



# C

## CHAPTER 4

---

### *Civil society's budget work: strengthening transparency and accountability*

In general terms, all aspects of a country's political activity and government performance are directly related to the public budget. The same is true for most of the activities performed by society's economic actors, groups and communities, which are the custodians of the rights guaranteed by the State. Such state structure, in turn, is financed by public spending.

Budget analysis and follow-up is an essential tool for explaining how a country is governed and managed. The public budget delineates the government's priorities, the measures to be taken in order to meet such priorities, and the agencies and institutions responsible for their implementation. As such, every successful policy must count on a budgetary allocation in line with its objectives and significance.

Generally, public budgets have always been covered by a veil of discretion and secrecy. Our governments are not used to accounting for it as a customary practice, since for a long time, the implementation of their powers and therefore the use of public funds, have been understood as a

prerogative not linked to the citizen's opinion and information rights. However, as a result of a series of political, economic and social changes, Civil Society Organizations (CSO) have had an increasingly important role in the analysis and monitoring of the public budget.

Throughout the 1990's, there was a surge of discussions focused on promoting transparency and evaluation of political decisions reflected in the government budget allocation. In this context, transparency implies "that all causes leading to a governmental or administrative decision as well as the costs and resources involved in implementing this decision are accessible, clear and informed to the public in general".<sup>1</sup> There are various obvious reasons that explain the importance of budget transparency.

The first and most important reason is the central role played by the budget in the decision-making process of all countries, which is where *the* nation's priorities are established. *The* actions to resolve the main issues and promote development are also established. In addition, "it favors compliance with the law, stimulates the moderate use of public resources, reduces discretionary margins involved in the interpretation of the law, and urges honest and responsible behavior in the exercise of public authority."<sup>2</sup>

Considering the fundamental importance of transparency for establishing the connection between public policies and the resources necessary for their implementation, resource analysis, tracking and monitoring were introduced as an instrument to influence decision-making processes, based on sound reasons and the information obtained from governments. This trend has been followed both by medium-economy countries and developing countries going through important opening-up and democratization processes.

The growth of organizations performing different budget analyses is shown by the increasing figures of the *International Budget Project (IBP)*: the first international meeting, convened by the IBP in 1997, was attended by 50 people representing budget organizations in fourteen developing countries. By the third conference, there were 100 participants from organizations in 25 countries.<sup>3</sup>

<sup>1</sup> B. Lavielle, M. Pérez & H. Hofbauer (coord.) *Índice Latinoamericano de Transparencia Presupuestaria: una comparación de diez países*, Mexico, Fundar, Analysis and Reseach Centre, October, 2003, pag.5

<sup>2</sup> *Loc. cit*

<sup>3</sup> See W. Krafchick, *¿Puede la sociedad civil ser un valor agregado en las decisiones presupuestarias? Descripción del trabajo presupuestario de la sociedad civil*, International Budget Project, Washington, 2001.

Furthermore, the fourth conference held in Mexico in 2003, was attended by delegates from more than 40 countries (see [www.internationalbudget.org](http://www.internationalbudget.org)).

The central objective of most of the groups involved in public budget work is to assure and prioritize policies that are essential for the development of society, especially those groups in a less fortunate situation. Although budget analysis needs to meet certain technical and analytical soundness criteria, its ultimate goal is to be disseminated and influence both decision-making processes and the political debate.

Some time ago, one of the main issues for public budget analysis in various countries was the lack of sufficient, timely and reliable official data. In the last couple of years, this problem has been remarkably reduced, and the progress obtained at the information level is quite significant. Although there are differences between the degree of openness and access to information, currently it is possible to monitor and analyze the public budget at the different government levels, in most of the countries of the region. In that sense, the transparency of, and access to, data on public spending have dramatically improved, although this improvement does not affect all sectors in the same way.

In spite of the fact that budget work depends on a series of country-specific factors -the degree of institution consolidation, the depth of openness and democratic functionality and the government's ability to generate relevant, reliable and timely data- there are elements that are generally important, as they define the context and pace of budget work, and affect its potential to influence policies.

#### *4.1. The Budget Cycle*

When approaching a budget, it is important to consider that it is developed based on a process. The budget process encompasses all stages of public spending, from planning how much can be spent and on which items all the way to evaluating the expenditure itself and the results obtained. These stages are an integral part of a continued and multidimensional process; they overlap at a certain point in time and regularly affect the development of subsequent stages. Independently of the

specific characteristics of each context, country and type of government, the budget process is composed of four main stages:

*Formulation:* In this stage, government priorities are established and also the strategies that will be used to address them and the specific resources that will be destined to comply with these priorities. This is the most closed stage of the entire cycle and the one less known in general terms. The formulation of the budget occurs almost exclusively within the executive branch of government, except in cases where participatory processes for budget formulation are instrumented, such as the well-known case of Porto Alegre, Brazil.

In general, budget formulation is based on the criteria and guidelines established by the Ministry of Finance (or Treasury). This agency is in charge of setting budgetary ceilings and delineating initial limits regarding how much each ministry or sector is allowed to spend. It is responsible for reviewing proposals and integrating them in a general document, including revenue and spending estimates for the next fiscal year.

It is important to note that each sector or agency is responsible for defining their own priorities and determining resource allocation in a consistent manner, including the action plans established for their particular tasks. However, faced with the pressure for structural adjustments and the reduction of the state apparatus, the trend has been more towards expense reduction than budget growth. In this context, the lack or shortage of resources often prevails, becoming a recurring argument for those who have to elaborate sector-based budgets under growing financial restrictions.

*Discussion and approval:* This is the most visible stage of the budget process, as it is the time when the government presents its revenues and expenditure bill package for legislators to discuss, approve and, if possible, amend. It is one of the stages with the highest possibility of influence and visibility of the discussion/approval process, with the ease to have access to decision makers and the chance to exercise pressure on the media.

It should be noted that in the budget discussion and approval stage, all amendments that may be introduced to the bills submitted by the Executive vary according to each country's legal framework. In parliamentary systems, in general, a bill can only be passed or rejected, but never

amended. In presidential systems, there are usually various degrees of amendments that can be introduced. There are cases in which specific budget allocations can be amended, but not the budget's total amount. In other cases, it is possible to modify the expense ceiling and, therefore, increase resources with no need to adjust other items.

In general, changes parliament can introduce to the budget do not include programming details or the characteristics of the application or execution of tasks performed by the Executive agencies. However, parliament can establish the principles affecting the way data is presented and therefore, contribute to raise transparency levels and to the balance between the branches.

*Budget Execution:* In this stage, the government executes its programs with the resources approved by the Executive under the terms stated in the budget approved for the corresponding fiscal year. The chance to exert influence depends largely on the transparency conditions and access to government information. Considering that it is almost a rule that variations will occur in expenditures compared with the budget, civil society's attention is essential.

Strictly speaking, this is the time in which corruption or discretionary management of resources becomes clear. Depending on the various information mechanisms available to governments, there will be more or less information on budget execution during its application. In the last couple of years, a great deal of progress has been made in various countries of the region as regards quarterly report integration and management advances. However, in some cases, they do not compare with the approved budget format, thus reducing the utilization of such information.

Another relevant aspect is the fact that the actual availability of funds differs from projections. Therefore, it is common that, during the budget execution, variations may occur as to the final destination of specific items of the approved budget, as well as reductions and increases.

*Spending Oversight and Control:* This is the most important stage of the cycle because it is the time in which the government must account for the spent budget amounts and actual. Although the formal review process does not start until the financial report, or some equivalent document whereby the government accounts for the results of a specific fiscal year, is completed, the integration of this information starts long before, even at the budget execution stage.

The oversight must reveal the moderate use of resources, their efficiency and sensitive utilization. In theory, this information has to be considered during the development and approval of subsequent budgets. Nevertheless, this is not often consistently achieved. Therefore, the possibility of tracking approved and executed budgets to determine the need to prioritize selected items and reconsider others is extremely important. Such role can be played mainly by independent groups committed to the tracking of specific items or sectors of public spending.

#### *4.2 Key elements for independent public budget analysis and control*

The budget reflects both the social and economic policies of a government and directly impacts living conditions and services available to society as a whole. However, the highest impact of the budget is on poorer sectors, mainly due to the fact that for those living in poor conditions, government services are indispensable to improve their life conditions and provide essential opportunities. Ironically, the influence level of these unprotected sectors on the decision-making processes directly affecting them is very low.

For this reason, independent budget analysis is becoming increasingly important. In order to improve its impact on the debate definition and political agenda, it is important to make sure that some basic aspects are met, i.e., the final product must be independent, sound, timely, accessible and widely disseminated.

*Independence:* In order to be validated by other actors, a civil society's budget analysis must be independent, i.e., it must not respond to the interests of any political party in particular. This task is performed by groups of citizens, research institutes, think tanks or academic centers that analyze budget allocations, trends, features and impacts, and which are not under the influence of any political party or pressure group.

Independence as such requires that the analysis be focused on facts rather than on ideological arguments, illustrating the relevance of certain issues and analyzing how they impact the budget allocation, including the implications of those decisions. This does not mean that the analysis must be neutral, but rather unbiased and use the elements available to express the facts.

*Soundness:* The soundness of research work is important, especially to assure the credibility and reliability of the organization responsible for such work. The figures used and presented for the analysis of specific policy implications must be indisputable.

Considering that public budgets are, technically, complex documents, it takes time to develop the skills and necessary knowledge to present information that may be indisputable. The cost of not being serious enough in the analysis of information can result in the loss of credibility, bad reputation and the subsequent impossibility to establish communication channels with the targeted government actors.

*Accessibility:* Considering that budget analysis demands certain know-how, it is common to find reports written in a jargon which the audience that might be interested in reading cannot understand. This being a subject traditionally characterized by its inaccessibility, it is not very productive to create technical analysis capacities only useful for those who elaborate such analysis.

Therefore, it is essential to invest time and efforts in "translating" the analysis that is made, to make it available to society at large. Equally important is the need for arguments to be soundly structured and for relevant highlights to be illustrated as clearly and simply as possible to feed the debate of the various stakeholder groups and actors interested in the subject and capable of exercising some influence.

*Timeliness:* Another key aspect is finding the right time to present the results of the performed analysis. It is not very useful to have a sophisticated analysis unless it is presented at the right time to exert political influence. Therefore, it is very important to pay attention to the political process and keep updated information to be able to effectively respond to specific questions.

In general, opportunities for exercising some influence on budget matters are very specific and short-termed. The various above-mentioned budget process stages show when most of these opportunities appear. Additionally, the work performed in specific budget sectors or particular subjects as well as the special political situation present other relevant moments where influence can be exerted.

It is also important to identify groups, sectors or government offices where it is intended to

exert some influence, including their budget development and discussion processes, in order to ensure that the subject is most appropriately approached.

*Dissemination:* The most important use of budget analysis is its political utilization. It is of little or no use to study the effects of a budget allocated to various sectors unless the results obtained from the analysis are adequately disseminated. It is essential to adopt the appropriate dissemination strategies, aimed at making the media and policymakers read and use the reports for their debates. Investing time and effort in building relations with the media, legislators and government officials helps draw their attention not only to the events and specific activities conducted as part of our work, but also use our information to enhance their own performance.

It is indispensable to adapt information according to the target audience, which is not always the same. It is different to prepare a document for dissemination, or to encourage the legislative branch to address a specific subject, or else promote a definite reform based on the analysis. Hence, dissemination strategies vary according to the target.

*Strategic viewpoint:* Overall, it is important to identify the objectives and determine how to attain them, bearing in mind the technical, human, political and communication resources available for each group. In addition, it is also important to consider the characteristics of the different types of activities and/or analyses to be performed, as it cannot be expected that the same strategy will equally work for two different activities having different objectives. In order to maximize the estimated impact of each organization activity, it is necessary to plan and establish differentiated guidelines and actions.

The experience of various organizations dedicated to budget analysis, or which have integrated such analysis in their work, demonstrates that it is important to consider the particular conditions surrounding each specific matter we are trying to influence, and plan based on:

- a) type of analysis to be made (see Annex 1 for more details)
- b) deadline for submission of analysis results in order to maximize their impact.
- c) target audience
- d) links with other organizations, the media and relevant policymakers



e) dissemination mechanisms that can be used for rendering the best results.

### 4.3 Some suggestions on budget analysis

The experience of some organizations that have undertaken this kind of budget analysis throughout this last decade has taught us some lessons that can be important for groups that are just starting to get involved in this subject.<sup>4</sup> There are two main factors: the identification of the *entry points* of each subject to assure the adequacy and relevance of analysis; and the *development of strategies* aimed at strengthening such analysis. Chapter 7 describes such strategies and their incidence.

## Typology of Applied Budget Work

### Types of Groups involved in Budget Analysis

- Applied policy institutions
- Academic or research institutions
- Civil society organizations dedicated to specific activist subjects
- Organizations that operate at all government levels

### Nature of Budget Analysis

- Attempt to be accurate, accessible, and timely
- Strive for independent assessment
- Try to influence policymaking

### Main Activities of Applied Budget Analysis

- Promoting knowledge and information on the budget
- Assessing the budget and decision-making process
- Closely analyzing spending and fiscal policies

### Target Audiences

- Policymakers, both the executive and legislative branches
- The media
- Other NGOs
- People at large

<sup>4</sup> Annex 2 includes some of relevant sources to demonstrate and provide information for independent budget work.

As regards entry points, it is important to note the relevance of becoming familiar with the information and areas under review. Budget documents contain highly specialized data and present the information in different ways to meet the various accounting functions. These aspects will be discussed in the following chapters. Unless it is clear, from the beginning, what data we are trying to obtain from documents and budget information, the analysis will certainly not succeed.

The entry points of budget analysis are issues and problems that can be made evident by such analysis. If the main aspects and determining factors are not clear, the analysis becomes simply descriptive and too broad to show trends, contribute with important elements to the debate or influence the decision-making process. Thus, in order to analyze how relevant, transparent and adequate a budget is, in an specific area, it is necessary to understand the disadvantages of such area, the issues or challenges intended to be addressed, the characteristics of the actions needed, the type of diagnosis information to be developed and the like. Without that knowledge on the subject, the budget and its analysis will give us no more than a mere assessment of its increases and reductions in relation to the big picture and to its specific components.

Regarding strategies to strengthen the analysis, it is important to note the following. The first step after determining the type of work intended to be performed on a specific subject is to identify the information available on the budget process, the possibilities to influence it and alliances that can be formed. For this purpose, it is necessary to carry out skills and opportunity diagnosis tasks, communicate with the political organizations and actors and provide training for developing new analysis instruments. These aspects will be described in more detail in Chapter 7 of this Guide.