expenditure;
9. Fiscal balance, debt, and deficit financing;
10. Ways to influence the budget.

Generally speaking, this structure could be maintained for all the five documents or, if necessary, it could be adapted to the purpose and content of each of them. Importantly, each section should refer to a document describing in detail the addressed issue.

1. Implementation Recommendations

Implementation of the citizens budget concept will be institutionalized by decree of the Minister of Finance. Budget Consolidation and Public Affairs Directorates will be charged with preparing and disseminating documents.

Given that the recommendations set out above are quite comprehensive, implementing them in full requires certain experience in the area. Importantly, the documents should be of high quality so that they could attract and maintain a certain level of interest on the part of the general public. The less is more principle is absolutely valid in this case, too. Thus, as a first step, it would be appropriate to implement two citizens documents – one in respect of budget proposal and another one on the state budget execution report but only the core budget documents could explain their substance. Otherwise, in a situation where a major state budget intervention is necessary compared to initial plan, a 1-2 page issues paper regarding the matter in question could be distributed.

1. OECD Best Practices for Budget Transparency, OCDE, 2002, [http://www.oecd.org](http://www.oecd.org/). [↑](#footnote-ref-1)
2. How Does the IMF Encourage Greater Fiscal Transparency?, <http://www.imf.org/external/np/exr/facts/fiscal.htm>. [↑](#footnote-ref-2)
3. Fiscal Transparency, Accountability, and Risk, IMF, 2012, <http://www.imf.org/external/np/pp/eng/2012/080712.pdf>. [↑](#footnote-ref-3)
4. Evaluation of Budget Process Transparency in the Republic of Moldova, EXPERT-GRUP, 2012, <http://expert-grup.org/ro/biblioteca> . [↑](#footnote-ref-4)
5. IBP, Budget Process Stages – Budgeting, Budget Approval, Execution, and Audit. [↑](#footnote-ref-5)
6. Manual on Fiscal Transparency, 2007, IMF, <http://www.imf.org/external/np/pp/2007/eng/101907m.pdf> , and Code of Good Practices on Fiscal Transparency (2007), <http://www.imf.org/external/np/pp/2007/eng/051507c.pdf>. [↑](#footnote-ref-6)
7. Producing a Citizens’ Guide to the Budget: Why, What and How?, OECD, 2010, <http://www.oecd.org/gov/budgeting/48170438.pdf>. [↑](#footnote-ref-7)
8. The Power Of Making It Simple: A Government Guide To Developing Citizens Budgets, IBP, 2012, <http://internationalbudget.org/wp-content/uploads/Citizen-Budget-Guide.pdf>. [↑](#footnote-ref-8)
9. In accordance with the good practices promoted by the IBP, at least six topics should be reflected: 1) budget process, 2) revenue collection; 3) expenditure and allocation priorities; 4) target sector- and program-specific information; 5) contact data for communication purposes; and 6) economic assumptions. Recommendations by the OECD, in addition to those similar to what IBP recommends, suggest that deficit, debt, and risk data should also be shown. [↑](#footnote-ref-9)