

Chapter 2:

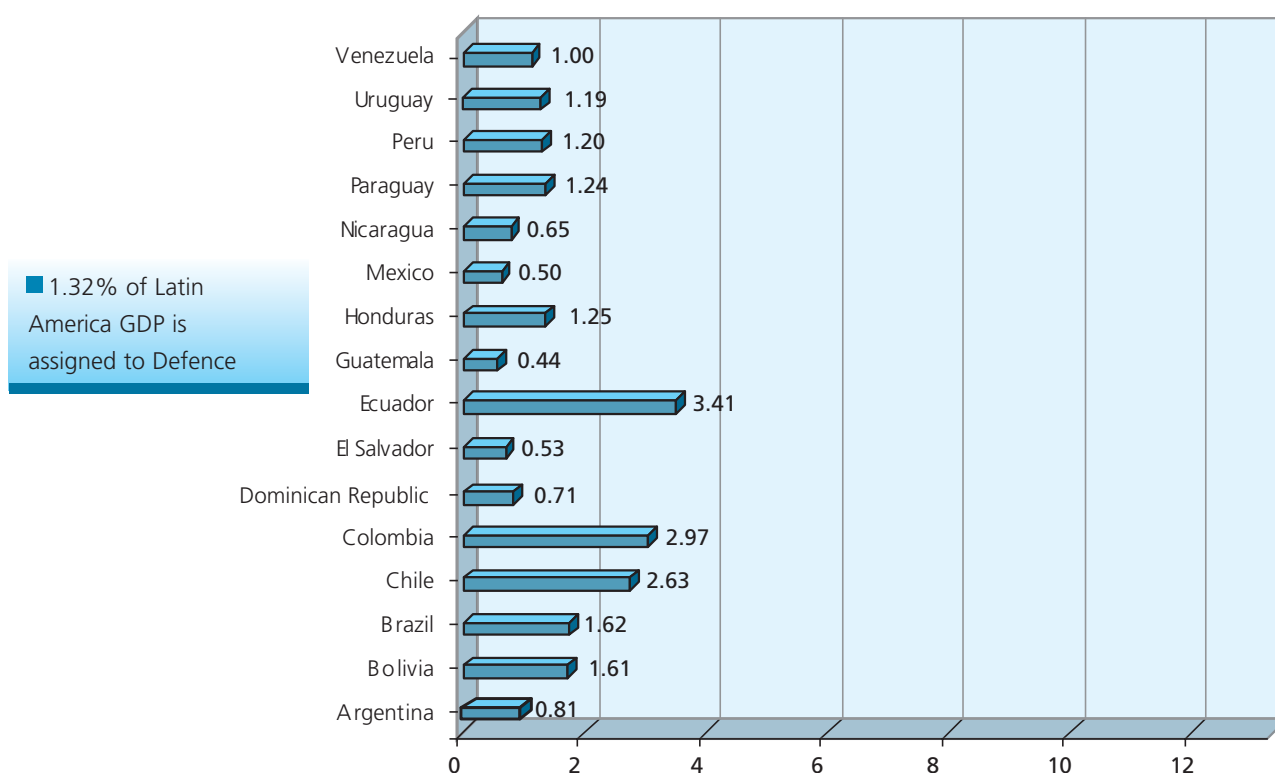
# The Budgets



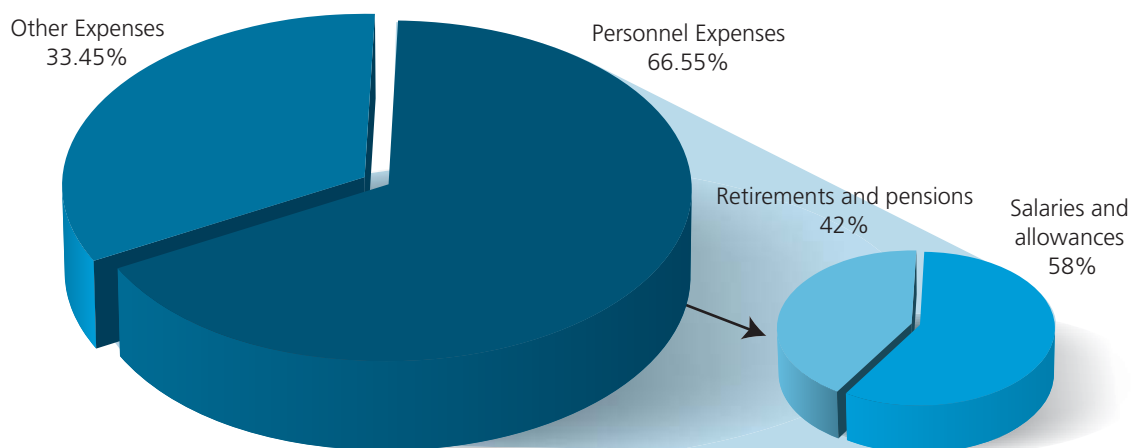
### Budget Year 2008 (in US\$)

Country	Defence Budget	State Budget	GDP
Argentina	2,628,157,098	50,781,906,344	323,800,000,000
Bolivia	269,537,265	11,203,635,538	16,699,000,000
Brazil	26,202,709,813	832,977,021,070	1,621,274,000,000
Chile	4,471,052,664	37,017,804,099	169,919,000,000
Colombia	6,004,957,107	64,578,637,852	202,437,000,000
Dominican Republic	269,120,373	8,416,481,414	37,698,000,000
Ecuador	1,691,776,803	15,817,954,065	49,597,000,000
El Salvador	115,409,495	4,558,300,000	21,824,000,000
Guatemala	156,210,263	5,251,290,771	35,729,000,000
Honduras	172,757,982	3,167,154,298	13,779,000,000
Mexico	4,706,150,462	173,350,821,168	949,576,000,000
Nicaragua	42,191,833	1,492,080,617	6,523,000,000
Paraguay	149,945,906	5,097,997,863	12,076,000,000
Peru	1,515,727,130	24,332,118,765	125,828,000,000
Uruguay	316,844,107	4,331,809,675	26,607,000,000
Venezuela	3,351,756,259	63,984,953,854	334,726,000,000

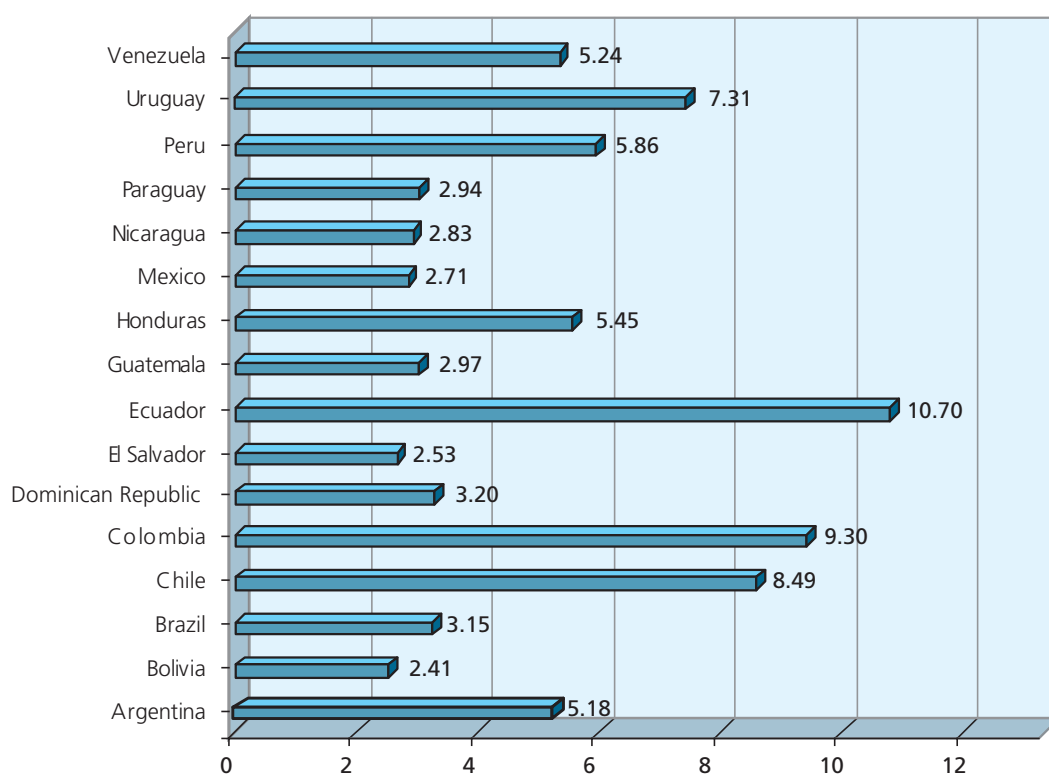
### Defence Budget 2008 (% with respect to the GDP)



Breakdown of Defence Budget. Latin America, 2008



Defence Budget 2008 (% with respect to the State Budget)



Source: Compilation based on the budgetary laws for fiscal year 2008 in each country.

For the GDP, the 2008 IMF's World Economic Outlook Database GDP information was considered.

Within this work, all resources aimed at meeting the defence system needs, independently of the specific institutional classification shown on the budgets, are considered as Defence Budget. Central Administration, Decentralized and Social Security organisms are included. For further details, see Section "The Countries" from this publication. In the case of Chile and Peru, extra-budgetary projections envisaged by law have been included in the chart with respect to the GDS.



## Analysis:

# Reserved Expenses

**Carlos Wellington Leite de Almeida\***

■ The analysis of the degree of transparency in Latin American public policies leaves the perception of a low degree of transparency.

■ The congressional allocations of reserved expenses is one of the matters still unsolved by governments in the American continent. Reserved expenses may be defined as that spending which does not completely follow the legal rules on transparency, thus disallowing the public knowledge about one or more identification and classification elements of those allocations, such as the financial source, how resources are earmarked, the object of the expenditure, the responsible authority or official in charge, the amount of the expenditure, among others. They are more commonly seen in the governmental areas that keep secrecy as a common factor that directs part of its faculties and competencies, as is the case of the national defence, the public security and the government intelligence (civil or military).

The analysis of the degree of transparency in Latin American public policies leaves the perception of a low degree of transparency. In general, it is about policies conceived of and managed in concealment by the authorities in charge, thus, social participation turns out to be low in any of the involved stages. As a result, there is a sensibly high frequency of reserved expenses. This is inherited from a historical-political evolution, most of times marked by patrimonialism and political clientelism, with a particular emphasis on all matters related to defence policies, public security and intelligence, and also by the so-called culture of secrecy.

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## Possible reasons for lack of transparency shortage

In light of the classification suggested by George Kopits, director of the Fiscal Affairs Department of the International Monetary Fund (IMF), the Latin American Security and Defence Network (RESDAL) elaborated a detailed report that identified the possible reasons for lack of transparency in the defence sector, resulting in the generation of government allocation of federal funds.<sup>1</sup> In this sense, the denial or deferral of reforms to national defence structure, the lack of coherence between defence and national objectives, the protection of particular interests and technical incapacity, are positioned in the culture of secrecy.

Particularly, a rooted culture of secrecy prevails in the world of defence and especially in the Armed Forces. This phenomenon occurs practically in every country, mainly in those where the military were closely connected with anti-democratic political times. This is the case of a large part of Latin America, where military and civilians still have difficulties regarding the establishment of new coexistence patterns.

The culture of secrecy can be defined as the undue expansion of keeping certain issues into secrecy to others that should be – a priori – of general knowledge. It is usual to find a meticulous secrecy about many of the treated matters in the military sphere, or an exaggerated mark of secrecy in ordinary issues, along with behavioural vices or simply the disregard to dissimilar criteria.

The denial or deferral of reforms in the defence structure shows the intention of keeping the existent and impending need for reforms in the defence sector away from public knowledge, mainly in the case of those reforms affecting the budgetary structure. The lack of cohesion between the defence and the national objectives is engendered in the estrangement between the implemented actions within the defence sector and the supreme national interests, to which the first should be subordinated. The protection of corporate interests is related to the natural defensive attitude, characteristic of certain people when being the target of inquiries that might reduce their personal perks, especially of the pecuniary type. The protection of personal interests mentions the guarantee of personal, individual interests - detached or not from the class interests.

Contrary to the culture of secrecy and all the abovementioned, these characteristics have to fulfill the higher duty of being transparent. Transparency must be understood as a democratic duty of the public administrator, consisting in accounting for their administrative acts and the use of public money. Transparency should not be seen as a mere demand arising from the control bodies, but rather as a social demand that hovers over the administrator. This situation is not different in the case of defence matters. The administrators of the defence system have to be accountable for their acts just like the rest of the state resources administrators are.

The identification of these possible reasons that motivate low transparency in some important governmental spending is quite precise and appropriate in regard to the generation of reserved funds. In general, these are the motivations that usually lead a governmental entity or body to make expenses without publicizing them, or to conceal them when faced to their identification and classification.

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<sup>1</sup> DONADIO, Marcela et al. *El presupuesto de defensa en América Latina: la importancia de la transparencia y herramientas para el monitoreo independiente*, RESDAL/Ser en el 2000, Buenos Aires, 2004.



## The negative effects of reserved expenses

Bygone are the times when the execution of spending without due transparency could be done without engendering prejudice against the public money administration and in society. Likewise, it can not be affirmed that the intervention of society in public administration is incorrect or detrimental for the development of public service. The consolidation of democracy and its institutions attempted to eradicate this archaic and unjustifiable way of thinking. Today, transparency is the main principle on which a good deal of the democratic reason and its values are based, and it can not be reduced to a mere unimportant instrument, whatever the alleged motivations are for its oblivion.

Especially in the defence sector, the matter revolves around the balance - or unbalance - between the need for transparency and the need for secrecy. Through the analysis of the Peruvian case, Arlette Beltrán and other researchers point out, precisely, the low information availability as a limiting factor for the adequate analysis of the national defence budget.<sup>2</sup> In fact, many military issues have a reputation for secrecy, something that should not be uncared for. Even so, transparency is something essential to guarantee efficacy and efficiency in the use of public money, so reserved expenses goes against that longed for evolution.

The first and severer damage due to reserved expenses is the liability of the principle of efficiency of the public expenditure. There is an established idea that efficiency – the generation of results at the lowest possible cost – has an umbilical link to transparency. This is so because the continual improvement in the use of public resources, with its ensuing attainment of better results, is a direct consequence of the constructive criticism only seen in an institutional atmosphere where the continual supervision and successive assessments predominate. Reserved expenses, as not being exposed to the criticism from specialized bodies and, chiefly, to social control criticism, tends to be corrupt with squandering, aside from being earmarked by a doubtful legitimacy.

From the point of view of foreign relations, reserved expenses has the awful potential to generate international distrust. Neighbouring countries in particular, are the most affected by this collateral effect of the military spending under a blanket of secrecy. In an atmosphere where the growth of mutual trust measures increasingly prevails, the existence of reserved expenses emerges as an important hurdle to overcome. For no other reason the diplomatic representatives, in the 2006 meetings held by the Organization of American States Committee on Hemispheric Security, came to the conclusion that the lack of transparency in military spending in the continental countries is one of the main barriers to the full development of trust among the American countries.

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<sup>2</sup> BELTRÁN, Arlette et al. "The fiscal budget in Peru", in PATTILLO, Guillermo (org.), *Gasto y transparencia fiscal: Argentina, Chile y Perú*. Universidad de Santiago de Chile, Santiago de Chile, 2001.