FINANCIANDO EL DESARROLLO • AMÉRICA LATINA

CAF
DOCUMENTOS DE TRABAJO

CAF
WORKING PAPERS

THE POLITICAL ECONOMY OF BUDGETING IN LATIN AMERICA PROCEDURES, OVERSIGHT, AND PARTICIPATION

N° 2011/13

November, 2011

Pereira, Carlos
Melo, Marcus

CAF - Ave. Luis Roche, Torre CAF, Altamira. Caracas, Venezuela 01060

© CAF, 2011 por Pereira, Carlos y Melo, Marcus. Todos los derechos reservados. Pequeñas secciones del texto, menores a dos párrafos, pueden ser citadas sin autorización explícita siempre que se cite el presente documento.
Los resultados, interpretaciones y conclusiones expresados en esta publicación son de exclusiva responsabilidad de su(s) autor(es), y de ninguna manera pueden ser atribuidos a CAF, a los miembros de su Directorio Ejecutivo o a los países que ellos representan.
CAF no garantiza la exactitud de los datos incluidos en esta publicación y no se hace responsable en ningún aspecto de las consecuencias que resulten de su utilización.

LA ECONOMÍA POLÍTICA DE LOS PRESUPUESTOS EN AMÉRICA LATINA PROCEDIMIENTOS, VIGILANCIA Y PARTICIPACIÓN

Pereira, Carlos y Melo, Marcus

CAF Documento de trabajo N° 2011/13
Noviembre, 2011

RESUMEN

Este reporte presenta una visión selectiva de los principales factores que afectan el proceso presupuestario, mapea las instituciones presupuestarias de América Latina y evalúa hasta qué punto los presupuestos juegan el rol esperado por la sociedad. Revisamos la participación del legislativo en este proceso, proveemos información actualizada sobre los comités de presupuesto e identificamos los controles institucionales en la aprobación de presupuestos. Analizamos la rigidez presupuestaria en América Latina y nos enfocamos en los mecanismos implementados por los gobiernos (a nivel nacional y subnacional) para lidiar o superar las inflexibilidades institucionales presupuestarias y los problemas de rendición de cuenta. Asimismo, investigamos los mecanismos de control asociados a la apropiación del presupuesto. Dado que en toda la región el ejecutivo es el jugador político dominante y que la legislatura generalmente no tiene las condiciones y/o incentivos para supervisar de forma total a los presidentes, los legisladores han delegado su función de supervisión a auxiliares tales como las instituciones de auditoría. Finalmente, identificamos y analizamos las iniciativas para promover la transparencia y la participación ciudadana, especialmente a niveles no gubernamentales, y las experiencias de presupuestos participativos a nivel local.

Palabras clave: presupuestos, instituciones, América Latina

THE POLITICAL ECONOMY OF BUDGETING IN LATIN AMERICA PROCEDURES, OVERSIGHT, AND PARTICIPATION

Pereira, Carlos y Melo, Marcus

CAF Working paper N° 2011/13
November, 2011

ABSTRACT

This report provides a selective overview of issues pertaining to the budgetary process and a mapping out of budgetary institutions in Latin America and assesses to what extent budgets play the role societies expect from them. We review the legislative involvement, provide first hand updated data on budget committees, institutional prerogatives of the legislative branch and identify the institutional checkpoints for the approval of budgets. We also offer an overview of issues pertaining to budget rigidity. Starting from the stylized fact of budget rigidity in Latin America the paper focuses on the mechanisms governments (both at the national and sub-national levels) have implemented to deal or to overcome budgetary institutional inflexibilities and problems of accountability that are associated with them. We further investigate the existing mechanism of control and accountability budget appropriation. Given that all over the region the executive is the dominant political player and legislatures usually do not have institutional conditions and/or incentives to fully oversight presidents, legislators have delegated oversight to auxiliary bodies such as audit institutions. Finally, we identify and analyze initiatives to enhance transparency and citizen's participation especially at the non-government level and experiences of participatory budgeting at local level. A number of experiences are reviewed including the Open budget project.

Keywords: budgets, institutions, Latin America

Carlos Pereira
Brookings Institution
Getulio Vargas Foundation
carlos.pereira@fgv.br

Marcus Melo
Federal University of Pernambuco
marcus.melo@uol.com.br

The Political Economy of Budgeting in Latin America

Procedures, Oversight, and Participation

Carlos Pereira, Brookings Institution and Getulio Vargas Foundation
Marcus Melo, Federal University of Pernambuco

Research Assistant, Nathalia Foditsch, Brookings Institution

Final Report

A preliminary version was presented at the CAF workshop, Bogota, June 16-17, 2011. We are particularly greatful to Michael Penfold and Pablo Sanguinetti for the comments and suggestions.

Introduction

Budgeting plays important roles in modern industrial democracies. In fact the budgetary process is part and parcel of the functioning of democracies in general: budget laws define spending priorities, set the basic parameters of fiscal policy and taxation, and provide an opportunity for a focused democratic discussion of public policy. Historically, as societies transitioned from autocracy to democratic rule they introduced the requirement of legislative aproval of budgets, which are nothing more than authorizations granted to the executive branch to tax and spend in accordance to priorities and limits set by majority vote preference in the legislature. By setting priorities and binding rules, budgets provide therefore important constraints to executive abuse. More importantly, to developing countries, key collective decisions involving redistributive policies or infrastructure investments are enshrined in budgets and therefore budgets are at the core of developmental goals. Nonetheless, throughout the Latin American region the budgetary process has low political salience, is largely non-transparent and exhibits great dominance on the part of the executive branch. This is surprising considering the extension of the economic, social and fiscal challenges facing the countries in the region. Executive dominance over the budgetary process may result from a legitimate and democratic process of delegation from legislatures and from the very functioning of the political systems (the case of parliamentary democracies). In Latin America, with few exceptions, it is part of a tradition of weak accountability and authoritarian legacies.

This report provides a selective overview of issues pertaining to the budgetary process and a mapping out of budgetary institutions in Latin America and assess to what extent budgets play the role societies expect from them. However, as Wehner (2010) warns us, it would be ill advised to assess the performance of Latin American countries against the benchmark of an ideal arrangement by which the legislature plays a decisive role in the budgetary process as in the US. As an outlier the US may provide too high a bar for such an exercise and a contrast to other OECD countries might be more apropriated. With this caveat in mind, we examine the budget preparation process and assess to what extent the legislatures are involved - directly and indirectly - in the budgetary process. The key institutional mechanism to make this involvement effective is the existence of institutional capacity in the legislative branch. In OECD countries legislative involvement takes place usually via specialized budget committees. In parliamentary systems budget preparation involve extensive bargaining over budgetary priorities and such committees do not have the same strength as their counterparts in presidential systems. This division of labor in the legislative branch by which issues areas are assigned to subcommittees generates efficiency gains because legislators can specialize and develop capacity to intervene in the discussion and preparation of budgets as well as in the monitoring of budget execution.

In addition to providing incentives for legislators to build expertise in highly specialized issues such as budgeting, such committees count on independent technical advice in the area of fiscal and tax affairs among others areas. Adequate permanent advisory staff is a condition sine qua non for legislature's participation. The roles played by the legislature in the governmental process is set in constitutional provisions. This report assesses the capacity of existing legislative committees in Latin America and maps out the varying constitutional prerrogatives of legislatures in the budget process (Santiso 2004).

Not all OECD countries have strong budget committees enjoying significant powers. However, where they are weak there are strong delegation of powers to audit institutions as well as strong media scrutiny of budgetary priorities. In addition, in parliamentary systems there exist coalitional bargaining over budget priorities in ministerial portfolios. In such cases, the role played by the legislature in the budgetary process is therefore *indirect* and may have different degrees of transparency to society in general.

The overall influence of legislatures on budget policies varies considerably in Latin America. However, accoring to Hallerberg and Marier (2004) "there is also a sense that a strong legislature is a key component of a strong democracy." Yet, curiousily, the great majority of legislatures in the Latin American region exert a reactive role and minimal influence on substantive budgetary matters, except in some cases in submitting pork barrel amendments (Hallerberg et al. 2009).

Excessive legislative influence over spending however in a context of lack of control can be detrimental to fiscal stability as a result of the "tragedy of the commons problem" (Alesina et al. 1999) given that legislators care mostly about benefiting their main electoral districts. The executive, on the other hand, supousedly worry about the financial well-being of the whole country. Many countries therefore have decided to adopt fiscal rules by which political agents "bind their hands" in a process of self incapacitation or delegate powers to the finance minister in order to overcome the collective problems associated with spending (Hallerberg 2004).[1]

Few countries in the region exhibits an appropriate mix of strong control and high delegation of budgetary agenda powers to the executive branch, as can be expected in presidential systems. In many cases concentration of budgetary powers in the hands of executives reflect abuse of power rather than the democratic delegation of powers. Legislatures in such institutional environments are insulated from participating in budgetary process, especially in the control state when they are expected to play a key role. The upshot of this context is weak financial accountability.

The report also discusses other issues in executive-legislature relations in the budgetary process which are typical of presidential systems. Executives can unilaterally abuse their budgetary powers or the legislative branch can delegate such powers democratically to the executive office. We examine this issue with reference to budget rigidities, of which there is great variation in the region. Such rigidities are associated with widespread entitlements and earmarking benefiting special interests (but also in many cases associated with little fiscal space and low taxation).[2] They can generate great fiscal pressures as the experience of OECD countries and of countries such as Colombia and Brazil show (Poterba and Von Hagen 1999). In general they are the result of both executive's and legislators' profligacy. The upshot of fiscal rigidity has been the creation of separate arrangements aimed at insulating fiscal decisions from the influence

[1] Budget institutions are therefore endogeneous to the political interaction between legislatures and executives. Budgetary policy reflect endogenous choices of politicians and interest groups in the decision -making process. Budget policy choices are feasible and sustainable only where there is consistency between the content of policy and the preferences of policy-makers and key political actors. The main methodological message is that in order to understand budgetary policies in comparative perspective one has to establish how the incentive structure and payoffs of an institutional arrangement affect the interaction among the actors.

[2] Hallerberg et al. opc it. Latin American budgets are mainly characterized by hardwired expenditures based on entitlements of past generations, along with special categories of expenditures introduced by interest groups, which usually tie the hands current and future generations. The most obvious trade-off of this process of earmarking and hardwiring is inefficiency in public spending.

of the ordinary political process. This poses important issues pertaining to the role of the legislatures and democratic accountability.

Thus, several Latin American countries tried to deal with this rigidity problem following two complementary strategies with different degrees of success. The first mechanism was to increase tax revenue by enlarging tax burden. Second, governments tried to implement unilateral mechanisms of flexibility. Providing more flexibility to an already powerful player, like the executive branch in Latin America, engendered a trade-off between control and flexibility. On the one hand, rigidity provides greater conditions of legislators' control over the executive, especially during the appropriation of the budget. On the other hand, flexibility requires the development of mechanisms of transparency and accountability.

Another form of rigidity is associated with fiscal rules. These rules are legitimate attempts to curb excessive spending and introduce "hard budget constraints." However there is evidence of creative accounting on the part of executive power - both at the national and subnational level, as the case of Brazil suggests. Creative accounting and off budget funds pose major problems in terms of fiscal management but more importantly for democratic accountability of governments. The use of funds associated with mineral wealth or forced savings mechanisms poses such problems in many countries in the region from Chile and Brazil to Venezuela.

The third issue addressed in the report is that of control and evaluation. In OECD countries the control of budget execution is the task of audit institutions. These institutions provide institutional checks on the executive's financial management and budget execution. They play a key role in reducing the large information asymmetry between legislatures and the executive branch in a highly technical and arcane budgetary and taxation issues. They are accountability-enhancing institutions and play a decisive role in combating corruption and waste. In many OECD countries the General Auditor is appointed by the largest opposition countries and the office works closely with the public account committees. This arrangement is meant to provide incentives for the audit work. In Latin America only Argentina boasts such arrangement but the performance is poor.

By providing an independent evaluation of government spending the *contralorias* and *tribunales de cuentas* these institutions can establish the legal conformity and impact of government spending. The report provides a mapping of the existing audit bodies in the region and scrutinize their varying performance. Audit bodies in OECD countries have increasingly engaged in performance audits and impact assessements, which have been used by the legislatures as tools for their involvement in the budgetary process. The reports published by the Governamental Accountability Office in the US and the UK National Audit Office are widely circulated and have great societal visibility. The Latin American landscape is very different and only the audit institutions in a few countries carry out performance audits.

The fourth issue addressed in the report is citizens participation and transparency in the budget process. Budgeting attracts great interest when it comes to defining priorities but has universallly low appeal to the citizens. The technicalities involved prevent societal groups from engaging with the budgetary process. Notwithstanding these barriers to entry many NGOs have specialized in budget issues and a few have been very successful in this area in both OECD and Latin American countries. Another important development is the use of information technology by NGOs, some of which has acquires great visibility. The present reports reviews these experiences. Another important development has been citizen's direct involvement in defining spending decisions and monitoring execution. A few countries in the region - most notably Brazil - have seen the proliferation of participatory budgeting programs. These experiences offer lessons for enhancing accountability in the budgetary process at the local level but prove difficult to reconcile with existing structures of representation.

In Latin America countries, as well as within their sub-national unities when a federal structure is in place, there is a significant variation in terms of formal and informal budgetary procedures adopted in the region, mechanisms of control and accountability that make the budget more/less transparent, and the degree of salience and participation of other political players in the budgetary policy. This background paper pays special attention to the interaction of these three dimensions from a comparative perspective.

The report is organized in four sections. The first section reviews legislative involvement in the budgetary section and provides first hand updated data on budget committees, institutional prerogatives of the legislative branch and identifies the institutional checkpoints for the approval of budgets.

Section two offers an overview of issues pertaining to budget rigidity. Starting from the stylized fact of budget rigidity in Latin America the section focuses on the mechanisms government (both at the national and sub-national levels) have implemented to deal or to overcome budgetary institutional inflexibilities and problems of accountability that are associated with them.

Section three investigates the existing mechanism of control and accountability budget appropriation. Given that all over the region the executive is the dominant political player and legislatures usually do not have institutional conditions and/or incentives to fully oversight presidents, legislators have delegated oversight to auxiliary bodies such as audit institutions.

In section four we identify and analyze initiatives to enhance transparency and citizen's participation especially at the non-government level and experiences of participatory budgeting at local level. A number of experiences are reviewed including the Open budget project. Interestingly the 2010 Open Budget Index shows that the Latin American countries received an average of 43 points, whereas East Asia and Pacific obtained 42. South Asia (48), Central Asia (52) and Eastern Europe (52) have had a superior performance. There is great internal variation within Latin America. Chile, Brazil, Peru and Colombia got the highest scores, ranging from 61 to 80 points. Chile received scores that are comparable to the average scores for the U.S. and countries in Western Europe in the Open Budget Index.

Section 1

The role of Legislatures in the budgetary process

The great majority of legislatures, particularly in Latin America, exert a reactive role and minimal influence on substantive budgetary matters. As already mentioned existing there is a body of literature that suggest that excessive legislative influence over spending can be detrimental to fiscal stability. This is commonly referred to as the coomon pool problem. Legislators do not internalize the costs of their decisions and as a result they have incentives to overspend.

The existing evidence suggests that there is a huge variation in the institutional and political capacity of legislative bodies especially in both parliamentary as well as presidential. As we can see in the Figure 1, this variation is also found in Latin America legislatures when we take into account the number of institutional veto players that enjoy power over the budget. According to OECD 2007 survey, whereas in Argentina, Brazil and Chile both upper and lower chambers have equal powers over the budget, in Costa Rica, Mexico, Peru and Venezuela only one chamber plays a role on budget matters.

[Figure 1 about here]

In fact, when one takes into account other aspects than the number of existing institutional checkpoints of budgetary procedures within Congress, the variation becomes even clearer among those Latin American countries. As we can see in Figure 2, the strength of legislatures in Latin America varies dramatically. According to the International Budget Partnership (IBP), legislatures in Brazil, Costa Rica, and Peru are on average stronger than in Venezuela, Bolivia and Mexico in the years of 2006, 2008, and 2010. Chile has also a very strond and professionalized Congress (See Box 1), but the IBP provides information for 2010 only for this country. The contrasting example is Venezuela that used to have a very professionalized Economic and Financial Advisory Office before Chavez (See Box 2).

[Figure 2 about here]

Despite widespread belief of the importance of legislative control over the budget process for democratic governance, the great majority of legislatures play a minor role among contemporary liberal democracies. A clear outlier to this pattern is the US Congress. However this is compensated by a stronger role played by audit institutions and by the media. And, more importantly, by the higher salience that budget issues occupy in the public agenda. According to an index of legislative budget institutions proposed by Wehner (2010: 55), the US Congress is the legislature with the institutional capacity to exercise very strong influence over public finance. This index of legislative score for the US is about three times greater than legislatures in countries such as France, Australia, Canada, UK, among others consolidated European democracies. This finding contradicts the received wisdom that a strong legislature, at least in budgetary terms, is a necessary condition for effective democratic management of public finance. There is a body of evidence, however, that suggests that effective mechanisms of oversight are desirable for normative purposes and where budgetary committees are weak other mechanisms have to be in place. Whener's contention should be contextualized: the weakest legislatures in budgetary affairs are those in parliamentary democracies, where committees are generally weak. In presidential democracies with multiparty system, found massively in Latin America, executives are extremely powerful and the legislature and/or audit institutions should be strengthened so that executive dominance does not degenerate in abuse of power and discretionary governments.

The fiscal institutionalist literature, however, blames a powerful legislative body as dangerous for fiscal discipline and advocates a centralization of the decision-making process on the hands of a powerful finance minister rather than dispersing authority across committees in Congress. It seems that legislatures are incapable of controlling the budget process and, at the same time, produce a prudent budget. There would be an irreconcilable trade-off between a legislative control of the budget process and prudent fiscal decision. The alternative would be to tie the hands of legislators via top-down budgeting decisions, which would involve biding political decisions about the total level of expenditures followed by specific decisions on how to allocate those resources.

The emphasis therefore relies on procedural sequential constraints and centralized agenda control. The presence of a strong finance minister along with a powerful executive, the structure of the budget process itself, how the legislature deals with government's proposed budget, how the budget is implemented and executed, and whether there are any ex-post veto or control are the key elements that force the decision makers (especially in Congress) to take into account "the true benefits and costs of increased spending and taxation" (von Hagen 1992; Alesina, Hausmann, Homes, and Stein 1995). The idea is that delegating authority to a fiscal entrepreneur (i.e. a strong Ministry of Finance in the Executive) and clear vote sequence increase the chances of cooperation and fiscal discipline. To be effective, this entrepreneur must have the ability to monitor the others, possess selective incentives that can be used to punish defectors and/or reward those who cooperate, and have the motivation to bear the costs of monitoring himself.

Hallerberg et al. (2001) call the above form of budgeting decision-making as a *delegation* mode in opposition to the *commitment* mode, in which a group of agents with similar decision-making rights enters an agreement to commit themselves strictly to budgetary norms, i.e., targets for budget aggregates set for one or several years. The theory predicts that *delegation* works effectively in countries where the partners in government are comfortable delegating such power to one central actor. In practice, such countries either have one-party majority governments or have governments with parties who are closely aligned to one another and will almost always participate in elections as one block. *Commitment* functions well in states where coalition governments among parties that may run against each other in future elections are the norm. After elections coalition partners negotiate budgetary targets and enshrine them in the coalition agreement.

Although Congress is the responsible body for oversight and controlling of all acts of the executive branch, including the budget, legislators in Latin American countries do not fully exert this control. As the executive usually is the dominant player in budgetary and other matters, Congress has no real incentive to dedicate resources to *ex post* control of the budget process. With rare exceptions of Chile and Brazil, Latin America is characterized by weakly professionalized and institutionalized legislatures particularly their committee system. According to OCDE 2007 survey, only five Latin American countries (Brazil, Chile, Costa Rica, Guatemala and Mexico) have a specialized research organization attached to the legislature that conducts analyses of the budget. In about 43 percent of them, there is less than five professional staff formally employed to this organization. In addition, in the majority Latin American legislatures, legislators may not increase or propose new expenditure, but only relocate funding or increase items if it reduces others with the condition of approving new revenue sources. Also there are restrictions with regard to the number of amendments legislators cam make to the budget proposed by the executive.[3]

Box 1: Budget Committee Professionalization

The Latin American Legislatures count with different institutional arrangements for budget control. A high selective analysis may lead to unrealistic expectations about the impact of fiscal arrangements on fiscal policy (Wehner 2010). A survey-collected responses (phone calls and e-mails) from budget committees in Argentina, Brazil, Chile and Colombia shows that the level of professionalization and the number of staff varies among the countries (see Table 3).

[Table 3 about here]

In Chile, both permanent attorneys from the "Comisión de Hacienda" of the Senate and the "Comision Revisoras de Cuentas" were extremely efficient, despite of the relative small number of permanent staff in comparing to the other countries' commissions. The "Comision de Hacienda" of the House of Representatives is composed of 13 Representatives and its peer at the Senate is composed of 5 Senators. Each of them counts with 3 permanent attorneys and one permanent administrative assistant. The "Comisión Especial de Presupuestos" is composed of 5 Senators and 5 Representatives, and counts with permanent staff members that are subordinated to the Chief-Attorney of the Comisión de Hacienda of the Senate. The Comisión Revisora de Cuentas counts with a Chief Attorney, that hold a graduate degree and an assistant attorney, that holds an undergraduate degree. The respondent to the survey points out, furthermore, that the Library of the Congress is also a valuable resource to support the work developed by the commissions, what was not pointed out by any other country.

The Colombian "Comisión Legal de Cuentas" from the House of Representatives is composed of only 9 representatives, but its number of staff is the double. In total, there are 18 staff members, among which 9 work exclusively for the Commission and 9 also work for the Internal Audit Unit. 15 out of the 18 staff members hold an undergraduate degree and 8 hold a graduate degree. The Third Permanent Constitucional Committees (Comisión Tercera Constitucional Permanente) and the Forth Permanent

[3] In the specific case of Brazil, until 1993, there were no limits regarding the number of amendments that each legislator could make to the budget proposed by the executive. Just to provide an idea, in 1989 the total number of amendments was approximately 11.000; in 1990, 13.000; in 1991, 71.000; in 1992, 76.000; 1993, 13.000; 1994, 23.000 (Rocha, 1997). Currently there is a limit of 20 amendments per congressman and a ceiling of R$ 3.5 million. Similarly there is a limit of five collective amendment per standing committees; five per regional bloc; and ten per state bloc. However, even with limited number and value of amendments, legislators do not have any guarantee that their amendments will be approved by the committee; thus, they still have to negotiate with *rapporteur*s and party leaders to have their demands approved in the LOA, as many amendments are simply set aside.

Constitucional Committees (Comisión Cuarta Constitucional Permanente) of the Colombian Senate count with 15 Senators each and 20 staff members in total. The Third and Forth Permanent Constitucional Committees of the House of Representatives are composed of 29 and 27 Representatives, respectively and 22 staff members in total (11 in each of the Committees). A considerable number of the staff members hold graduate degrees.

In Argentina, the Bicameral Accounts Review Committee (Comisión Parlamentaria Mixta Revisora de Cuentas), composed of 6 Senators and 6 Representatives, counts with a total of 20 staff members, among which 2 hold a graduate degree and 1 hold a doctorate degree. The Finance and Budget Committee (Comisión De Presupuesto y Hacienda) of the Senate, composed of 15 Senators, has 5 staff members with administrative duties, and its peer at the House of Representatives counts with 10 staff members.

Brazil counts with a large technical budgetary support body at the Congress. The Joint Committee of Planning, Public Budgeting and Oversighting (*Comissão Mista de Planos, Orçamentos Públicos e Fiscalização*) has alone 14 civil servants staff members plus other members in excepted service positions. Beside that, the two Budget Offices (Consultorias de Orçamentos, Fiscalização e Controle), one at the Senate and one at the House of Representatives provide support to the Committee and to the congressmen in matters related to budgetary issues. Together, they count with more than 100 staff members. Among these 100 members, more than 50 are technical advisers, most of them with graduate degrees in areas related to budget and accounting.

In fact, given a powerful executive and a very centralized decision-making Latin America has very weak institutional basis for committee power. The great majority of Latin American presidents have the formal veto authority for budget legislation, five countries have package veto and four both line and package veto. This shows that the Executive has the prerogative to continuously protect its preferences by strategically adjusting the legislators' attempts to modify the original proposal. A straightforward consequence of this situation is that the committees in Latin America are devoid of any source of power, a sharp contrast to their counterparts in the US Congress. Committees in Latin America operate to some degree as agents of the executive.

In the particular case of Brazil, party leaders concentrate a lot of institutional prerogatives such as to appoint and substitute at any time members of committees; to add in or withdraw proposals in the legislative agenda; to decide if a bill would have urgency procedure; to indicate the position of the party regarding a bill at the floor; and fundamentally, to negotiate with the Executive demands of the members of his/her party. In other words, party leaders are the bridges linking individual legislators and

Executive's demands.

Box 2: Oficina de Asesoría Económico y Financiera de la Asamblea Nacional de Venezuela

Latin American countries repeatedly try to build legislative institutions to effectively contribute to the budgetary process. In many cases, however, building institutions to strengthening legislative capacities for independent budget review seem to have high political costs. The case of Venezuela shows an intent to overseeing budget execution through the creation of The Economic and Financial Advisory Office - Oficina de Asesoría Económico y Financiera de la Asamblea Nacional – OAEF in the late 90's, before President Chavez first term. This endeavor, however, was later frustrated by political tensions after President Chavez was reelected.

Significant reforms were implemented aimed at improving the performance of the public administration. Among those reforms, independent technical advisory offices in Congress and the Ministry of Finance were created, with the help of funding provided to the Venezuelan government by the Inter-American Development Bank (IADB). The IADB "Budgetary Process and Economic Policy Analysis Support Program" Loan Proposal,[4] signed in March 1997, mentions the creation of a "Macroeconomic Analysis Unit (MAU) attached to the Congress, designed to create institutional capacity within the legislative branch for analysis of fiscal policy and its macroeconomic impact." According to the Loan Proposal, said MAU principal functions would be (i) the analysis of the policy consistency and macroeconomic impact of the Budget Act and the Public Credit Act within the overall context of the government's economic program; (ii) the monitoring and evaluation of fiscal management in the consolidated public sector and its macroeconomic impact; and (iii) the evaluation of the potential fiscal impact of legislation now being drafted or amended. Since 1996, the IADB has spent US$8,500,000 in the Program[5] and a total of US$ 4,250,000 had been foreseen for the creation of the MAU.[6]

The Economic and Financial Advisory Office - Oficina de Asesoría Económico Financiera de la Asamblea Nacional – OAEF, was created by the Venezuelan Government in 1997. At that time, the OAEF was comprised by high-qualified personnel, with high level degrees from Venezuela and the Unites States, totaling 15 professionals.[7]

---

[4] Available at http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=465713

[5] According to the information available at the IADB's website: http://www.iadb.org/es/proyectos/project-information-page,1303.html?id=VE0050

[6] Id.

[7] 1 Director; 1 Deputy Director, 1 Administrative Director, 3 Senior Economists, 6 Junior Economists, 1 Administrative Assistant, 1 Research Assistant and one TI Assistant and started to play a significant role in the budgetary process (report issued by the Office in September 2009).

The OAEF was closed in February 2000 by a Commission that was in charge of restructuring the National Assembly and reopened some months later, in June 2000, with new members[8]. According to an internal document of the U.S. Department of State, Pro-Chavez deputies accused Francisco Rodríguez, Chief Economist of the OAEF at that time, a Ph.D. in Economics at Harvard University and former Professor at the University of Maryland, of working for the opposition and supporting the military commanders that removed President Hugo Chavez from power on April 2002[9].

In June 2003 the contract with the IADB was about to expire, and the OAEF staff were incorporated to the Assembly as civil servants. Rodríguez declared that the OAEF was about to lose its financial autonomy, triggering a political debate within the National Assembly. Rodríguez was removed on March 29th 2004, for "questioning the honor of the President of the National Assembly" after claiming that the OAEF was being persecuted because it has warned the National Assembly's Finance Committee of imprudent spending within the budget. Francisco Ameliach, the President of the National Assembly at that time, argued that the OAEF was not an independent office since Legal and International advisory offices were not independent. Among the 24 employees of the OAEF, 16 decided to join the Assembly as civil servants. The Assembly's Vice-President, Ricardo Gutiérrez, argued that 75% of the OAEF's budget was used to pay 25% of its employees before being incorporated in the Assembly's payroll.[10]

Francisco Rodríguez started a "conflict of authority" lawsuit before the Superior Justice Court (Tribunal Superior de Justicia), claiming the Court for the declaration of autonomy of the OAEF. The claim was dismissed and the Court declared that Rodriguez was not legitimated to start a claim on behalf of the National Assembly.[11] Despite of the fact that the OAEF still exists within the National Assembly, its online domain (http://www.oaef.gov.ve/) does not see to be working and there are no descriptions, biographies or staff listings related to the institution at the National Assembly website.

Given that a majority of Congress in Latin America is not motivated to pursue oversight functions, this task is usually delegated to ancillary bodies, like the *Tribunales de Contas*, the model adopted in Brazil, Argentina (before Menen) and Uruguay, or Contralorías, as in Chile, Venezuela, Colombia and Peru. Some of these institutions date from the XIX century while others were created in the 20s.

[8] See Edgar Rojas and Harold Zavarce. Instituciones para la Coordinación de la Política Monetaria y Fiscal: Un enfoque transaccional para el caso venezolano. Available at http://www.eclac.org/ilpes/noticias/paginas/6/13526/ERojas_HZavarce.pdf

[9] See unclassified document released on April 2nd 2002 by the Department of State: http://www.state.gov/documents/organization/144841.pdf

[10] See Presidente Ameliach: "OAEF es una dependencia adscrita a la Asamblea Nacional: http://www.asambleanacional.gob.ve/index.php?option=com_content&view=article&id=6358&lang=es

[11] See the decision published on June 10th 2004: http://www.tsj.gov.ve/informacion/notasdeprensa/notasdeprensa.asp?codigo=1126

However, these agencies seem to have emerged as antidotes to the perceived vertical accountability deficit in Latin America. The proliferation of oversight agencies in Latin America has been seen as a product of discontent with the functioning of accountability and it represents an effort to find a way around the problem without tackling the roots of the accountability deficit. Nevertheless, as in new democracies politics become more competitive and, above all, more institutionalized (i.e., less volatile and more stabilized and programmatic), the chances of having more active audit institutions increase. Political competition is crucial to explaining strong oversight institutions in less consolidated democratic settings such as those prevailing in Latin America. Vertical and horizontal accountability are therefore deeply intertwined.

Section 2

Getting Rid of or Circumventing Budget Rigidity in Latin America

It seems that Latin America is the land of budget rigidity (See Figure 3). Either as a consequence of mandatory expenditure or entitlements, governments face a historical shortage of fiscal space of financial resources available to a government for policy initiatives through the budget and related decisions. In other words, Latin American governments lack mechanisms to go about allocating resources. On the one hand, earmarking and hardwiring can be seen as a tool to solve the coordination problem among politicians and decision-makers when attempting to reconcile vast number of individual/local demands and the national executives' political survival needs that (usually but not always) entail fiscal stability. On the other hand, budgetary rigidity makes it difficult for the authorities to reallocate scarce resources towards cost-effective programs in pursuit a modicum of efficiency in government operations (assuming that they are not benevolent maximizer of collective welfare and also pursue their narrow short term interests).

Revenue earmarking and mandatory expenditure requirements together affect a significant share of governments' budgets. Although these measures were intended to protect key spending categories, they impaired allocative efficiency and fiscal flexibility. Some degree of budget rigidity can be justified on theoretical and practical grounds (see Alier, 2007). But on balance, the benefits of rigidities are outweighed by their significantly negative impact on budget management. Constraints to fiscal management introduced by budget rigidities reduce economic efficiency and lead to suboptimal outcomes.

Within these rigidities, the most important in relative terms are those associated with the payment of personnel expenditures, interest payments on public debt and transfers to other levels of government. In some cases social security systems, which are constitutionally mandated, are the ones to be blamed. For an innovative typology of types of rigidities see Cetrángolo et al. (2010). The authors also argue "in normal contexts, the capacity of modification and removal of budget rigidities will be smaller (and therefore the chances tend to be marginal) than in crises where the redistribution of resources and organizational capacity that takes place changes the roles of various political actors and institutional players."

The estimated extent of spending rigidities varies widely across countries in the region, ranging from 98 percent of primary revenue in Bolivia, 93 percent in Colombia, 78 percent in Brazil, two-thirds in Chile to virtually none in Peru (see Figure 3). In Brazil, spending rigidities took several forms: measures to earmark revenue to specific expenditures, particularly for social purposes such as health, social security, and the Poverty Fund; constitutional or legislative mandates that set floors on certain types of spending (again, often aiming at protecting social spending); automatic adjustments of expenditure items to movements in other macroeconomic variables (e.g., linking of social and pension benefits to the minimum wage); inflexible labor legislation and powerful unions that constrain the public sector's ability to adjust personnel costs (one of the largest components of fiscal outlays); and mandatory revenue transfers to sub-national governments.

[Figure 3 about here]

A significant reduction of discretion of spending is also found in Argentina especially after 1991 (60 percent). It can also be seen that, in addition to Colombia, other Andean countries have the largest percentage of spending inflexibility. In the case of Bolivia inflexible components have risen from two thirds of the expenditure budget in 1990, reaching the maximum of 98% in 2004 and then dropping to 80.7% in 2006 (Almeida 2009a). For the same budget universe, rigid spending in Ecuador averaged 83 percent in 2006. The opposite situation exists in Peru where only 9.2 percent of total revenue was specifically earmarked in 2008 (Almeida 2009b).

Budget rigidities have also contributed to increasing spending**.** In Brazil, for example, the revenue based fiscal consolidation strategy in place since 1999, combined with extensive budget rigidities, has contributed to the large increase in spending since the mid-1990s. Revenue earmarking, in particular, led to spending increases as the revenue effort increased. Budget rigidities have also led to spending pressures in Colombia, especially during the late 1990s when both revenue and expenditure ratios rose. In Chile, in contrast, the relatively low level of budget rigidities, in tandem with its fiscal policy rule, has helped contain public spending increases in the face of rising revenues.

Given said budget rigidity, Latin American governments have tried several mechanisms in order to provide some fiscal space. A very good example is Brazil where the executive has total discretion of appropriation of legislators' amendments to the budget. In fact, the rules of the budgetary process are such that the Executive run very few risks of seeing his proposal disfigured by Congress. Not only can the Executive veto any undesirable changes that Congress may inflict on his proposal, but also the Executive has a series of institutional instruments and informational advantages that allow it to safely guide the process through Congress. If that was not enough, the budgetary institutions further safeguard the Executive's preferences by putting the most important parts of the budget out of the congressmen's reach, since they are only allowed to amend an astonishingly small part of the entire package. Additionally, the Brazilian budget law approved by Congress is not mandatory; rather it merely authorizes the executive to execute the budget based on the availability of resources collected during a specific fiscal year. That is, although the budget decision-making process within Congress is very open and transparent, there is a great level of discretion for the Executive on the appropriation phase of the budget, which, of course, raises doubts about its transparency and accountability.

Several studies have empirically demonstrated that that the President can and does make strategic use of the appropriation of *individual* budgetary amendments (Alston and Mueller 2006; Pereira and Mueller 2004). In this case, the President rewards and punishes individual legislators and thus increases support for his/her agenda. These budgetary powers, therefore, provide a centralizing tool by which Brazilian governments have been able to build and maintain relatively stable ruling majority coalitions. The main instruments used by the Executive for this purpose have been the "impoundment decrees" (*decretos de contingenciamento*), through which expenditures that have been approved in the budget law are suspended, integrally or partially, and made contingent on the evolution of the fiscal situation. As the year progresses the expenditures can be "un-impounded," but more frequently remain suspended to help achieve the primary surplus targets. Therefore, it is the Executive who is entitled to determine which amendment will really be appropriated, making the budget contingent on the amount of available resources in the national treasury.

As in Brazil, the President of the Dominican Republic also has a high degree of budgetary discretion, although the extent of this discretion has declined in recent years.

Yet while this element contributes to facilitating political transactions in Brazil, the impact is quite the opposite in the Dominican Republic. In effect, a president seeking political support to pass legislation through congress would be subject to what the literature refers to as a time-consistency problem. He could promise to deliver budget resources in order to build a coalition to pass key legislation—but he would not be able to credibly commit to deliver. In Ecuador, presidents are also powerful players to decide and allocate budget spending for their benefit of individual legislators and their constituencies. However, the president's ability to extract legislative support is limited by the widespread belief that budgetary allocations were illegally used for personal benefit instead of constituency service. This belief has led to reforms that limited legislators' ability to bargain over provincial allocations in 1995 (Albornoz and Araujo 2009).

In Brazil, the straightjacket imposed by revenue rigidity and the resulting constraints it creates for the government to pursue its policymaking preferences were felt soon after the 1988 Constitution. In reaction to these constraints the government created in 1993 a fund called the Social Emergency Fund (FSE), which received resources that were de-earmarked from 20% of all taxes and contributions received by the Union.[12] The idea was to create a temporary source of flexibility to allow the government to address the problem of inflation, until fiscal reforms that could provide a definitive solution. However, when the FSE expired it was substituted by a similar fund with a different name (Fund for Fiscal Stabilization), which in turn gave way to the DRU (De-linking of Budgetary Resources) in 1999. The existence of the DRU meant that in 2003 19.7% of total revenues were not earmarked, whereas without the DRU the figure would be 12.9% (Brazil-SOF, 2003:19). Thus it does provide some flexibility, but only a limited amount.

Supported by the World Bank and the Inter-American Development Bank, several countries adopted budgetary provisions for a set of Emergency Social Funds (ESFs) in order to overcome budget rigidity, by providing quick-disbursing funds to help cover the fiscal deficit. Such funds, established primarily to ameliorate the social impacts of

[12] Despite its name the FSE is distinct from its counterparts elsewhere because its proceeds were not used primarily for social policy and represented a pure earmarking mechanism. The criticism for the misnomer led to a change in its name later to DRU

Structural Adjustment Programs (SAPs) throughout the world, were first tested in Bolivia, whose ESF was established in 1986, less than a year after the start of a comprehensive structural reform program.

The same attempt to make the structural adjustment measures politically viable was compensating its impact on the poor was applied in El Salvador's Social Investment Fund (FIS), Nicaragua's Emergency Social Investment Fund (FISE), Peru's National Fund for Compensation and Social Development (FONCODES), and Chile's Solidarity and Social Investment Fund (FOSIS). The funds have attracted high levels of international support from a large number of donors, and most of them were exempt from Government's annual budget cycle as well as from bureaucratic procurement and disbursement procedures.

In Peru, the Fiscal Stabilization Fund (*Fondo de Estabilización Fiscal*) was recently doubled, reaching the amount of $5.7 billion, totaling 3.8 percent of gross domestic product According to Peru's Finance Minister Ismael Benavides, the fund will be used for strategic investments.[13] The fund can be used to cover ordinary expenses or social programs.[14]

Latin American countries created other similar mechanisms in order to overcome revenue rigidity and the constraints. The Copper Stabilization Fund was created in Chile 1985 and in 2006 Chile passed the Fiscal Responsibility Law, which involved the creation of two new sovereign wealth funds. In 2007, the Chilean Government created the second fund, the Economic and Social Stabilization Fund (ESSF) with the aim of accumulating excess copper revenues when the price of copper is high in order to channel revenues into the budget when the price of copper is low, thereby smoothing out government expenditure. In Brazil, the so-called Investment Stabilization Fiscal Fund (FFIE) is managed by the Ministry of Finance Its institutional framework allows the Federal Government to allocate resources more freely and accumulate savings during times of economic growth.

Another innovative mechanism to deal with budget inflexibility in Latin America has been implemented in Brazil originally by the Lula administration and continued by

[13] http://www.reuters.com/article/2011/04/04/peru-economy-fund-idUSN0426900020110404

[14] http://www.mef.gob.pe/contenidos/pol_econ/documentos/Informe_FEF2009.pdf

Rousseff's administration. In Brazil, it is more difficult to increase current expenditures, given that the government has to prove in advance that it has the funding. Therefore, the government has preferred to issue new debt through increasing loans to the Brazilian Development Bank – BNDES (See Box 3). The Bank has experienced phenomenal growth in recent years and currently holds a portfolio valued at over R$362 billion. As mandated by the Central Bank in response to the Basel Agreements, the BNDES is required to hold 11% for risk management. As of 2010, the BNDES is well above that threshold with a holding of 18.6% of holdings set aside in order to deal with potential crises. Disbursements from the bank reached a historical high in 2010 at R$168.4 billion, a 23% increase when compared to 2009's disbursement of R$137.4 billion. Of the BNDES' 2010 disbursement, 47% was to industrial investments, 31% to investments in infrastructure and 16% to trade and service firms. At the same time, profits from the BNDES reached a new peak of R$9.9 billion in 2010 as well. These profits represent a 47.2% increase when compared to 2009 profits of R$6.7 billion. The question that remains to be answered is if this sort of innovation is creative accounting, is sustainable and what cost it entails.

Box 3: BNDES, Flexibility or Creative Accounting?

Funding for the BNDES comes from a variety of sources ranging from Brazilian government to foreign funding. In 2009 the BNDES received 42.5% of its funding from the government funding, 47.7% from returns on its operations, and the remaining 9.8% of funding between foreign funding, asset monetization and the national Workers' Assistant Fund.

While the BNDES is clearly a keystone to Brazil's meteoric success in recent years, it dwarfs the World Bank and is the largest bank in South America, some are concerned that the Bank is too politically connected and drives an investment agenda based on shifting political interests. While these concerns are worthy of investigation the Bank claims to be one of the most well managed development institutions in the world. Although increasing the debt to boost the loans to BNDES will have a fiscal cost in the future, the cost is not written in any public document. It is a financial cost that will affect the growth of the net debt but the cost will never emerge in any official publication showing up government's expenditures with education, healthy, social security, etc. Therefore, it is much easier for the government to please its political and business allies thorough BNDES loans than through expenditures recorded in the budget.

Another very good example of making the budget and fiscal policies more flexible has taken place at the sub-national level in Brazil. Despite the hard budget constraints imposed by the Fiscal Responsibility Law in 2000 (See Box 4), the Brazilian state governors retain some strategic ability to undertake fiscal window-dressing as a response to fiscal stress. In addition to lead to fiscal adjustments and positive economic outcomes, fiscal rules may have also encouraged incumbent politicians to make use of "creative accounting" in order to facilitate governments meeting budget deficit ceiling established by the fiscal laws. That is, the use of fiscal window-dressing as a response to fiscal constraints and budget inflexibility.

Given the risk that discretionary fiscal policies may deviate from what may be desirable by a society, legal or regulatory restraints have been advocated as a measure of constraining the ability of governments to decide their levels of taxation and spending (Alesina and Perotti 19995). While the imposition of those fiscal constraints would reduce governments' bias, it may also promote the use of dubious accounting practices and government opportunism, which may lead to distortions and economic costs. Milesi-Ferreti (2003) proposes a model that assumes that the capacity governments have to make use of window-dressing measures depends on "the ability of the public to monitor the government's budgetary action (itself a function of the degree of transparency of the budget) and on the size of window-dressing measure" (378).

Box 4: Fiscal Responsibility Law in Brazil

In the year of 2000, Brazil implemented a hard-budget constraint legislation – the Fiscal Responsibility Law - FRL, which was applicable to all government levels, regardless of their prior economic conditions. The FRL was introduced as a response to the run against the real (Brazilian currency) and the concomitant confidence crisis that affected the Brazilian economy in the wake of the Asian and Russian crisis. The currency crisis was triggered off by the default of the state of Minas Gerais in a much-publicized move that became headlines in the major economic newspapers worldwide. However the FRL has to be situated within a process of reassertion of federal fiscal authority since 1995. Along with its companion law, the so-called the Fiscal Crimes Law, the FRL is the culmination of a relatively successful set of measures to constrain fiscal behavior and control the state governments' indebtedness.

The FRL illustrates the kinds of policy outcomes that reflect the national executive's ability to implement its policy preferences in the political game. In its relations with the state governments, a powerful president and finance minister have managed to recentralize fiscal authority in the country, curbing their fiscal autonomy. The executive was able to implement its preferences because of its institutional prerogatives and because there were gains-from-trade in federal government-state relations. Governors developed an interest in reforms in the wake of the approval of the reelection amendment and in view of the compensation mechanisms involved in the reform process.

Nowadays there is no question about the positive effect of the FRL with regard to the states' fiscal situation, which improved considerably since the enactment of the Fiscal Responsibility Law in 2000.

Whereas all states faced a deficit prior to the enactment of the law, the consolidated state accounts have systematically presented a surplus roughly equivalent to 4% of GDP after the FRL (See Figure 2). A similar success story can be told regarding public debt. A succession of primary surpluses enabled the government to effectively reduce the GDP/debt ratio. Since 2002, when it peaked at 55% the GDP/debt ratio, there has been a reduction in net debt as measured by percent of GDP, which is estimated to be under 36 percent in 2008 (see Figure 3).

[Figures 2 and 3 about here]

Although hard budget constrain legislations, like the FRL, are originally designed to go against fiscal irresponsibility, there are studies that already documented creative accounting measures by governments especially oriented to OECD countries (Milesi-Ferreti 2003, Bernoth and Wolff 2008, Von Hagen and Wolff 2006). In the particular case of Brazil, we identified that sub-national governments have made use of unpaid commitments (*restos a pagar*). These are the kind of expenses the payment of which are delayed to the subsequent fiscal year, whereby postponing their impact on the primary balance.

The Fiscal Responsibility Law mandated that state audit institutions (*Tribunais de Contas*) must audit the enforcement of the law by imposing procedural rules (reporting transparency, etc). The *Tribunais de Contas* are state level institutions, enjoying great level of functional, administrative and political independence.

In addition to investigate the effect of audit institution, we also analyze the impact of the political competition on the governors' decision to make use of creative accounting. Melo et al. (2009) have already demonstrated that a key factor behind a greater activism of state audit institutions in Brazil is, indeed, the level of political uncertainty generated by the electoral competition among the state's elite groups. More specifically, they found that the turnover of political elites controlling state governments generates incentives for the strengthening of autonomous audit institutions.

An active Tribunal is one that does much more than the minimum required of one report per administrative unit, especially reports resulting from auditors' decisions or denunciations. As we can see from the Figure 4, there is a huge variation on the degree of activities among audit institutions in Brazil. The activity is measured in terms of a ratio of the number of audit cases performed by each Tribunal and the number of administrative units under its jurisdiction.

[Figure 4 about here]

We investigate the extension of unpaid commitments at the sub-national level in Brazil. The data for the *restos a pagar* (unpaid commitments) as percentage of per capita GDP comes from the state balance sheets from 2000 to 2002. Figure 5 shows that, during the period analyzed, there is a huge variation of unpaid commitments from a state to the next, where the state of Bahia delayed the smallest amount to be spent in the subsequent fiscal year and the state of Parana was the champion of unpaid commitments. What can explain this variation?

[Figure 5 about here]

As the *Tribunais de Contas* must audit the enforcement of the FRL, our key explanatory variable is a measure of activism of an audit institution at the sub-national level. As proxy of the quality of the *Tribunais de Contas* we use an index of institutional activism created by Melo et al. (2009). This is a very good proxy of activism or more appropriately 'productivity.' The *Tribunais de Contas* are legally required to do a routine oversight of each unit under their jurisdiction at least once per year, although we have cases in which Tribunals do not deliver audits for all units (in which case the ratio would less than 1). So, the greater the ratio, the more active a Tribunal is. We expect to find a negative correlation between *restos a pagar* on institutional activism of the Audit institution. That is, the more active a *Tribunal de Contas* is, the smaller the amount of unpaid budgetary commitments.

Melo at al. (2009) have already demonstrated that the key explanatory variable explaining the degree of activism of an audit institution in Brazil is the presence or lack of a senior auditor and/or a public prosecutor in the Audit Board. That is, tribunals with auditors on their boards are more prone to action. Therefore, we included in the model a dummy variable with the value of 1 if the audit institution has a senior auditor on the board and zero otherwise.[15] Consistent with our previous work, we expect that the presence of auditor refrain a governor to make use of unpaid commitments.

[15] We also tested for the presence of a public prosecutor on the audit board as well. However, as a matter of colinearity with auditor, the variable public prosecutor dropped in our econometric exercises.

In order to deal with the effect of political competition on the probability state governors to make use of unpaid commitments, we included in the model the variable *government turnover* and *legislative party fragmentation* in the State Assembly. The former variable consists of an index of elite instability, which was built by taking as a reference the last three consecutive elections for state governors in Brazil: 1994, 1998, and 2002.[16] In line with the literature expectation, we predict a positive coefficient for *government turnover* and unpaid commitments. That is, the greater the electoral risk, the greater the greater the incentives governors will have to carry deficits on to their rival successors via unpaid commitments. As for legislative fragmentation in the state assembly, it means an index of the number of political parties per seats in the 1999-2002 period.[17] We assume that the greater the fragmentation, more difficulties the governor will face to coordinate his/her legislative coalition generating thus incentives to rely on unpaid commitments mode often. We also control for the state per capita GDP because richer states tend to have worse fiscal situation due to a variety of reasons, including the ability to contract loans and issue debt papers.

Although the results generated by our empirical exercises should be interpreted with caution given the small number of cases, we find empirical evidence of the correlation between *restos a pagar* (unpaid commitments) and the activism of *Tribunais de Contas* (See Figure 6). As we expected, the more independent a *Tribunal de Contas* (measured by the presence of a senior auditor on its board), the smaller the incentives governors will have to rely on window dressing mechanisms (measured by unpaid commitments). Political competition, both at the executive branch (See Figure 7) as well as at the legislative sphere, also matter for creative accounting. That is, the higher the government turnover and legislative fragmentation within state assemblies the greater the incentives governors will have to make use of unpaid commitments.

[16] This index varies from zero (when the same coalition was the winner in all three consecutive electoral episodes) to 4 (when no one single coalition was able to win two elections). The intermediate values of the vulnerability index refer to situations when an electoral coalition won two consecutive elections but lost the third one (index equal to 1); or when the first elite coalition in power is defeated and a new elected elite wins the following two elections (index equal to 2); and finally a situation in which an elite group has its electoral dominance interrupted by a second electoral elite which gains power for just a single electoral period, after which the original elite returns to power (index equal to 3).

[17] For more information, please see the *Almanaque de Dados Eleitorais* (Laboratório de Estudos Experimentais), http://www.ucam.edu.br/leex/

[See figures 6 and 7 about here]

On the basis of these preliminary empirical exercises we reach two major conclusions. First, there is ample evidence of creative accounting in the Brazilian states, which in itself represents an indication that the influence of the *Tribunais de Contas* is binding and that there are costs for breaching the law. Second, because the *Tribunais de Contas* are not immune to the influence of the legislators and state governors, there is evidence that the institutional quality of the *Tribunais de Contas* is associated with more creative accounting. More independent and active institutions constrain the use of creative accounting at the state level.

[Tables 1 and 2 about here]

Session 3

Controlling budget execution and evaluating policy outcomes

Audit institutions in Latin America

Although less visible, the control stage is nevertheless a very important component in the overall budget process, as it contributes to shaping the incentives of the agents in those previous stages.

External audit institutions are crucial for providing institutional checks on the executive's financial management and budget execution. They help reduce the large information asymmetry between legislatures and the executive branch that stems from the highly technical and consequently opaque characteristics that inhere in budgetary and taxation matters. They are accountability-enhancing institutions and potentially play a key role in combating corruption and waste. Although they are linked to the executive's internal control agencies and mechanisms, their statutory autonomy aims to guarantee that the legislature has an independent capacity to check on the executives.

Public audit institutions in Latin America are primarily of two types: *contralorías* and *tribunal de cuentas*. Their institutional dynamics and functioning bears the imprint of the organizational format adopted. Nonetheless, the effectiveness of these institutions varies significantly across the countries in the region and is not correlated with the format adopted. The oldest type of external audit institution is the *Tribunal de Cuentas* or *Contas* (as they are called in Brazil). Historically all Latin American countries adopted institutions following the *Tribunal de Cuentas*' type as this was the model they inherited from Spain and Portugal. Some countries saw the creation of external audit institutions in later stages of their institutional development and had only internal institution organs, typically *contadurias* or *contralorías de hacienda*. Brazil created one of the oldest institution of its kind - *Tribunal de Contas da União* (TCU), in the 19th century (1891). The Brazilian constitution of 1988 has enhanced and significantly strengthened the TCU, which is the largest, best funded and more effective regional audit institution (Santiso 2009).

In the wake of the strategy implemented for the modernization of financial management in the 1920s and 1930s, some countries adopted the Audit General or Comptroller's model. Following the so-called Kemmerer missions in the 1920s, Chile, Colombia, Peru, Bolivia and Ecuador streamlined the existing audit institutions along the lines of their American Counterpart, the General Accounting Office (GAO). Other countries have also adopted the General Auditor model. In 1938, Venezuela created an independent audit institution - the Contraloría General de la Nación - modeled at the newly created Colombian audit institution. In these countries a *Contralor* is appointed either by the executive branch and confirmed by the legislature or selected by the legislature and subsequently appointed by the President. In the established democracies where this model is followed there is significant delegation of powers to the Auditors who enjoys great administrative and financial autonomy, including the prerogative of unilaterally recruiting staff and determining audit priorities. Auditors also are recruited for a fixed term of office and enjoy tenure. These organizational traits are also found in Latin America de jure although the levels of de facto autonomy varies significantly.

Argentina adopted a variant of the Auditor General model much later in 1992 by creating the *Auditoria General de la Nación*, which replaced the existing *Tribunal de Cuentas de la Nación*. The AGN has adopted a collegial audit body consisting of 7 members, 3 appointed by the Senate, 3 appointed by the Chamber of Deputies and one appointed by the largest minority party. Unlike the pure General Auditor model, the collegial model does delegate ample powers to a single Auditor but guarantees that a governing majority effectively controls the institution (see Box 5). Nicaragua also replaced its *Tribunal de Cuentas* with a *Contraloría*. Created in 1979, Nicaragua’s *Contraloría General de la Republica* had a *Contralor*, which was nominated by the *Junta Revolucionária*, which was replaced by collegial structure in 1995.

The current configuration of supreme audit institutions in the region is a mix of three types of institutions (See Table A-1, in the annex). There are 14 *contralorías* of various types and 4 audit courts. Seven institutions - seven tribunals and four *contralorías* exercise some judicial prerogatives. These *contralorías* may have granted such powers due to its historical legacies bearing in mind that their counterparts in other parts of the world lack such powers. Seven institutions have a collegial structure while 11 boasts a uninominal Comptroller or Auditor. In one case the comptroller is linked to the executive branch, a fundamental flaw in the organization design. Interestingly 8 institutions have weak or no link to the legislative branch, other than in having a role in the nomination process. In Venezuela the CGR is part of the *Concejo Moral*

Republicano, made up of the *Fiscal General* and the *Defensor del Pueblo*. The audit institution is not organically linked to legislative committees. The various audit institutions also vary in the extent to which they exercise *ex ante* vistos in the administrative process. Seven countries mandate their controllers to exercise such vistos - a cumbersome procedure, which have been abandoned in virtually all OECD countries.

Figure 8 shows, according to the International Budget Partnership (IBP), the strength of supreme audit institutions of eight Latin American countries. Chile and Brazil boasts the most professional institutions in the region but have adopted different institutional models. This suggests that the choice of model is not the key determinant of the performance of external or independent auditing institutions. However, the prerequisites for the adequate functioning of the audit institutions in financial accountability cycle are distinct.

[Figure 8 about here]

There is an effective mismatch between this heterogeneity in the external control model and the homogeneity in the broader constitutional structure of the countries in the region as they have adopted a presidential system. The general auditor model is usually found in parliamentary systems where the legislative committees are weak, an exception being the Public accounts committees, which is statutorily under the control of the opposition parties (in two party systems). The accountability model is centered on Parliament; hence, its common denomination as the Parliamentary accountability model (See Figure 9). Legislative scrutiny of executive performance takes place within the legislative year. Independent comptrollers (*contralorías*) are expected primarily to provide technical advice about government's expenditures and revenue. The contraloría's main output is to prepare the report on public accounts (*cuenta de inversion*), which is to be approved by the legislature within a constitutionally defined time span. In addition, they perform audits on the accounts of the government's central and decentralized administrative units (*jurisdicionados* and *ordenadores de pagos*). They check the general regularity of public accounts and legal conformity of expenditures with budgetary laws, as well as examine efficiency and probity aspects of public expenditures. Mature institutions of this kind also engage in performance and environmental audits along with impact assessments and program evaluation. They operate closely with the specialized audit review committees of the legislative branch, the *Comisiones Revisoras de Cuentas* (equivalent to the public accounts committees (PACs) in Anglo Saxon democracies). Along with the technical staff of such commissions they essentially help reducing the information asymmetry between legislatures and the executive branch, thereby enhancing fiscal transparency and financial accountability.

[Figure 9 about here]

The judicial accountability model is centered on a judicial modus operandi although the audit courts also prepares reports on the general public accounts which are to be approved by the legislature (See Figure 9). But the emphasis is less on financial and impact audits than on conformity or legality audits. The judicial style permeates the functioning of the institution from the typical type of professional staff - lawyers as opposed to chartered accounts - and the adversarial decision-making system based on due process and ample right to defense.

The celerity in the preparation of audits is crucial in this model of financial accountability as the window of opportunity opens during the approval of the reports at the beginning of the fiscal year. Celerity is not as important in the judicial accountability model associated with the *Tribunal de Cuentas*. In the pure model of Tribunal, the latter are supreme organs of the judicial system. In countries like Brazil, which is a variant of the pure model, they exercise some quasi-judicial roles, but although independent, they remain technical bodies of the legislative branch not part of the judiciary. Tribunal de Cuentas typically act as litigants in the process and, adopt a judicial format in their decision making and issue sentences which are equivalent in most countries to first level court decisions. This model of judicial accountability what is at stake is the ability of the judiciary to detect misdeeds and sanction misbehavior not legislative sanctions. Although the legislative branch is mandated to also approve the executive accounts at the beginning of legislative session, the core activities of the audit bodies relates to the ongoing judgment of accounts by the audit court.

Figure 10 provides data on the time lapsed between the end of the fiscal year and the preparation of the audit report on the general public accounts. The data shows that there is significant delay of up to 15 months - far beyond the recommended two-month time span by OECD. This is particularly serious considering that the delay is very high in countries adopting the general audit model, in which celerity is crucial. These countries include Mexico, Ecuador and Bolivia. Interestingly the cluster of countries with the best scores in the political freedom score - Uruguay, Chile and Costa Rica - are the ones with the shortest time span, what suggests that celerity is influenced by the extent of political freedom in a country. The data is plotted in the Freedom House's political freedom inverted scale (best + 1, worst =4). Mexico and Guatemala appears as outliers; the former because of the long period of time to prepare the audit report - 15 months - and the latter for its promptness in doing so despite its weak protection of political rights.

[Figure 10 about here]

There is wide variation in the performance of the various audit courts in Latin America. Santiso (2009) provides a fairly comprehensive ranking based on information circa 2005. Four dimensions are included in a composite ranking: independence, credibility, promptness and enforcement capacity. Brazil, Colombia and Chile come out at the top f the ranking and Ecuador, Peru and Argentina emerges as the least effective audit institutions in the region. With the lowest score Argentina is an outlier in this ranking, particularly when its per capita income levels is taken into account its income level. The ranking score is consistent with the quantitative and qualitative information provided in Box 5. The model adopted seems ill suited for increasing concentration of political authority in the presidency and increasing hegemony enjoyed by the governing *Partido Justicialista*. This case underscores the argument in this report, that political competition is a precondition for the effectiveness of external control. In Argentina, the openly adversarial mode of functioning, in which the presidency is held accountable by the opposition, is inconsistent with power concentration. A judicial accountability may be more appropriate.

Interestingly, the top performers - Brazil and Colombia - represent two different audit models. While external control in Argentina has weakened, Colombia represents a showcase of reform and institutional strengthening. With over 4,000 employees, Colombia's CGR was one of the largest institution of its kind in the world. A bloated institution, 800 hundred of its staff was filled with political appointees. An array of corruption scandal involving the figure of contralores in the 1990s ended with three contralores in jail.[18] In the wake of reforms, however, the number of political appointees was reduced to 90. Chile's CGR is a stable institution, which plays a key role in Chile's political sector. However, recent corruption scandals have prompted reform proposals. Among the criticisms are that the institution has failed to expand and strengthen capacity to match the economic dynamism in the last two decades. Other criticisms include the fact that many large public entities are "immune" from external audits.[19]

[Table 4 about here]

Figure 11 plots the countries in terms of the effectiveness scores as well as their ranking in the Freedom House's political freedom inverted scale (best + 1, worst =4). With the exception of Colombia, the effectiveness ranking correlates robustly with political freedom.

[Figure 11 about here]

Figure 12 provides a comprehensive score (range 1-100) of the level of budget transparency and effectiveness of external control. The data are from the OECD budget survey and combines information for countries from Africa and Latin America. While Brazil and Colombia are among the top performers - second only to South Africa - Argentina and Nicaragua rank similarly to poor countries like Burkina Faso. This suggests that there is much room for improvement in budget transparency in the region

[Figure 12 about here]

BOX 5: Argentina's Auditoria General de la Nación (AGN)

Argentina's model of external control is unique in Latin America as the country is the only country adopting a collegial model with rules that guarantee of 4 auditors in 7 members in the board. Two of the auditors appointed by these legislative houses are named by the largest majority party and one by the largest minority party, thereby assuring control of the decision-making body by the governing coalition. The AGN was created by the Menen administration in 1992 as reaction to the activism by the existing Tribunal de Cuentas de la Nación (created in 1956). It acquired constitutional status as a result of the so-called Pacto de Olivos that underpinned the constitutional reform of 1994. Following TCN's refusal to grant 51 vistos' authorization for the new government initiatives, Menen proposed its dissolution and the creation of a Contraloría. Unlike the TCN the new audit body has no legal powers and could not act as a

[18] El Colombiano 2/08/2002.

[19] Piñera, Sebastian and Ignacio Rivadeneira, Uma nueva contraloria para el Chile del Siglo XXI, 200

litigant in judicial charges of irregularities. It also lost its role of issuing ex-ante authorizations for expenditures and personnel admissions. These rules undermine the political independence of the audit body and generate an incentive structure that discourages effective sanctioning of irregularities.

The President of AGN evaluates critically the resulting state of affairs:

"esto conduce, en la práctica, a que la composición del Colegio de Auditores del organismo de control –así como los otros mecanismos parlamentarios de fiscalización–, se encuentre numéricamente en manos del oficialismo. Si quien conduce el Poder Ejecutivo cuenta con una amplia mayoría parlamentaria en ambas cámaras –y en consecuencia, igual mayoría en la Comisión Parlamentaria Mixta Revisora de Cuentas de la Administración (CPMRCA), con la que principalmente se vincula la AGN–, tendrá sin duda la posibilidad de imponer también la mayoría en la integración del Colegio de Auditores. De esta manera, el control externo corre el serio riesgo de transformarse en una suerte de control interno del oficialismo, que contaría, en todas las instancias, con una representación mayoritaria (y que, por la Ley 24.156, ya tiene en sus manos el control interno de la actividad administrativa del Estado).

In effect, the AGN has been weakened over the years as a result of the increasing polarization that has stymied its functioning. Recently AGN has pressed charges against SIGEN (the Sindicatura General de la Nacion the internal control agency) accusing it of withholding essential information. Figure below provides information on the financial audits of administrative entities of all ministries. The data shows a decline in the number of audits performed. From a peak of 169 in 2009, the number of audits fell to 91 in 2009. The data also show that the number of accounts evaluated as irregular (opinion no favorable) is extremely low. The highest number of irregular accounts occurred in 2003 when 3 entities received the "no favorable" mention. The annula number of audi reports (informes de auditoria) of all types declined from an average of 250 to average of 200 between 1998-2001 and 2003 and 2009, respectively. The approval of the annual Cuenta de Inversión (general public account) has usually taken between 2 and three years for approval.

*"La Auditoria General, dependiente del Congreso, planteó a la justicia que no Le remitem 300 informes," *La Nación*, 5/10/2010.

[Figure 13 about here]

The role of the audit bodies in program evaluation is relatively new in the region and restricted to a few countries. Chile's CGR and Brazil's TCU have carried out regularly several performance audits in a wide array of areas for over a decade.[20]

[20] In Brazil, these performance audits can be downloaded from http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/programas_governo/auditorias.

Session 4

Budgetary Salience, Citizen's Participation, and Transparency

Budgetary issues tend universally to have low political visibility as a result of the technical barriers to entry for actors lacking expertise to process budgetary and fiscal data and to engage meaningfully in debates. This problem is compounded in new democracies where transparency is low and institutions are weak. The latter have encouraged NGOs, civil society groups and even governments to take initiatives to enhance budget transparency. Indeed, budgetary issues have lower political salience in Latin America compared to its counterparts in Europe and the North America. Interest groups and lobbies play an important role in the budgetary process but their activity is of low salience in political debates and citizens usually get to know about their influence in periods of crises or when corruption scandal come to the fore. Much of these activities take place within the executive branch hence their invisibility in mechanisms that are intrinsically intermeshed with campaign financing. Legislature, including their specialized committees, provides a window of opportunity for the general public, organized civil society and the media to gain information and influence the allocation of public monies.

The technicalities associated with budgetary matters are barriers to entry to outside actors to engage meaningfully in budgetary debates. There are institutional innovations within the legislature or outside the established branches of government as autonomous agencies that help reduce the asymmetry of information between the executive branch and other actors. The preceding sections showed that specialized technical assistance bodies as well as the *contralorias* and *tribunais de contas* plays a crucial role. Other innovations are associated with citizens' initiatives and with institutional arrangements introduced by the executive branch.

Citizens face important collective action problems and would potentially bear high opportunity costs while attempting to influence budgetary decisions. Political entrepreneurs that mobilize the latent interest in these issues can overcome collective action problems. These are usually of two types. First, individual legislators or parties take key budgetary decisions and embark on crusades against waste, corruption and favoritism in budgetary decisions. Second, civil society may organize and mobilize around campaigns focused on budget issues or may create advocacy or technical institutions dealing with budgets. A number of such institutions have been set up in Latin America but they constitute only a few cases. Some have been created endogenously while others are linked to international NGOs or initiatives by established multilateral bodies such as OECD.

The most important initiative globally is the International Budget Partnership (IBP), which was set up by the Washington based Center on Budget and Policy Priorities. This initiative focuses on new democracies and started by supporting an experience in Gujarat, India in the mid 1980s and spread throughout the world. Several Latin American NGOs have joined this initiative and now participate actively (see Box 6).

BOX 6: International Budget Partnership (IBP) sub-national assessments

The Open Budget Initiative (OBI) of the International Budget Partnership (IBP)[21] has undertaken assessments and developed case studies on budget transparency at the sub-national levels of government in 14 countries with the help of local partners. Within Latin America, assessments in Argentina, Bolivia, Brazil, Ecuador, and Peru, are being carried out. Through this process IBP hopes to develop standards on subnational budget transparency and promote adherence to such standards by sub-national governments around the world.

In Brazil, the work comprises research on the standards and norms that guide the development and execution of municipal budgets. The local partner - *Instituto de Estudos Socioeconômicos* - INESC, will use an adapted version of the Latin American Transparency Index instrument, which will be piloted in one province and one municipality. They will also conduct a survey of organizations working with public budgets to identify key issues and build ideal parameters to measure sub-national budget transparency.

The Centro Peruano de Estudios Sociales - Grupo Propuesta Ciudadana (CEPES/GPC), the local partner in Peru, is carrying out a comparative study of budget transparency in three regional governments (supply and demand side). They will also look at the implementation of transparency portals, participatory budgeting, and intergovernmental transfers. The project involves Participatory Budgeting Surveillance Committees, which are part of GPC's existing monitoring system called Vigila Peru.

In Argentina, the Centro de *Implementación de Políticas Públicas para la Equidad y el Crecimiento* (CIPPEC), is using an adapted and simplified Open Budget Survey questionnaire to conduct an assessment of provincial budget transparency, focusing on the availability of budget documents and

[21] Open Budget Initiative (OBI) website: http://www.internationalbudget.org/what-we-do/open-budget-initiative/

compliance with reporting requirements. The pilot survey is being conducted in three to five key representative Argentine provinces.

The Centro de *Estudios para el Desarrollo Laboral y Agrario* (CEDLA), in Bolivia, the Open Budget Survey is being conducted in nine municipal governments. It aims at mapping the budget process and identify opportunities for civil society participation, the type of reports published by the prefecture, and the timeliness and comprehensiveness of the information provided. This will be complemented by a perception survey conducted among civil society groups on the budget process at the prefecture level.

Lastly, Grupo FARO is currently analyzing and mapping budget transparency in local governments in Ecuador, both vertically (government to citizens) and horizontally (within the State). Vertical transparency is measured through a Local Government Integrity survey. Horizontal transparency involves the analysis of the fiscal relationships between national government agencies and local governments, and assessment of transparency practices related to intergovernmental transfers.

According to IBP rank of budget transparency (2006, 2008, and 2010), among eight Latin American countries, Brazil, Chile and Peru overperform in terms of transparency of budget procedures. On the other hand, Venezuela and Bolivia presented the lowest score were (See Figure 14). There is a very strong and positive correlation (66.61) between the quality of audit institutions and the IBP index of budget transparency (See Figure 15). Figure 16 also shows that budget transparency is also positively correlated with legislative strength (40.36). These results preliminary suggest that legislators would have greater incentives to enhance transparency in the budget process and delegate powers to autit institutions in institutional environments where legislative institutions would be also strong. That is, where legislators would have something to lose for the a powerful executive.

[Figures 14, 15, and 16 about here]

In addition the work of these NGOs specializing in budget issues, other experiences aim at enhancing the visibility of budgetary issues within the various levels of governments and in civil society. These experiences rely on the possibilities associated with the widespread diffusion of information technology. NGOs in Latin America have made available extensive use of the Internet to provide information on the budget. One of the most successful experiences if that of Contas Abertas - a specialized site on the Brazilian federal budget with over 9,000 followers in the twitters and thousands of daily internet accesses. The site has elaborated a ranking of sub-national budget transparency and has provided great coverage of budget priorities and execution in user friendly language.

Created in 2005, the Open Accounts Association (*Associação Contas Abertas*), is a non-profit and non-partisan private organization that tracks information on the federal revenue and expenditures of the Brazilian government. The organization's staff includes budget experts and has been developing important initiatives throughout the years, counting on a budget of US$ 365,000/year. The organization's work has achieved visibility and in 2008 received an award from the United Nations Office on Drugs and Crime (UNODC) for its work dedicated on promoting public awareness as well as on prevention of corruption.

Inspired by the approval of the complementary Law # 131/09, which amended the Brazilian Fiscal Responsibility Law (LFR), establishing the mandatory requirement for federal and state governments to provide the access to real-time data on budgetary and financial execution, the Open Accounts Association created the "Transparency Index of the Federal and State Executive Power" in July 2010. A portal to host the Index was also launched.[22] Since the Law has not established straightforward criteria for assessing the quality of the information provided by the governments, Open Accounts decided, thus, to bridge this gap by creating the Index with the advice of experts in public finance and budget.

The website had more than 10,000 accesses within the first two days after being launched, and has been used as a reference for a wide range of publications. The Index evaluated all the state and federal governmental websites in charge of publishing information related to budget. The initiative aims at providing adequate resources for the public to exercise oversight over the public budget and expenditures.

According to Gil Castello Branco, Open Accounts' Secretary, the criteria for the Index were elaborated by a committee composed of eight Open Account collaborators from the public and private sectors as well as from the public finance scholars (See Box 7). According to Castelo Banco, the fact that a government publishes its budgetary data online does not mean that it is transparent, since the language and the resources

[22] http://www.indicedetransparencia.org.br

available are many times not accessible. “We want to know if the information available allows, indeed, the monitoring of public accounts by the society,” says Castello Branco.

Box 7: The Sub-national Government’s Transparency Index

The methodology used to create the ranking was based in three different criteria: (i) content of the websites; (ii) frequency of updates of the websites; and (iii) the use of the websites. Different indicators were used to assess each of the criteria, but Castello Branco points out “the index is not supposed to be used as a measurement for ethics or efficiency in the allocation of public resources.”

The first criterion, “content”, a total of 1.650 possible points was assigned, representing 60% of the total of points of the Index. It comprises the availability of information related to different stages of the budgetary process, the access to contracts and partnerships and the availability of information related to the civil servants involved in the process, their names, salaries and functions. To the second criterion, named “time-series and frequency of updates” a total of 200 points was assigned, corresponding to 7% of the totality of possible points. To this criterion, two different indicators were used (i) the availability of time-series data – one to five years; and the (ii) frequency of updates of the information released. To the last criterion, the “usability”, a total of 900 points was assigned, representing 33% of the total possible points. The indicators used related to the availability of data for download, the existence of channels of communications between the users of the portal and the governments, a glossary, and website navigation manuals.

The highest position in the rank was assigned to the Federal Government with 7.56 points among 10 possible points, followed by the states of Sao Paulo (6.96), Pernambuco (6.91) and Rio Grande do Sul (6.29), in the second, third and forth places. The lowest scores were assigned to the states of Bahia (3.82), Rio Grande do Norte (3.82), Roraima (3.31) and Piaui (3.04). One of the reasons why some of the states were low ranked is that they just recently started to disclose information online, and therefore do not have information for previous years.

The Federal Government received the highest total score since its portals have the best content, according to the indicators used in the Index methodology. One important initiative of the Brazilian Federal Government is the Transparency Portal[23] created in 2004 by the Office of the Comptroller General (*Controladoria-Geral da União* - CGU), the internal control institution. This Portal is the most comprehensive transparency website in Brazi. To access the portal there is no need for passwords or registration.

The Index was funded by Open Accounts own resources. The Association’s primary source of income is the money received through the rendering of services such as training sessions and workshops related to public spending and access to information issues. The association also has received donations.

The Transparency Index portal has been used by a wide range of journalists, students and civil society members. Some municipalities, which are just going to be bound by the provisions of the Law in 2013, have already contacted the Open Accounts Association asking for guidance. The website of the Open

[23] The Transparency Index Portal website: http://transparencia.gov.br

Accounts Association, launched in 2005, is hosted by "Universo Online – UOL", which is linked to the Folha de Sao Paulo Newspaper - one of Brazils' premier dailies - and is one of the main private internet providers in Brazil.

The Open Accounts Association has been key to many debates and investigations related to the use of public resources. In January 2011, the Brazilian Court of Audit (*Tribunal de Contas da Uniao* - TCU) has initiated an investigation of the "corporate credit cards" used by high level officials of the Federal Government after the Open Accounts Association released a report showing that since 2001, the total cost of those cards has reached the enormous amount of US$223 millions(R$ 357 millions). According to the report, the President is alone responsible for almost one third of the total amount spent with corporate cards. On top of that, 93% these expenses made by the Presidential office are not accountable, since they relate to information supposedly protected by law in order to ensure the safety of the State and the society.

As a very preliminary exercise which aims at estimating the impact of government transparency on public finance performance at sub-national level in Brazil, we regressed the index of transparency elaborated by the Open Accounts Association on the ICMS revenue (*Imposto sobre Circulação de Mercadorias e Serviços*), which is a value added tax on goods and services collected by the states. The hypothesis that we want to explore is whether state governments that commit to be more accountable to their citizens raises more taxes than those that do not. That is, we aim to test the extent to which transparency enhances the collection of tax revenue.

In addition, we also tested the impact of wealth variation of governors and state legislators on state capacity to collect ICMS revenue. It can be interpreted as a proxy of corruption (Alston et al. 2009). We use data from the Superior Electoral Tribunal that requires all candidates to political office to publicly declare their wealth.[24] The hypothesis is straightforward: the greater the wealth variation of politicians at the sub-national level the smaller the ICMS collection. We also control for the state GDP expecting that the wealthier the state the larger the ICMS revenue.

Given the small number of observations, just 27 cases at most, the results obtained from the econometric exercises should be interpreted with caution. Nevertheless, the results

[24] It is important to acknowledge that this data is not without problems as a politician can always lie or underreport his holdings and also because there is not data for all politicians as some fail to report and others do not run for office at the end of their term so that they do not need to report their wealth again. However, in his study of campaign finance, Samuels (2002, p. 851) points out that the data conform to commonsensical expectations regarding cross-candidate, cross office, and cross-partisan differences and that such patterns could never emerge if the declared contributions were false.

reveal very interesting findings confirming our hypothesis. That is, whereas greater government transparency seems to increase the capacity of the states to raise revenue, higher levels of corruption are negatively correlated with state tax collection. These preliminary results suggest that corruption matters; that is, taxpayers unambiguously punish bad behavior. On the other hand, good transparency practices discourage tax evasion.

[Table 5 about here]

Other international initiatives also promote assessments of transparency, including the transparency of revenue and expenditures at the sub-national level. In Latin America a number of such assessments were carried out with the support of the Global Integrity, an NGO based in Washington D.C.[25]

The sub-national assessments of Good Governance in South America have measured the existence, efficacy and access in different provinces, municipalities and regions in Argentina, Ecuador, Guatemala and Peru. The next country to have sub-national assessments is going to be Mexico.

The focus in Guatemala is advising the Guatemalan Voce-President's office on a range of transparency reforms. The focus of the work in Argentina, Ecuador and Peru assessments is sub-national openness and anti-corruption evaluations while the focus of the project in Mexico will be collaborating with the *Instituto Mexicano para la Competitividad* (IMCO) assessing the municipal-state relationship in the context of freedom of information implementation at the state level.

Global Integrity partnered with local organizations to apply the local questionnaires. The indicators were chosen separately to each of the countries, according to each reality. In Argentina, the 180 questions were made, whereas in Ecuador 130 and in Peru 90 questions. For each of the questions, evaluation criteria were established. Among the criteria assessed are the access to public information and the accountability of the regional governments and the budgetary institutions.

In Argentina, 22 provinces were assessed. The assessment concluded that the executive controls the budgetary process and that the legislative lacks ability to intervene in the process. I most of the countries, the Legislature is limited to approving the budget program sent from the Executive. In Ecuador, the assessment comprised 24 municipalities. From the work developed with the Ecuadorian Ministry of Finance,

[25] The Local Integrity Initiative website: .http://localintegrity.wikispaces.com/

derived a considerable increase in the percentage of public information available at the website. In Peru, 26 regions were assessed. The indicator that received the lowest score was the budgetary process indicator In Peru, even the citizens that are engaged in the budgetary process have problems with accessing information and to exercise oversight.
Table 6 summarizes the rankings of transparency among Latin American Countries. As we can see, there is a great similarity among distinct transparency indexes. Chile, for instance, was the top ranked country in five out of six indexes closely followed by Brazil. Ecuador, Bolivia, Venezuela and Nicaragua are consistently low ranked by all indexes.
[Table 6 about here]
The 2010 Open Budget Index shows that the Latin American countries received an average of 43 points, higher than East Asia and Pacific (42) and lower than South Asia (48), Central Asia (52) and Eastern Europe (52). Chile, Brazil, Peru and Colombia are considered to have significant scores, ranging from 61 to 80 points. Chile received scores that are comparable to the average scores for the U.S. and countries in Western Europe in the Open Budget Index. Its legislature, however, was found to be weak in the budgetary process, whereas its supreme audit institution is considered strong.
Global Integrity 2010 assigns high levels of transparency to Peru. According to Global Integrity, its audit agency is relatively well-staffed, independent, and effective, and citizens are able to access audit reports easily. The report points out, however, that Citizens' opinions are not taken into consideration when the national budget is approved. Budget oversight in Bolivia is considered weak, and citizens cannot provide input at budget hearings for the federal budget.
In general, the scores obtained by countries in the 2005 Latin American Index of Budget Transparency increased when compared to results in 2003. In this sense, the most notable improvements are seen in Costa Rica and Colombia, which experienced increases of 11.2 and 13.8 points, respectively. Indeed, from one edition to the next, Costa Rica rose from fourth place to first and Colombia from seventh place to second. Nicaragua and El Salvador, however, are the only countries whose scores dropped in 2005 and, as a result, are ranked at the bottom of the list.

Participatory Budgeting

In some countries, such as Brazil, participatory budget (PB) institutions have been set up at the municipal level and there have been widespread diffusion of these practices all over the national territory, regionally and even across the globe. What are the determinants of the emergence of these innovations? In Brazil, they emerged in municipalities in contexts of minority government. The first experiences of this type - in large cities such as Porto Alegre, in the south, or Recife, in the northeast, and in a dozen smaller municipalities - mayors had minority support in the legislature and therefore had to mobilize their constituencies to press the legislative branch to approve their budget laws. The modal type of conflict in these experiences pitted local councilors and mayors, which counted on the support of communities through the participatory budgeting arrangement. Set up as an administrative unit within the executive branch, the PB arrangement consisted primarily in a consultation mechanism for selecting the projects planned for execution during the fiscal year.

Most studies of participatory budgeting in Brazil are case studies adopting a qualitative approach to these experiences. Spada (2010) is the only contributor investigating empirically the diffusion process of participatoru budgeting. He studies the impact of political competition on the diffusion of deliberative and participatory decision making processes. The case of Brazil is chosen due to the almost unique availability of data and the fact that participatory and deliberative institutions were self-adopted at the city level, in distinction from other important cases of deliberative and participatory institutions (e.g. Kerala in India).

In this study two mechanisms explain the unusual diffusion of participatory budgeting in the Brazilian case. The first posits that participatory budgeting is adopted by mayors looking to expand their political support. The second is the association of the Workers' Party (PT) and the program which then becomes a sort of "proprietary policy", with the implication that there is an additional adoption cost for cities not controlled by the Workers' Party. Using a panel dataset with more than 400 cities covering the period between 1996 and 2008, the statistical analysis shows that an increase in political competition (measured as the share of the largest opposition party), irrespective of which party wins, leads to a higher probability of adoption. Additionally, among the cities controlled by the PT, the mayor's vote share is negatively correlated with adoption. Finally, in large cities not controlled by the PT, the PT seat share in the city chamber is negatively correlated with adoption. The latter effect might be a sign of the existence of "branding", or might simply reflect that the PT actively opposes the implementation of participatory budgeting when in the opposition (See Table 7).

[Table 7 about here]

Budgetary institutions are defined in the Constitution, in the federal Organic Law applicable to all public entities in the country independent of level of government, and in municipal and state constitutional charters. These statutes mandate a sequence of steps for approval of the three types of budgetary laws stipulated in the constitution: the annual budget law LOA (with details up to the subprogram level), the budgetary guidelines law (LDO) and the multiyear framework (PPA). While the LDO is discussed in the first semester, the LOA (Lei Orçamentária Anual) is discussed by the Legislature during the second semester of each year, and has to be voted up to one month prior to beginning of the new fiscal year (which starts in January). Participatory discussions typically take place simultaneously during the discussions of the LDO, but they consist basically of consultations and bargaining over the spatial allocation of a small share of investment project, accompanied by vote in public gathering of delegates and residents. This latter arrangement has no formal links with the legislative branch, which is mandated to approve or ratify the decisions taken in the various fora and assemblies. There is no formal integration therefore between the constitutionally mandated budgetary process and the consultative mechanism created within the executive.

The focus of these participatory exercises has invariably been on the spatial allocation of petty physical investments and services in the various neighborhoods. Typical examples include street paving and small drainage works along with building or repairs in facilities such as leisure centers and public squares. Expenditures items such as personnel expenditures and big infrastructure projects are not discussed in PBs across the country. Estimates for the percentage of the budget discussed in the various participatory arrangements range from 2% to 10%.

Conflicts arise when the town councilors (vereadores) do not agree with the priorities defined by the communities in consultation with local governments' sectoral planning and secretariat officials. There emerges a problem of dual legitimacy because councilors are elected at large in the local elections. In capital cities councilors might receive votes from tens of thousands of voters and argue that they are more representative than the votes received by PB delegates, which sometimes receive as low as 20 or 50 votes; or more representative than small assembly gatherings with dozens of participants. Whereas PB advocates argue that these councilors are political bosses controlling urban machines, councilors charge PB participants to be neighborhood associations of being co-opted by the Mayor or governing parties and bailiwicks.

Reviews of participatory budgeting experiences are mixed. The large majority of the reviews present a selection bias because they evaluate success stories only. Among the benefits usually associated with these experiences are that they raise awareness of budgetary priorities and they have significant redistributive impacts by leading to higher investments in poor neighborhoods. The negative aspects, on the other hand, of such experiences is that they tend to give too much emphasis on creating informal structures that operate in tandem with representative institutions thereby deflecting efforts that should be targeted at reforming dysfunctional formal institutions. Symbolically, PB experiences are associated with the valorization of direct democracy and the criticisms of representative institutions. They are presented as alternatives rather than complementary mechanisms to the formal institutional mechanisms. Reforming faulty budgetary institutions and strengthening weak control and accountability mechanisms may offer superior alternatives to the creation of direct democracy mechanisms.

At the more operational level, PB experiences usually function as mechanisms that reinforce the authority of executives at the local level thereby undermining the legislative branch. This is particularly problematic in Latin America given that the executive is usually the dominant player. In many settings these structures have been permeated by the same problems affecting representative institutions. These include clientelism, lack of accountability and manipulation by political parties and those controlling the executive branch. Direct democratic experiences are needed in cases of extremely dysfunctional formal institutions and should contribute to the reform of such institutions rather than replacing them altogether.

It is too early to offer a conclusive evaluation about the overall performance of participatory experiences in the budgetary process at the local level in Latin America. Do the participatory budgeting schemes represent effective experiences of deliberation or do they reproduce bargaining mechanisms typical of formal institutions' decision-making styles? Do they consist of "institutional therapies" to dysfunctional institutions that lead to improvements in their functioning (i.e. the local chamber of councilors)? On again, the impact of PB on existing representative institutions, such as the chamber of councilors, appears to be mixed (Seele and Peruzzotti 2009). There is ample evidence however that in many settings they divert away efforts at redesigning the faulty local institutions. More importantly, they replicate problems found in representative institutions, such as clientelism or manipulation by powerful political agents.

The only available study using a large database on the impact of participatory budgeting on budgets is Spada (2010). He found no significant impact of participatory budgeting on city public accounts. Both the magnitude and the composition of expenditures and revenues is unaltered by participatory budgeting. However, he found an interesting political effect: governments implementing participatory budgeting for the first time significantly increased their probability of winning the subsequent municipal election by more than 10 percent. model that controls for adoption of participatory budgeting via propensity score matching.

References:

Alesina, A., R. Hausmann, R. Hommes, and E. Stein. 1999. "Budget Institutions and Fiscal Performance in Latin America." Journal of Development Economics 59 (2): 253–73.

Alier, Max, 2007, "Measuring Budget Rigidities in Latin America," IMF Working Paper, (Washington: International Monetary Fund).

Almeida, M. (2009a), "Rigideces fiscales en Bolivia," Las rigideces fiscales en América Latina: un estudio de experiencias comparadas, principales conclusiones y desafíos, Project documents (LC/W.269), No. 269,

______ (2009b), "Rigideces fiscales en Ecuador", Las rigideces fiscales en América Latina: un estudio de experiencias comparadas, principales conclusiones y desafíos, Project documents (LC/W.269), No. 269, O.

Alston, Lee; Melo, Marcus; Mueller, Bernardo; and Pereira, Carlos (2009) "Las Elecciones que hacen los Gobernadores: Los Roles de los Checks and Balances y la Competencia Política" *Studia Politica*.

Alston, Lee J., and Bernardo Mueller. 2006. Pork for policy: Executive and legislative exchange in Brazil. *Journal of Law, Economics, & Organization* 22 (1): 87-114.

Kerstin Bernoth & Guntram B. Wolff, 2008. "**Fool The Markets? Creative Accounting, Fiscal Transparency And Sovereign Risk Premia**," Scottish Journal of Political Economy, Scottish Economic Society, vol. 55(4), pages 465-487, 09.

Cetrángolo, J. Pablo Jiménez and Ramiro Ruiz del Castillo (comps.), Santiago, Chile, Economic Commission for Latin America and theCaribbean (ECLAC).

Cetrángrolo, Oscar; Jiménez, Juan Pablo; Castillo, Ramiro (2010) "Rigidities and Fiscal Spaces in Latin America: A Comparative Case Study," CAPAL – Economic Development Division.

Hallerberg, Mark, Carlos Scartascini, and Ernesto Stein, Eds. 2009. *Who Decides the Budget? A Political Economy Analysis of the Budget Process in Latin America.* Cambridge: Harvard University Press.

Hallerberg, M., and P. Marier. 2004. “Executive Authority, the Personal Vote, and Budget Discipline in Latin American and Caribbean Countries.” *American Journal of Political Science* 48 (3): 571–87.

Hallerberg, Mark. 2004. *Domestic Budgets in a United Europe: Fiscal Governance from the End of Bretton Woods to EMU*. Ithaca, NY: Cornell University Press.

Melo, Marcus; Pereira, Carlos; and Sousa, Saulo (forthcoming 2011) “Creative Accounting and the Quality of Audit Institutions: The Achilles’ heel of the Fiscal Responsibility Law in Brazil” Brookings Institution Paper sereies.

Milesi-Ferretti, G. M. (2003). “Good, Bad or Ugly? On the Effects of Fiscal Rules with Creative Accounting.” *Journal of Public Economics*, 88: 377-394

Pereira, Carlos and Mueller, Bernardo (2004) “The Cost of Governing: The Strategic Behavior of the President and Legislators in Brazil's Budgetary Process” *Comparative Political Studies*, 37 (7): 781-815.

Poterba, J. M., and J. von Hagen, eds. 1999. *Fiscal Institutions and Fiscal Performance.*Chicago: University of Chicago Press.

Santiso, C. 2004. “Legislatures and Budget Oversight in Latin America: Strengthening Public Finance Accountability in Emerging Economies.” *OECD Journal on Budgeting* 4 (2): 47–76.

Santiso, Carlos (2009) *Political Economy of Government Auditing: Financial Governance and Rule of Law in Latin America and Beyond*, London: Routledge,.

Seele, Andrew and Peruzzotti, Enrique (2009) *Participatory Innovation and Representative Democracy in Latin America*. Washington-DC and Baltimore, Woodrow Wilson Center Press and John Hopkins University Press.

Spada, Paolo (2010) “Political Competition and the Diffusion of Policy Innovations in Local Government: the Case of Participatory Budgeting in Brazil

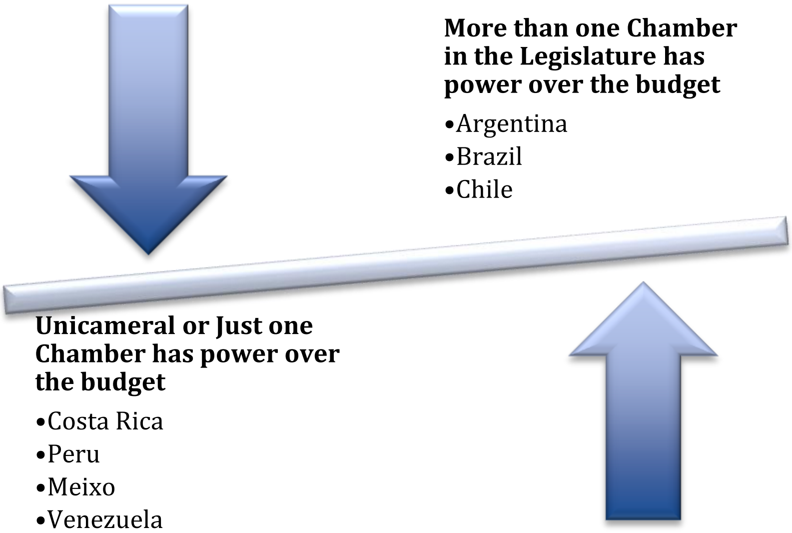
Von Hagen, Jürgen, 1992. "**Monetary Union, Money Demand and Money Supply: A Review of the German Monetary Union**," CEPR Discussion Papers 719, C.E.P.R. Discussion Papers.

Von Hagen, J., and G. B. Wolff (2006): “What Do Deficits Tell Us About Debt? Empirical Evidence on Creative Accounting with Fiscal Rules in the EU,” Journal of Banking and Finance.

Wehner, Joachim (2010) *Legislatures and the budget process: the myth of fiscal control*. Palgrave Macmillan, Basingstoke, UK.

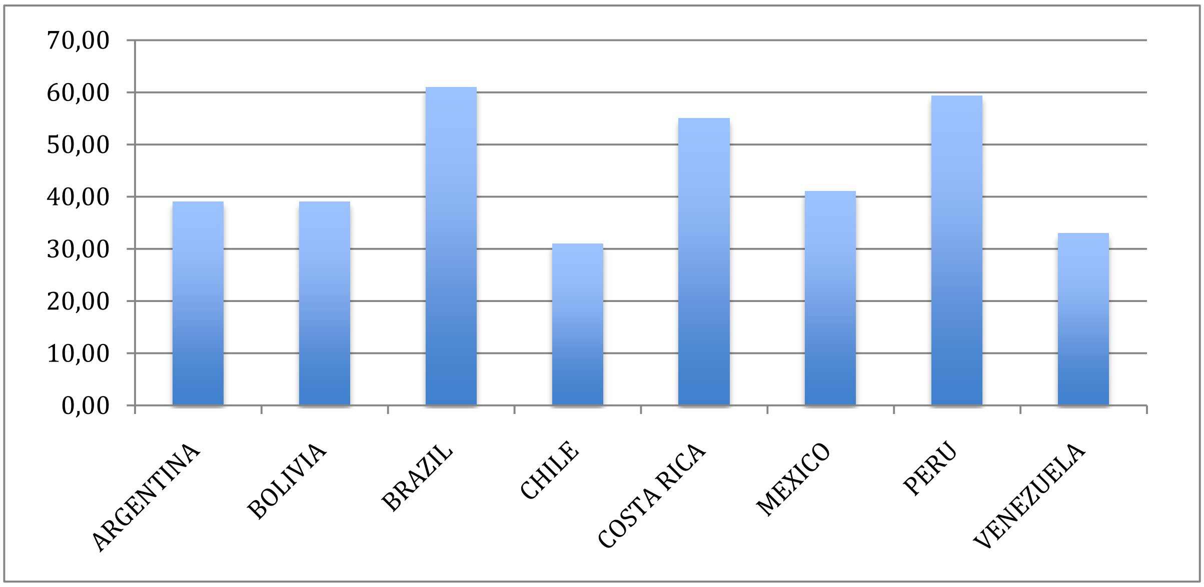
Figures and Tables

Figure 1: Institutional Veto Players over Budget in Latin America



Source: Authors with data from OECD 2007

Figure 2: Legislative Strength on Budget in Latin America (2006, 2008, and 2010)

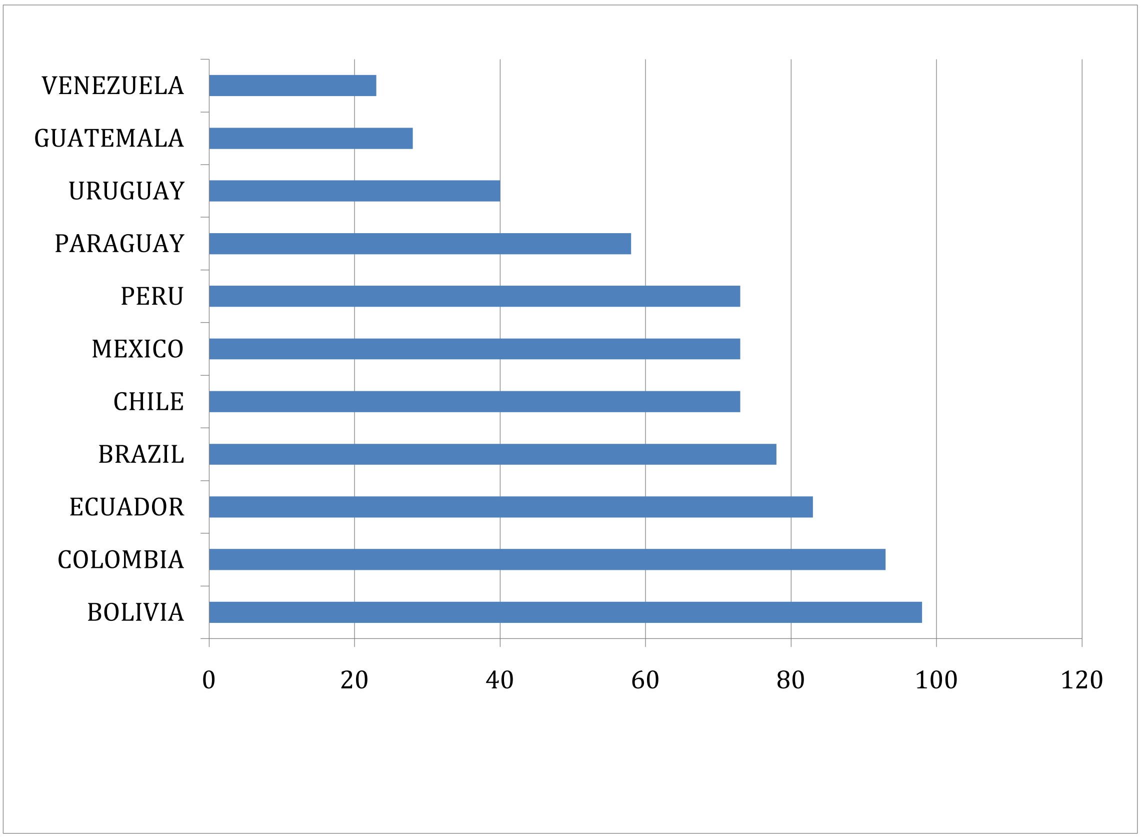


Source: International Budget Partnership (IBP)

Note: The IBP index of legislative strength is based on a survey with the following questions:

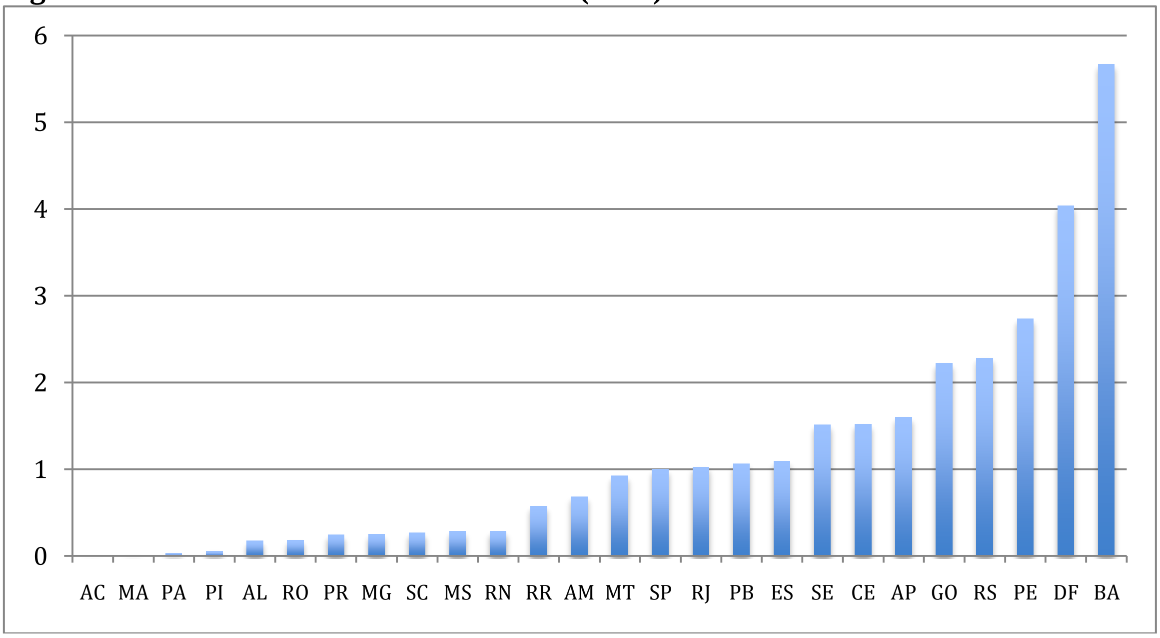
- 69 Consultation between executive and legislatureto determine budget priorities
- 74 Timeframe for legislature to receive the budget from the executive
- 75 Testimony from the executive and public during legislativepublic hearings on macroeconomic and fiscal framework
- 76 Testimony from executive during legislative public hearingson budgets of central government administrative units
- 77 Testimony from public during legislative public hearings onbudgets of central government administrative units
- 78 Availability of reports on legislative public hearings
- 79 Legislative access to information on the spending on all secret items
- 80 Legislative authority in law to amend thebudget presented by the executive
- 81 Details in Enacted Budget
- 96 Legislative inputs when executive shifts fundsbetween administrative units
- 98 Timeframe for legislature to approve supplemental budgets
- 100 Timeframe for legislature to approve expenditure of contingency funds

Figure 3: Budget Mandatory Spending in Latin America (%)



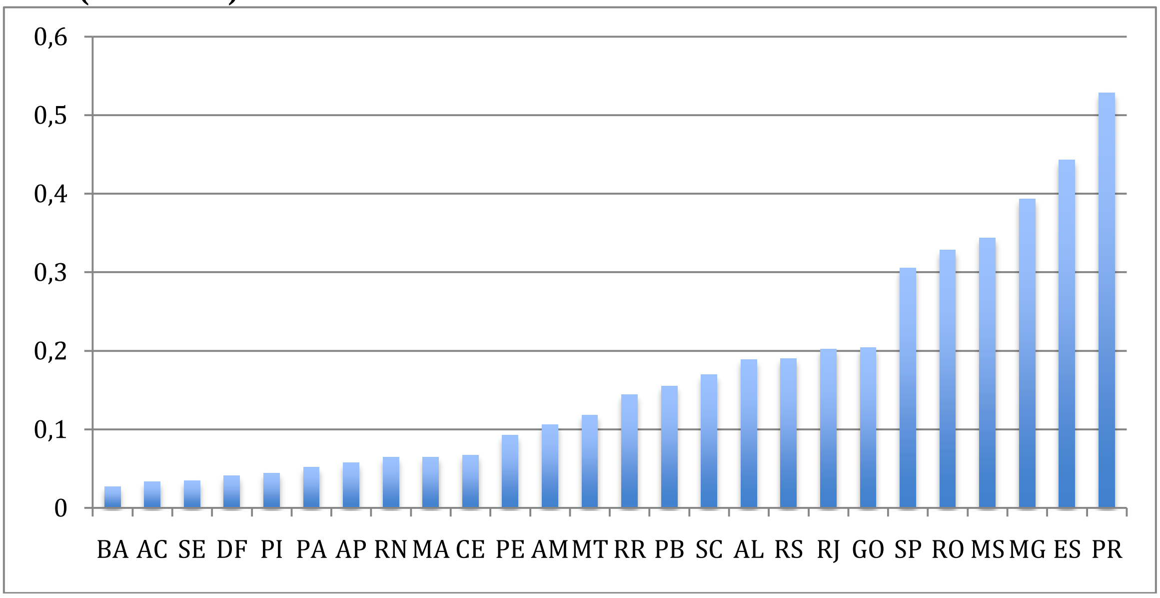
Source: The 2006 OECD Survey on Budgetary Institutions, Procedures and Practices in Latin American Countries

Figure 4: Activism of an Audit Institution (2000)



Source: Melo et al (2011)

Figure 5: Descriptive Distribution of the Average of Unpaid Commitments by State (2000-2002)



Source: Melo et al (2011)

Figure 6: Activism of Courts of Account and Creative Account

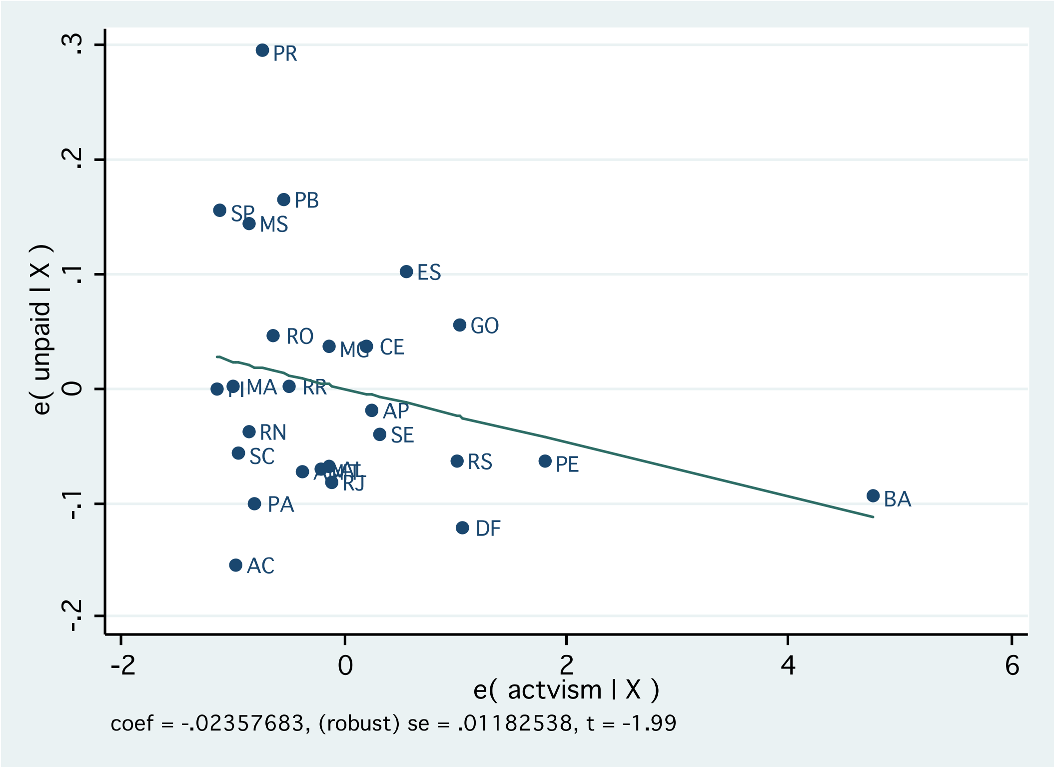


Figure 7: Governor's Turnover and Creative Accounting

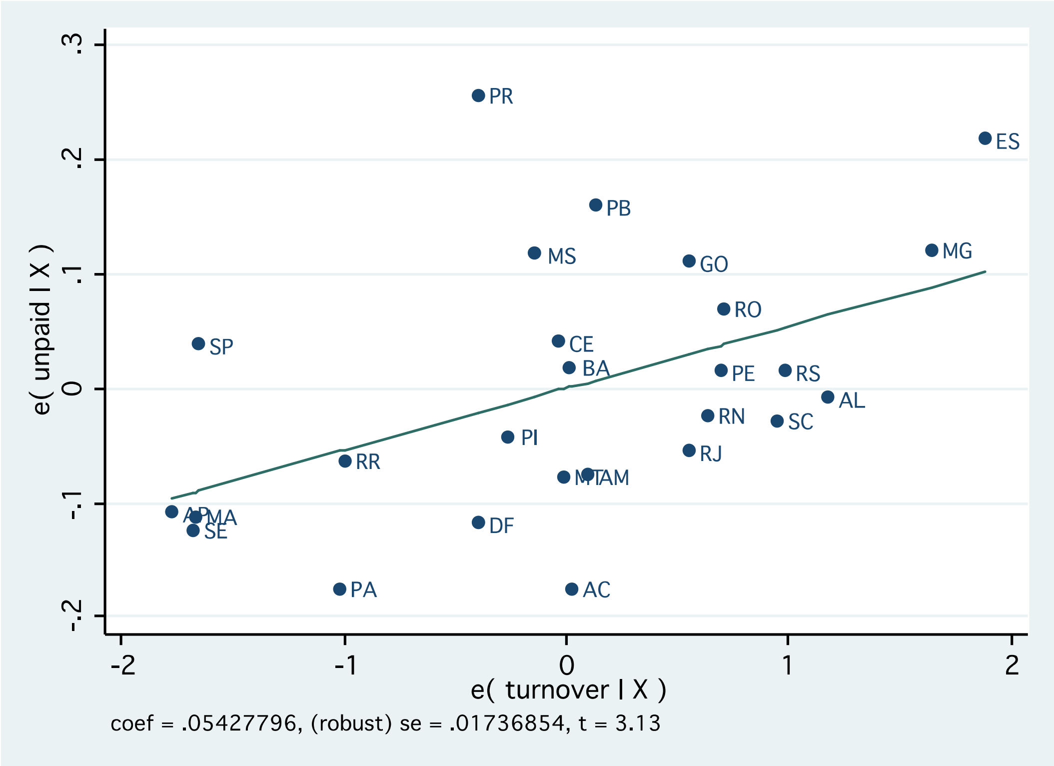
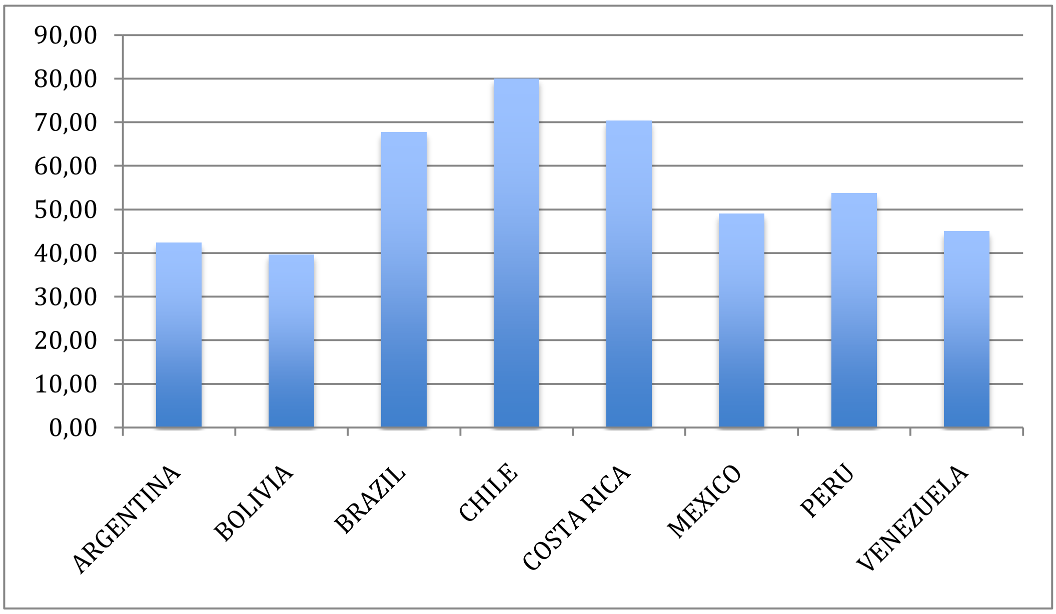


Figure 8: Strength of Supreme Audit institutions of eight Latin American countries

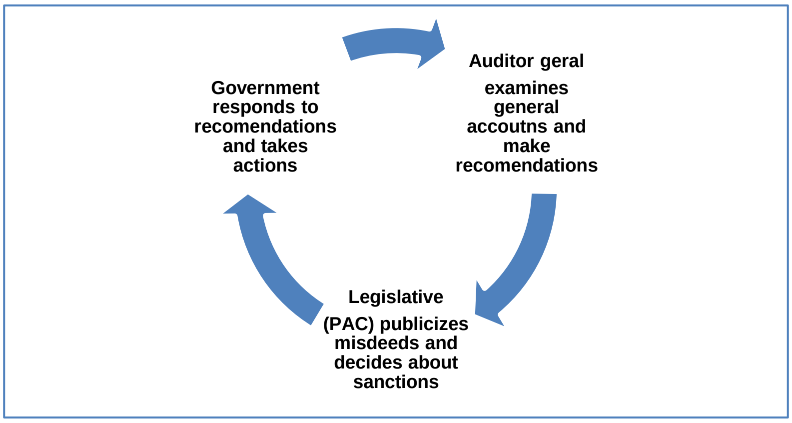


Source: International Budget Partnership (IBP)

Note: The IBP index of strength of supreme audit institutions is based on a survey with the following questions:

- 111 Timeframe for release of the audited annualexpenditures of national departments
- 114 Power to remove head of SAI from office
- 116 SAI discretion in law to undertake those audits it may wish to undertake
- 117 Power to determine the budget of the SAI
- 118 Availability in SAI of designated staff forundertaking audits of security sector
- 119 SAI mechanisms of communication to receivecomplaints and suggestions from public
- 120 Existence of legislative committee for scrutinizing audit reports
- 121 Availability of a report from executive on steps it hastaken to address audit recommendations
- 122 Publication of report by SAI or legislature tracking actionstaken by executive to address audit recommendations
- 123 Audit reports on security sector and other secret programs provided to the legislature (or relevant committee)

Figure 9: The Parliamentary Accountability Cycle



The Judicial Accountability Cycle

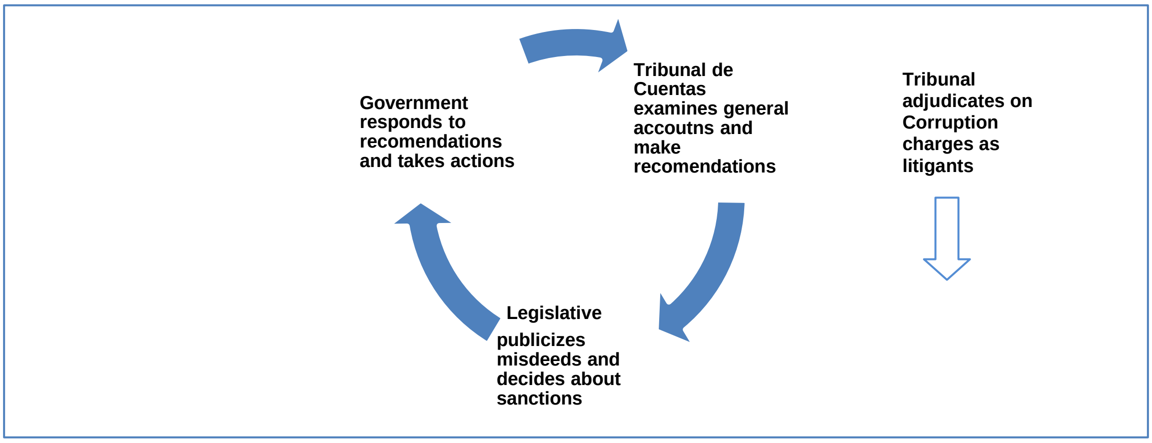
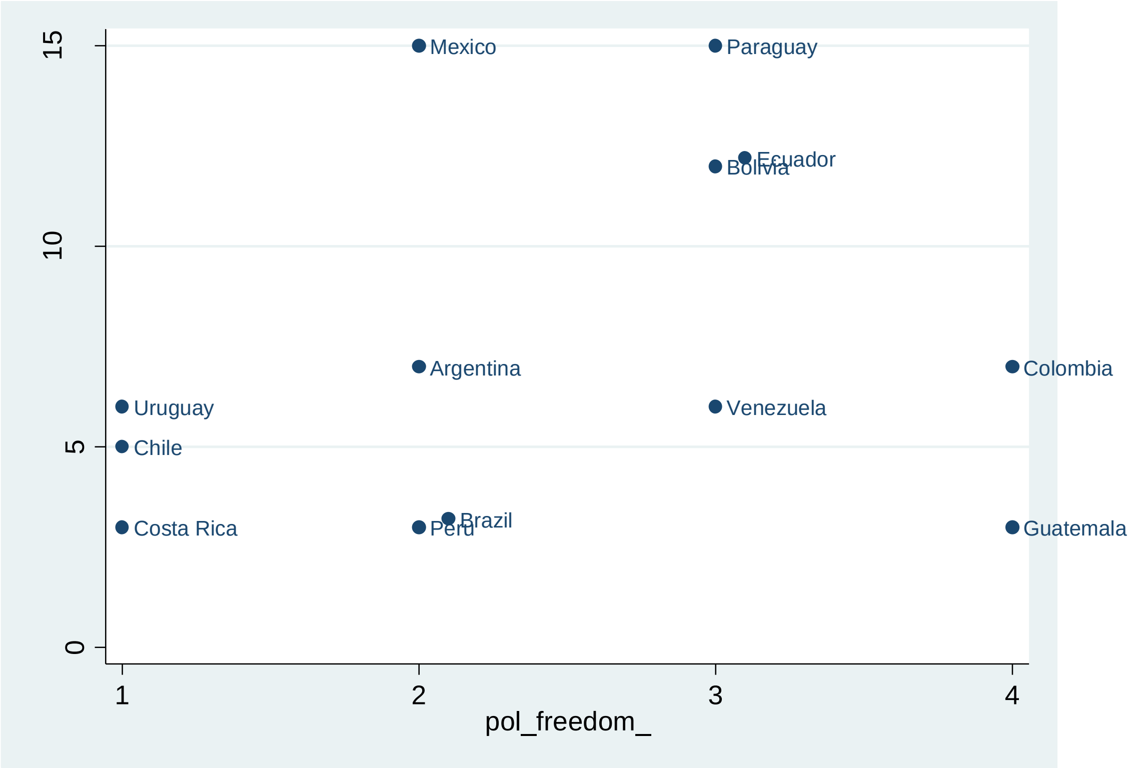
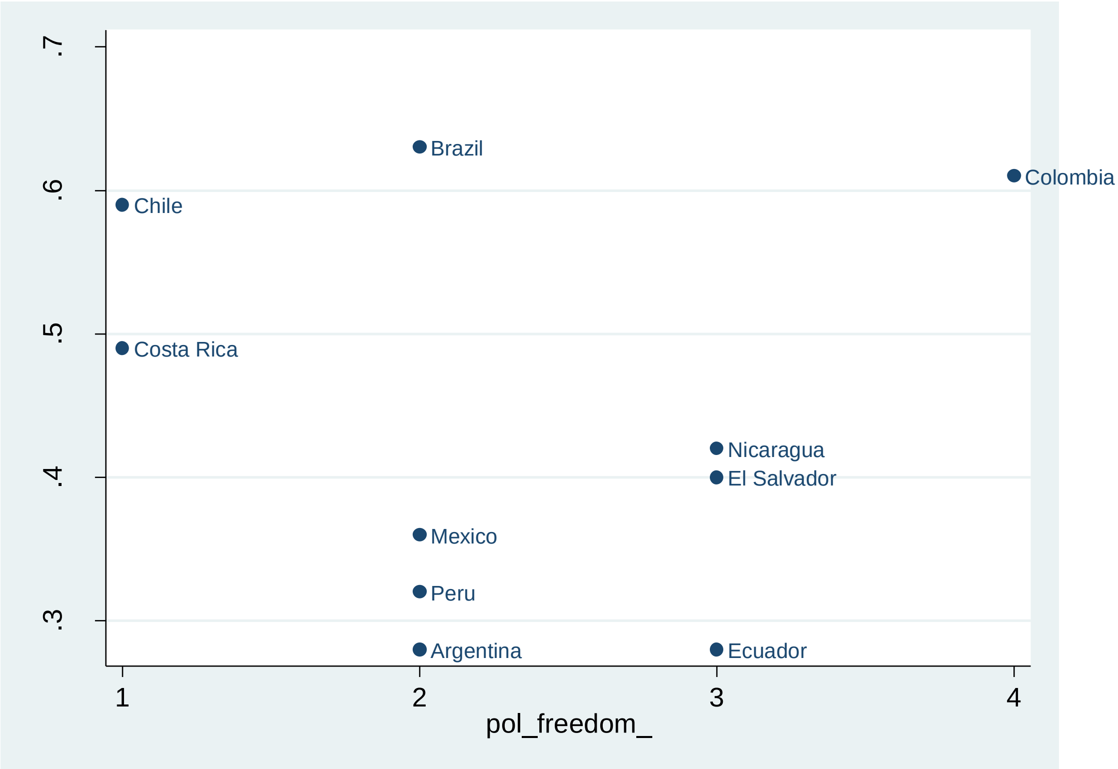


Figure 10: Celerity of Audit Reports on National Accounts



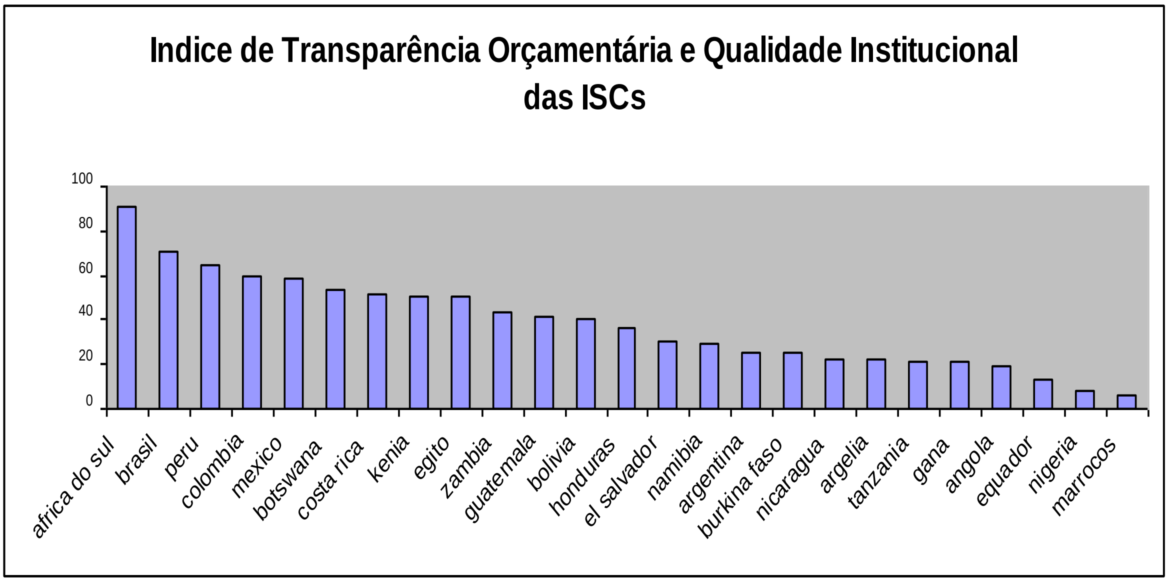
Source: own elaboration; OECD database

Figure 11: Effectiveness of SAIs and Political Freedom in Latin America



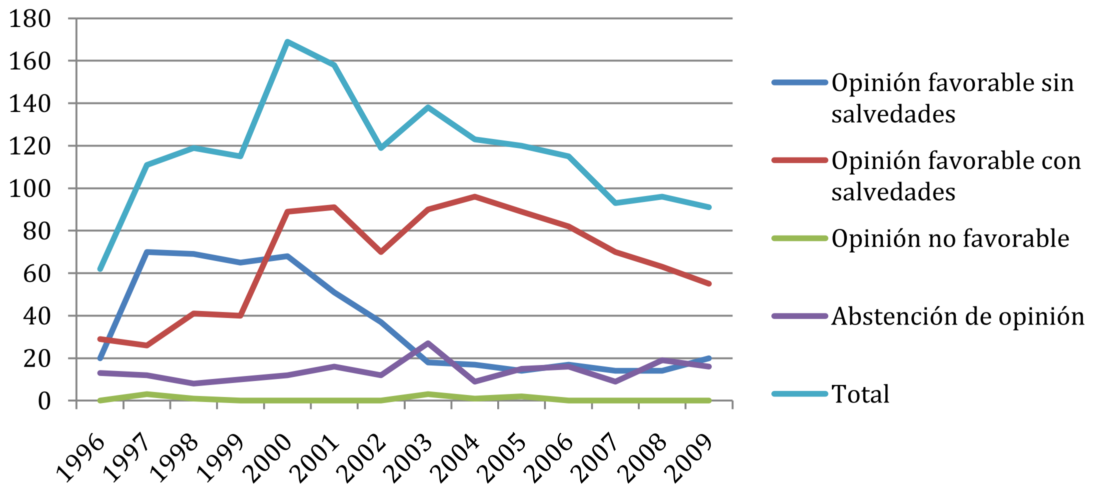
Source: Santiso (2009) and Freedom House.

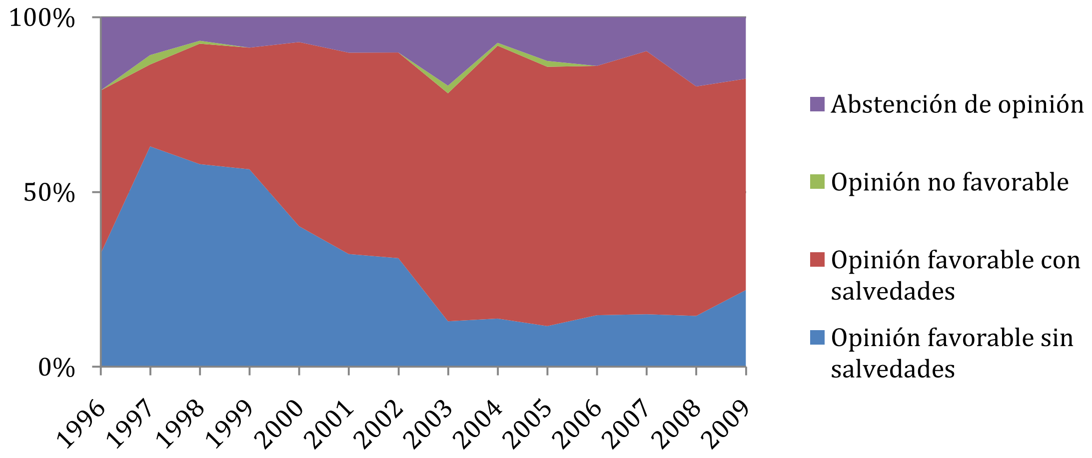
Figure 12: Budget transparency and external control (selected countries)

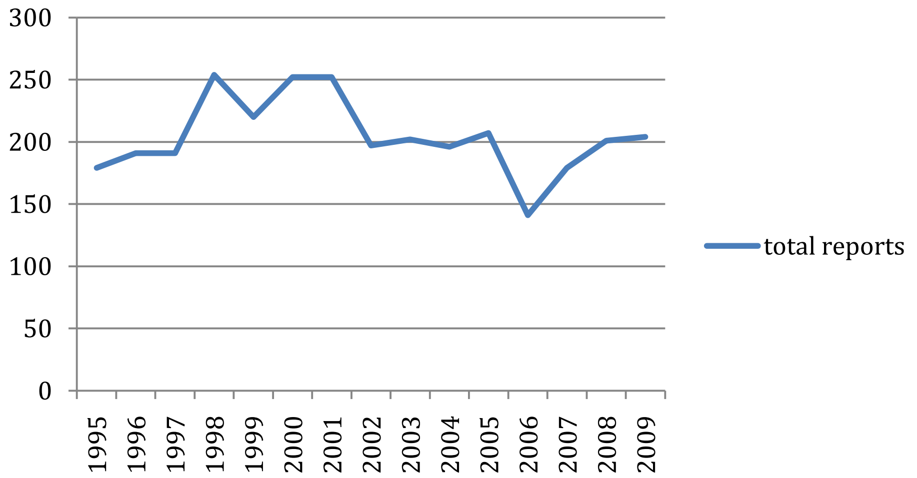


Source: OECD database

Figure 13 - Auditorias de estados contables y financieros 1996-2009

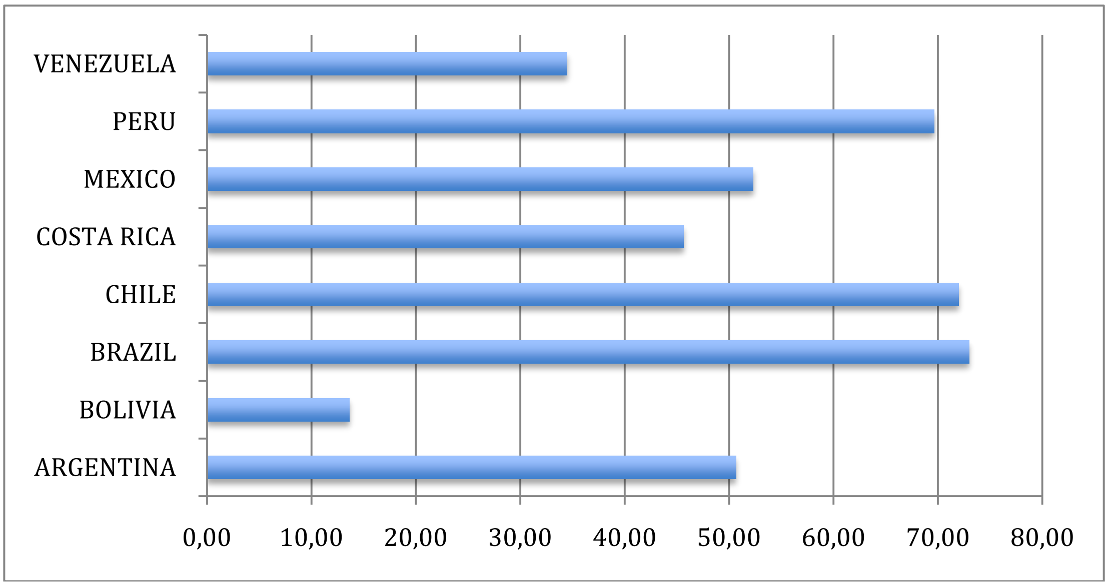






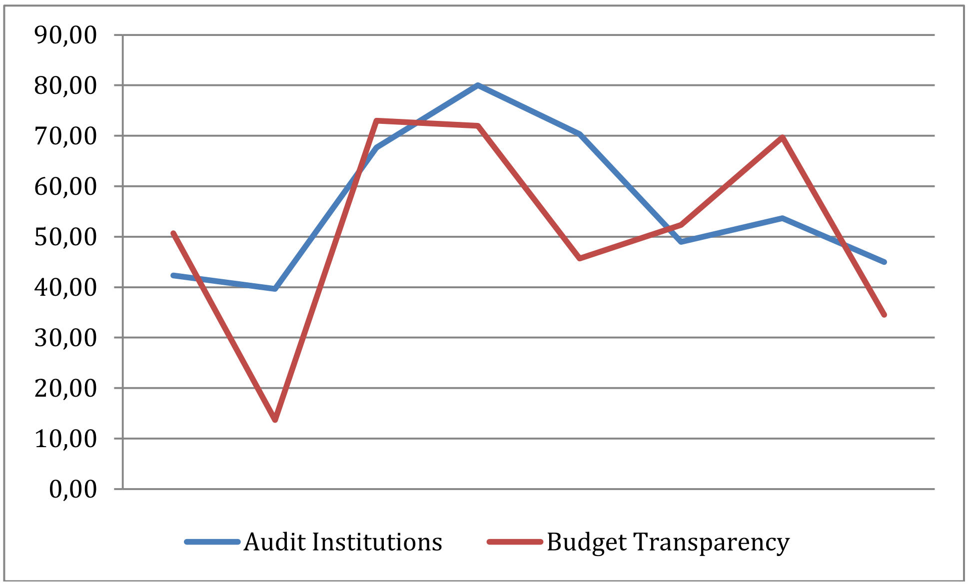
Source: Own elaboration; AGN Memorias, various years

Figure 14: Index of Budget Transparency (2006, 2008, and 2010)



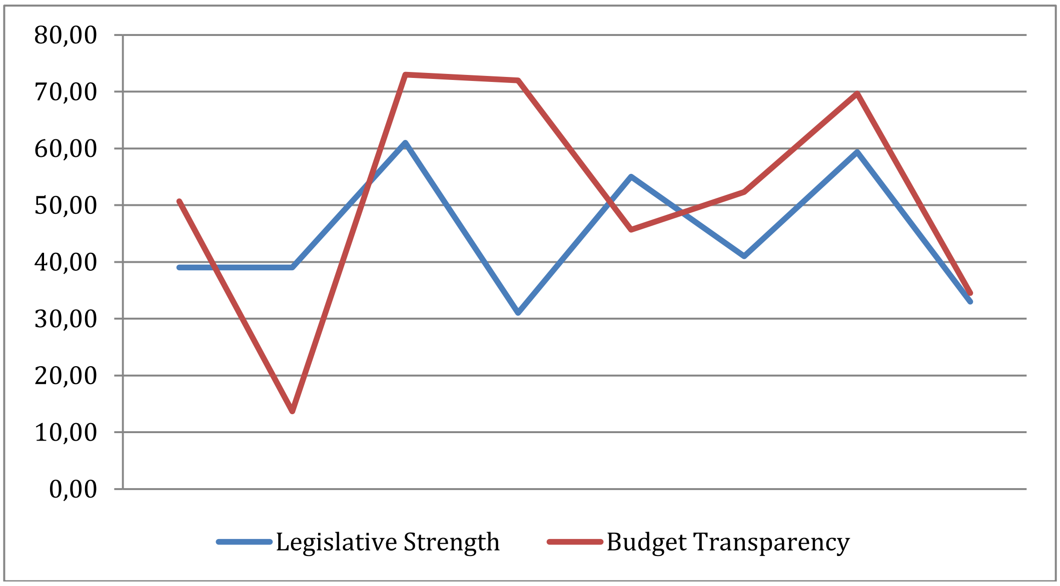
Source: International Budget Partnership (IBP)

Figure 15: Audit Institutions and Budget Transparency in Latin America



Source: Authors with data from IBP. Correlation: 66.61

Figure 16: Legislative Strength and Budget Transparency in Latin America



Source: Authors with data from IBP. Correlation: 40.36

Table 1: Determinants of Unpaid Commitments

	Models				
	(1)	(2)	(3)	(4)	(5)
Activism	-.0309**	-.0263***	-.0229**	-.0205**	-.0235**
	(.0128)	(.0143)	(.0114)	(.0103)	(.0118)
Turnover		.0568***	.0699***	.0571***	.0542***
		(.0174)	(.0145)	(.0146)	(.0173)
Auditor			-.0818**	-.0666*	-.0623*
			(.0439)	(.0383)	(.0384)
Fragmentation				1.2362*	1.1210*
				(.7361)	(.7450)
GDP p/capita					5.87e-06
					(.00001)
Constant	.0128***	.1208***	.1428**	-.9701	-.8841
	(.0388)	(.0458)	(.0512)	(.6463)	(.6542)
N	26	26	26	26	26
R^2	0.0886	0.3242	0.3993	0.4839	0.4900

Source: Melo et al. (2011)

Table 2: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
Unpaid	26	.1693057	.1402841	.027194	.5282267
Activism	26	1.145306	1.351282	.0048309	5.668421
Turnover	26	1.384615	1.202561	0	4
Auditor	26	.5384615	.5083911	0	1
Fragmentation	26	.9056923	.0352247	.8106667	.9463333
GDP p/capita	26	4023.308	2198.409	1421	11272

Table 3: Budget Committees in Argentina, Brazil, Chile and Colombia

Country	Committee	House	Status	Composition	Staff
Argentina	Finance and Budget Committee	Senate	Permanent	6 Representatives and 6 Senators	5
	Finance and Budget Committee	House of Representatives	Permanent	15 to 49 Representatives	10
Brazil	Bicameral Committee of Planning, Public Budgeting and Oversight	Bicameral	Permanent	31 Representatives and 11 Senators	14 at the Committee plus more than 100 from the Budget Offices
Chile	Special Budget Committee	Bicameral	Temporary	6 Senators and 5 Representatives	4 permanent (Finance Commitee) plus temporary staff
Colombia	3rd and 4th Constitucional Committees	Senate	Permanent	15 Senators each	20(10+10)
	3rd and 4th Constitucional Committees	House of Representatives	Permanent	29 Representatives each 27 Representatives	22 (11+11)

Table 4: Performance of Supreme Audit Institutions in Latin America

Country	Score	Independence	Credibility	Promptness	Enforcement
Brazil	**0.63**	0.88	0.42	0.24	1.00
Colombia	**0.61**	0.75	0.46	0.21	1.00
Chile	**0.59**	0.78	0.40	0.18	1.00
Costa Rica	**0.49**	0.66	0.48	0.16	0.67
Media regional	**0.44**	0.68	0.29	0.11	0.67
Nicaragua	**0.42**	0.78	0.20	0.03	0.67
El Salvador	**0.40**	0.53	0.08	0.00	1.00
México	**0.36**	0.59	0.38	0.12	0.33
Peru	**0.32**	0.78	0.12	0.04	0.33
Ecuador	**0.28**	0.66	0.14	0.00	0.33
Argentina	**0.28**	0.44	0.22	0.13	0.33

Source: Santiso (2009)

Table 5: Determinants of Tax Revenue ICMS at Sub-National Level in Brazil (2010)

	Model 1	Model 2	Model 3
Transparency Index	8133780***	8090560***	115114.8
	(2447255)	(2772095)	(502349)
Wealth Variation		-.5107769	-.4300583**
		(1.230602)	(.1869554)
GDP			.0735015***
			(.0025245)
Constant	-3.14e+07**	-3.01e+07**	-255106.3
	(1.22e+07)	(1.41e+07)	(2371175)
R-square	0.3065	0.3054	0.9848
Observations	27	23	23

Table 6: Ranking of Transparency among Lain American Countries

Country	LA Index Budget Transparency	OBI - Open Budget Index	Global Integrity 2010	Global Integrity 2010 - Budget Process Oversight & Transparency	IMD - The World Competitiveness	TI-Corruption Perceptions Index
Year	**2003**	**2010**	**Various**	**Various**	**2010**	**2010**
Argentina	44.1	56	87	77		2.9(105th)
Bolivia		13	69	69		2.8(110th)
Brazil	50.3	71	76	79	56.53 (38th)	3.7(69th)
Chile	61.7	72	77	63	69.66 (28th)	7.2(21st)
Colombia	44.3	61	68	71		3.5(78th)
Costa Rica	48.8	47	79	68		5.3(41st)
Cuba						3.7(69th)
Ecuador	30.6	31	60	54		2.5(127th)
El Salvador	40.3	37				3.6(76th)
Guatemala		50	65	71		3.2(91th)
Haiti						2.2(146th)
Honduras		11				2.4(134th)
Mexico	50.4	52	72	67	51.48(47th)	3.1(98th)
Nicaragua	46.4	37	58	69		2.5(127th)
Panama						3.6(73th)
Paraguay						
Peru	44.6	65	81	88	54.17(41th)	3.5(78th)
Republica Dominicana						3.0(101st)
Uruguay						6.9(24th)
Venezuela		34	61	56	27.97(58th)	2.0(164th)

Table 7: The diffusion of participatory budgeting in Brazil 1989-2008

	1989-1992	1992-1996	1996-2000	2000-2004	2004-2008
Number of Cities using PB	11	29	62	129	119
Cities Initiated PB	11	22	45	90	54
- Cities Initiated PB for the first time	11	22	43	85	45
Cities re-initiated PB			2	5	9
Cities 4 years of PB		7	11	27	39
Cities 8 years of PB			6	8	16
Cities 12 years of PB				4	6
Cities 16years of PB					4
Cities abandoned PB		4	12	23	64
Cities abandoned PB after 4 years		4	11	18	51
Cities abandoned PB after 8 years			1	3	11
Cities abandoned PB after 12 years				2	2
Cities abandoned PB after 16 years					0
Cities population larger than 50000 in 1992	447	447	447	447	447

Source: Spada (2010)

Table A-1. **Legal Structure of Audit Institutions in Latin America**

Countries	**Constitution**	**Financial administration law or Organic budget law**	**Law**	**Previous models (After the independence)**
Argentina Auditoria General de la Nación, AGN	Constitución de 1994, art. 85	Ley de administración financiera y de los sistemas de control del sector público, 24156, 1992; Ley Complementaria Permanente de Presupuesto, 1997		Tribunal de Cuentas de la Nación, 1956
Bolívia Contraloría General de la República, CGR	Constitución de 1967, art. 154-155	Ley de Administración y Control Gubernamentales, SAFCO, 1990	Ley Orgánica de la Contraloría General de la República, 1977; Reglamento para el Ejercicio de las Atribuciones de la Contraloria General de la República, 1992	Tribunal Nacional de Cuentas, 1883; Contraloría General de la República, 1928.
Brazil Tribunal de Contas da União, TCU	Constitución de 1988, art. 71-75 and 161	Ley 10180, 2001	Lei Orgânica do Tribunal de Contas da União, 1992	Tribunal de Contas da União, 1891
Chile Contraloría General de la República, CGR	Constitución de 1980, art. 87-89	Ley Orgánica de Administración Financiera, LOAF, 1975	Ley de Organización y Atribuciones de la Contraloría General de la República, 1953, reformed in 1964	Contaduría Mayor y Tribunal de Cuentas, 1839; Tribunal de Cuentas, 1888; Contraloría General de la República, 1927
Colômbia Contraloría General de la República, CGR	Constitución de 1991, art.267-268	Ley 819, 2003	Ley 42 (reformulated), 1993; Ley 106, 1993; amended 1999, 2000	Contaduría General de Hacienda, 1821; Corte de Cuentas, 1847; Departamento de Contraloría, 1923
Costa Rica Contraloría General de la República, CGR	Constitución de 1949, art. 183-184	Ley de Administración Financiera de la República y de Presupuestos Públicos, 2001	Ley Orgánica de la Contraloría General de la República, 1951, 1994	Tribunal de Cuentas, 1825; Centro de Control, 1945; Contraloría General de la República, 1949
República Dominicana Cámara de Cuentas de la República, CCR	Constitución de 1966, art. 78-81 and 107	Ley Orgánica de Presupuesto para el Sector Público, 1969	Ley 10-04, 2004	Cámara de Cuentas de la República, 1942
Equador Contraloría General de la República, CGR	Constitución de 1998, art. 121-122 and 211-213	Ley Orgánica de Administración Financiera y Control, LOAFYC, 1977 (1986, 1993)	Ley Orgánica de la Contraloría General del Estado, 2002	Contaduría General de Hacienda, 1822; Tribunal de Cuentas, 1861; Contraloría General del Estado, 1927
El Salvador Contraloría General del Estado, CGE	Constitución de 1983, art. 195-199	Ley Orgánica de la Administración Financiera del Estado, 1995	Ley de la Corte de Cuentas de la República, 1995, 2002	Tribunal Superior de Cuentas, 1872; Auditoría General de Hacienda, 1930; Corte de Cuentas de la República, 1939
Guatemala Contraloría General de Cuentas, CGC	Constitución de 1985, art. 232-236	Ley Orgánica de Presupuesto, 1997	Ley Orgánica de la Contraloría General de Cuentas, 2002	Tribunal y Contaduría Mayor de Cuentas, 1824; Tribunal y Contraloría de Cuentas, 1945, 1948
Honduras Tribunal Superior de Cuentas, TSC	Constitución de 1964, reformado in 2002, art. 222-227	Ley Organica del Presupuesto, 1976	Ley Orgánica del Tribunal Superior de Cuentas, 2002	Tribunal de Cuentas, 1928; Contraloría General de la República, 1956
México Auditoría Superior de la Federación, ASF	Constitución de 1917, reformada 1999, art. 73, 74, 78 y 79	Ley de Presupuesto, Contabilidad y Gasto Público Federal, 1976 (1995)	Ley de Fiscalización Superior de la Federación, 2000	Contaduría Mayor de Hacienda, 1824, 1963, 1978

Nicarágua Contraloría General de la República, CGR	Constitución de 1987, 1995, 200, art. 154-157	Ley del Régimen Presupuestario, 1988, 1991 Ley de administración financiera y del presupuesto público (Ley 550, 2005)	Ley Orgánica de la Contraloría General de la República y Systema de Control gubernamental, 1979, Ley 361 2000	Tribunal Supremo de Cuentas de la República, 1900; Tribunal de Cuentas, 1930, 1966
Panamá Contraloría General de la República, CGR	Constitución de 1972, 1978, 1983, art. 275-276	Ley de Presupuesto, 1999	Ley Orgánica de la Contraloría General de la República, 1984	Visitador Fiscal, 1904; Tribunal de Cuentas, 1904; Agente Fiscal, 1918; Oficina de Contabilidad y Contraloría, 1930; Contraloría General de la República, 1942
Paraguai Contraloría General de la República, CGR	Constitución de 1992, art. 281-284	Ley de Administración Financiera del Estado, 1999	Ley Orgánica y Funcional de la Contraloría General de la República, 1994	n.a
Peru Contraloría General de la República, CGR	Constitución de 1993, art. 82	Ley marco de la Administración Financiera del Sector Público, 2003. Ley General del Sistema Nacional de Presupuesto, 2004	Ley del Sistema Nacional de Control y de la Contraloría General de la República, 2002	Tribunal Mayor de Cuentas, 1823; Contraloría General de la República, 1929, 1964
Uruguay Tribunal de Cuentas, TC	Constitución de 1996, art. 208-213	Ley de Contabilidad y Administración Financiera, TOCAF, 1991 (1999)	Texto Ordenado de Contabilidad y Administración Financiera, 1997	Comisión de Cuentas, 1830, 1834; Tribunal de Cuentas, 1934
Venezuela Contraloría General de la República, CGR	Constitución de 2000, art. 287-291	Ley Orgánica de la Administración Financiera del Sector Público, LOAF, 2003	Ley Orgánica de la Contraloría General de la República y del Sistema Nacional de Control Fiscal, 2001; Ley Orgánica del Poder Ciudadano, 2001	Contraloría de la Nación, 1938; Contraloría General de la República, 1961

Table A1-B: Institutional Design of Audit Institutions in Latin America

Countries	Name	Type	Leadership	Controle ex antes	Instituições ligadas ao Executivo	Instituições ligadas ao Legislativo	Poderes semi-judiciais
Argentina	Auditoria General de la Nación, AGN	Colegial	Board of (conselho de) 7 Auditores Gerais, liderado pelo Presidente.			✓	
Bolívia	Contraloría General de la República, CGR	Uninominal	Comptroller General		✓		
Brazil	Tribunal de Contas da União, TCU	Colegial	Board of (conselho de) 9 Auditores Gerais ("Ministros"); Presidentes eleito pelos pares, substituído anualmente.			✓	✓
Chile	Contraloría General de la República, CGR	Uninominal	Comptroller Geral	✓			✓
Colômbia	Contraloría General de la República, CGR	Uninominal	Comptroller Geral				✓
Costa Rica	Contraloría General de la República, CGR	Uninominal	Comptroller Geral	✓		✓	
Dominican Republic	Cámara de Cuentas de la República, CCR	Colegial	Board of at least (conselho de) 5 membros, com Comissão executiva composta por um Presidente, vice Vice-presidente e Secretario executivo.	✓			
Equador	Contraloría General del Estado, CGE	Uninominal		✓			
El Salvador	Corte de Cuentas de la República, CCR	Colegial	Board of at least (conselho de) 5 membros, com Comissão executiva composta por um Presidente, Vice-presidente e um Secretario executivo.	✓		Submete comunicação ao congresso	✓
Guatemala	Contraloría General de Cuentas, CGC	Uninominal	Comptroller General			✓	✓
Honduras	Tribunal Superior de Cuentas, TSC	Colegial	Board of (conselho de) 3 membros			✓	
México	Auditoría Superior de la Federación, ASF	Uninominal				✓	
Nicaragua	Contraloría General de la República, CGR	Colegial	Board ("Conselho Superior") de 5 membros; Presidente e Vice-presidente eleito pelos pares com o Conselho por um ano, por maioria simples.			✓	
Panamá	Contraloría General de la República, CGR	Uninominal		✓			✓
Paraguai	Contraloría General de la República, CGR	Uninominal				✓	

Peru	Contraloría General de la República, CGR	Uninominal		✓			
Uruguay	Tribunal de Cuentas, TC	Colegial	Board of (conselho de) 7 membros (5+2 desde 1952); Presidente designado pelos pares com o Board.			✓	
Venezuela	Contraloría General de la República, CGR	Uninominal					✓