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CHAPTER 5

The public budget: a language that can be learned

5.1 The national budget

The budget is an essential expression of democratic institutions, as it is the means through which the representative political system authorizes the Executive branch to allocate the resources resulting from its legal authority to collect taxes and other public revenues. The budget has three basic economic policy objectives:

It Provides Public Goods and Services for the People. Given its imperfections, the market is unable to provide the optimum amount of certain goods and services that are essential for the people's well-being, including justice, defense, security, education, health, infrastructure, among many others. In order for these goods and services to reach society, the State must assure their provision.

Income Redistribution. Through this role, the State contributes to alleviate inequality in the distribution of income. Among other activities, it transfers wealth from the people with the highest income to those with fewer resources (for instance, through tax policies), from the youngest to the oldest (via pension payments), and from more developed regions to less developed ones (through financial

aid and subsidies of various kinds).

Growth and Stability. The public sector, through its budgetary policy, may ensure a stable and lasting framework that facilitates a favorable development of key macroeconomic variables, namely, growth, employment and inflation.

The budget represents the "*intentions*" of the government as to policies on revenues and expenditures expected for the corresponding fiscal year. However, budgets have not always been as effective as they should in meeting the objectives set forth when approved. Thus, it is necessary for various public entities and civil society organizations to monitor the execution of the budget.

For these reasons and considering the complexity and size of the so called "supreme law", a manual that may summarize budget classifications included in the budget and how to interpret them is essential to understand how the government is intending to respond to the country's demands. For our purposes, such explanations will be focused on Defense spending.

5.2 Why is fiscal transparency important?

In every decision-making process, counting with proper information is a primary requirement that directly affects the result of the decision. This principle is applicable to any kind of organization, including the public sector.

According to the definition of the International Monetary Fund,¹ fiscal transparency is based on four essential principles:

- *Clarity of Roles and Responsibilities:* it reflects the importance of establishing clear boundaries within the government among fiscal, monetary and public enterprise activities, and between the public and the private sector.

- *Disclosure of Information:* it is related to the need for complete fiscal information and the commitment of governments to publish such data at specified times.

- *Open Budget Preparation, Execution and Reporting in accordance with the Traditional Rules for Coverage, Accessibility and Integrity of Fiscal Information:* this is mainly related to the development and harmonization of international statistical and accounting standards for government reporting.

- *Independent Integrity Assurance:* it focuses on the usual way of assuring integrity through external audits and statistical independence, although it goes beyond that to require that governments be open to independent scrutiny.

Furthermore, it is known that fiscal transparency reinforces accountability and increases the political risk associated with maintaining unsustainable policies. Therefore, it may increase credibility, whose benefits will be reflected in lower financial costs and a greater support by a well-informed public to sound macroeconomic policies. The lack of transparency in government administration may be a destabilizing factor, create inefficiency and promote inequality and corruption in the management of public accounts.

In this context, the role of civil society in analyzing, tracking or influencing the allocation and exercise of public resources becomes more relevant, since in any democratic system, the correct estimation and allocation of resources and expenditures is not just the government's responsibility. The people, as voters, are responsible for ensuring that the needs of society are reflected in the political actions, or else demand that proper corrective measures be taken.

As citizens, what is necessary to understand the budget? What can we "read" or "interpret" from the pages and tables that present budget information? The following sections of this chapter will offer various perspectives to analyze budget data, in order to illustrate, with empirical data, the various mechanisms to interpret and "de-mystify" public spending.

5.3 How is the budget broken down and what does each classification tell us?

In order to perform their duties, public agencies carry out a large number of operations contained in different programs. For this reason, budget accounts should be presented in a way that facilitates government accounting. At the same time, they should allow a clear understanding of the use of resources, their destination, their objectives and those people responsible for their execution. Therefore, it is necessary to adopt a classification system that helps organize the required

information in a consistent manner and presents government revenues and expenditures in accordance with various criteria.

To understand the need for budget classification, we can mention an every-day life example. A couple has two children and own a house. The children go to school, to the doctor's, etc. The family has to buy clothes, furniture, school supplies, consumer goods. It could therefore be useful to know who spends what percentage of the family resources, how much is spent by each of the children, the wife and the husband. If we want to know the purpose of such expense, we should identify how much is allocated to school, health or work. Finally, we could find out what they spend the money on: clothing, school supplies, furniture. We could also determine the resources available to this family, by analyzing the salaries earned by the adults, their credits and their savings or loans. In essence, these same issues can be applied in the classifications of the public budget. As described below, budget classifications allow us to answer questions such as who spends the money, what for, what is bought and how it was financed.

In Latin America, budget classifications have evolved as public spending has diversified and become more complex. Currently, the commonly used classifications are jurisdictional (or administrative), functional and economic.² The importance of budget classifications lies in the understanding or interpretation that can be made of them, as they facilitate the decision-making of the appropriate agents and allow a more accurate analysis by civil society in order to strengthen government's accountability.

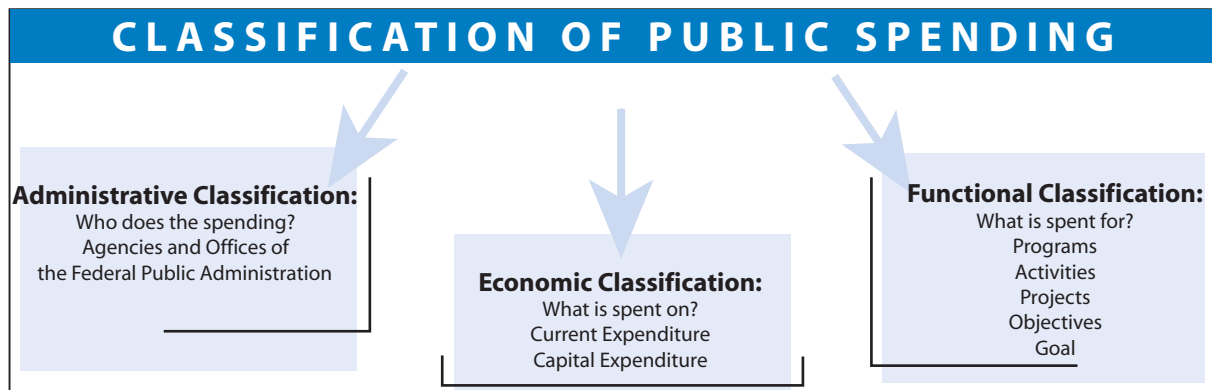
The different ways of classifying the budget do not overlap but rather complement each other. Just as in a family household in which one can wonder how much is spent on school supplies to educate the youngest son -requiring to determine what the money is spent on, with what purpose and who benefits from that expense-, the analysis of the budget, through its classification, allows to answer different but related questions. For instance, if we want to determine how much will be spent on salaries and remunerations and how much on fixed assets, we should only inquire the economic classification or the purpose for the spending. But in order to learn how much will be spent on salaries in the area of education, or how much the president will allocate to social promotion plans, we should

¹ IMF, *Código de Buenas Prácticas de Transparencia Fiscal*, March, 2001.

² J.P. Guerrero Amparán, Y. Valdés Palacio, "Manual sobre la clasificación del gasto público", Budget and Public Spending Program, CIDE, Mexico.

consult several items or classifications.

Below is a proposal of analysis through various questions that could be answered by analyzing the public budget. In order to illustrate the type of information provided (not intending to analyze each particular budget mentioned in detail), we will include examples of real budget data from different countries, selected both on the basis of available information and the region this guide has focused on.



Source: Guerrero Amparán and Valdés Palacio, "Manual sobre la clasificación económica del gasto público", Budget and Public Spending Program, CIDE, Mexico

Who does the spending?

An initial question is who spends the public budget. In general, this information is obtained when we analyze the breakdown of public spending between government institutions, whether this is the administrative, jurisdictional or institutional classification. It is simply recognized when we observe the budget broken down into ministries, secretariats or the different branches (executive, judicial and legislative). How can this information be construed?

A first review compares the budget allocated to each institution in relation to the previous year, in order to analyze who will have more resources and who will have fewer. This reading can be made in two ways: by analyzing the variations in the amounts or in percentages.

In Example 1, we may conclude that between 2003 and 2004, the budget allocated to the Ministry of Labor (*Ministerio del trabajo*) in Chile had the highest increase, whereas Treasury contributions (which include payment of debt service and subsidies) is the jurisdiction with the greatest reduction. This statement, though correct, only provides one view of the facts: i.e. a change in resources allocated shown in absolute figures.

However, if we analyze the percentage variation in resources allocated to each institution, we will note that the Ministry of Foreign Affairs (*Ministerio de relaciones exteriores*) has increased its budget by almost 50% with respect to the previous year, whereas the Ministry of Labor barely increased its budget by 7.7%. Thus, in order to draw conclusions on the budget with the highest increase, we must first specify the unit of measure being used. From this perspective, the Office of the General Government Secretary of Chile (*Secretaría general de gobierno*) has suffered the largest reduction in its budget.

We must not forget that when analyzing the variations in the budget we should consider inflation, since it reduces purchase power. Thus, for instance, if the budget of the Ministry of Education (*Ministerio de educación*) increases by 6.4%, but prices suffer a higher increase, the goods and services that may be obtained will be lower. That is, the budget of the Ministry of Education is not automatically comparable to the 2004 budget; in real terms, it is lower. This consideration is very important, since the forms that accompany the Budget Act are usually presented in nominal terms (or current pesos), and therefore if we don't take inflation into account we may reach inaccurate conclusions - for example to think that an item in the budget has increased, when in real terms (or constant pesos) it has actually decreased.

Even the comparison of absolute and percentage increases/reductions in each jurisdiction budget does not offer a comprehensive picture. An additional aspect that could be analyzed is which areas of government are considered priorities when it comes to resource allocation. From this perspective, the scenario presented in Example 1 may point to different trends. If we consider that budget allocation are a zero-sum game, i.e. if the budget of one agency goes up, that of another should go down, then the change in the budget proportion of each entity shows those actually benefited. This is a way of reflecting the government's priorities in a given year (Example 2), or along several years. It consists of comparing the percentage variations in each jurisdiction as part of a whole.

**Example 1: 2003 and 2004 Chilean Budget Act per Jurisdiction:
Absolute and Percentage Variation per Jurisdiction**

| Jurisdiction | 2003 | 2004 | Variation | |
|--|----------------------|----------------------|--------------------|------------|
| | \$,000 | \$,000 | \$,000 | % |
| Ministry of Labor and Social Security | 2,674,065,583 | 2,880,236,353 | 206,170,770 | 7.7 |
| Ministry of Education | 1,954,656,137 | 2,080,468,975 | 125,812,838 | 6.4 |
| Ministry of Housing and Urban Development | 302,661,729 | 371,362,817 | 68,701,088 | 22.7 |
| Ministry of Health | 656,691,158 | 713,421,183 | 56,703,025 | 8.6 |
| Ministry of Planning and Cooperation | 93,341,478 | 124,824,626 | 31,483,148 | 33.7 |
| Ministry of National Defense | 831,184,500 | 851,855,538 | 20,671,038 | 2.5 |
| Ministry of Public Works | 520,646,014 | 537,597,241 | 16,951,227 | 3.3 |
| Ministry of Justice | 205,483,961 | 222,116,251 | 16,632,290 | 8.1 |
| Ministry of Finance | 125,838,091 | 136,285,002 | 10,446,911 | 8.3 |
| Ministry of Foreign Affairs | 17,597,469 | 26,008,402 | 8,410,933 | 47.8 |
| Office of the Attorney General | 44,721,399 | 52,974,906 | 8,253,507 | 18.5 |
| National Congress | 45,752,726 | 49,627,470 | 3,874,744 | 8.5 |
| Judicial Branch | 116,008,484 | 119,273,340 | 3,264,856 | 2.8 |
| Office of the Comptroller General | 19,203,049 | 20,062,520 | 859,471 | 4.5 |
| Office of the President of the Republic | 6,540,640 | 7,053,872 | 513,232 | 7.8 |
| Presidential Chief of Staff Office | 14,164,071 | 14,370,980 | 206,909 | 1.5 |
| Ministry of National Goods | 6,418,269 | 6,002,745 | -415,524 | -6.5 |
| Ministry of Economy, Development and Recon. | 40,894,196 | 39,654,772 | -1,239,424 | -3.0 |
| Ministry of Mining | 22,548,922 | 20,526,661 | -2,022,261 | -9.0 |
| Ministr of Agriculture | 144,065,076 | 140,902,715 | -3,162,361 | -2.2 |
| Ministry of Transport and Telecommunications | 45,547,165 | 41,308,646 | -4,238,519 | -9.3 |
| Ministry of the Secretary General | 33,130,624 | 28,071,093 | -5,059,531 | -15.3 |
| Ministry of Interior | 227,471,896 | 205,349,980 | -22,121,916 | -9.7 |
| Treasury Obligations | 1,270,240,320 | 1,094,540,429 | -175,699,891 | -13.8 |
| TOTAL expenditures | 9,418,872,957 | 9,783,896,517 | 365,023,560 | 3.9 |

Source: 2003 and 2004 Public Sector Budget Act (Ley de Presupuesto del Sector Público), Ministry of Finance, Chile.

Example 2 illustrates the percentage variation in the total budget breakdown between jurisdictions. It is observed that from 2003 to 2004, the government prioritizes the Ministry of Labor and Social Security, Housing and Urban Development, and Education. At the same time, it reduces the proportion of resources allocated to the Treasury Obligations, Ministry of Interior and Defense.

**Example 2: 2003 and 2004 Chilean Budget Act:
Relative Percentage Variation among Jurisdictions**

| Jurisdiction | 2003 | 2004 | Composition | | |
|---|----------------------|----------------------|-------------|------------|----------|
| | \$,000 | \$,000 | | | |
| Ministry of Labor and Social Security | 2,674,065,583 | 2,880,236,353 | 28.39 | 29.44 | 1.05 |
| Ministry of Education | 1,954,656,137 | 2,080,468,975 | 3.21 | 3.80 | 0.58 |
| Ministry of Housing and Urban Development | 302,661,729 | 371,362,817 | 20.75 | 21.26 | 0.51 |
| Ministry of Health | 656,691,158 | 713,421,183 | 6.97 | 7.29 | 0.32 |
| Ministry of Planning and Cooperation | 93,341,478 | 124,824,626 | 0.99 | 1.28 | 0.28 |
| Ministry of National Defense | 831,184,500 | 851,855,538 | 2.18 | 2.27 | 0.09 |
| Ministry of Public Works | 520,646,014 | 537,597,241 | 0.19 | 0.27 | 0.08 |
| Ministry of Justice | 205,483,961 | 222,116,251 | 0.47 | 0.54 | 0.07 |
| Ministry of Finance | 125,838,091 | 136,285,002 | 1.34 | 1.39 | 0.06 |
| Ministry of Foreign Affairs | 17,597,469 | 26,008,402 | 0.49 | 0.51 | 0.02 |
| Office of the Attorney General | 44,721,399 | 52,974,906 | 0.07 | 0.07 | 0.00 |
| National Congress | 45,752,726 | 49,627,470 | 0.20 | 0.21 | 0.00 |
| Judicial Branch | 116,008,484 | 119,273,340 | 0.15 | 0.15 | 0.00 |
| Office of the Comptroller General | 19,203,049 | 20,062,520 | 0.07 | 0.06 | -0.01 |
| Office of the President of the Republic | 6,540,640 | 7,053,872 | 1.23 | 1.22 | -0.01 |
| Presidential Chief of Staff Office | 14,164,071 | 14,370,980 | 0.43 | 0.41 | -0.03 |
| Ministry of National Goods | 6,418,269 | 6,002,745 | 0.24 | 0.21 | -0.03 |
| Ministry of Economy, Development and Reconst. | 40,894,196 | 39,654,772 | 5.53 | 5.49 | -0.03 |
| Ministry of Mining | 22,548,922 | 20,526,661 | 0.48 | 0.42 | -0.06 |
| Ministry of Agriculture | 144,065,076 | 140,902,715 | 0.35 | 0.29 | -0.06 |
| Ministry of Transport and Telecommunications | 45,547,165 | 41,308,646 | 1.53 | 1.44 | -0.09 |
| Ministry of the Secretary General | 33,130,624 | 28,071,093 | 8.82 | 8.71 | -0.12 |
| Ministry of Interior | 227,471,896 | 205,349,980 | 2.42 | 2.10 | -0.32 |
| Treasury Obligations | 1,270,240,320 | 1,094,540,429 | 13.49 | 11.19 | -2.30 |
| TOTAL Expenditures | 9,418,872,957 | 9,783,896,517 | 100 | 100 | 0 |

Source: 2003 and 2004 Public Sector Budget Act. (Ley de Presupuesto del Sector Público) Ministry of Finance, Chile.

Both ways of analyzing the budget per government jurisdiction enable to see who spends public resources, how much more is allocated to each institution and to what extent it is a priority area for the government in the year under review. In fact, examples 1 and 2 show that the methodology used is different depending on the starting point, and therefore, conclusions also differ.

This precisely applies in the case of the Ministry of Defense. In Example 1, it is clear that its budget has increased by 2.5%, compared with the previous year. However, Example 2 shows that, among the government priorities, defense does not have a prominent position; the proportion it receives of the total government budget has fallen by 0.12%. This is an example that shows the need to consider different types of comparisons before reaching conclusions. These three measurements give an initial idea of amounts, variations and government priorities, which may be further explored by using other ways of sorting out or classifying public spending.

What is the budget spent on?

The economic dimension of spending provide information on the input required by the public sector for its operation and to produce goods and services. Such information is useful to analyze the impact of spending on macroeconomic variables, especially if we add government current expenditure, capital expenditure, and aid, subsidies and transfers. Likewise, it allows to grasp variations in components of national accounts, which are made up of consumer goods, investment, government spending and trade balance. Furthermore, it details the government need for resources (human, financial, technological and material).

Example 3 presents the Mexican budget classified according to its economic characteristics, and how the money has been spent comparing 2002 and 2001. It is important to note that current expenditures show the highest increase, essentially due to a rise in "federal sharing and contributions", i.e. resources the Federation transfers to other levels of government for health, education, infrastructure, public security, etc. Likewise, the budget assigned to transfers and subsidies are significantly increased. We should also note that National Debt records a 40% increase.

It is important to note that the data used in examples 3 and 4 are not taken from the Budget for government spending of the Mexican Federation but from the Public Treasury Report. If we remember the stages of the budget cycle mentioned in chapter 4, this is the report submitted after

resources are executed. This means that it reflects the total amounts that were actually executed, and not the original budget planned to be spent.

Example 3: Mexico Federal Budget, 2001 and 2002, executed
Absolute and Percentage Variation per Component of Economic Classification

| | 2001 | 2002 | Variation | |
|--|------------------|--------------------|-------------------|---------------|
| | | | \$ | % |
| Current Expenditures | 544,008.3 | 773,238.5 | 229,230.2 | 42.1 |
| Personnel Services | 93,359.3 | 103,251.1 | 9,891.8 | 10.6 |
| Materials and Supplies | 8,142.6 | 9,167.4 | 1,024.8 | 12.6 |
| General Services | 15,530.4 | 19,858.4 | 4,328.0 | 27.9 |
| Subsidies and Transfers | 232,958.3 | 306,930.4 | 73,972.1 | 31.8 |
| Financial Investment, Economic Allowances and other current expenditures | 7,966.8 | 10,433.2 | 2,466.4 | 31.0 |
| Revenue Sharing, Federal Contributions and Reallocated Expenditure | 186,050.9 | 323,598.0 | 137,547.1 | 73.9 |
| Capital Expenditures | 99,755.9 | 88,021.3 | (11,734.6) | (11.8) |
| Personal and Real Property | 7,104.3 | 5,365.9 | (1,738.4) | (24.5) |
| Subsidies and Transfers | 38,555.9 | 54,164.2 | 15,608.3 | 40.5 |
| Public Works | 33,085.7 | 11,459.7 | (21,626.0) | (65.4) |
| Other capital expenditures | 21,010.0 | 17,031.5 | (3,978.5) | (18.9) |
| National Debt, Current Liabilities and Others | 126,974.7 | 177,672.4 | 50,697.7 | 39.9 |
| TOTAL Expenditures | 770,738.9 | 1,038,932.2 | 268,193.3 | 34.8 |

Source: Public Account Report (Informe de Cuenta Pública), 2001 and 2002. Secretariat of Finance and Public Credit, Mexico

If, for the purposes of this case, we apply the same mechanics described in the previous section, that is, evaluating the percentage variation in the different economic categories as part of a whole, the situation is again different (Example 4). From this perspective, the spending on personnel services reduces its share of the total budget, just like the budget allocated to subsidies and transfers (although both items increase between 2001 and 2002).

The item that undoubtedly increases, both in amount and in percentage, is "Federal Contributions". Capital expenditures have reduced their share of the total budget and spending on national debt and current liabilities increases, though only by 0.6%.

Example 4: Federal Budget of Mexico, 2001 and 2002, executed Relative Percentage Variation between Components of the Economic Classification

| | 2001 | 2002 | Composition | | |
|--|------------------|--------------------|--------------|------------------|--------------|
| | | | 2001 | 2002 | Variat. |
| Current Expenditures | 544,008.3 | 773,238.5 | 70.6% | 74.4% | 3.8% |
| Personnel Services | 93,359.3 | 103,251.1 | 12.1% | 9.9% | -2.2% |
| Materials and Supplies | 8,142.6 | 9,167.4 | 1.1% | 0.9% | -0.2% |
| General Services | 15,530.4 | 19,858.4 | 2.0% | 1.9% | -0.1% |
| Subsidies and Transfers | 232,958.3 | 306,930.4 | 30.2% | 29.5% | -0.7% |
| Financial Investment, Economic Allowances and other current expenditures | 7,966.8 | 10,433.2 | 1.0% | 1.0% | 0.0% |
| Revenue sharing, Federal Contributions and Reallocated Expenditure | 186,050.9 | 323,598.0 | 24.1% | 31.1% | 7.0% |
| Capital Expenditures | 99,755.9 | 88,021.3 | 12.9% | 8.5% | -4.5% |
| Personal and Real Property | 7,104.3 | 5,365.9 | 0.9% | 0.5% | -0.4% |
| Subsidies and Transfers | 38,555.9 | 54,164.2 | 5.0% | 5.2% | 0.2% |
| Public Works | 33,085.7 | 11,459.7 | 4.3% | 1.1% | -3.2% |
| Other capital expenditures | 21,010.0 | 17,031.5 | 2.7% | 1.6% | -1.1% |
| National Debt, Current Liabilities and Others | 126,974.7 | 177,672.4 | 16.5% | 17.1% | 0.6% |
| TOTAL Expenditures | 770,738.9 | 1,038,932.2 | 100% | 268,193.3 | - |

Source: Public Account Report (Informe de Cuenta Pública), 2001 and 2002. Secretariat of Finance and Public Credit, Mexico

An aspect that should be taken into consideration when analyzing where resources are spent is the fact that the budget, allocated to the various economic categories, has different implications in the medium and long term. For instance, if retirement payments (included in transfers) are increased, this will affect the transfers budget in the following fiscal years, thus creating constraints on the budget; as the budget is not prepared from scratch every year, but is rather developed by the inertia of the previous year in which there are more concepts committed

even before the budget is prepared. This may apply to the payment of debt interests, retirements or even remunerations (since the salary level is generally protected and layoffs imply economic and social costs), which may be understood as components that impose limitations on the budget.

Example 5: Argentina Budget Act, 2003 and 2004
Absolute and Percentage Variation per Function

| Spending Functions | 2003 in pesos | 2004 in pesos | Variation | |
|--|-----------------------|-----------------------|----------------------|-------------|
| | | | \$ | % |
| Social Security | 22,664,587,503 | 24,738,339,809 | 2,073,752,306 | 9.1 |
| Social Promotion and Assistance | 2,671,158,087 | 3,607,553,530 | 936,395,443 | 35.1 |
| Education and Culture | 3,193,519,801 | 3,907,088,518 | 713,568,717 | 22.3 |
| Transport | 1,291,960,596 | 1,961,748,706 | 669,788,110 | 51.8 |
| Housing and Urban Developm. | 719,160,868 | 1,020,629,909 | 301,469,041 | 41.9 |
| Health | 2,113,584,751 | 2,323,768,978 | 210,184,227 | 9.9 |
| Domestic Security | 1,696,936,372 | 1,861,610,101 | 164,673,729 | 9.7 |
| Science and Technology | 765,106,383 | 918,434,729 | 153,328,346 | 20 |
| Other ítems | 835,753,652 | 963,812,079 | 128,058,427 | 15.3 |
| Defense | 2,279,246,150 | 2,370,599,210 | 91,353,060 | 4 |
| Higher Executive Directorate | 290,293,941 | 369,811,440 | 79,517,499 | 27.4 |
| Judiciary | 868,904,560 | 943,276,382 | 74,371,822 | 8.6 |
| Criminal System | 223,706,007 | 282,028,237 | 58,322,230 | 26.1 |
| Foreign Affairs | 571,481,575 | 618,613,004 | 47,131,429 | 8.2 |
| Labor | 3,787,227,350 | 3,812,903,652 | 25,676,302 | 0.7 |
| Intelligence | 332,402,600 | 357,097,475 | 24,694,875 | 7.4 |
| Agriculture | 260,949,840 | 283,768,689 | 22,818,849 | 8.7 |
| Energy, Fuels and Mining | 456,611,231 | 466,305,036 | 9,693,805 | 2.1 |
| Legislature | 376,108,647 | 365,976,388 | -10,132,259 | -2.7 |
| Internal Relations | 1,733,439,003 | 1,644,795,802 | -88,643,201 | -5.1 |
| National Debt Service | 7,760,651,082 | 6,893,880,530 | -866,770,552 | -11.2 |
| TOTAL Expenditures | 54,892,789,999 | 59,712,042,204 | 4,819,252,205 | 8.8 |

Source: National Budget Act (Ley de Presupuesto Nacional), 2004. Ministry of Economy, Argentina

What is it spent for?

Another question that can be answered by analyzing the budget is: what government function will public resources be allocated to? In order to answer this question, we must look at the sheets that show classifications per function, theme or program area. Until not long ago, many national budgets from the region did not have a breakdown of information with such characteristics. They just provided information on who spent the money and how much, as well as what it was spent on.

But they did not go into further details on the end of such spending. It is important to mention that without information that breaks down the budget according to functions or programs, it is extremely difficult to make an analysis that may go beyond macroeconomic or general spending.

On the contrary, if information is available, there are different ways of approaching such data. Some are similar to those already presented for the administrative and economic classifications.

In the case of the public budget in Argentina, if we analyze the functional classification by observing variations in amounts and percentages for each government area, we will see that the highest increase in amount is found in the Social Security arena, whereas in percentage terms, the function with the highest increase is Transport (Example 5).

Example 6 shows the budget breakdown per function and the relative percentage variation between 2003 and 2004. Once again, this perspective allows us to identify what government functions resources will be allocated to, comparing the prioritization of the various sectors with the previous year. Thus, whereas payment of debt interests is the function that appears more deferred in the 2004 budget plan compared to 2003, the government function with the highest priority in the budget is Social Security, followed by Transport.

We should underscore, however, that although the budget allocated to the payment of debt interests will show a negative percentage variation with respect to 2003, its share of the total budget is larger than that of Social Promotion, Education and Labor, sectors that, as shown above, are government priorities.

Example 6: Argentina's Budget Act, 2003 and 2004

Relative Percentage Variation among Functions

| Functions of Expenditure | 2003 in pesos | 2004 in pesos | Composition | | |
|---------------------------------|-----------------------|-----------------------|-------------|------------|----------|
| | | | % | % | % |
| Social Promotion and Assistance | 2,671,158,087 | 3,607,553,530 | 4.9 | 6.0 | 1.2 |
| Transport | 1,291,960,596 | 1,961,748,706 | 2.4 | 3.3 | 0.9 |
| Education and Cultura | 3,193,519,801 | 3,907,088,518 | 5.8 | 6.5 | 0.7 |
| Housing and Urban Development | 719,160,868 | 1,020,629,909 | 1.3 | 1.7 | 0.4 |
| Science and Technology | 765,106,383 | 918,434,729 | 1.4 | 1.5 | 0.1 |
| Social Security | 22,664,587,503 | 24,738,339,809 | 41.3 | 41.4 | 0.1 |
| Other ítems | 835,753,652 | 963,812,079 | 1.5 | 1.6 | 0.1 |
| Higher Executive Directorate | 290,293,941 | 369,811,440 | 0.5 | 0.6 | 0.1 |
| Criminal Justice System | 223,706,007 | 282,028,237 | 0.4 | 0.5 | 0.1 |
| Health | 2,113,584,751 | 2,323,768,978 | 3.9 | 3.9 | 0.0 |
| Domestic Security | 1,696,936,372 | 1,861,610,101 | 3.1 | 3.1 | 0.0 |
| Agriculture | 260,949,840 | 283,768,689 | 0.5 | 0.5 | 0.0 |
| Judiciary | 868,904,560 | 943,276,382 | 1.6 | 1.6 | 0.0 |
| Foreign Affairs | 571,481,575 | 618,613,004 | 1.0 | 1.0 | 0.0 |
| Intelligence | 332,402,600 | 357,097,475 | 0.6 | 0.6 | 0.0 |
| Energy, Fuels and Mining | 456,611,231 | 466,305,036 | 0.8 | 0.8 | -0.1 |
| Legislature | 376,108,647 | 365,976,388 | 0.7 | 0.6 | -0.1 |
| Defense | 2,279,246,150 | 2,370,599,210 | 4.2 | 4.0 | -0.2 |
| Internal Affairs | 1,733,439,003 | 1,644,795,802 | 3.2 | 2.8 | -0.4 |
| Labor | 3,787,227,350 | 3,812,903,652 | 6.9 | 6.4 | -0.5 |
| National Debt Service | 7,760,651,082 | 6,893,880,530 | 14.1 | 11.5 | -2.6 |
| TOTAL Expenditures | 54,892,789,999 | 59,712,042,204 | 100 | 100 | 0 |

Source: National Budget Act (Ley de Presupuesto Nacional), 2004. Ministry of Economy. Argentina

What can be observed in this case is that the budget shows what tasks resources will be allocated to in the current year. In order to compare it with the previous year, we should again take into account its variation and composition, both to see the quantitative modifications and the change in government priorities from one year to the next.

How is the budget funded?

Finally, we could analyze the public budget by considering how the activities and services provided by the government are funded. All resources of government agencies come from tax revenues (taxes, contributions and rates), the sale of personal property, services, property tax revenues, its own revenues, return from loans granted, application of fines, punishments and insurance claim adjustments, non-reimbursable transfers without consideration from other governments, national or foreign legal entities, and income resulting from the government's interest in business activities, including transfers from other entities.

This perspective is important not only because it allows us to know where public resources come from, but also the use made of revenues from taxes and natural resources of the Nation, not the incumbent Administration. This is the essence and main reason why citizens are entitled to demand the government to account for the use of public resources, i.e. because they belong to society. It is therefore up to not only the government but each of us to become involved and participate (either actively or passively) so that the administration of our resources is transparent and contributes to the development of a more fair and equitable society.

In order to analyze the budget according to the source of government funding, we will show an example that combines two perspectives: the expenditure per function and per financing source. This type of combined analysis provides more sense to the budget figures - to represent not only numbers but to tell us something about them.

Example 7 illustrates that regular (ordinary) resources, corresponding to tax collection revenues and other concepts - which are not related to any agency and are available for free programming - are the main source of government funding, accounting for 80% of all revenues. Such revenues are used to fund functions such as the Legislative branch, Defense and Security, Education or Foreign Affairs. However, there are certain government areas that are funded with other sources. For instance, spending on Communications, or Housing and Urban Development receive a high percentage of funding from Direct Revenue Resources. These are revenues generated and directly administered by Public Entities, among which we could mention Property Tax Revenues, Rates, Sales of Property and Services, etc.

Example 7: National Budget of Peru, 2001

Breakdown per Function and Source of Funding.

| Function/Source of Financing | Ordinary | Royalties and extra royalties | Share in Customs Duties | Contributions to funds | Direct Revenue Resources | Resources from credit operations | | |
|-------------------------------|----------------------|-------------------------------|-------------------------|------------------------|--------------------------|----------------------------------|---------------------|---------------------|
| | | | | | | Internal | External | Subtotal |
| Legislative | 244,763.58 | - | - | - | 233.65 | - | - | - |
| Justice | 651,159.27 | - | - | - | 79,680.47 | - | 13,135.75 | 13,135.75 |
| Administration and Planning | 7,284,683.59 | 53,324.91 | 25,200.14 | - | 284,738.18 | 45.35 | 1,244,760.10 | 1,244,805.44 |
| Agriculture | 831,854.09 | 6,828.01 | - | - | 138,102.63 | - | 174,897.44 | 174,897.44 |
| Social Services and Security | 5,972,232.86 | 22,276.96 | 3,009.48 | 1,405,503.83 | 100,786.71 | 73,232.50 | 401,093.84 | 474,326.34 |
| Communications | 6,985.77 | 726.73 | - | - | 37,452.68 | - | - | - |
| Defense and National Security | 4,530,902.60 | - | 2,736.38 | - | 247,543.35 | 35,665.66 | - | 35,665.66 |
| Education and Culture | 4,722,729.57 | 45,098.18 | 12,070.04 | - | 528,044.13 | - | 66,669.24 | 66,669.24 |
| Energy and Mineral Resources | 90,448.72 | 5,483.29 | - | - | 66,769.48 | 138.96 | 90,428.39 | 90,567.35 |
| Industry, Trade and Services | 57,066.45 | 5,195.59 | 576.46 | - | 41,098.50 | - | - | - |
| Fishing | 48,650.87 | 814.26 | - | - | 64,839.13 | - | - | - |
| Foreign Affairs | 330,762.74 | - | - | - | 34,872.93 | - | - | - |
| Health and Sanitation | 2,302,953.41 | 23,345.39 | 5,388.03 | - | 500,198.21 | - | 85,893.08 | 85,893.08 |
| Labor | 14,397.73 | - | - | - | 13,233.71 | - | - | - |
| Transport | 626,127.93 | 48,642.99 | 18,023.88 | - | 191,291.50 | - | 344,935.86 | 344,935.86 |
| Housing and Urban Development | 58,769.86 | 6,110.34 | 3,627.76 | - | 29,333.83 | - | 21,642.19 | 21,642.19 |
| GENERAL TOTAL | 27,774,489.06 | 217,846.64 | 70,632.17 | 1,405,503.83 | 2,358,219.08 | 109,082.46 | 2,443,455.89 | 2,552,538.35 |
| Structure % | 80.3% | 0.6% | 0.2% | 4.1% | 6.8% | 0.3% | 7.1% | 7.4% |

| Function/Source of Financing | Donations and Transfer | TOTAL | What % of the expenditure is financed by ...? | | |
|--------------------------------|------------------------|----------------------|---|------------------------------|-----------------|
| | | | Ordinary Resources | Directly Collected Resources | External Credit |
| Legislative | - | 244,997.23 | 100% | 0% | 0% |
| Justice | 6,748.91 | 750,724.40 | 87% | 11% | 2% |
| Administration and Planning | 31,473.09 | 8,924,225.35 | 82% | 3% | 14% |
| Agriculture | 10,770.58 | 1,162,452.75 | 72% | 12% | 15% |
| Social Assistance and Security | 14,444.87 | 7,992,581.04 | 75% | 1% | 5% |
| Communications | - | 45,165.18 | 15% | 83% | 0% |
| Defense and National Security | 3,021.62 | 4,819,869.60 | 94% | 5% | 0% |
| Education and Culture | 24,381.44 | 5,398,992.59 | 87% | 10% | 1% |
| Energy and Mineral Resources | 2,417.66 | 255,686.50 | 35% | 26% | 35% |
| Industry, Trade and Services | 5,454.43 | 109,391.43 | 52% | 38% | 0% |
| Fishing | 1,305.60 | 115,609.86 | 42% | 56% | 0% |
| Foreign Affairs | 11.80 | 365,647.47 | 90% | 10% | 0% |
| Health and Sanitation | 77,999.38 | 2,995,777.50 | 77% | 17% | 3% |
| Labor | 8,718.13 | 36,349.57 | 40% | 36% | 0% |
| Transport | 23,403.01 | 1,252,425.17 | 50% | 15% | 28% |
| Housing and Urban Development | - | 119,483.99 | 49% | 25% | 18% |
| GENERAL TOTAL | 210,150.51 | 34,589,379.63 | 80% | 7% | 7% |
| Structure % | 0.6% | 100.0% | | | |

Source: Results from Fiscal Year (Resultado del Ejercicio) 2001. Ministry of Economy and Finance, Peru.

Finally, it should be underscored that half of the external credit, that is, resources coming from credit operations made by the government with institutions, international bodies and foreign governments, is allocated to Administration and Planning function. Other areas that finance an important part of their expenditures through external credits include Energy and Mineral Resources and Transport.

5.4 What should be taken into account when analyzing fiscal figures?

When it comes to analyzing fiscal figures we should consider the following items: *What definition of public sector is used? What reporting criteria or times are used? What is the unit of accounting data is presented in? How do fiscal figures respond to seasonality? And what is the quality of the information used?*

Usually all this data is detailed in tables containing fiscal information. Appendix 3 briefly illustrates the type of fiscal information that is usually disclosed to the people. When working with data for different countries or with series for one country, attention should be paid to the points mentioned above. Otherwise, we may reach conclusions with respect to the size of the public sector, or the fiscal imbalance of a country as opposed to others, or else the evolution of these variables for one country, and in fact the consolidation has not been homogeneous. Too often, due to lack of information, the panels of fiscal data elaborated by consultants, investment banks and even multilateral credit organizations such as the IMF or the World Bank are not homogeneous.

Which definition of public sector is used?

Here we should consider not only what level/s of government the information corresponds to, but also the definition of public sector itself. In a federal system, each of the jurisdictions within the various levels of government has its own fiscal policy, though it is not independent. That is, each jurisdiction manages its own budget, according to its own resources, such resources originate in transfers from the other levels of government, and there are limitations as to its capacity of indebtedness. Therefore, when working with fiscal numbers, an item to be taken into account is their scope.

In other words, apart from considering if figures correspond to the national government, or to the provinces, municipalities, or whether they are the product of a consolidation process, we should also determine in each case whether they only include the central government or whether they also include decentralized organizations, social security institutions, state-owned companies, etc.

Which reporting criteria or times are used?

The internationally accepted accounting reporting criteria are the "accrual basis" and the "cash basis". The "accrual basis" criterion corresponds to the flows of funds effectively realized regardless of the moment in which payment or collection occurs. Under the "cash basis" criterion, incoming or outgoing funds are reported regardless of whether the expenditure or revenue that generated the fund disbursement corresponds to the period in which they are being paid/collected or not. The use of one criterion over the other depends, essentially, on the use made of information. That is, if the objective is strictly financial, such as defining the financial needs of the treasury, the criterion to be used will be the "cash basis". Now, if the budget execution is being analyzed, the best criterion is that of "accrual basis", since under this methodology, the economic events are reported in the period in which they occur, regardless of their collection, payment or expiration.

What is the unit of accounting data is presented in?

This question refers to whether information is presented in current prices, that is, in prices effective in the period under consideration, or whether they have been corrected by any inflationary measure to convert them to constant prices, taking a specific period as the basis. Figures may also be presented as a percentage of the Gross Domestic Product (GDP) or other economic indicators. Thus, the amount of Debt Interests is usually shown as percentage of exports, Public Investment as a share in the Gross Fixed Internal Investment of the national economy or some expenditure in particular may be presented based on the total expenditure of the economy.

How do fiscal figures respond to seasonality?

Seasonality is an additional point to be considered, especially when working with monthly or quarterly data. Revenues and expenditures may be increased or decreased at certain times of the year. Let's take the example of Argentina. VAT collection is usually increased in January as a consequence of the seasonal Christmas shopping surge. In terms of expenditure, in July and January there is an increase in the remunerations appropriation, as civil servants and pensioners are paid their Thirteenth Salary in those months.

What is the quality of the information used?

Finally, fiscal figures may correspond to the budget execution itself or to "projections", as in the case of figures included in the Budget Message. Likewise, the execution may be presented on the basis of final, temporary or estimated data.

As a final note, it is proper to state that the way to analyze budget information is not just looking at the tables of data and calculating variations between various years. Citizens must go deeper into the figures to find out more about the government priorities and plans. Thus, the analysis of budget figures together with the programmatic content of government actions, statistical and economic information, as well as population profiles, will enable to put the objectives of public policies in a given context, including resources allocated and their actual probabilities of reaching their objectives. Only with a complete panorama will it be possible to progress towards a higher accountability of government.