

# **THE DEFENSE BUDGET IN LATIN AMERICA**

**The importance of transparency  
and tools for an independent monitoring**



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The defense budget in Latin America : the importance of transparency and tools for an independent monitoring / coordinado por Marcela Donadio - 1a ed. - Buenos Aires : SER en el 2000, 2005.

126 p. ; 24x20 cm.

ISBN 987-21725-2-8

1. Defensa-América Latina. I. Donadio, Marcela, coord. II. Título  
CDD 355.03

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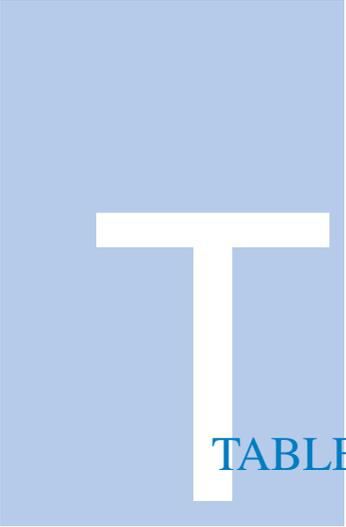
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Cover design: Julián Bueno

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# PROLOGUE

The armed forces in Latin America have been weakened for many years because they have been isolated from the societies for which they provide the critical public good of national defense. This isolation and weakness has had extremely negative impacts on the region's military institutions, the professional soldiers who serve in them, and the political systems which they defend. Strong military institutions would consist of well-trained and well-paid professionals carrying out defense missions critical for their nations' security and essential for their foreign policies. Instead, these weakened and isolated forces often carry out a miscellaneous melange of military and non-military duties with little constructive input from the rest of their nations' political systems or from individual citizens themselves. Latin America's military professionals would be much better served if the importance of their essential missions were clearly understood by the citizens of their countries. Only then could national defense policies be set which would provide proper pay and material for the region's defense professionals.

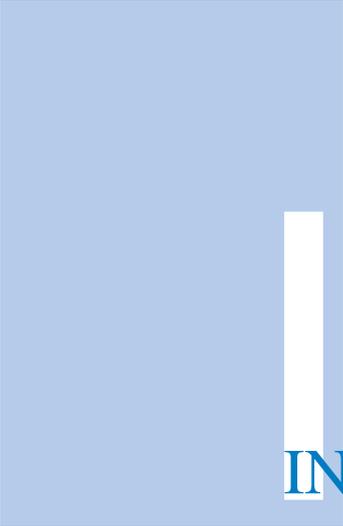
In the past this weakness and isolation has resulted in such separation between military and civilian that essential information about the region's armed forces was kept from the public record. Precise and accurate information about troop strength, military material, military technology, and their underlying budgets was simply not available, often to the general public and frequently even to select committees of the region's legislatures. Today that pattern is being reversed. The publication of "White Books" describing basic information about the armed forces of many of Latin America's countries represents an important step forward, one which shows clear progress with each passing year; the regular meeting of the region's defense ministers (most recently in 2004 in Quito, Ecuador) shows promise for coordination of concerns and rationalization of resources among these nations.

This progress is essential for the institution building which is central to the strengthening of democracy in the region's political systems. In fact it is particularly important because, in every nation in the western hemisphere, the armed forces are the largest and, usually, best-organized institution of the state. For progress to be made on democracy in Latin America, then deepening the institutionalization of its armed forces is essential. This institutionalization will be advanced if citizens and their representative are aware of the defense and foreign policy needs carried out on their behalf by their nations' armed forces and the material requirements necessary to carry them out. For this to happen elected representatives must be able to cast informed votes on military budgets, their advisors must know how to read and interpret the statistics on which they are based, and private sector and civil society organizations must have the capacity to review and monitor those budgets.

With the publication of *The Defense Budget In Latin America* RESDAL has made an important contribution to that effort. This volume describes the political and technical contexts in which defense budgets need to be interpreted; it explains why budget transparency is so important for good governance and political democracy. It explains the cycles through which budgets are constructed; the categories through which they are expressed; basic questions to ask when examining a military budget; how outside organizations can monitor military budgets; and where information on military budgets can be found.

Formed in 2001 as a network of scholars and practitioners concerned with deepening the institutionalization of defense and security in the hemisphere, RESDAL has helped those in the network stay in touch and answer critical questions addressed in their day-to-day work. The publication of this book directly extends the skills of the members of the network to citizens in the political systems of which they are part. RESDAL is to be congratulated for this practical application of the skills of its members. It is my hope that it will be widely utilized by citizens and civil society organizations throughout the hemisphere. The result would be a strengthening of the professionalization of the armed forces in countries in the region and a corresponding strengthening of democracy in those nations.

Louis W. Goodman, Dean and Professor  
School of International Service,  
American University, Washington, D.C.,  
December 2004



# INTRODUCTION

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At first glance, budget analysis seems to be a task suitable only for economic science experts. Budget figures, allocations and fiscal years tend to make up an intricate equation which government officials, advisors or academicians many times ignore, owing to the difficulties in understanding it. Is it helpful for those responsible for designing, executing or supervising a policy to become involved in such a complicated matter? What is the budget and why is it necessary to discuss it? What about adding the complexities of defense to it? What should we consider when we must deal with it?

The need to find practical answers to such questions was the starting point for the idea to develop a guide on the defense budget, as introduced here. Its aim is to provide basic theoretical and practical tools to deal with the defense budget, even if we have no experience in this area. It is also intended to put forward to the reader key aspects relating to the subject in a simple and practical way, offering tools to design an influence strategy according to his/her national background.

The guide layout was especially designed to respond to those objectives. The first part discusses the main conceptual ideas before we start to address the subject, beginning in Chapter I with a Latin America defense outlook, then touching upon the specifics of budget preparation work and finally discussing particular considerations applicable to the defense area. The second part of the guide provides the tools necessary to learn and understand what a budget entails and, more specifically, what the defense budget involves. Finally, with those foundations already laid, we present an influence strategy tailored to this sector, as a way of encouraging readers to develop their own thinking and initiatives according to their own country realities.

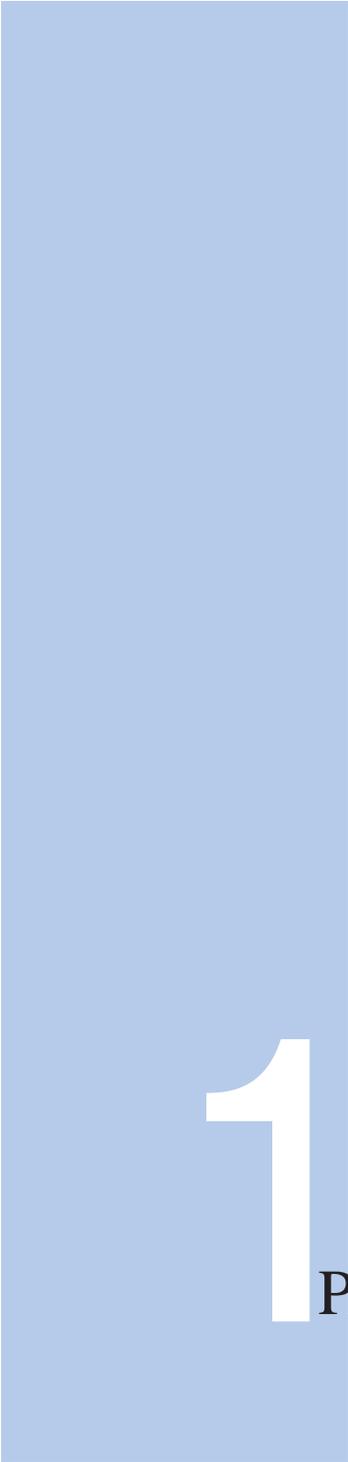
This work is the product of an initiative of the RESDAL (Latin American Security and

Defense Network), created in 2001 with the goal of helping institutionalize security and defense functions in the region, as well as strengthening civilian leadership capabilities. The first steps in budget work for the defense area started in 2002 when, from a seed grant from the National Endowment for Democracy, a methodology for defense budget transparency and quality started to be elaborated. Since then, the objective of discovering the budget "black box" has become the Network's main project.

Since the cooperation and exchange with other parties who share common interests are inherent characteristics of RESDAL, for the elaboration of this practical guide, under the coordination of SER en el 2000 we contacted organizations widely experienced in budget work in the region. This is how we tried to put together knowledge on defense and budget preparation work, which is one of the main virtues of this material. Under the overall supervision of Juan Rial from RESDAL and Helena Hofbauer from FUNDAR, the team set up to undertake this task included defense experts who are members of the Network (Carlos Wellington and Gustavo Sibilla), and organizational and budget experts (Virginia Lencina from Poder Ciudadano and Laura Malajovich from CIPPEC). The team's work started at a meeting held in March 2004, to exchange points of view and experiences in order to decide what this guide should contain. The guide preparation work was started from that point on, and each author focused on his/her own specialty area: Juan Rial wrote Chapter 1, Carlos Wellington, Chapter 2 and Chapter 3; Helena Hofbauer, Chapter 4; Laura Malajovich, Chapter 5; Gustavo Sibilla, Chapter 6; and Virginia Lencina, Chapter 7. The fact that each expert had primary responsibility over his/her specific area did not prevent constant exchange of views, remarks, inputs and criticism by the others, to produce a common project contained here in a final version reviewed together with Juan Rial and Helena Hofbauer.

This project was made possible by the support of OSIDEV and the active involvement of the Network, which contributed to the work of the writing team. The work for the elaboration of this guide showed us that bringing together different professional backgrounds can add unique perspectives to the discussion and can contribute to enhanced results. We hope this experience transpires in the pages that follow this introduction, so that it may serve to open a forum of discussion on a matter that is key to our region: namely, the defense budget and its relation to political aspects in a democratic environment.

Marcela Donadio, President  
SER en el 2000, Buenos Aires,  
December 2004



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PART ONE





# C

## CHAPTER 1

### *The states and national defense: a perspective on the sector*

#### *1.1 The State*

In Latin America's recent history, countries have constantly experimented with different models of economy, society and policymaking. Most of the thinking done on the subject in the region shows an "inflation of diagnostics" which, as a corollary, has promoted constant policy changes. It has, therefore, been difficult to assess the result of a previous policy, once abandoned and superseded by another new phase. However, there are permanent attempts to revive each model previously applied. Populism was traditionally one way of addressing the demands of new middle-low and popular social sectors in times of modernization, accompanied by a protectionist-economic model of a semi-closed economy, which found a fertile ground all around the region. Politically, this was expressed in authoritarian or semi-authoritarian governments which, however, the inclusion and involvement of popular sectors. Although this model no longer exists, the style persists and re-emerges in other forms which do not contribute positively to today's economic model.<sup>1</sup>

<sup>1</sup> The inflation of diagnostics is an expression used by Albert Hirschman in the 70's. Populism has ceased to be a matter of contemporary study of Latin America. More recent work includes a revised version of the 1978 compilation of Michael L. Conniff, *Populism in Latin America*, University of Alabama Press, 1999; and the classic work of June Nash, Juan Corradi and Herbert Spaulding, *Ideology and Social Change in Latin America*, Gordon & Breach Pu., 1977.

In the 80's, the entire region had to shift towards the so-called "*Washington consensus*", which consisted in a number of economic measures intended to suffocate inflation by way of strict fiscal policies.<sup>2</sup> These resulted in a reform of the State and its role. Most of the state-owned companies were transferred to private owners, including a large portion of the countries infrastructure across the region. The State ceased to be the guide for society and its economy; lost its role as protector of the low classes and, hence, reduced its involvement in order to focus social programs and assistance only on a few sectors. Education and health lost their well-known inclusive and quality features, directly affecting the possibilities of social ascent for those sectors of society impoverished in the last few decades. Social inequality was an undesired effect of such policies, but one which was obviously expected. Some countries tried bold financial changes, such as leaving their currency to adopt the US dollar (such is the case of El Salvador and Ecuador), or implementing foreign exchange schemes by which their currency was pegged to the dollar (as in the case of Brazil and Argentina).

The application of this model was simultaneous to the process of democracy reconstruction all across the region. At the same time liberties were being recovered, a political system based on free elections was built and the military were subjected to the control of civilian leadership, those economic and financial "recipes" were applied, increasing poverty and social inequality. Financial crises such as the Mexican crash in 1994 and the Brazilian crisis in 1988 showed the need to limit such programs. Brazil had to announce that its currency would no longer be pegged to the dollar. In the case of Argentina, abandoning the Washington Consensus meant a financial, social and political crisis which ended with the resignation of president Fernando de la Rúa in December 2001. Not long before, social discontent had led president Jamil Mahuad to step out of power in Ecuador, followed by president Gonzalo Sánchez Lozada in Bolivia. Other countries continue to live in constant fragility; while it still remains to be seen what course most of the countries in the region will take.

As a consequence of globalization and the predominance of economic adjustment programs, a strong wave of immigration of Latin Americans towards more prosperous countries has taken place. Thus, several countries's remittances from their nationals are their main revenue source. In 2004, it was estimated that Latin American workers remitted about US\$45 billion from developed countries to their homes. This amount only includes remittances from legal citizens living abroad, who use a recognized

<sup>2</sup> The so-called "Washington consensus" expression is attributable to John Williamson (*The Political Economy of Policy Reform*, Washington, Institute for International Economy, 1991), to refer to the set of measures driven by the institutions created in Bretton Woods, the IMF and the World Bank, to reduce government spending, privatize state companies, carry out severe fiscal adjustment policies, reduce the number of employees in the civil service, etc.

financial channel for their money transfers. The figure does not consider, however, money sent by illegal immigrants, remittances through travellers who act as intermediaries, and deliveries in kind. For small countries in Central America and the Caribbean, remittances from immigrants have become their main resource, and in others, such as Colombia and Ecuador, they are the second source of income after oil exports.<sup>3</sup>

### *1.2 State, civil society and political regime*

In spite of the various experiments conducted in the political, social and economic fields, the key player of the region continues to be the State. Its pre-eminence over society is part of its historical heritage. The region was organized by the colonial state; and it was the primitive administrations of the newly-created republics that little by little took territorial control and organized society, which at the time was split in two large groups: the dominating group, composed of a small elite of professionals and armed regional leaders ("caudillos"), and the dominated group, i.e. their followers or simply the rest of the people.

The 20th century was the time in which most of the countries consolidated their structures based on the will and power of the State. The scope, however, differed from country to country. Some of them, such as Chile, Argentina, Uruguay and Costa Rica, virtually controlled the entire territory, economy and people. Others established the State in their central areas, thus leaving more leeway in the peripheral areas, by entering into alliances with local elites, as is the case of Brazil and Mexico. Other countries, such as Colombia, lived a partial process, thus suffering as a consequence a loss of territorial control to the various "war lords". The governments of countries with a large indigenous community chose the exclusion path, thus preventing native inhabitants from enjoying the benefits of regular citizens. Overall, such was the model used in Guatemala, Ecuador and Peru. Bolivia does not fall under this rule because of the type of dominating activity, namely mining, which turned the indigenous people into protagonists in the country's modern history, i.e. between the 50's and 60's. In the eighties, the depletion of the silver resource and the loss of importance of the pewter marked a substantial change, which led to the exclusion of this group of people.

<sup>3</sup>Data gathered from FOMIN, Interamerican Development Bank

When the "*Washington Consensus*" was implemented in the countries of Latin America, the impact differed according to the degree of "statesmanship" of each country. Those that had attained a larger degree of integration showed a better ability to defy rules that meant a reduction in the government role as a regulator of the economy and a society guide. However, even they had to undergo important changes. In particular, they felt the loss of an arbitration voice, a conflict moderator, which several countries had had in the past.

As a result, previously radicalised groups considered it was not helpful to keep such a State and, hence, proposed changes through violent means. It is important to note that the revolutionary groups of the sixties and seventies wanted to overturn those systems not to reduce the State, but rather to rebuild it on the basis of a statist and socialist dictatorship. But after they failed in their attempt, the States accepted the new course, which favoured economic openness and speculative behaviour. Thus, governments in the decades of 1980 and 1990, (mostly the product of the democratic transition period), accepted the reduction in state power.

The lack of consolidation of federal and state integration processes has affected a significant number of countries. In some cases, as in Colombia, it continues to generate ongoing violence in the peripheral areas. In others, the gap between those included and those excluded (i.e. the people who can fully enjoy consumption, who are guaranteed some rights and have access to basic services, and people who do not have any of those benefits) leads to an eroded trust in the institutions and organizations of the State. Rising criminality in cities, as well as social anomic behaviours, are manifestations of that lack of confidence. This precarious statism does not help attain full integration of the people in the market. Without property title granting, mechanisms of identification, unlimited access to the monetary circuit, both the market and economic growth are significantly limited.

Demands created by the accelerated speed of modernization in the region during the fifties and sixties led to a governance crisis, which ended in the establishment of authoritarian regimes. These had to address the pressures of revolutionary movements, on the one hand, and the demands of union movements and large mass organizations, on the other. Repression did away with revolutionary movements and dismantled mass movements, but in many cases it was unable to suppress them, as with the union movement. However, by undertaking such actions, the State relinquished its role as arbitrator, thus losing its ability to regulate the pulse of society.

When the US foreign policy adopted the defense of human rights as its flagship to fight the cold war, the authoritarian and repressive model lost its ideological backing. Thus, the idea of redemocratization started to be promoted. Most of authoritarian regimes did not propose an alternative founding model; their nature as *commissarial dictatorships* left them in a weak position, after having lost their violent repression protector.<sup>4</sup> As a result, the concept of a political democracy started to be promoted. In many cases, it basically meant holding fairly clean elections to elect a parliament and president who would engage in the classical game of power balance.

Democracy became an electoral base mechanism, and its results varied according to the degree of development it had attained in the various Latin American countries. In the south, it was relatively easy to restore or resume old mechanisms (in this framework, the 1980 Chilean Constitution as amended in 1988 provided guarantees to those who had supported the authoritarian regime between 1973 and 1989). In turn, countries where democracy practically did not exist tried to slowly build the basic minimum conditions for an electoral competition, as in most of Central America (obviously with the exception of Costa Rica) and the Andean countries.

As part of democratization and structural streamlining processes, "civil society" also emerged as is known today.<sup>5</sup> There had always been a "civil society" in the region, mainly made up of pressure groups from dominating economic sectors, but their scope of action evidently had not included the base sectors in all the countries. In the twentieth century, movements of workers, peasants and cooperative associations emerged in the most advanced cases, but in this case, their purpose was to influence the State and make it subdue to their demands. Community organizations, however, had few channels of expression and action.

<sup>4</sup> The commissarial dictatorship was an institution from the Roman Republic that granted power to a Dictador for a limited time in order to face a severe crisis. The modern elaboration of the concept can be attributable to Carl Schmitt, *La Dictadura*, Madrid, Revista de Occidente, 1968. Juan Rial used this concept in 1981 to refer to authoritarian regimes of the south. See J. Rial, "Transitions in Latin America in the Threshold of the 1990's" in *International Social Science Journal #128, The Age of Democracy* (London: Blackwell/Unesco, 1991)

<sup>5</sup> On the different concepts of civil society, see Jean Cohen and Andrew Arato, *Civil Society and Political Theory*, Massachusetts, MIT Press, 1994, and Andrew Arato, *Civil Society, Constitution and Legitimacy*, New York, Rowman & Littlefield, 1999.

Overall, the relations between Non-Governmental Organizations (NGO's) and the State are usually difficult. For politicians, these are organizations with little (or no) representative legitimacy. For civil society, they are organizations that thrive for involvement in institutional arrangements that do not take them into consideration. Their degree of independence, representation, and mobilization capability vary according to the country, field and situation. However, these are organizations that have consolidated in the last decade and, as such, have had a role not provided for in previous institutional arrangements.

Hence, States have been "*dismantled*" from both ends: "*from the top*" due to the undesired effects of globalization and adjustment policies that resulted in the loss of regulating power, budget cuts and an badly-paid bureaucracy, very little in line with the new requirements; and "*from the bottom*" due to the way they implemented decentralization and the actions of NGO's that try to fill spaces of inaction created.<sup>6</sup>

For the countries of the Latin American region, decentralization in times of scarcity means sharing resources with sub-national and city powers. New power groups have thus emerged, competing with the central State, which then loses capabilities and leaves large areas in the hands of even less experienced authorities, in many cases also inefficient. Examples of successful decentralization in industrialized countries have been attempted to be exported not considering that, in developing countries, state structures are weak. Under this scheme, decentralizing implies the risk of diverting resources to regional or local authorities, thus emptying the central State and creating "small oligarchies" that replicate its past practices.

It is true that the pre-existing state machinery was weak, and to a considerable extent, also corrupt and inefficient. However, by taking away its attributions and resources and -only to a lesser extent-reducing its employees, the bureaucracy of Latin American countries in the last few decades has become "*a recipient empty of content*" using the Weberian expression.<sup>7</sup> Ritualism results into an action without sense, hence the focus on the aim is lost, and therefore a loss of reputation and lack of legitimacy of these bureaucracies emerges. The adjustment policy has involved a reduction in real

<sup>6</sup> To refer to current frameworks where globalization reigns, we refer to Manuel Castells, *The Information Age* (Malden, Mass., and Oxford: Blackwell, 1997/98, 3 volumes), a snapshot of today's society that follows the model of the classical Max Weber, *Economy and Society*. Also see the recent work of Peter Drucker, "The Next Society" in a special supplement of *The Economist*, November 2001.

<sup>7</sup> According to Max Weber, the expression of a "recipient without content" means that what is left is one recurrent way with no substance.

salaries and the lag in young people recruitment, which accentuates the fact that this essential machine is not fit to perform its duties as required. This national government reduction process has also led to the growth of other organizations, since many people have sought refuge in regional and local bureaucracies.

For societies used to demanding the State for regulation, distribution and supply of goods, services and opportunities, the economic policies that emanated from the "*Washington Consensus*" quickly changed their perception towards political parties and politicians. Parties ceased to be useful and reliable machines, and politicians became suspicious of being merely corrupt opportunists. A phase of strong "anti-politics" sentiment started, bringing about a change in styles and political actors, accompanied by the proliferation of NGO's and the emergence of the media as key players in electoral campaigns, as well as new techniques for public opinion measurement and their use for propaganda. After the dictatorial interludes of the seventies and eighties, the "caudillos" reappeared in most of the countries where the anti-politician sentiment had flourished. They emerged in a democratic framework which presumably did not favour their action. They took people's sentiment towards politicians and presented themselves as the "outsiders", as "non contaminated" by the "old way of doing politics and the corrupt political class".<sup>8</sup>

### *1.3 Military organizations and national defense*

Such is the context military organizations have had to face in recent years. The State and the political system they serve have been strongly weakened. In the face of it, the functional independence of the military has been exacerbated, though in a way different from the past. Adjustment policies led to the return of the "gendarme" state in which the financial functions (tax collection), justice and law-enforcement, and defense have become essential, but not in the classical form. *The State has ceased to be the force monopolizer*. Private security companies tend to have similar numbers of contingents as the State organizations, as inefficient as the former.

<sup>8</sup> The wave of "anti-politics" and the "new caudillismo" started to grow while the "Washington Consensus" was adopted. Political parties lost many of their traditional roles of intermediaries with the State. Parties, the political class as a whole, and parliaments became the target of constant criticism and lost trust from the people. The "new politicians" showed their reluctance towards traditional organizations and political practices. See Carina Perelli et al., *Partidos y Clase Política en la América Latina* de los años 90, San José, IIDH-CAPEL, 1995.

Tax collection has also been partially privatized. The justice function is notoriously inefficient in most of the counties in the region. In this framework, the end of the cold war and the traditional type of guerrilla movements (the Colombia situation deserves an analysis of its own), and the growing settlement of border disputes between countries in the Latin American region, started to leave only secondary roles to the Armed Forces in the region.

Public security is, to a greater or lesser extent, one of the greatest and growing concerns in the region. There is always a temptation to resort to the military to perform patrolling functions, to fight against cattle stealing and the robberies in rural communities, and to enforce the law on marginal groups. More than once have they been used but with little success, since their ethos, training and capabilities are obviously not fit for such tasks. They have also been involved in the fight against drug trafficking, in which their role has been to confront raw material producers, such as coca growers, adding a strong social dimension to the conflict.

These functions are usually performed by the military in large areas where the State presence is limited to a military contingent or base. In other cases, it is the result of the mistrust towards the police tainted by the corrupting power of drug-trafficking. The tacit or specific alliance between drug trafficking and subversive or unsatisfied groups requires, more than once, a joint police-military action. The fear engendered by groups that use terrorism as their fighting method, considering the context of a global world, can be added to the picture.

Today, *all military organizations in the region are a professional force* and have a transcendental ethos. The police-type armed forces have disappeared at all.<sup>9</sup> All the armed forces have their own officer academies and justify their existence in the defense of the national entity that created them, which they serve. Many of them continue to consider themselves as the founders of the nation and the State, in many cases, they even existed before them. For that reason, the "tutelary forces" concept is still used, and in some countries the military cannot vote. The rationale behind this position is that, as they are the "custodians" of the Nation, they cannot become involved in political disputes and, therefore, lie above them. According to this idea, the members of the military are not citizens with reduced political rights, but rather citizens standing above the rest, responsible for the

<sup>9</sup> In the 20th century, the United States created a police-type military in various countries of Central America and the Caribbean. All of them were defeated and taken over: those of Cuba (1958), the Dominican Republic (1965) and Nicaragua (1979), due to insurrection movements; and those of Haiti (1994) and Panama (1989) fell to their own creators.

ultimate fate of the Nation. In other countries, this concept of founders has disappeared or, at least, has become part of the rhetoric and not of actual political practices. The new rationale, however, makes them continue to believe that they are the custodians of public order.

Almost all Constitutions (except for those of Argentina and Uruguay, which do not have a specific chapter on this matter) establish, as a precept, that the Armed Forces are to defend the Nation from external threats as well as to protect the country's constitutional order. The interpretation assumed by most of military corporations is one of defense of the presidential institution, as the Constitution establishes that the president is the supreme commander of the armed forces. This position means that the military defend the president as an institution, rather than as the person holding this position at a particular time. Thus, in the middle of institutional crises in several countries, the Armed Forces have supported solutions entailing the president's resignation or overthrow, or his replacement through constitutional or legal resorts, or at least, "in the spirit" of the law, thus avoiding the temptation of a classical coup d'etat. In sum, there is a new form of political relations, which could be summarized in the following expression: the "*Armed Forces of the President*". It is more concrete than the traditional concept of Armed Forces of the Nation, of the Republic, etc., as it narrows its scope to a very specific point of reference.

In the past, the argument was whether the military were only an instrument of oligarchic powers, or the "representatives-interpreters" of emerging sectors, such as the middle class or the under-served sectors, such as in Peru with Velazco Alvarado. For others, sometimes not recognizing that category of instrument, the Armed Forces were mainly an autonomous actor that defended its corporatist interests and justified its work with a transcendental founding myth. They were the creators of the Nation and the State; they had existed before the State was formed and the Nation became independent and, thus, they were the custodians of the country and were a tutelary institution that lay above the rest of the people and conflicts as a whole. This ideology -present in the military of the countries of the south- was also exacerbated in times of internal strife, with a mindset that justified violent repression in the form of a "dirty war". Subversion was considered as the evil, i.e. as a modern form or heresy, which violated traditional values that needed to be defended. This transcendental ideology turned the military into the custodians of western values, against "the dissolving action emerging from the international communist movement". Today, most of military corporations in the region continue to be independent, thus serving their own survival, justified by the fact that they are the "*last resort of the Countries they serve*".

Argentina is the only example in the region of a military that does not have legal powers to become involved in domestic affairs. The country's history gave rise to the adoption of a law at the end of the eighties, which prevents the military from becoming involved in domestic affairs. So far, though the country has undergone crises of different types, the law has remained in full force and effect.

The harsh repression led by the armed forces resulted in their loss of prestige across the region. Even in Peru, where the fight against Shining Path (Sendero Luminoso) was supported by the people, the fact that the military participated of the Fujimori regime did not help their reputation. Only in a few cases, such as Ecuador y Venezuela, the military did not face this situation.

In most of the countries of the region, the armed forces are emerging from a "hibernation" period after the end of the cold war and their involvement as rulers during that time.<sup>10</sup> Their budgets have been reduced, but their political power is gradually growing. With weak states, disreputable police forces plagued with corruption, fear of the people due to public insecurity, the military have resumed their role as the last resort in protection of public order. It is obvious that in a country such as Colombia, they are one of the key armed wings in the political-military game, which also involves the guerrillas from the FARC (Revolutionary Armed Forces of Colombia) and the ENL (National Liberation Army), the paramilitary forces of the AUC (Self Defences of Colombia) and military advisors (official and private) from the United States. In most of the other countries, the armed forces influence, to a greater or lesser extent, government action.

Military organizations have made the "necessary" adjustments to adapt to democratic political regimes and to continuous economic adjustment. There have been profound reforms in the military organizations across the region. After the military uprisings between 1987 and 1991, Argentina succeeded in placing the civilian authority above the military and undertook a process of transformation, the most important in the region. A law that prevents the military from engaging in internal conflicts, though challenged by a few, has been sanctioned in 1988. It has been kept despite the fact that the country has had to endure severe crises in the political, social and economic fields. But, Argentina also shows the other extreme in the conduct of the military: the armed forces consider themselves

<sup>10</sup> The "hibernation" metaphor is used to indicate a closed inward-looking organization, with little social and political visibility, to protect itself in a time in which the armed forces are not highly appreciated by the societies they serve.

"stifled" because of sparse resource allocation.

This policy, repeated by finance ministers of the region in each critical phase of the economic situation, tries to show the military leaders that they should reduce personnel and equipment, meaning that they should make changes in organization and deployment. For finance heads, it is a sector that only generates expenditures, and does not render any return to the economy or society. This position is held by the political class, in general, and by international power sectors. The armed forces know that they cannot openly argue these decisions, but they continuously practice defensive actions to try to maintain their position of power in the State structure. They rightly think that they will continue to be necessary in the future.

Many of the governments (with the tacit support of the opposition) have resorted to the same method: cutting their resources, reducing their budget, without intervening in the key aspects (mission definition, changes in organization and deployment, changes in recruitment, military education and systems of discipline and military justice). Changes that have taken place are mostly the result of initiatives from the military themselves. The Defense Ministries continue to be organizations of little relevance in the conduct of the military; there is no major civilian elite in the region to handle defense and security issues and, from the academic perspective, the matter continues to be secondary. *After twenty years of democratization process, the places of the armed forces in these new reduced states continue undefined.*

It is important to note that that promises for a better life, which would presumably come with democracy, have not been fulfilled for many people. However, for the time being, a large part of the region has secured political stability, though with some exceptions. This is an important fact considering the world scenario. But the situation is precarious, especially regarding the demands of the middle class or popular sectors who feel the inconsistency between their aspirations and what they can attain, between their view of their capabilities and rights and what the system can offer them. Also, the old middle classes have lost their status, and tend to be in favour of authoritarian solutions.

According to the guidelines emanating from abroad, efforts have been made to promote disarmament measures or prevent the access to the technology of modern weaponry, as in the case of Argentine missile plans or Brazil's intention in the field of nuclear energy. Confidence-building measures have also been promoted to prevent conflicts between countries. Several countries have published Defense White Papers or similar instruments, though in many cases, they are only the

result of an advertising or public relations effort. Initiatives have been promoted to study military spending limitation. An example of this has been the study on comparative methodology done by CEPAL (Economic Commission for Latin America and the Caribbean) for Argentina and Chile.

#### *1.4 The budget as a materialization of power*

The budget and its execution are the materialization of the power exerted by the various actors of the political arena. Access to resources shows to what degree each sector can afford to perform its regular or non-regular activities.

As in any developing country, defense budgets mainly entail the budget of the armed forces especially in two essential categories: personnel and operations. These are forces that are "labor intensive" rather than "capital intensive". Given the predominance of the ground force, personnel wages usually account for 75% of the defense budget in most of the countries of the region.

As any complex organization, the budget of the Ministry of Defense and of military organizations includes a large number of categories that are only subsidiary or supplementary to the core task. Thus, it includes a budget allocation for military personnel health care, many times including their dependants, as well as a budget for education, social welfare and retirements, as well as other activities that are not strictly military.

The policies of economic adjustment in the last decades motivated a remarkable reduction of Defense Ministry budgets. An effective fall of real wages of a considerable portion of the officer corps took place, as a result, and the acquisition of new equipment was frozen or substantially reduced, while current expenditures were limited, affecting the forces' effective readiness.

In times the armed forces had direct responsibility in government, they tried to expand their resource base by creating subsidiary companies, which covered the most diverse range of activities. Therefore, military corporations owned banks, hotels, transport companies, just to mention the most

known cases. Adjustment policies led to their privatization or closure.

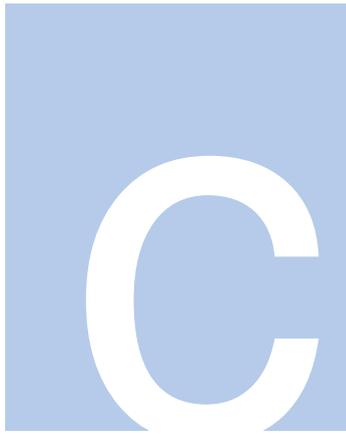
The largest countries in the region tried to have industries of their own. Thus, Peru built frigates in its shipyards; Chile entered into the production of light weapons, artillery weapons, missiles and complex systems; Argentina built armoured vehicles and training aircraft and Brazil had a military industry in the field of aviation, shipping and combat vehicles. But, due to the new economic scenario, most of the companies went bankrupt and disappeared, while others suspended their activities. The breakaway from the *Washington Consensus* model is currently leading to the reappearance of these companies.

As a way out of the crisis, some small countries chose to participate in UN peace operations. Aside from allowing their officers to open their minds and provide them with military experience, their involvement would allow to receive compensations of an average US\$900 per person committed in the task and a compensation for the material used in such missions. Uruguay has been the best example of this practice since 1991, and at present has 1600 troops deployed in Congo. Other countries added other motivations such as diplomatic interests, as in the case of Argentina and Brazil, as well as the need to achieve a change of mentality in their officers, as in Argentina. Countries have also experimented with integrated contingents, such as the peace force in Haiti which started in 2004 under the UN umbrella.

Chile has, since 1958, allocated a percentage of its copper royalties to the funding of its military. And some time ago, 9% of the royalties from oil exports fed the Ecuadorean military budgets. However, in most of the countries, defense budgets are covered with the countries' regular tax revenues. Many of them have a very low tax base, as in Central America, and most of them suffer from an endemic tax evasion. Therefore, the armed forces usually have to endure constant financial hardships as to their specific budget and other categories of spending.

In this framework, the struggle for budget resources has become one of the key issues for any military force. It has stimulated their involvement in military missions abroad, either under the UN or as minor partners in voluntary coalitions. It has led them to participate in police missions, such as the fight against drug-trafficking, as they expect to receive some type of assistance in return for their involvement. It is also what has led to an increase in women's involvement in the military, where they perform secondary roles for wages that are considerably lower. For a good portion of these countries, however, there is little publicity and most of this remains unknown by society.





## CHAPTER 2

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### *Rationale and characteristics of the defense sector*

The defense budget exhibits certain particular features defined by history, political circumstances and each country's strategic project as well as by the type of activity itself. Thus, there are some specific aspects to be considered that affect not only budget oversight and transparency assurance procedures but also the strategies to be followed with regard to its treatment. This implies taking into account the political variables mentioned above and certain technical issues internal to the budget. This does not mean that this budget has to be given a different treatment from that accorded to the general budget of the Nation.

The public budget is the natural materialization of the Nation's political will. It may be said that every political proposal is only limited to words until it is reflected in the budget. The same happens with national defense. Otherwise, it would be impossible to make the necessary connection between defense actions and the activities of other public sectors. All national sectors have specificities. Each country has to analyze whether its reserves and the earmarked funds of defense budgets are related to the sector's particular characteristics, and to what extent they are the result of complex political relations or sectorial interests.

We will now examine some of the particular characteristics to be considered when addressing the defense budget.

## 2.1 *Defense is a public good*

The economic system prevailing in Latin America (capitalism), identifies the market as the best mechanism to resolve problems arising from the production, distribution and consumption of private goods. However, besides private needs, there are public needs that cannot be efficiently met by the market. The satisfaction of those needs through the so-called public good has been one of the arguments almost unanimously accepted by doctrine to justify the State's involvement in the economy of a country. In the case of defense, the need for its supply by the State derives from the very essence of this political organization: Which was one of the first *raison d'être* of the State if not the citizen's need for an entity to provide protection against external threats?

This starting point defines the first particular characteristic of this budget: national defense, contrary to other goods and services provided by the State, is a pure public good. Public health and education are also considered as public goods by economic theory, but the difference between those goods and defense is that defense is part of the concept of the State itself.

Moreover, defense is a non-rival and non-exclusive good. It is non-rival because the delivery of defense to a citizen does not result in the reduction in the amount of the good for another citizen. It is also non-exclusive, because it is not possible to exclude from the benefits of defense persons who do not pay for it. In other words, it is not possible to preclude anyone from enjoying the benefits of such consumption. In practice, this means that nobody should feel more defenseless in his/her country when a new fellow national is born. It is impossible to deprive certain individuals (such as tax evaders) from enjoying the feeling of protection granted by the mere existence of the Armed Forces. Therefore, defense is a typical public good. Its provision and financing must be provided exclusively by the national government.

The uniqueness of the product offered by defense lies precisely in the idea of public good. One of the major economic measurements used to define a budget is the relation between allocated resources and the results obtained with them. The resources assigned to defense can be readily identified, but the results are hard to define and even harder to measure. The subsidiary contribution of the private sector to health and education, for example, provide the State with several organization and operating parameters to design its public policies, even if it ultimately decides to grant a higher priority to criteria other than efficiency.

One cannot measure with any accuracy the defense obtained and compare it against the expenses incurred. Even in specific, well-defined cases, this kind of analysis would be extremely complicated. What is more, the analytic limits become stricter if one incorporates concepts such as the country's "security", which are almost impossible to measure according to financial models. Defense lacks any automatic efficiency indicators; only in a war can the efficiency of the expense be "proved", and even then, it would be impossible to affirm with any degree of certainty if victory or defeat were the exclusive product of a budgetary allocation. The picture is even more complicated, if we consider that one of the specific objectives pursued by the public defense policy is "deterrence" from possible war conflicts, but it would be practically impossible to measure whether the absence of conflict can be explained by the budget assigned to defense.

However, the resources assigned to defense can be measured in financial terms. They usually comprise the following elements:

- a) Personnel and associated costs (salary, retirement, training).
- b) Military equipment and maintenance.
- c) Normal overhead and other costs related to technology generation and acquisition.

On the other hand, the results cannot be measured in the same way. For this reason, defense cannot be considered as an end in itself, but rather as an instrument to achieve other purposes. An isolated analysis of defense is a dangerous methodological mistake, one that is liable to compromise the desired transparency and adequate national budgetary planning. What is the alternative to this? What does a non-isolated analysis of defense imply? What are the elements to be included in a proper analysis? The response will depend on the integration of information from different areas of knowledge and public activity.

## *2.2 Defense implies managing sensitive information*

The second major characteristic of the defense budget is that the information it handles sometimes prevents the use of transparency and accountability concepts in the same direct way as in any other public policy (i.e. making a public disclosure). There is sensitive information requiring certain levels of confidentiality, such as technological developments or intelligence activities

which the country does not wish to disclose.

This does not imply that defense management can be conducted without any control or with high levels of executive discretion. Although information cannot be publicly disclosed, accountability can, and must, be applied to the citizens' representatives. Legislation clearly establishing the mechanisms of secrecy, confidentiality and information with respect to the Legislative branch is key to ensure transparency in the use of resources and avoid both discretionary policies and acts of corruption. Solid institutional oversight mechanisms must, therefore, be established in order to prevent confidentiality from becoming a shield concealing something else besides national interests.

In the Latin American region, a veil of secrecy has surrounded this activity. This secrecy was related with a true need to keep the country's capabilities and intentions hidden from an eventual enemy, which was described as "national security reasons". Any opening with regard to the country's capabilities would grant substantial advantages to any potential aggressor, who would thus be in a position to calculate -with a higher degree of certainty- its chances of success or failure in the case of an attack. In this scenario, the uncertainty arising from the concealment of information is a material contribution toward the projection of the country's deterrent capacity. This was a relevant factor in the security context based on a power balance.

However, it is important to stress that both the changes in security relations between countries and new information technologies have eroded the importance of confidentiality. In any event, we have to admit that, in Latin America, a debate on the matters that should be kept secret or confidential within the national defense sphere has yet to take place.

### *2.3 Defense is not always a matter of public attention*

The existence of a military instrument at the disposal of the State implies two aspects which are central to the sector: this military instrument is designed in such a way that its mere existence creates a deterrent effect guaranteeing, to the extent possible, that it will never have to be used; on the other hand, the possibility that the military instrument will be used must always be latent.

The ownership of any type of good is based on the same rationale: even if held with the mere purpose of accumulating it, the possibility to use it must continue to exist in order for such ownership to make sense. Implies to look at it, to show it to others, to feel safe and protected, etc. And this means that the properties of the stored good (money, valuable objects, stamp collections) remain unaltered and if possible, improve over time. This is because a fundamental characteristic of goods is their ability to satisfy needs. This property is called *utility*, according to economic science.

The utility of a good also implies a certain scope: it meets a specific need and its nature consists of satisfying such need not only in an efficient but also feasible way. To own something means to know what can be done or achieved with it, i.e., what need it can help meet. Therefore, needs result from an objective reality men and society are immersed in. Thus, at the time of making a decision, not only aspirations but also possibilities must be considered. The best decision is made when, after contemplating both aspects of the same reality, both the means and the ambitions serve a credible and possible objective.

In the sphere of defense strategy and its corresponding military strategy, the scope of use of the military instrument differs according to the particular need to be satisfied. Global actors such as the United States have a military instrument with a global scope. With their military instruments, medium-sized actors such as the European States mainly seek to prevent any actions in their territory, but also contemplate other purposes (such as defending their political and economic interests in the Mediterranean area) through a greater asset: military alliances and security organizations.

Small countries face a different dilemma with regard to defense. With scarce resources and severe internal social and economic needs, their military instrument does not, and will never, extend beyond their borders. In such cases, the usefulness and scope of national defense will usually not arouse any public attention. The enjoyment of peaceful periods or the absence of perceived threats can be assumed as natural benefits more than as a consequence of defense activities. Defense is a desirable insurance but is not naturally perceived as a part of daily life: it is there to guarantee peace and it is only expected to appear in case of a conflict.

The legitimacy of the defense budget will therefore be fundamental to attain social acceptance. If there is a natural economic relationship between scarce resources and infinite needs, then an excessive allocation of resources to defense may take away social expenditures which are highly valued by the

people. In the mid 50's, American President Dwight D. Eisenhower liked to say that the cost of a modern bomber was similar to the cost of thirty schools in different cities, or two power plants, or two fully equipped modern hospitals. A modern destroyer cost equaled that of houses for over eight thousand people. The development of a balanced defense program and its conversion into a reasonable defense budget should be an ongoing effort, essential to develop public policies.

Society, and specifically Parliament as an expression of the people, has to clearly understand the absolute need for involvement, for adherence to the legal definitions of the budgetary process and for the endorsement of the defense planning effort to higher national interests. Parliament must prevail in the approval process of the national defense budget and must know the criteria used to prepare it. Transparency in defense budget development and approval creates conditions which guarantee the legitimacy of the approved budget and contributes to strengthen civil-military relations and to the people's feeling that defense is part of public policies implemented for their welfare.

#### *2.4 Defense is a continuous need*

The government cannot interrupt the provision of defense as a public good. To do that, it would require knowing with almost total certainty when a threat will materialize: an unreal condition in the strategic context of this century's international security situation.

Short-term solutions are not an option: medium- and long-term solutions represent differential characteristics to attain efficiency of resources assigned to defense. Decisions on partial or total deletions or significant changes to defense expenditures in an annual budget cannot be made without deeply affecting the defense capability. For example, acquired equipment requires ongoing maintenance and the cost of overhauling them after having stopped their use will certainly exceed the "maintenance" item that would otherwise have been included in the budget. The same applies to the personnel requiring training and education which, if lost, may take decades to recover.

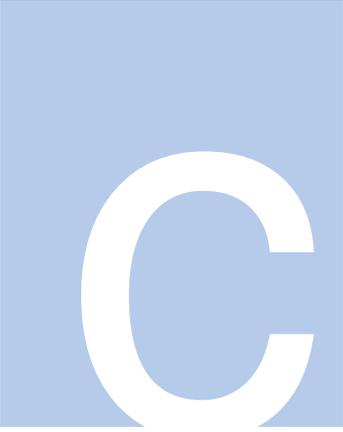
In this respect, the subject of multi-annual defense budgets deserves to be highlighted. Although the multi-annual approach is usually a common feature of the State budget, since it refers to the State's ongoing activities, defense costs are different from those of health or education. Equipment maintenance, mechanical and electronic parts replacement and equipment training costs are, in the case of defense, much higher than acquisition costs. This characteristic explains future

cost growth.

For this reason, each capital investment in defense bears a cost projection which includes maintenance, training and other actions cutting across several budget periods. This projection grows at a significant pace. For example, the area of spare parts and ammunitions is critical. Whenever new military equipment is incorporated into the defense system, the first thing to check is whether their future use can be jeopardized by the lack of spares or by the economic impossibility to maintain them. In other words, the price of equipment is important, but the implicit use and maintenance costs must also be calculated, especially when acquisition costs seem to be very low and convenient, because the defense sector may be acquiring something that it will not use effectively, thus wasting public funds.

Therefore, not only is it necessary to have the society's valuation of defense within a given period, but it must also be maintained in time to assure consistency of the defense budget with the values that society considers important for its welfare.





# C

## CHAPTER 3

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### *Transparency in the defense budget*

Every public resource administrator must be accountable for his/her acts and the use of public funds. Transparency must be viewed not only as a requirement of control bodies but also as a social demand on the administrator. This situation is equally applicable to the defense budget. Defense system administrators must render accounts of their acts as any other State resource manager.

Insufficient transparency in the national defense sector may be the result of an attempt to reject or delay reforms in its structure, a lack of consistency between defense plans and national plans, the wish to protect corporate or individual interests, technical incapacity or a culture of secrecy.

The *attempt to reject or delay reforms in the defense structure* refers to the desire to conceal from the public the need for reforms, especially those affecting the budget structure. One of the reasons to act like this is the fear that a new structure may reduce available resources and prevent the continuation of programs and projects that have not been openly discussed with society or the Legislative branch.

The *defense plans' lack of consistency with national plans* refers to the gap between the actions conducted in the defense sector and the Nation's higher interests which the defense area must adhere to.

It will probably be difficult to foster a higher degree of transparency in this regard if the sector involved suspects it may be subject to strong criticism.

The *desire to protect corporate interests* may also be a reason for the limited level of transparency in the sector, especially as regards the budget. This is a defensive attitude on the part of a professional body when faced with issues that may restrict their advantages, especially financial ones. It may be associated with the refusal to reform the sector and is different from the protection of particular interests due to its collective nature.

The *wish to protect individual interests* has to do with the guarantee of personal and individual interests, whether associated with professional interests or not. It may be connected with the interests of people within the defense sector itself or alien to the sector but who share interests, such as companies supplying materials and services.

Lastly, the *culture of secrecy* may be defined as unduly applying the secrecy concept to issues that should be known to the public. The confidential nature of many subjects may lead to an exaggerated degree of secrecy with respect to ordinary issues.

As regards the establishment of rules of behavior and institutional arrangements regarding budgetary actions, transparency undoubtedly is the most important characteristic. In general, a clear definition of institutional arrangements and access to information are key elements for success in public policy implementation. In the specific case of the defense sector, this issue relates to the balance (or imbalance) between the transparency requirement and the need for secrecy. For example, some studies point to poor data availability as a factor hindering a proper analysis of the national defense budget. Indeed, secrecy is typical of many military affairs. But we should not forget that transparency is essential to guarantee efficiency in the use of public funds and legitimacy of public actions.

With respect to the United States Congress, in 2002 the GAO (General Accounting Office), the country's external control body, identified transparency problems in the defense budget. According to GAO, about US\$ 101M were spent wrongfully or inefficiently in non-conventional operations in the Balkans and in Asia. According to the audit, the main reasons for these events were oversight failures and a low level of awareness by the administrators themselves. In its report, GAO recommends a stronger oversight of military expenditures in

order to enhance transparency.

Tensions between the need to preserve secret information from public knowledge and the requirements of democratic practice, calling for transparency in defense sector decisions, are normal. But it is neither normal nor acceptable that, in a democracy, the common citizen may be deprived of information about the various areas of government activity. Excessive secrecy in military affairs can be perceived as the result of the absence of clearly defined criteria and procedures aimed at a multidisciplinary integration of defense issues.

The crucial problem is to define a point of equilibrium between transparency and secrecy. One way to tackle this problem is, as a first step, to replace the treatment of State information as a discrete variable where transparency and confidentiality are mutually exclusive. In order to represent information more adequately, use may be made of a continuous model carrying infinite options, from maximum confidentiality to the opposite extreme, i.e. maximum transparency.

Although transparency is a fundamental premise for the State to serve public objectives cost-effectively and efficiently, the State tends almost naturally to be closed, to conceal information and increase spaces of power in its decision-making process. It is necessary to break away from this trend, define the point of equilibrium between transparency and secrecy and improve access to national defense information. Society must be provided with the means to participate in determining the goods and services financed with public funds. This can only be achieved by improving transparency in the administration and ensuring that oversight bodies be effectively involved in the effort of showing the taxpayers where their money actually goes. If transparency is poor, society lacks the main tool to make proper choices.

### *3.1 Independence in defense budget development and oversight*

The bodies involved in budget elaboration and oversight must be able to act without any political, personal, external or organizational impediments. They must be unbiased in the conduct of their activities. It is important for the Legislature to strengthen its role in the budgeting process and to effectively exercise its function as a counterweight to the Executive actions. Especially in the defense area, the organs approving and overseeing the budget must be capable of operating without any corporate pressures from any specific sectors of the military. Budget work should

have as its core element the guarantee of providing true and adequate information to society, i.e. ensuring that objectives are achieved efficiently and in a transparent manner. Budgetary information must be true, because if it is unrelated to management actions it will lose value; it must be adequate because its aim is to facilitate or enable the analysis of its trends and implications.

The issue of independence in budget work is critical and affects the Legislative branch and control bodies, as well as the internal offices of the defense sector itself. Especially in new democracies, corporative pressures of specific military sectors on budget approval and oversight are still observed. Such pressures may occur in environments external to the armed forces but are much more intense inside the military.

One widely accepted reason explaining the influence of corporate sectors of the armed forces on the role played by the Legislative branch and by control agencies in the budget process is *information asymmetry*. Perhaps more than in any other field of public policymaking, there is a need for a systematical understanding of issues and for improved knowledge of the subjects on the part of such bodies external to the defense sector. The strong information asymmetry between political decision makers and the members of the armed forces may be explained, in part, by the high specificity of this area, the importance of capabilities and means for policy implementation and by the low degree of transparency evidenced by military corporations.

As a result of this strong information asymmetry, the agents executing the defense policy have a strong influence on decision makers and, therefore, on policymaking. This phenomenon contributes to a low legitimacy of the defense policy and to an increase in the tension between military and civilians, and between the government and society. To overcome this situation, the effective *definition and development of institutional arrangements* capable of guaranteeing transparency is a crucial challenge. In the sphere external to defense, independence in Parliament's budget activity (as regards budget elaboration) and in oversight bodies (as regards budget control and oversight) should be the result of a development consistent with democratic political ideals.

The same should be said of the sector's internal budgeting and audit offices. These offices work under the direct command of the sector heads, and it is difficult to conceive their functional independence. As sectoral budgeting and audit bodies are part of the organic structure of defense, there is a dilemma between the duty of independent action and the personal duty to back up the authority. However, to consider independence as incompatible with loyalty is also a fallacy stemming from non-

transparent practices and non-democratic institutional arrangements. In this sense, there is a need for institutional arrangements fostering the independence of internal agents and protecting them against the personal characteristics of the supervising agents. To discuss this issue is an essential part of the defense sector's pending debate on transparency. Society and the Legislative branch need to count on the *guarantee of independence* for the defense sector's personnel working on budgeting and supervising the use of public resources.

### 3.2 Reliability

Reliability is an essential characteristic that enables both the budgeting and audit bodies to ensure positive results for the administration, for the political environment and for society at large. Together with independence, it is a fundamental value as regards budget transparency and the proper use of public resources.

The reliability of the actions undertaken by the budgeting and audit sectors, whether external to defense (legislative branch and the civil society) or internal to defense (organic offices), may be broken down into three parts:

- The overall technical capabilities of the institution.
- The access to authentic data.
- The public image of the budgeting or audit institution.

The technical capability of the budgeting and audit bodies is crucial to consider information as a tool to enhance public management. To achieve this purpose, technical skills must be multidisciplinary. It is not necessary that only professionals endowed with a certain technical training lead the budgeting and audit work for a specific sector. Rather, institutions as a whole should be capable of performing a technical evaluation of the budget and the results attained by the management activities.

Specifically in the area of defense budgeting and auditing, it is not necessary that only professionals with previous military training conduct these processes. The budgeting and audit bodies related to the sector, whether internal or external, need a joint competence of their technical sectors, which must comprise a variety of skills. The multidisciplinary nature of the members and procedures of budgeting and audit offices is presently one of the major institutional characteristics necessary for an

effective exercise of the budgeting and audit activities in any government sector.

Access to *authentic data* is another essential aspect resulting in budgeting and audit reliability. Information will be of no value if it is isolated from the reality of management acts. There is no reliability in budgetary information if it arouses doubts as to the authenticity of its contents. This is a sensitive issue in the defense sector, which exhibits a typical imbalance between the requirement for transparency and the need for secrecy. Thus, available data may fail to reflect the reality of events occurring in national defense.

Lastly, the third component of budgeting and audit bodies' reliability to consider is the institution's public image. This is of primary importance for society to trust the information provided to it. There is a direct relationship between public image, reliability and the degree of independence of the budgeting and audit organizations.

### *3.3 Need for civilian control and transparency of the defense sector*

The contribution of internal budgeting and audit bodies to the enhancement of efficiency and transparency is the possibility to act free from any restrictions by other sectors. Their work is to plan and evaluate the efficiency and effectiveness of the sector as a whole. For a proper operation of the internal bodies, independence and reliability continue to be the main characteristics required to achieve positive results.

If we apply the general concepts of budgeting and auditing to the defense sector's internal organs, two main conclusions may be drawn. The first is that defense internal bodies must be dedicated to improve the sector's budgetary and supervision practices. The second conclusion is that discussions on this issue must set aside formalities and create an exhaustive debate on the issues of efficiency, effectiveness and transparency.

At least two problems may be identified in the internal budgeting and audit bodies of the defense establishment: *hierarchical subordination* and *continuous personnel rotation*. The first problem can compromise the independence and reliability of available data and of any evaluation performed. The second problem may compromise, the quality of information produced, with negative effects on

independence and reliability. The same problems may occur within civil sector internal bodies, but it is important to discuss them in relation to the defense sector, because the particular traits of the military tend to augment their effects.

In the armed forces, hierarchical subordination is more rigid than in civilian areas. This feature is related to the armed forces' combat mission. But when the question is having a critical attitude regarding budgeting and audit activities within this sector, subordination becomes a difficult problem. It is not likely that an internal budgeting and audit unit under a lieutenant colonel will, for example, make a critical evaluation of the budget demands and management decisions of a General. And since budgeting and audit work in the military sphere is basically considered not a command activity but as an advisory assignment, the auditor's rank will normally be lower than that of the personnel being audited.

Likewise, continuous personnel rotation, typical of almost any country's armed forces, may reduce the work quality of the internal budgeting and audit bodies. Even the best professional cannot do much if his assignments change just when he has acquired the experience he needs to carry out his activities. Budgeting and auditing are essentially activities where quality is a direct result of the consolidation of a person's knowledge and practices.

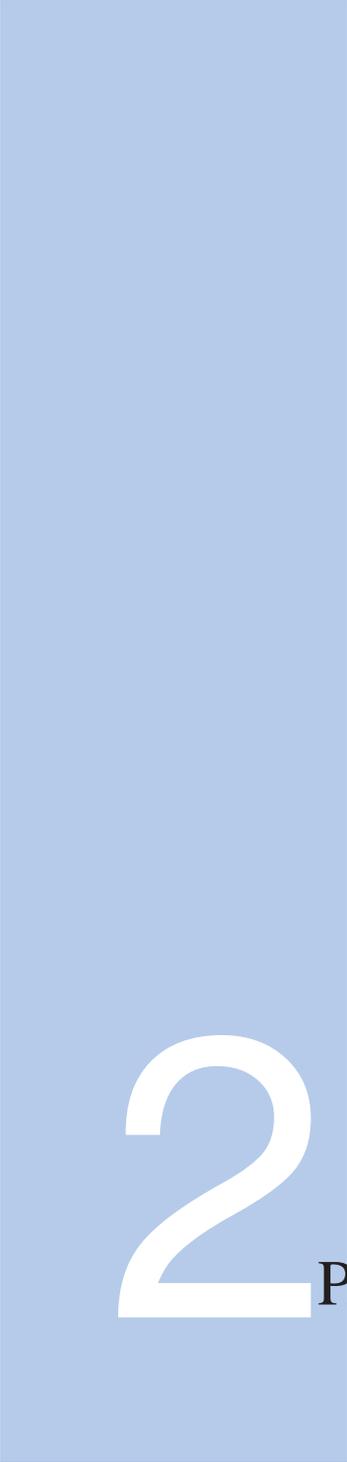
Transparency is essential for civilian control of the armed forces and for the development of confidence-building measures between countries. In the first case, transparency is key to gain an effective control by society over weapons acquisition. In the second case, transparency contributes to establishing stable diplomatic relations.

The recognition of the need for civilian control of the military is a fact. With the evolution of societies, isolated fields of knowledge have been brought together. This phenomenon, known as "multidisciplinarity", brought about significant changes in the various areas of government activity, including national defense. Defense is no longer a discipline known by the military; rather, it should be part of every citizen's life. Today, debates on national defense go beyond the issues strictly related to military activity and deal with other subjects, such as the country's industrial base. Modern defense is a complex subject involving strategy, economy, law, sociology, psychology and other fields of knowledge.

The present characteristics of armed conflicts do not allow to conceive planning and military actions in isolation from the national context. Globalization and the generalization of information have emphasized the dramatic need for multidisciplinary knowledge. The involvement of civilians in this matter is no longer rare, but has become an essential aspect. Discussions on joint commands have also contributed to the idea of civilian control. Another factor that prompted civilian control over the armed forces, even more than globalization, was the experience left by dictatorships.

Today, there is little doubt as to the need of civilian control over the armed forces. Whether as a result of an understanding of their multidisciplinary nature, the fear of dictatorships, or the need to integrate their efforts, civilians and the military usually agree on the need to keep the armed forces subordinated to the national interests through civilian control. This can only be achieved through transparency of defense actors.

Transparency is also crucial to build confidence among countries in order to reduce the possibility of conflict. Some years ago, Argentina and Chile, with the participation of the Economic Commission for Latin America and the Caribbean (CEPAL) established a standard methodology for estimating defense spending. This initiative contributed to consolidate stable relations between both countries, which have in turn brought about the consolidation of peace in the region.

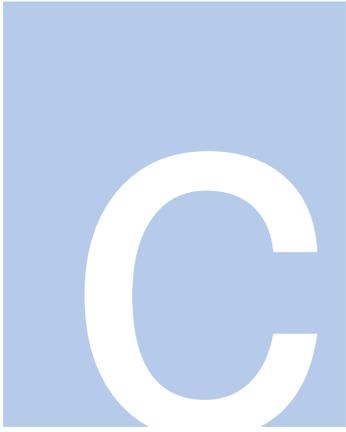


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PART TWO







# C

## CHAPTER 4

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### *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.

# C

## 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,<sup>1</sup> 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.<sup>2</sup> 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.

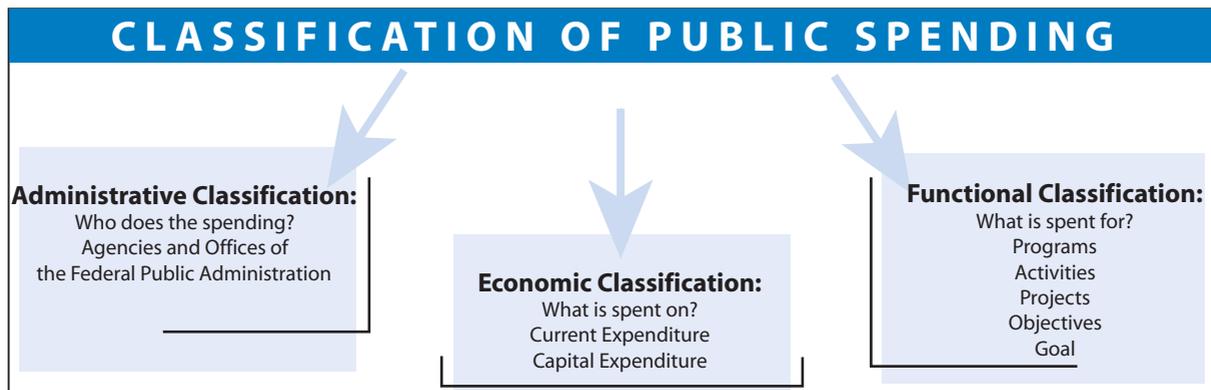
The different ways of classifying the budget do not overlap but rather complement each other. Just as in a family household in which one can wonder how much is spent on school supplies to educate the youngest son -requiring to determine what the money is spent on, with what purpose and who benefits from 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

<sup>1</sup> IMF, *Código de Buenas Prácticas de Transparencia Fiscal*, March, 2001.

<sup>2</sup> 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
<b>TOTAL expenditures</b>	<b>9,418,872,957</b>	<b>9,783,896,517</b>	<b>365,023,560</b>	<b>3.9</b>

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
<b>TOTAL Expenditures</b>	<b>9,418,872,957</b>	<b>9,783,896,517</b>	<b>100</b>	<b>100</b>	<b>0</b>

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	
			\$	%
<b>Current Expenditures</b>	<b>544,008.3</b>	<b>773,238.5</b>	<b>229,230.2</b>	<b>42.1</b>
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
<b>Capital Expenditures</b>	<b>99,755.9</b>	<b>88,021.3</b>	<b>(11,734.6)</b>	<b>(11.8)</b>
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)
<b>National Debt, Current Liabilities and Others</b>	<b>126,974.7</b>	<b>177,672.4</b>	<b>50,697.7</b>	<b>39.9</b>
<b>TOTAL Expenditures</b>	<b>770,738.9</b>	<b>1,038,932.2</b>	<b>268,193.3</b>	<b>34.8</b>

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.
<b>Current Expenditures</b>	<b>544,008.3</b>	<b>773,238.5</b>	<b>70.6%</b>	<b>74.4%</b>	<b>3.8%</b>
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%
<b>Capital Expenditures</b>	<b>99,755.9</b>	<b>88,021.3</b>	<b>12.9%</b>	<b>8.5%</b>	<b>-4.5%</b>
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%
<b>National Debt, Current Liabilities and Others</b>	<b>126,974.7</b>	<b>177,672.4</b>	<b>16.5%</b>	<b>17.1%</b>	<b>0.6%</b>
<b>TOTAL Expenditures</b>	<b>770,738.9</b>	<b>1,038,932.2</b>	<b>100%</b>	<b>268,193.3</b>	<b>-</b>

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	
			\$	%
<b>Social Security</b>	<b>22,664,587,503</b>	<b>24,738,339,809</b>	<b>2,073,752,306</b>	<b>9.1</b>
<b>Social Promotion and Assistance</b>	<b>2,671,158,087</b>	<b>3,607,553,530</b>	<b>936,395,443</b>	<b>35.1</b>
Education and Culture	3,193,519,801	3,907,088,518	713,568,717	22.3
<b>Transport</b>	<b>1,291,960,596</b>	<b>1,961,748,706</b>	<b>669,788,110</b>	<b>51.8</b>
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
<b>TOTAL Expenditures</b>	<b>54,892,789,999</b>	<b>59,712,042,204</b>	<b>4,819,252,205</b>	<b>8.8</b>

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
<b>TOTAL Expenditures</b>	<b>54,892,789,999</b>	<b>59,712,042,204</b>	<b>100</b>	<b>100</b>	<b>0</b>

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
<b>GENERAL TOTAL</b>	<b>27,774,489.06</b>	<b>217,846.64</b>	<b>70,632.17</b>	<b>1,405,503.83</b>	<b>2,358,219.08</b>	<b>109,082.46</b>	<b>2,443,455.89</b>	<b>2,552,538.35</b>
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%
<b>GENERAL TOTAL</b>	<b>210,150.51</b>	<b>34,589,379.63</b>	<b>80%</b>	<b>7%</b>	<b>7%</b>
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?*

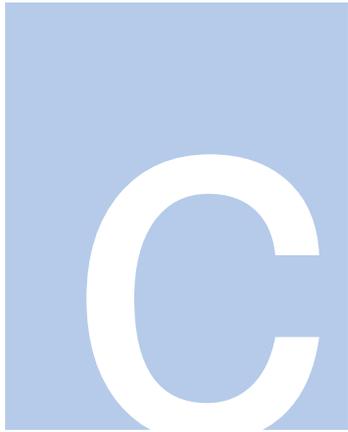
Seasonality is an additional point to be considered, especially when working with monthly or quarterly data. Revenues and expenditures may be increased or decreased at certain times of the year. Let's take the example of Argentina. VAT collection is usually increased in January as a consequence of the 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.





## CHAPTER 6

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### *Initial suggestions around the analysis of the defense budget*

Analyzing the defense budget implies making -basically- the same questions that we would make for the study of the national budget, but with a focus on the institutional nature of defense. Following the logic presented in the previous sections, about who does the spending, what it is spent for, what it is spent on and how spending is funded, we will outline some of the elements for the analysis of defense budgets in the region.<sup>1</sup>

#### *6.1 Who does the spending?*

Almost all governments in Latin America have defense ministries/departments leading the armed forces.<sup>2</sup> The existence of these ministries, including the universe of armed forces, specialized bodies (meteorology, hydrography, research and development, etc.) and defense-related manufacturing companies, allows us to answer the question of who spends the budget.

However, we should note that not all countries apply -rigorously- the accepted principle of unity and universality in their defense areas. These principles propose that there should only be one

<sup>1</sup> See a brief terminological definition for the budgets of the region in Annex 4.

<sup>2</sup> See the Comparative Atlas of Security and Defense of the RESDAL to visualize the characteristics and operational aspects of the ministries of defense in Latin America. See <http://www.resdal.org.ar/atlas/main-atlas.html>

budget that contain all expenditures and revenues of the entity for which it is elaborated. Consequently, our particular "*who*" (the Ministries of Defense) may fail to include expenditures that are made through other ministries/agencies for the conduct of activities that pertain to defense. In our region, this deserves a special consideration, since the idea of maintaining as much information as possible outside the realm of public knowledge is deeply rooted in our history. In budgetary affairs, this is revealed by various practices, such as an intensive use of "reserved expenses", information presented at excessively general level, or defense expenses disguised in other ministries.<sup>3</sup>

**Example 1: Budget of the Ministry of Defense of Uruguay,  
per executing unit (2004)**

Executing Unit.	Budget 2004	
	Uru. \$ (2000)	%
General State Secretariat Directorate	555.736.051	11,88
General Defense Information Directorate	24,475,757	0,52
Army General Staff	1,514,077,437	32,37
Navy General Staff	823,004,832	17,60
General Staff of the Air Force	577,030,946	12,34
National Directorate of Civil Aviation and Aeronaut. Infrast.	19,670,998	0,42
General Civil Aviation Directorate	39,887,305	0,85
National Health Directorate of the Armed Forces	412,549,627	8,82
General Aeronautical Infrastructure Directorate	621,857,962	13,30
General Directorate of Services	11,290,288	0,24
National Meteorology Directorate	12,007,791	0,26
Retirement and Pension Funds Servi. of the Armed Forces	30,155,796	0,64
National Bureau of Communications	35,294,173	0,75
<b>TOTAL</b>	<b>4,677,038,963</b>	<b>100,00</b>

Source: 2004 Budget Act (Ley de Presupuesto). Uruguay

<sup>3</sup> RESDAL is carrying out a research project on transparency of the defense budgets in the region. It has already published the cases of Argentina, Ecuador, Nicaragua and Peru. See <http://www.resdal.org.ar/papers/main-papers-resdal.html>

Going back to the specific question of who does the spending, there are different levels of budget breakdown to answer that question in the defense sector specifically. To state that the Ministry of Defense spends \$100 is different from specifying that \$15 of those \$100 are assigned to the Ministry of Defense proper, \$40 to the Army, \$25 to the Air Force, \$20 to the Navy, and so on. Likewise, we could go even deeper "institutionally" as to descriptive levels, and break down the Army budget, for instance, into army corps, brigades, and regiments. *In that regard, we can say that the institutional or administrative classification of defense spending will be more transparent if it matches the organizational structure of the Ministry of Defense and the Armed Forces.*

Example 1 is an institutional breakdown of the defense budget in Uruguay, as a first example. We can identify -in general-the organizational structure of the Ministry of Defense and its relative role in the allocation of resources, where one third of the budget is allocated to the Army General Staff. The consistency and quality of this classification will depend on the level of agreement between organic levels broken down in the budget and the levels contemplated in the organizational charts of the appropriate jurisdiction. It will be richer if the institutional breakdown includes various levels of the organizational structure.

Most defense budgets in the region hopefully specify the expenditures of each branch; however, we know that, operationally, the Air Forces are divided into air brigades or companies, Navies into naval bases and Armies into brigades and regiments. Why shouldn't we break down spending into these more open components? This factor deserves consideration, since it will allow to evaluate the degree of transparency with which each country submits the defense budget and will define clear guidelines as regards additional information to be requested to the various government levels.

## **6.2 What is it spent for?**

At first sight, the mere formulation of this question in the case of the defense budget may seem trivial. There is a temptation to automatically resort to each country's own definition of defense to answer the question. Therefore, we will encounter answers such as *"to defend the country's*

*sovereignty*", "to assure territorial integrity", "to repel external threats".<sup>4</sup> However, nobody ignores that, in order to comply with those final objectives, it is necessary to perform very diverse activities, such as training officers and NCOs, building and operating hospitals and health units, building roads and bridges and carrying out training exercises.

The so called functional classification precisely tries to disaggregate the defense budget into functions according to the nature of activities carried out by the armed forces. The catalogue of functions that the vast majority of Latin American countries have adopted for the functional classification of their national budgets (and particularly their defense budgets) is based on a standard promoted by the United Nations and the IMF, called "COFOG" (Classification of the Functions of Government). Such catalogue identifies 10 broad areas (General Public Services, Defense, Public Order and Security, Economic Affairs, Housing and Community Services, Health, Education, etc.), opened up in 63 specific groups which are in turn divided into classes.

According to the COFOG, the defense division is made up of 5 groups: military defense, civilian defense, foreign military assistance, research and development related with defense and unspecified defense. However, the defense division explicitly excludes base hospitals (which are assigned to the health division); military schools and academies<sup>5</sup> (assigned to the education division), pension plans for the military personnel (assigned to the social protection division). In some cases, we can also find armed forces expenses in the economic affairs division; these expenses come from activities related to air traffic control or promotion transport services.

As way of example, let's see how Argentina has tailored the COFOG. In this case, the defense division of the COFOG is called "purpose: defense and security services". As detailed in the following table (Example 2) containing the executed budget of the Ministry of Defense in the three-year period between 2001 and 2003, defense and security services represented -on average- only 54.5% of the Ministry's total spending. It is important to emphasize that the 43.3% of the social services category (education and health, among others), is an expense effectively executed within the Ministry of Defense, but which has been classified as such because of the nature of its activities.

<sup>4</sup> See the Comparative Atlas of Security and Defense of the RESDAL to compare the definitions of defense in the countries of Latin America.

<sup>5</sup> The condition imposed by the COFOG to assign them to the education division is that the curricula of those schools should be analogous to the civilian institutions, even when access to them is restricted to military personnel and their families. However, this condition is frequently ignored, and the expenses of most schools and academies are assigned to the education division.

### Example 2: Budget of the Argentine Ministry of Defense broken down by purpose

Purpose	2001		2002		2003	
	\$ ,000	%	\$ ,000	%	\$ ,000	%
Government Administration	12.205	0,36	15.818	0,43	18.147	0,41
Defense and Security Services	1.853.369	54,06	2.035.422	55,48	2.368.961	54,11
Social Services	1.478.704	43,13	1.518.241	41,39	1.888.779	43,14
Economic Services	83.587	2,44	99.041	2,70	100.043	2,28
Public Debt	471	0,01	34	0,00	2.383	0,05
<b>TOTAL GENERAL</b>	<b>3.428.337</b>	<b>100</b>	<b>3.668.557</b>	<b>100</b>	<b>4.378.314</b>	<b>100</b>

Source: Own elaboration based on consultation to the SIDIF

According to the Argentine catalogue, the Social Services function includes health, social assistance and promotion, social security, education and culture, science and technology, employment, housing and urban development, potable water and sewerage. Economic Services include functions such as power, fuels, and mining, communications, transportation, environment, agriculture, industry, trade, tourism, insurance and finance. It is evident that some of these roles are directly related to the business, organization and objectives of the defense sector, but the percentage that corresponds to it is actually difficult to be determined. If we take education as an example, it is clear that all items assigned to the military academies that educate and train the Armed Forces personnel is directly related to the sector objectives and, hence, they are closer to a defense expenditure than to social services. However, schools that provide basic education to the children of military personnel do not have a direct linkage to the purpose of the sector, but are rather a benefit granted to those who serve in it.

Another example of COFOG's adaptation to the defense budget is the Mexican case (Example 3). As clearly shown, the similarity of the Mexican budget breakdown and that of the previous example is remarkable. The Government Administration function of the Argentine catalogue may be related to the Mexican Government Management function. Likewise, the Argentine Social Services function can be understood as a construction of both the functions of Health and Education in the Mexican example.

### Example 3: Mexico's Defense Department Budget, by purpose

Function	2003 Budget	%
<b>Government Management</b>	3.004.607.823	13,16
<b>National sovereignty</b>	15.518.302.367	67,97
<b>Public order and law enforcement</b>	1.389.265.728	6,08
<b>Health</b>	1.991.155.901	8,72
<b>Education</b>	928.164.681	4,07
<b>TOTAL</b>	<b>22.831.496.500</b>	<b>100,00</b>

Source: 2003 Budget Act (Ley de presupuesto). Mexico

As opposed to the Argentine case, in Mexico almost 70% of the Defense budget is assigned to territorial sovereignty, whereas a relatively more reduced percentage (13%) corresponds to social functions.

### 6.3 What is it spent on?

This is the question most often answered by public budgets. Initially, budgets used to project the input intended to be used, without specifying what purpose those items were acquired for. In most Latin American countries, the need to describe what is acquired has been satisfied for some time by elaborating some kind of catalogue of goods and services. The arrangement of spending according to this criterion is usually called classification per Object of expenditure or Group of expenditure.

As in any activity, defense requires human resources, consumable goods, services of various kinds, capital goods, etc. In this sense, special attention should be paid to the catalogue or accounts plan designed by each country, considering its structuring and, most importantly, what each account covers.<sup>6</sup>

<sup>6</sup> The Comparative Atlas of Security and Defense of the RESDAL has researched and presented the budgetary classification manuals that contain catalogues of goods and services.

**Example 4: Budget of the Argentine Ministry of Defense,  
per object of expenditure**

	2 0 0 1		2 0 0 2		2 0 0 3	
	\$ ,000	%	\$ ,000	%	\$ ,000	%
Personnel Expenses	1.823.335	53,18	1.998.596	54,48	2.330.189	53,22
Consumer Goods	186.192	5,43	218.004	5,94	255.922	5,85
Non-Personal Services	280.952	8,19	242.012	6,60	294.891	6,74
Fixed Assets	43.343	1,26	74.808	2,04	80.935	1,85
Transfers	1.094.043	31,91	1.135.103	30,94	1.413.994	32,30
Debt Services	471	0,01	34	0,00	2.383	0,05
<b>TOTAL EXPENDITURES</b>	<b>3.428.337</b>	<b>100,00</b>	<b>3.668.557</b>	<b>100,00</b>	<b>4.378.314</b>	<b>100,00</b>

Source: Own elaboration based on consultation to the SIDIF

The Argentine catalogue, for instance, is broken down into sections and items (main and partial). Below we present this classification of the Ministry of Defense, at the level of sections, for the 2001-2003 three-year period. This perfectly portrays the picture of the military instrument in relation to the funds used for salaries and operations (Example 4). In the case presented here, items for personnel and transfers (mainly retirements) represent an average close to 85% of the total spending.

**Example 5: Budget of the Ministry of Defense of Peru, per group of expenditure**

Group of Expenditure	Budget 2004	%
Debt Amortization	2.728.572	0,09
Goods and Services	957.032.180	30,12
Debt Interests and Rates	2.521.428	0,08
Investments	18.610.115	0,59
Financial Investments	0	0,00
Pension Funds Obligations	563.344.000	17,73
Other Current Expenditures	395.093.592	12,43
Other Capital Expenditures	34.307.143	1,08
Personnel and Social Obligations	1.204.229.804	37,89
Contingency Reserve	0	0,00
<b>TOTAL</b>	<b>3.177.866.834</b>	<b>100,00</b>

Source: Budget Act (Ley de Presupuesto) 2004, Peru

In the case of Peru (Example 5), for instance, money assigned to personnel and retirements accounts for 55%, whereas goods and services represent 31%.

A way of reflecting on the budgetary classification criterion used here is to analyze the relations between different inputs. This means identifying the share of an input A as opposed to an input B. Probably the simplest and most universally studied example is that which relates personnel expenditure to the rest of expenses on goods and services. That is, what this relationship reveals is the intensity of the use of "labor".

#### *6.4 How is spending funded?*

The last question we will address in order to contribute to the analysis of defense budgets in Latin America relates to the origin of funds for budgets. In general, at least 3 or 4 valid sources of funding are found in Latin American countries: General Revenues or the National Treasury, that relate to the bulk of available taxes collected by the government; Assigned Resources (Recursos Afectados), that is, funds collected by virtue of a specific rule that expressly specifies the destination of such funds; the government's Own Resources, resulting from the sale or supply of goods and services by specific public entities; and finally, Debt, which may be internal or external.

#### **Example 6: Budget of the Ministry of Defense of Brazil, per source of funding**

<b>Source of Funding</b>	<b>Budget 2004</b>	<b>%</b>
Treasury	26.062.496.328	92,85
Other Sources	2.006.485.786	7,15
<b>TOTAL</b>	<b>28.068.982.114</b>	<b>100,00</b>

Source: Budget Act (Ley de Presupuesto) 2004. Brazil

This represents the funding structure of the Ministry of Defense in Brazil, in the budget project for 2004. Just as in almost all Latin American countries, the funding from the National Treasury has a decisive weight, with almost 93% of all funding.

In the case of defense budgets in Latin America, such breakdown per source of funding will allow to evaluate the degree of financial autonomy of the armed forces with respect to the central financial agency (namely, the Ministries of Finance). To the extent that the General Tax Revenues become the main component of budget funding, there will be more limits to self-determination regarding defense spending size and makeup. As regards its own resources, we could say that they are usually collected from subsidiary activities of a commercial or industrial nature. The degree of military penetration in the economy deserves to be analyzed since, depending on the case, we may find armed forces interest in various sectors such as hotel management, commercial fishing, banking and industries.

These trends are based on historical industrialization processes and the subsequent democratic transition. The military leadership, who held power in the region in most of the 20th century, was trained under a logistic doctrine that emphasized the assurance of supply provision. Simultaneously, the low level of industrialization in our economies strengthened the idea that the government could take an investor role and replace the private sector. This context explains why specific funds assigned to defense expenditures in the region stayed for years, including the "Copper Act" in Chile, the petroleum royalties in Ecuador until 1999, or the produce of a wide variety of business undertakings (hotels, banks, transport companies) in several Caribbean countries.

### *6.5 Where should we look for information?<sup>7</sup>*

The first thing that every researcher should do is identify the information required according to the analyses he/she intends to undertake. Since budget information is classified according to various criteria, reflecting different aspects and times of resource allocation, it is key to define -very clearly- what it is that we want to know in order to find it. An initial proposal for a research process to be followed when working on the defense budget is the following:

<sup>7</sup> Annex 3 identifies the fiscal information generally available to the citizens.

- Constitutional Provisions (*National Constitutions*)
- The administrative competencies of ministries and agencies (*administrative organization or ministry laws*)
- The way the budget system works (*organic laws of the budgetary system*)
- The way the defense system works (*defense or national security laws*)
- Resource and spending annual budget (*budget laws*)

The first step is to review the constitutional provisions regarding government financing in general. These provisions (except for an express reference in the Constitution) cover the defense sector, and are the first layer in the framework used for analysis. Aspects such as yearly budget submission, parliamentary approval as the necessary authority to impose charges and approve expenditures, the establishment of a central authority to coordinate the use of resources, etc., are typical elements to be considered in the analysis. References must then be found in relation to the missions of the armed forces, their constitution and operation. Most likely, these references are of a general nature, but other rules and regulations should be in line with them. At a lower regulatory level, they are generally regulated by law.

Administrative organization laws will allow to determine the organizational structure of the government and the distribution of functions and responsibilities. In our specific area, it will give us an idea of the nature of the work distribution between the Ministry of Defense and the armed forces for the formulation, execution and control of the defense budget.

The laws of the budget system will determine actors, processes, products and schedules for the various phases of the budget cycle (budget formulation, approval, execution and oversight). Unless there is a special legislation for the defense sector (something common in the past, but increasingly not used) in this law and its regulation, we will find a description of the process mechanics for the allocation of resources to the armed forces.

National defense laws will provide a conceptual definition of defense, establishing the scope of this term, assigning missions and objectives to the military instrument and establishing hypotheses for its use. It is also possible that official publications, such as white papers, may supplement and deepen the subject. In any case, for our purposes, this law will determine the budget scope, stipulating

the institutional ramifications the armed forces will have.

### Out-of-budget defense spending

One of the most conflicting and difficult issues to deal with when we analyze budgetary transparency in defense is that of **out-of-budget spending**.

A good way to approach this phenomenon is by observing the origin of the revenues that finance defense spending. This aspect is important, because the different sources of revenue have attributes that imply a variable degree of discretionality and, therefore, susceptibility to transparency. It is clearly obvious, for instance, that the expenditures that are financed with resources from the national treasury have more transparency as compared to the expenses whose financing comes from revenues collected by units or bodies at a decentralized level. The centralization of the collection and subsequent distribution of national taxes eliminates the uncertainty of the spending in two dimensions: volume and destination. How much the armed forces are going to spend through these resources (volume) and on what (destination) represent data externally provided by the central body (generally the Ministry of Economy or Finance).

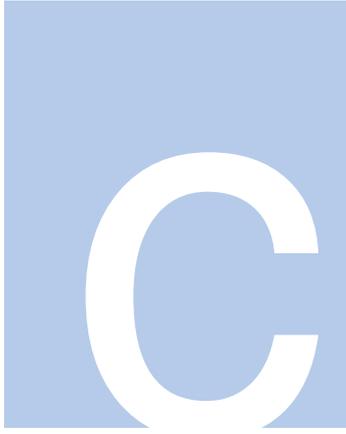
On the contrary, the expenditures that are financed with resources that are collected in a decentralized way have a larger degree of maneuver. Although the central body provides just as rigid guidelines for the execution of this type of expenditures, the truth is that there is no effective way of knowing per se when or how much is collected. For that, it should accept the information sent by the collection entities. In this case, the armed forces. On the other hand, these collection bodies many times have incentives to under-inform and under-enter in the circuit the funds that are collected, because they face the uncertainty of losing them if the central body finally does not authorize the spending.

Every now and then in Latin America there are cases where some unit of the armed forces is trading some good or rendering some service, whose product is not reflected in the budget. In general, this occurs in contexts where the units are under a high operative restriction. However, it must be assumed that this kind of behavior is counterproductive, to the extent that they promote the generation of suspicious visions that contribute tensions to the relations in the region and inside the countries.

Annual budget laws will be the core element to be considered in the study of resource allocation. They will contain defense budgets, where defense is understood as a sector or purpose.

Regular budget execution reports will indicate the effective evolution of resources allocated to the defense sector, as well as deviations with respect to the original provisions provided for in the budget law. Since reports are only partial (i.e. usually monthly or quarterly), deviations are not generated with reference to the total budgeted volume, but to the normal rhythm of execution (for instance, without seasonality 50% of the budget should be executed by the middle of the year). The expenditure account will represent a document to close the fiscal year, detailing to the maximum level of disaggregation the final execution of the pertinent fiscal year.

Finally, it is worth mentioning that there are several sources and various proposals that have been developed internationally to account for and systematize defense spending. For more details, see annexes 5 and 6.



## CHAPTER 7

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# *Strategies for the Incidence of Civil Society on the Defense Budget*

### *7.1 Influence and Participation. Concept and Scope*

Incidence is the result of a process based on power and participation. Participation may be understood as the ability and possibility for individuals and groups to influence the conditions that affect their lives. It is an attribute, a skill, a basic need; the satisfaction of that need for participation is connected to the requirement for identity that every human being has. It is also understood as the possibility to influence, through the existence of concrete conditions and mechanisms that allow the intervention of individuals, groups and institutions.<sup>1</sup>

Mario Róvere<sup>2</sup> claims that it is possible to understand participation as one of the mechanisms

<sup>1</sup> Mercedes Jones, *Sociedad Civil y Procesos de Incidencia*, Foro del Sector Social, April 2003.

<sup>2</sup> *Ibid.*

for the distribution of power and, therefore, as one of the cornerstones of participatory democracy, a more mature form of democracy. Participation as a mechanism for collective influence and citizen control is an orderly intervention of individuals and organizations, which creates guarantees for the possibility of improving the democratic model.

Participation is conceived as an element that transforms the democratic system, grants it a different dynamism and, at the same time, requires permanent communication channels between the political leaders and the citizens. Participation is the initial step towards the establishment of the social control over public expenditure. The term "social control" refers to a particular approach to the control function, according to which society plays the role of major supervisor of public actions. For that purpose, it is necessary to define control levels, which will allow the gradual development of social interest and of the abilities necessary for the exercise of such supervision. From these premises, the levels of participation may be classified as follows:

The first level is *information*, which is the elementary level to start from if we are to achieve influence. It implies counting with the necessary information, in terms of quality and quantity, to be able to analyze and generate proposals supported by objective data or elements of reality.

A second level is *opinion*: based on information, it is possible to adopt positions. Positions, ideally, are the basis for decision-making following their expression, from the point of view of society. Election times are the most visible moments for positions, but studies confirm that, when there is no permanent expression of opinion, there is usually a trend towards the appearance of new opinions, contrary to the defined interest.

A third level is *decision-making*. In decision-making, again, we observe the fact that the absence of active participation in all times of public activities leads to new and illegitimate claims reaching the political center and imposing their strength.

We have chosen to use the concept of incidence, with a more limited meaning than *advocacy*,

<sup>3</sup> The word advocacy comes from the Latin *Advocare* and means support to somebody who needs something. (Inés González Bombal, specialist in Advocacy issues and researcher of the CEDES in Argentina).

since it reinforces the idea of the object we wish to incidence, and does not make reference to the origin of the action, that is, the cause or the rights we are defending.<sup>3</sup> We should also make a distinction between incidence and the concept of civic lobby. In its wider sense, the term lobby is used to refer to the efforts to influence the ideas and actions of people who have decision-making power, by talking directly to them, at their offices or in corridors. It implies exerting pressure so that they adopt or refrain from adopting certain decisions.

Incidence is a wider concept; it covers a range of activities that is large enough to include any individual, group or organization in different contexts. Whereas lobbying always implies influencing, incidence does not always refer to a lobbying action.<sup>4</sup>

## *7.2 Steps towards the Incidence of Civil Society*

### *Why get involved in the applied work of defense budgeting?*

As was analyzed in the previous chapters, defense, just like other fields of reality, has particular features that must be taken into account when thinking and deciding on the actions to be carried out. Transparency will be achieved when the policy of the area finds its expression in the budget. With that main objective it is possible to undertake actions to influence the dynamics and results of the decision-making process, which is expressed in the budget cycle but does not end there.

If we consider that incidence is the result of a process in which the analyst or organization participate and try to promote the achievement of values to build a democratic environment, the defense sector is not absent from that general pattern. Defense is one of the State policies and that alone should be a reason for society to become interested in its design and resources allocated to it. But it is also the policy through which the State expresses its monopoly over the use of force, which involves a potential risk to life for those who should serve in the area (whether a professional or a citizen in the case of an armed conflict), and which accompanies the design of foreign policy in an international environment with increasingly higher demands.

<sup>4</sup> Mercedes Jones, *op. cit.*

This leads us to another characteristic of the defense good: defense as a good is provided in order to face external threats that may haunt the Nation. In this sense, the perception of threats that has guided the relations between many countries in the region for decades corresponded to objective elements of international relations, and also to subjective elements resulting from information that was not always complete and reliable. The development of new relations among countries in Latin America has found a key instrument in confidence building measures for the change from a logic of conflict to a logic of cooperation.

Transparency as a confidence-building measure reduces the uncertainty about changes in the countries' capabilities and intentions. And the defense budget is the area that clearly reflects the volume and destination of resources that feed country policies. Therefore, budget transparency in defense has been stipulated as a confidence-building measure in the Second Regional Conference on Confidence-Building Measures in San Salvador (1998). And although the highest transparency will come from the action of governments, the work made by individuals and organizations in civil society for a sustained and coherent consideration of this issue will allow to strengthen and accelerate that process in each country.

### *Actions for an Incidence Strategy*

The characteristics mentioned above imply that any incidence strategy in the area of defense will make sense if designed in accordance with:

- A general objective that connects - in accordance with national reality - both policy and budget, in order to support the development of the democratic process and the effective design of the defense policy.
- The interconnection of particular objectives that will be designed in accordance with the overall objective.
- The combination of short-term strategies, mainly thinking of the medium and long term.

Thus, it will be possible to assume the complexities and sensitivities of the area and avoid the short-term temptations in terms of personal or organizational public image, instead of the needs of the policy itself.

For that, it will be necessary to:

- A. Define a strategy
- B. Project times
- C. Count with human resources
- D. Count with financial resources
- E. Plan the expected results to evaluate the process

Let us explore a hypothetical case and the possibilities that could emerge. Let us consider the case of an organization that begins to explore the budget preparation subject (following international requirements for transparency, the particular interest of any of its members, etc.). This insight reveals that, in the country, the defense budget is a black box, not only because of its complex technical approach, but also because an analysis of this kind implies beginning to make questions about how that budget expresses the design of the defense policy and its feasibility in the current international environment. Then, it decides that -given its objectives and missions- it will devote part of its actions to try to incide that aspect of national reality, and it begins a process characterized by the following steps:

### *A) Define a strategy*

In the definition of the strategy it is important to:

#### **i) Identify the problem we would like to approach**

*Different problems imply different objectives and activities.* Working on defense budgets is a useful definition, but too wide when it comes to designing the consistency of actions. Are we going to work on the promotion of the need to analyze budgets? On concrete figures? On the confidence and

transparency of budgets among different countries? It may be based on all, one, or none at a given time. It is important to clearly define what problem/s we would like to approach, and for each of them undertake a separate road. Latin American countries, in general, have a historical problem with the definition of defense. There is usually a confusion between internal security and defense subjects, as a result of which budgets can not reflect real needs.

According to the case we are presenting, the problem we define is the need to identify the policy the current budget is expressing, its feasibility, and adjustments that should be made in order for the budget to reflect the policy. Some of the questions we could consider are:

- What is the existing pattern of national interests and objectives, defense objectives and public defense policy?
- According to what principles and reasons are bases established to design the defense budget?
- What is the relationship between this budget and the macroeconomic policy of the country in general, and the design of the defense policy in particular?

The sensitivity of the defense area, the general rigidity of its budget, the amounts of its items, are some of the characteristics to be taken into account. Likewise, it will be necessary to consider leading actors in the area, such as the military forces (led by the governments in a dynamic political relationship that sustains and supports democratic construction).

**ii) Identify the legal and political situation to analyze the feasibility of a strategy of this kind**

Once the problem has been defined, it will be necessary to evaluate the real possibilities for action, offered both by the legal framework and the political environment. This will reveal whether it is possible to approach the problem directly, or whether it will be necessary to look for indirect approaches, which after some time will allow a direct approach. It is essential for a direct approach to be possible that there be a rapprochement between society and its political representatives. Most of the legal obstacles for monitoring the public budget by the population may be corrected by the legislative branch.

In our imaginary case, the legal framework may determine concrete difficulties to have access to disaggregated information of the defense budget. That constitutes an intermediate problem, which is access to the information. In that case, it will be necessary to count with a strategy aimed at solving this problem, before approaching the major problem. This is an illustration of one of the basic principles to be assumed for the incidence approach: be willing to redefine problems and objectives, if that helps to introduce the issue, even if that implies taking a longer road to approach the main objective. If there were political impediments that determine the inconvenience of a direct treatment of the issue, it will also be necessary to define ways for working on them.

### **iii) Identify the needs of the population targeted by the project**

Although the whole population will benefit from a better quality and efficiency in the defense budget, there is a specific group that will be the target of actions to be undertaken and, in this case, that group will be made up of decision-makers, members of the armed forces, academicians, and opinion makers, that work in the area of defense at a national level. Their needs must be contemplated, since their actions will have a positive result and better chances of openness and reception.

For instance: Is there a need for more technical knowledge, for information from compared experiences; for the generation of channels of dialogue through which the civilian and military actors may put forward their various concerns about the reality of defense?

### **iv) Define objectives and activities**

At this point in the example, our project tends to collaborate so that the various actors involved in political decisions may trigger a debate about policy and budget. To that end, we may establish objectives and the activities that will help us attain them.

*Objectives:*

- Promote awareness in the actors involved in decision-making in defense about the importance of relating the budget to the debates on policy concepts.

- Make citizens sensitive to the importance of defense, and its budgetary expression.
- Learn about the reality of each stage in the defense budget cycle.
- Support the development of programs that research the budgetary reflection of the defense policy in the country during the past decades.

*Activities:*

In order to meet the objectives, we will have to define activities. As an example, let us think of activities along several years. Real times will bear a relationship with the possibilities for action, to the political situation and even, in some cases and due to the sensitivity of the issue, to the internal agreements within the organization itself.

During the first year, the activities would contemplate internal and external aspects. Internally, it is worth considering the following:

- a) Selection of the work team: do we have our own capabilities or do we need to introduce a specific type of professionals?
- b) Training and appropriation of the subject by the team (training could be provided by organizations with experience in the area).
- c) Define what we are going to do: budget analysis, citizen awareness, influence on the defense policy.
- d) Define the coalition work,<sup>5</sup> whether alliances will be formed, and with whom.
- e) Define the relation with the actors: this should be, according to the situation presented, a relationship of cooperation rather than confrontation.
- f) Drafting of a specific project to investigate the operation of each stage in the defense budget cycle of the country, and another project to analyze how the budget behaved during the past years in those cases in which information is available. This will also

<sup>5</sup> The characteristics of the coalition are: 1- short term; 2- for a single public issue; 3- for a single public policy; 4- for a wide range of public issues or policies.

include an analysis of the relation between expenditure and the national defense policy in the same period.

Externally, elements such as the following should be considered:

- a) Awareness of the beneficiary population (seminars, workshops, drafting working documents).
- b) Meetings with government officials to present the issue, send letters, contribute material from other experiences, express the will to work in cooperation rather than in competition, make the knowledge of the organization available, receive suggestions, confront their own opinion with the official experience, etc.
- c) Initiate meetings to begin to make the mass media aware of the issue.
- d) Awareness of other organizations of civil society, so that they get involved in the budgetary issue of defense (for instance, organizations of the country that work on budgets in general).
- e) Generate alliances with Universities, Centers of Strategic Studies, and/or Professional Associations for the analysis of the public budget.
- f) Produce hard information, didactic and of easy access, about the composition of the budget.

During the second year, the activities could be oriented to:

- a) Strengthening the alliances: Is it possible to look for cooperation with institutions from other countries?
- b) Making a pilot exercise, after defining the methodology agreed with the various actors, for the implementation of a mechanism of participation in budget preparation and control.
- c) Produce hard information, didactic and of easy access, about the composition of the defense budget.

### v) Define alliances, actors and discourses

To be introduced in the issue and approach the problem -in this case, analyze the relationship between policy and budget and begin an awareness process about the need for this relation- we may think of the strategic design of alliances that allow a higher strength and ability to deal with the issue in all its complexity. To promote and consolidate the action and experience of a work of this kind, new in the region, it may be key to work in a network and in cooperation. That will imply defining:

- the actors involved in the problem.
- the discourse or message to be worked on with each of them.

Let us see some of the most relevant actors for this case:

*I. Executive branch:* it is the main actor in our problem, and therefore a contact must be found to allow the organization to present its proposal and concerns. This may be with the Ministry of Defense, or with the Ministry of Economy and Finance (decision-makers and personnel directly involved in every day tasks), as well as with the Ministry of Foreign Affairs for the design of the foreign policy that supports the defense policy. This may generate a connection that allows a better understanding of the information, disseminate the idea of a consistent relation between policy and budget, and promote a dialogue that helps strengthen the abilities for the conduction of the area.

*II. Legislative branch:* relation with the defense and budget committees, offering training in budgetary issues, and results of the investigations that may be conducted. Given the problem we are approaching, and being the Legislative the main actor in the approval of the budget, a goal of this relationship could be to generate in the representatives the need to analyze the way the budget expresses the policy the country is willing to implement, and establish a fluent relationship with the Executive in order to present ideas and modifications.

*III. Armed forces:* the channels of communication are essential, since these are the main actors for their participation in planning and their experience in the execution of the defense budget. These channels of dialogue will help the organization better know the reality of the problem,

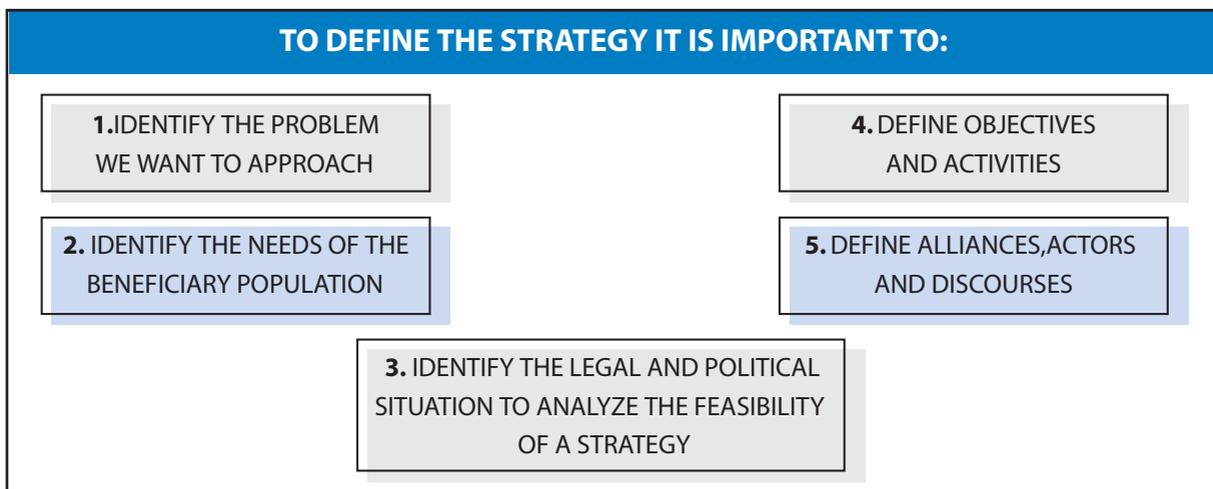
think of new work alternatives, and incorporate a technical knowledge to the debates it proposes.

*IV. Political parties:* if we speak of policy design, the political parties should be included in the strategy of the organization, basically to generate a greater awareness about the main problem defined.

*V. Universities, research centers:* we may generate academic cooperation alliances, in order to carry out the research programs and involve them in the independent analysis of the defense budget in a didactic manner and of easy access.

*VI. Mass media:* the action with the mass media in a problem of this kind could be defined according to the opportunity criterion, to disseminate activities and propositions once they are made and the connection with the various actors has been initiated. Thus, and according to the political sensitivity existing in each country, the organization may determine the timely moment so that this kind of alliances contributes to the discussion of the problem.

*VII. Experts and organizations from other countries in the region:* maximizing efforts and seeing compared experiences may be another key element for the development of the action that the organization wants to undertake. For instance, organizing a workshop with the attendance of experts in defense budgeting and political design for defense, to discuss the importance of the relation between both, as well as the international and regional trends in the issue.



### *B) Times, Human and Financial Resources*

Each of them should be a particular item of consideration and discussion within the organization. If we wish to deal with a problem such as the connection between policy and budget, we must think of an action sustained in time and for the medium and long term. It is important to remember the particularities of the defense budget, especially its rigidity and the dimension of the items that compose it.

The human resources should include specialists both in budgeting and in defense, with at least part-time availability. The projection should also include the financial resources necessary to count with the working team, for the development of the workshops, the follow-up of the activities, publications, etc.

### *C) Plan expected results to evaluate the process*

If the objective was an introduction to the budget expression of the defense policy, a consistent strategy should include the provision for the expected results, and how to evaluate the difficulties and opportunities that may appear in the process in order to correct or improve the influence strategy. For instance:

- What are the main difficulties that affect the decision-maker in the budgetary design of the policy? Which of them are related to the general political environment of the country, and which are specific to the defense area?
- What are the difficulties directly related to the stages of the budgeting cycle?
- Are there -according to what can be measured in the connection generated with the various actors- opportunities to promote an informal debate among them, about the behavior of the budget variable in defense?

### *Actions of influence in each stage of the defense budget cycle*

Part of the general strategy that each organization will define to approach the defense budget issue will be the specific action it will carry out in the budget cycle. That is, its influence will develop in practice not only in the connection it generates with the various actors and in the investigations it may conduct, but it will have an opportunity with every commencement and development of the cycle where political decisions are expressed. Let us see in the example we have described so far, how it is possible to define actions to influence the various stages of the budget cycle.

- Formulation stage, when the Executive Branch prepares the budget bill.
- Approval stage, when Parliament debates, modifies and approves the bill.
- Execution stage, when the government applies the budgeted resources.
- Oversight stage, when the specific agencies account and evaluate the execution.<sup>6</sup>

#### *A) Budget formulation stage*

Budget formulation is usually the "closest" stage throughout the budget cycle; in practice, the opportunities for the participation of civil society have been mostly informal and based on initiatives and connections of the organizations themselves.

One of the strategies of CSOs (Civil Society Organizations) to influence the formulation stage, is through the discussion of the set of priorities underlying the policy options. In Canada, for instance, this discussion has adopted the form of alternative budgets, that detail political options and priorities different from those sustained by the government. Another example of influence in the formulation is the well known case of participatory budgets, where the governments consult assemblies of citizens so that they debate and set up their own set of priorities. This method has evidenced, so far,

<sup>6</sup> Isaac Shapiro (Ed.), *Guía Ciudadana para el Trabajo Presupuestario*, International Budget Project, Washington D.C., Parte II, p 28.

a practical applicability limited to local environments (cities).

For the case of the defense budget, our incidence strategy should revolve around the analysis and discussion of the priorities defined by the Executive for the sector. The mandatory starting point would be a careful sequential follow-up of the activities that make up the formulation stage, which would represent some progress since the budget is a mystery for the academic community of defense and even for the congress defense committees themselves. However, the expectation is not exhausted in the mere collection of descriptive data about the process, but the idea is that the CSOs promote the debate specifying the trade offs existing in the official proposals and make specific recommendations.

Probably, the first action of incidence should be related to urging the government to provide budgetary specifications of the productive universe of the sector. At an operative level, this implies the development of an exhaustive and consistent program structure. Some examples may be:

- 1) The most important programs of the armed forces are in general those of "operational capability". These mega-programs reflect the quantitative and qualitative characteristics of the resources globally assigned to operations, but they don't make a distinction among specific (of each service), joint (inter-service) and combined (with forces from other countries) operations. The difference may seem quite unimportant for a budget analyst, but not for a defense specialist. A wide academic and political consensus has been sustaining for some time the need to reinforce operative integrity, to the detriment of the training of each service (trade-off between specific operations vs. joint operations). On the other hand, combined operations with armed forces from neighboring countries are a recognized confidence-building mechanism that leads to the consolidation of the regional concept of cooperative security (trade-off between combined operations vs. national operations [specific and joint]).

- 2) Although the education and training programs of the armed forces reflect the number of graduated and trained officers and NCOs, it is necessary to observe the breakdown of the affected resources to educate and train both. Another desirable aspiration would be, for instance, to obtain the budgetary breakdown of resources affected to the education and training of the various services and branches of the army (infantry, cavalry, artillery, engineers, communications, etc.).

Some operative strategies, as an example, could be:

- Request, collection and critical and systematic analysis of the information contained in the forms defined every year by the national budgeting offices for the budget formulation in defense. These may refer with different names to:

- a) Budget policy.
- b) Resource projection.
- c) Program structure.
- d) Chart of human resources per jurisdiction.
- e) Multi-annual budget.
- f) Summary of the expenditure budget per section.
- g) Description of the program, subprogram and other categories.
- h) Chart of goals and gross production.
- i) Chart of human resources per program category.
- j) Budget of expenditures of the jurisdiction.
- k) Programming of the investment projects, their works and activities, etc.

- Request, collection and systematic analysis of the preliminary budgets of the Defense jurisdiction and their sub-jurisdictions.

- Analysis of the official formulation report to National Congress. Use of this instance to present specific observations with the guidelines determined for the budget bill.

### ***B) Budget approval stage***

This stage develops within the Legislative branch; in general, this is the biggest opportunity for dissemination. The biggest debate and public attention occurs at this stage, so it is a good opportunity to influence the decisions to be made by the representatives of the people and of the federal states.

The focus of action at this stage may be located on two centers:

- 1) The *forms*: The parliamentary debate *process*, as regards observing compliance with the legal powers and obligations of the Legislative branch at this stage.
- 2) The *substance*: Make contributions about the issue itself: *defense*.

Given the role of Congress as a body that represents the citizenship, the budget approval stage that occurs within it is usually judged as the most appropriate for the incidence of civil society. However, the effectiveness of that incidence is conditioned by the power of Parliament itself in the budgeting process.

Among the strategies of CSOs to incide on the budget approval stage, we find the preparation of accessible budget summaries and guides, as well as the organization of round tables and debates. The target audience would ideally be made up of the legislators themselves, who are responsible for the approval, their staffers and the mass media.

For the case of the problem that we have proposed here as an example, our incidence strategy may be focused on the construction of a coordinated work with the defense advisory committees. A recent meeting of legislators members of these committees in Latin America has revealed very clearly that the treatment of the defense budgets is not a part of their regular work schedule.<sup>7</sup> Whether due to a lack of analytical capabilities or to institutional arrangements that kept them apart from that decisive job, it is clear that the defense committees must strengthen their role in this discussion.

The strategies at this stage must be centered around the generation of awareness in the parliamentary defense committees that the substantive and critical analysis of the defense budget is probably the best and most effective opportunity to influence on the "defense policy". It must be repeatedly emphasized that, leaving institutional arrangements aside (that the budget bill should have no treatment in the defense committee), the discussion of the budget is for them an indeclinable political responsibility.

It is also very important to increase the degree of budget management of the defense

<sup>7</sup> RESDAL organized the Workshop-Seminar "Parliamentary Action in National Defense", Buenos Aires, 4-6 November 2003. See <http://www.resdal.org.ar/main-sem-parlamento.html>

committee for another essential reason. It is established by law that every legislative bill, whose eventual implementation implies expenditures, must specify in detail the origin of the resources. The initial temptation to sustain that the resources will come from an increase in tax collection is generally sterile, because it leads to the almost automatic (and justified) veto of the Executive branch. Congress must assume the scarcity of resources and understand that an increase in a sector usually requires an adjustment in another. If Congress has managed to build consensus internally as regards a need that must be funded, it must discuss internally where the transfer will come from.

Some activities could include:

- Preparation and selective dissemination of an analytical report about the budget bill for the sector.
- Organization of informative meetings at the defense committee.
- Participation of the competent committees in the debates, such as the defense committee and the budget and finance committee. This could include the whole cycle of regular sessions as well as the debate on the budget bill, both in the committees and in the plenary session.
- At the end of the budget enactment stage it is possible to make a general report based on a scheme to classify the strengths and weaknesses detected during the debate and in the contents, together with a set of recommendations to improve the debate process and the subject content.
- At the proper political moments, it may be suitable to deploy a communicational strategy in the mass media to raise interest.

### *C) Budget execution stage*

Budget execution is a function of the Executive branch. The CSOs may monitor the application made by the Executive of the funds budgeted by law.

The analysis may consist of *observing*:

- The degree of compliance with the scheduled programs.
- Whether the amounts are used for the planned destination.
- Whether the periods in which the funds are applied are in accordance with the schedule.
- Whether there is a fund reallocation and whether it is in accordance with the law.
- Whether the expenditures are in excess of the budget (on execution).
- Whether the expenditures are below the budget (sub-execution).
- Whether additional budget items have been incorporated, and for what purpose (for instance, peace missions).
- In the hypothetical case that the Defense policy was a part of the President's campaign platform, it may be possible to analyze the scheduled amount in comparison to other issues and determine whether it agrees with the promises in the election campaign (this is useful to analyze the relation between the promises and the achievements during office).

The activities could therefore include:

- The publication of *execution monitoring reports* and their dissemination through the mass media.

That report may be submitted to the Executive branch with recommendations to improve their management and the defense policies, as well as to the Legislative branch, so that they may count with more information to perform their controller function. The report may also be used to raise awareness in other SCOs and individual citizens. The results of the report and the recommendations formulated to the Executive may be presented through workshops and talks. The objective of those workshops would be to involve other people in the issue, in order to generate a critical mass to have more influence.

### *D) Oversight stage*

The main actor in the oversight or control phase is the Legislative branch, through a control body or external auditor. Additionally, there are the internal supervision bodies, that report to the Executive and perform a centralized control, requiring regular reports of the expenditures of each jurisdiction.

The SCOs may request the reports from the auditors and/or the government offices in charge of the control and evaluation of the expenditure execution. That information may be analyzed, translated into an understandable language, and disseminated in the media to propose changes. In those cases where the auditors are competent, these reports frequently document improper and misapplied expenditures and irregularities in the acquisition system.

For the hypothetical case proposed here, our incidence strategy consists of the systematic collection and analysis of the reports from the auditing bodies (internal and external) and the follow-up of the implementation of the proposed corrective measures, urging the defense committee to call on those responsible in those cases where they perceive an excessive delay or lack of will.

The activities could include:

- Systematic collection of the audit reports.
- Request, if the legal framework allows it, the reports from the internal audit units.
- Follow-up of the corrective activities (for this task, alliances may be formed with the supervisory bodies themselves).
- Proposition to the Defense Committee to issue requests for explanation to those responsible that may have ignored the recommendations in the audit reports.

### *Strategies to strengthen the budget analysis*

An initial step after having identified the type of work that may and will be carried out around a

specific issue, is to identify the information available in the budget process, the opportunities to influence and the alliances that may be generated.

### *Diagnosis*

Most of the successful experiences of budget analysis have implied the development of analytical capabilities, based on an initial evaluation of the conditions of access to the information and participation that are presented in the specific context we want to influence. Generating a diagnosis of the legal framework that supports the budget process and its characteristics, as well as of the information generated in the process, is important to found the analysis and make the best use of all the opportunities.

Besides the diagnosis of the budget environment, it is important to start from a diagnosis of the specific issues that may be approached. The best budget technician or economist will have limited capabilities to understand the implications of particular aspects of the defense or industrial development spending. The specific knowledge of the sector, and the underlying circumstances, are therefore essential.

Budget analysis involves an unavoidable learning process, and a long-term effort by the organizations that carry it out. Just as with experience, the capability of the organization to be involved in new projects may increase.

### *Connection*

The connection of the organizations that perform applied budget analysis with other organizations and decision-makers is essential. It must be carried out in three levels:

- within the organization, to improve the work developed in various areas of activity.
- with other groups, to supplement the influence tasks and expand the area of influence of the work achieved.

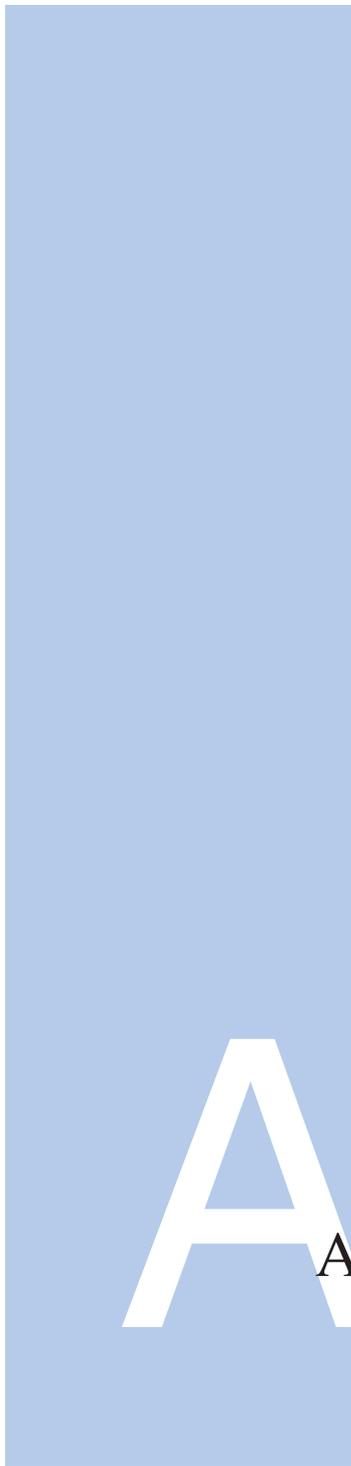
- with political actors, government officials and legislators, that is, those that make the decisions.

The connection promotes a fundamental exchange of information and allows optimizing scarce resources. In order to form networks and alliances, the proposals made acquire more credibility and the organizations get more opportunities to incide.

### *Training*

Training is another essential activity of the groups that work with budgets. One of the main objectives of the budgeting work is to promote transparency, accountability and the participation of the groups and individuals affected by the government's fiscal and expenditure policy, and there is no better way to improve these components than through training. Training programs may be intended for the legislatures, the media, SCOs, as well for government officials, legislative support staff and legislators.





# A

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);">DEFENSE EXPENDITURE</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">ARM TRANSFER</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.