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ANNEXES

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## Annex 1: Various Types of Budget Analysis

It is important to point to some of the types of budget research work performed on the basis of experiences from other countries. Such research is not exhaustive, however, as independent groups are increasingly exploring new areas and, as a result, are developing new methodologies. But they provide a preliminary outlook of the way budget information may relate to several subject areas.

- *Economic and tax analysis:* This type of analysis seeks to shed light on the implications that public budgets may have on the economy as a whole. In other words, if the budget causes an increase in tax deficit and indebtedness, if it promotes economic growth by means of public spending or a high level of infrastructure investment, if it contributes to reduce unemployment or improves the economic conditions of certain groups. This type of work requires a detailed review of budget objectives and goals, and may challenge assumptions supporting government projections for unemployment, GDP growth or exchange rates.

- *Budget process analysis:* Its main objective is to reveal the characteristics of the budget cycle, the actors involved in each phase and the particular legal framework as well as political and institutional background. It may include an assessment of its openness, level of transparency in each phase and the possibilities of influencing or making changes to the budget. It is also useful to track information availability, opportunities for discretionality and legal voids.

- *Tax and revenue policy analysis:* It starts by recognizing the special characteristics of a country's sources of revenues and the government's tax collection limitations. It reviews tax system features: whether it is regressive or progressive, the type of taxes collected, the taxable base and the system overall efficiency. Most of the groups dedicated to budget analysis have not devoted the same effort to the revenue side. However, these are two sides of a same coin, i.e. fluctuations in revenues also affect spending.

- *Overall budget analysis:* Papers on the subject seek to disclose to the citizens such information approved in the Budget Law in a clear and easy-to-read manner. Their

purpose is to prevent budget information from being kept in the state's sphere only, thus recognizing the importance for society to monitor budget execution. To accomplish this, the first step is to know the budget and to understand it, in order to then describe it in a simplified manner. This type of analysis includes the main changes introduced to the budget compared to previous years, and the main changes in revenue structure, including their impact on the people. It also covers a description of budget items and definitions, in order to make them more intelligible.

- *Analysis of specific sectors:* This type of analysis recognizes the importance of specific sectors and studies how resources are allocated to meet that sector's own objectives. In order to analyze sector budgets, it is important to have information about the issues they intend to address, as well as their particular indicators and characteristics. This process also includes a review of the sector priorities, objectives and action programs in order to understand what the allocated budget can render.

- *Analysis of public policy impact on different population groups:* The analysis of public policy impact delves into how the budget process influences different groups of people, such as women, children, low-income communities, day workers, or civil servants. It requires specific information about spending by program, to match the spent money with the appropriate groups, and evaluates the sector group conditions vis-a-vis spending, i.e. whether they are in better conditions -or not- compared to the government goals or others.

- *Budgets and Human Rights:* All countries have ratified a series of commitments associated with human rights protection, based on international and regional agreements, which must be included in their national legislation. Most human rights, whether civil or political, economic, social and cultural, require the government to invest in order to guarantee such rights. Consequently, human rights protection is related to resource availability to implement legal commitments which must be translated into real actions.

- *Sub-national Budget Analysis and Monitoring:* This type of analysis is particularly important in the context of decentralization and strengthening of state and local authorities, since it examines the characteristics of budget allocations at the state and local levels. The analysis delves into the breakdown of responsibilities, skills and

resources among different government levels, and monitors the use of resources and management transparency at levels close to the people who benefit from the policies implemented. In the context of the decentralization process experienced by many Latin American countries, the sub-national budget analysis and monitoring has gained a lot of importance to monitor the transfer of political functions from the federal government to the various local levels of government, as well as to monitor information conditions and carry out policy evaluations, including changes to certain programs in the various state or local governments.

## Annex 2: Reference documents and sites for budget work

The Citizen's Guide to Budget Work published by the *International Budget Project* is the main reference document for getting acquainted with the subject of budget analysis, its potential and some specific examples of successful budget analyses. This document, prepared by a large group of experts and leaders of organizations involved in budget analysis, is a key reference. For more information, visit <http://www.internationalbudget.org/spanishguide.pdf>

Generally speaking, resources available at the IBP's web site are a key to different topics, offering documents and analyses with various degrees of specialization, and links to other sites and sources of information. For more on this, visit <http://www.internationalbudget.org>

The complete document library is available at <http://ibp.forumone.com/resources/library/title.f1ml?letter=O>

The paper on "Legislatures and the Budget" by Robert Gustaffson, written for the *National Democratic Institute for International Affairs* and recently published in English only, is a good reference for studying the relationship between the legislative and executive branches in different countries and offering some guidelines for the diagnosis of the budget process and regulatory framework. Available at [http://www.accessdemocracy.org/library/1651\\_gov\\_budget\\_093103.pdf](http://www.accessdemocracy.org/library/1651_gov_budget_093103.pdf)

The World Bank's web sites on Public Spending are open to the public and include papers, dissertations and presentations associated with the different budget process areas. For English, visit <http://www1.worldbank.org/publicsector/pe/index.cfm>

OECD's web sites on public administration include more specialized documents with recommendations and "good practice" codes that can be used as reference material to evaluate the budget process. For the English version, <http://www1.oecd.org/puma/>

The IMF's web page offers documents on fiscal transparency that may be used as reference documents for the evaluation of access conditions to the budget process. English version available at <http://www.imf.org/external/np/fad/trans/index.htm>

## Annex 3: Fiscal data available to citizens

Citizens' active involvement to achieve more transparency and an improved public administration is one of the fundamental values of democracy. This is so because decisions taken at the executive and legislative branches, not only as regards public expenditure but also funding, directly affect present and future generations.

An essential requisite for citizens to exercise control through their participation in the tracking of public accounts is transparency of, and access to, information. The following budgetary information is generally available to the citizen and divided in two groups: short term information and Medium and long term information.

### Information on current situation

The analysis of the current fiscal condition is performed based on the monthly, quarterly and/or annual information published by different agencies of the national, provincial or local governments. Generally, the following information is available:

- The publication of the Budget Bill, the Budget Act and the Balance of Accounts, with all its corresponding annexes according to the Law of Financial Administration in force in each particular country, month by month according to a predetermined schedule.
- Information on budgetary execution (generally, on a quarterly basis). Particularly, on the evolution of tax collection, the saving-investment-financing scheme of the National Treasury and the result of the accounts of the National Public Sector. In addition, quarterly indicators of expenditure execution are generally available.

Also, quarterly reports are required on budget execution (on an accrual basis) of the stock, evolution and composition of the National Public Sector's debt.

### **Medium and long term information**

The medium and long term analysis requires harmonized fiscal series. In Latin America, except in some specific lines of work of the public sector and some of the private sector dedicated to consolidating statistics, fiscal information is quite divided. Therefore, in many cases it is necessary for short term information, whether annual, monthly or quarterly, to undergo a previous compatibility process in order to work with fiscal series.



## Annex 4: Terminology guidance

A person set to understand the defense budget might feel lost when verifying that many of the terms used in this subject are not found in the terminology used in his/her country or that the definition of a certain term differs from what has been explained. We know that this will be a very common situation since, although there are certain universal standards and increasing efforts are being made in order to harmonize national terminology and practices, there are still some major peculiarities. Notwithstanding this fact, we can assure that the budgetary systems of most of Latin American countries respond to the questions we have posed, i.e., they allow us to answer -to a higher or lower degree- who spends in defense, on which items money is spent, for what purpose and how it is funded. For the purpose of facilitating research processes to be followed by each country, classification criteria used for national and defense budgets in Latin American countries is described next.\*

\* For further information, see Comparative Atlas of Security and Defense of the RESDAL <http://www.resdal.org.ar/atlas/atlas-presupuesto.html>

Country	Budget System Governing Body	Budgetary Information System	Budgetary Classifications	Legal Basis
<b>Argentina</b>	ONP National Budget Office Budget Undersecretariat Secretariat of Finance	SIDIF Financial Integrated Management System	By Programming Category By Expenditure Objective By Institutional Classification By Purpose and Function By Geographical Classification By Economic Classification By Source of Funding	Law No. 24 156 (1193)  Law No. 11 672 (1969)
<b>Venezuela</b>	ONAPRE National Budget Office	SIGCFP Integral System of Public Finance Management and Control	By Programs By Expenditure Object (Item) Economic Classification Institutional Classification Sector Classification	Law No. 37 029 (9/5/2000)
<b>Uruguay</b>	OPP Planning and Budgeting Office (Executive Committee for State Reform)	SIIF Financial Information Integral System	By Executing Units and Items By Programs By Funding By Expenditure Objectives	Ord. Text of Accounting and Financial Management
<b>Chile</b>	DIPRES Budget Directorate Ministry of Economy	SIGFE Information System for State Financial Management	Economic Classification Functional Classification Administrative Classification	Decree-Law No. 1263/75 Law No. 18 591 (1986)

Country	Budget System Governing Body	Budgetary Information System	Budgetary Classifications	Legal Basis
<b>COSTA RICA</b>	DGNP National Budget General Office Ministry of Economy	SIGAF Integral Financial Management System	By Expenditure Objective Institutional Classification Economic Classification By Programming Category Classification by Public Resource Sources and Usage	Law No.8 131 (2001)
<b>PANAMA</b>	DIPRENA National Budget Directorate Ministry of Economy and Finance	SIIF Financial Information Integral System	Economic Classification Classification by Expenditure Objective Classification by Purpose and Functions	Law No.20 (02/05/2002) Law No. 61 (12/2002)
<b>DOMINICAN REPUBLIC</b>	SF State Secretariat of Finance	SIGEF Financial Management Integral System	Classification by Institution Classification by Expenditure Object. Classification by Financing Institut. Geographical Classification Economic Classification Functional Classification	
<b>EL SALVADOR</b>	DGP General Office of the Budget Ministry of Economy	SAFI Integral Financial Management System	Economic Classification Classification by Group Item Classification by Management Area Classification by Sources and Usage	Law No.516 (1995)
<b>JAMAICA</b>	MFP Finance Secretariat Ministry of Finance and Planning		Classification by Group of Ministries Classification by Objective	

Country	Budget System Governing Body	Budgetary Information System	Budgetary Classifications	Legal Basis
<b>ECUADOR</b>	SP Budget Undersecretariat Ministry of Economy and Finance	SIGEF Financial Management Integral System	By item By Function By Source of Funding By Sector and Institution Geographical Classification	Decree No 1429/77 Law No. 18 (11/30/92) Law TROLE I (2000)
<b>BRAZIL</b>	SOF Secretariat of Federal Budget, Ministry of Planning, Budget and Management	SIAFI Integrated Financial Information System and SIDOR (Integrated Budgetary Data System)	By Power By Government Function and Subfunction By Group of Expenditure By Economic Category	Law No. 4320 (03/17/64) Law No. 8/90 (02/05/90) Law No. 101 (2000) Law No. 10180 (2001)
<b>PARAGUAY</b>	DGP General Office of the Budget Financial Management Undersecretariat Ministry of Economy	SIIF Integrated Financial Information System	By Institutional Classification By Objective and Function By Program By Source of Funding By Economic Classification By Financing Institutions By Expenditure Objective	Law No. 1535 (12/31/99)
<b>PERU</b>	DNPP National Public Budget Directorate Ministry of Economy	SIAF Integrated Financial Management System	By Economic Classification By Source of Funding By Function By Programming Category By Administrative Classification	Law No. 27209 (1999) S ate Budget Management Law No. 28112 (2003)
<b>MEXICO</b>	SSE Expenditure Undersecretariat Treasury and Public Credit Secretariat	SICGP Integrated Budget Management Control System	By Economic Classification By Functional Classification Classification by Expenditure Object By Programming Classification By Administrative Classification	Law of Budget, Accounting and Federal Public Expenditure

Country	Budget System Governing Body	Budgetary Information System	Budgetary Classifications	Legal Basis
<b>BOLIVIA</b>	VMPC Budget and Accounting Undersecretariat Ministry of Economy		By Institutional Classification Classification by Expenditure Obj. Classification by Source of Funding By Economic Sectors Geographical Classification	Law No. 1178 (07/20/90)
<b>COLOMBIA</b>	MHCP Ministry of Finance and Public Credit	SIIF Integrated Financial Information System	Functional Classification By Sections Economic Classification	Decree 111 (1996) Budget Organic Law
<b>NICARAGUA</b>	DGP Office of the General Budget Ministry of Finance and Public Credit	SIGFA Integrated Financial Management System	By Programming Category By Source of Funding By Expenditure Group	Law No. 51 Decree No. 17 (03/11/97) Law No. 453 (05/05/2003)
<b>GUATEMALA</b>	DTP Budget Technical Directorate Ministry of Finance	SIAF Integrated Financial Management System	Institutional Classification Geographical Classification Classification by Source of Funding Economic Classification Classification by Expenditure Object Classification by Expenditure Type Classification by Purpose and Function	Law No. 101-97
<b>HONDURAS</b>	DGP Office of General Budget Secretary of Finance	SIIF Financial Information Integral System	Institutional Classification By Expenditure Group By Programming Category	Budget Organic Law

## Annex 5: International sources for defense expenditure

The most important sources are the International Monetary Fund (IMF) (through its publication GFSY - Government Financial Statistics Yearbook), United Nations (through its standardized instrument for reporting defense expenditures), the International Institute for Strategic Studies in London (through its annual publication Military Balance), and the Stockholm International Peace Research Institute (through a regular program that can be accessed on the Internet).

The references mentioned in the first table (last column) allow starting to differentiate methodologies used by every source to gather information. It is worth remembering that these sources do not have the same concept of defense; therefore, scopes and coverage differ among sources, hampering comparisons and creating confusion. SIPRI, for instance, uses the definition of defense provided by NATO, which includes all current and capital expenditures incurred to finance the following:

- The military (including Peace Corps).
- Ministries of Defense and other government agencies involved in defense projects.
- Paramilitary forces, when trained, fit and available for military operations.
- Space military activities.

These expenditures include:

- 1) Personnel
  - Every expenditure in current staff levels (military and civilians).
  - Military pensions.
  - Social services for personnel and dependants.
- 2) Operations and Maintenance
- 3) Procurement
- 4) Military Research & Development
- 5) Military constructions
- 6) Military assistance (in the donating country)

Therefore, these items are expressly excluded:

- 1) Civil defense
- 2) Current expenditures on previous military activities.
  - Veteran benefits
  - Demobilization
  - Conversion of weapon production facilities
  - Weapon disposal.

COVERAGE	AGENCY	REFERENCE
<div style="display: flex; flex-direction: column; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); border: 1px solid black; padding: 5px; margin-bottom: 10px;">ARM TRANSFER</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg); border: 1px solid black; padding: 5px;">DEFENSE EXPENDITURE</div> </div>	International Monetary Fund <a href="http://www.imf.org/external/pubs/cat/longres.cfm?sk=397.0">http://www.imf.org/external/pubs/cat/longres.cfm?sk=397.0</a>	Questions to countries according to questionnaire based on the COFOG
	United Nations (Reduction of Military Budgets) <a href="http://disarmament2.un.org/cab/milex.html">http://disarmament2.un.org/cab/milex.html</a>	Information and classification delivered by member countries
	International Institute for Strategic Studies in London (IISS) <a href="http://www.iiss.org/">http://www.iiss.org/</a>	NATO for NATO-countries and budgetary data for non-member countries. Use of public information
	Stockholm International Peace Research Institute (SIPRI) <a href="http://projects.sipri.se/milex/mex_data_index.html">http://projects.sipri.se/milex/mex_data_index.html</a>	Follows NATO actions
	Arms Control and Disarmament Agency (former ACDA) U.S. <a href="http://www.state.gov">www.state.gov</a>	NATO for NATO-countries and budgetary data for non-member countries.
	Congressional Research Service	Register of "U.S. Foreign Military Sales"
	United Nations (Register of Arms Transfer)	Information and classification delivered by member countries

Source: adaptation based on CEPAL (2001)

Based on this definition, SIPRI breaks down the defense budgets of the different countries and adjusts them, introducing additions or deductions, as applicable, in order to make them comply with NATO standard. Thus, for example in the case of Argentina, it adds the budgets of the National Argentine Gendarmerie y Argentine Coast Guard (paramilitary forces) to its defense budget, while these institutions are an organic and functional part of the Security, Justice and Human Rights Ministry. On the other hand, SIPRI deducts military retirements from the Argentine defense budget in spite of the fact that they are an integral part of the defense expenditure in the country.

In the case of the United Nations, the standardized military expenditure reporting system was introduced by the General Meeting in 1980.\*\* In the approval resolution, the General Assembly recommended all Member States to use this instrument and report to the Secretary-General on a yearly basis. The reporting instrument develops its own classification of expenditures based on the following main categories:

- Personnel,
- Operation and Maintenance,
- Acquisition and Construction, and
- Research and Development

The following table describes the number of Latin American countries that, year over year, have complied with their reporting obligations. It should be noted that participation (voluntary) is considered at the hemispheric level as a confidence building measure between countries, allowing to effectively reduce the generation of distorted threat perceptions.

\*\* By means of Resolution 35/142B "Military budget reduction".



REPORT	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	.00	.01	.02		
Argentina																								
Brazil																								
Chile																								
Bolivia																								
Paraguay																								
Uruguay																								
Perú																								
Ecuador																								
Colombia																								
Venezuela																								
Nicaragua																								
Guatemala																								
México																								
Honduras																								
Panamá																								
Dominican Republic																								
El Salvador																								
Jamaica																								

Source: Own elaboration based on United Nations.

## Annex 6: The Planning, Programming and Budgeting System (PPBS)

As we have seen before, our budget transparency concept is based on the assumption that transparency is perfected only when the budgetary document is capable of reflecting sectorial political decisions, and it is worth mentioning a system that mainly shares that philosophy and has been broadly applied by defense ministries of various countries: the Planning, Programming and Budgeting System, widely known as PPBS.

The PPBS may be considered as something more than a budget submission methodology or a budget formulation mechanism. Strictly, this is an integrated resource planning, management and global control system that not only allocates available funds to pre-established objectives, but also intends to integrate in itself the levels of necessary resources, such as the determination of the priority of national defense objectives. It may be said that it intends to connect the different stages sequentially and logically, and that its ultimate objective is "turning the budget into the plan's financial expression".

### PPBS

The PPBS was created by a group of scholars grouped under the RAND corporation and was first applied in the U.S. Defense Department in 1963 at the request of the then Secretary McNamara. Due to its own nature, this new tool was extremely useful to the Secretary of Defense for his objective of centralizing the significant power that the different forces had on decision-making at that time.

The governing principles of its operation may be summarized as follows:\*\*\*

- *Focus on planning:* The traditional model prioritized the control function over any other task. The PPBS implies a change in the importance given to the different budget functions, enhancing the relevance of the expenditure planning function over the management or control tasks. A direct result of this supremacy is the change in the way of preparing the budget, from an input (or supplies) budget to an output (product) budget.
- *Financial criteria:* The PPBS method provides a vast significance to costs, reducing the defense issue to merely finding the way to guarantee the best use of limited funds and resources available. Therefore, it is necessary to explore the different alternatives, both from the perspective of objectives to be achieved and that of costs. Financial analysis is not just another element of decision-making; it is the binding force behind the rest of the factors and, ultimately, the decisive criteria.
- *Programming:* The main innovation introduced by the PPBS is a programming system that enables to link planning with budgeting. According to the PPBS, programming extends beyond preparing programs. It is actually an intention materialized in a solid and continued process of turning the targeted objective into reality.
- *Rationality:* The PPBS's entire philosophy is based on the application of the maximum rationality to the decision-making process as opposed to simple "intuition" or "experience", which were the traditional system's operating bases. The main problem found in assuring this rationality is that a principle to serve as a basis for these decisions is needed. The main principle adopted consists in selecting only those options that contribute to enhance the relationship between the positive values (objectives to be attained) and negative values (costs).
- *Centralization:* Decision centralization is another main characteristic of the PPBS. Considering the growing operational interdependence of the different Armed Forces' components, the system ends with this force's autonomy to jointly plan resource usage, imposing a central planning procedure based on the missions instead of the organizational structure.

\*\*\*Ignacio Cosidó, *El gasto militar*, Eudema, Madrid, 1994.

- *Efficiency*: Efficiency is a common denominator that refers to strategy as well as technology and economy. Therefore, these three elements are not independent matters, but rather interdependent elements as regards the effective use of resources.
- *Carry-over character*: The PPBS is characterized not only by a substantial extension of the time horizon, but also by the idea of continuity in the three levels of planning, programming and budgeting. This continuity is shown by the cyclic character of the processes and a system that incorporates annual modifications into a multi-annual program.
- *Information*: One of the main objectives of the PPBS is making sure that decision-makers have as much information as possible on the relevant issues, in due time and manner. Finally, adopting the most adequate decisions is just a matter of having all the necessary information available. In that sense, the new budget systems are in the most part information management systems. The PPBS is essentially a proper database for defense policy planning and allocated resource management.
- *Quantification*: The analysis method imposed by the PPBS requires that all variables that participate in the decision making process are quantifiable. Although this fact does not pose an impossible problem when calculating costs, it does however pose a serious problem when trying to calculate the degree of compliance with select objectives or, in other words, the efficiency level of the various components within the Armed Forces.