ISSN 1608-7143
OECD Journal on Budgeting
Volume 7 – No. 1

Budgeting in Latin America: Results of the 2006 OECD Survey

by
Teresa Curristine *and* Maria Bas*

This article provides a snapshot of the status of budgetary institutions, procedures and practices in Latin American countries based on the results of the OECD 2006 budget survey. Particular elements include: the legal framework and role of the legislature; fiscal rules; medium-term expenditure frameworks; performance information; and budget transparency.

* Teresa Curristine is a Policy Analyst in the Budgeting and Public Expenditures Division of the Public Governance and Territorial Development Directorate, OECD. At the time of writing, Maria Bas was a consultant in the same division.

Introduction

Many factors influence a country's fiscal outcomes including the economic performance, political factors, and budgetary procedures and institutions. This article concentrates on budgetary procedures and institutions. All budget systems have three major goals: to maintain aggregate fiscal discipline; to allocate resources in accordance with government priorities; and to promote the efficient delivery of services (Schick, 2001). To achieve these three goals, countries have adopted institutions and procedures which can have both formal and informal dimensions. The nature and operation of these institutions and procedures has a profound impact on budgetary and fiscal performance (Alesina, 1996; Stein, 1998).

Given the importance of budgetary institutions, the OECD has sought through its questionnaire to obtain comparative data on budget institutions, procedures, and practices in member and non-member countries. This article presents the results of the 2006 OECD survey on budgetary institutions, procedures and practices in Latin American countries.[1] In 2006, the OECD sent this survey to a selection of Latin American and Caribbean countries.[2] Thirteen Latin American countries completed the full questionnaire. This questionnaire was based on a revised version of the OECD/World Bank 2003 survey on budget practices and procedures.

This article describes the main findings of the survey by presenting the responses to a selection of questions on key aspects of budgeting. It does not aim to test theoretical models or hypotheses. It is divided into four sections. Section 1 describes the procedures for conducting the questionnaire and its content. Sections 2-4 present the results of the survey. Section 2 presents the legal and institutional framework. Section 3 describes budget institutions and reforms including fiscal rules, medium-term frameworks, and performance information. Section 4 discusses budget transparency.

1. The OECD questionnaire on budget procedures and practices

1.1. The background

In 2003, the OECD, with financing by a special grant from the World Bank, invited 60 countries to fill in an online questionnaire on budgetary institutions, practices and procedures. In total 45 countries responded to the survey: 27 of the 30 OECD countries and 18 non-member countries from five different regions

(Africa, Asia, Latin America, Eastern Europe and the Middle East). The resulting online database on budget practices and procedures has more than 350 questions and examines all aspects of budgeting. It provides a unique, comprehensive and free resource on budget practices for government practitioners, academics, researchers and international organisations. The data collected have been an invaluable resource to users, enabling them to compare and contrast budget procedures and practices on a national, regional and international level.

The OECD decided to revise and update the survey in two phases. Phase I was a pilot phase in selected Latin American and Caribbean countries. This article presents the result of phase I. Phase II will launch the survey in all OECD countries and selected non-member countries in early 2007.

1.2. The process

The OECD, in late 2005, in conjunction with the Inter-American Development Bank and the Public Policy Group of the London School of Economics, began implementing phase I. The first step in this process was to revise and streamline the OECD/World Bank 2003 questionnaire based on feedback received from users and people who had filled in the questionnaire.

One of the main improvements in the 2006 survey relative to the previous survey was the refinement and revision of questions and response options. This was done in order to improve the clarity and level of specificity of the responses. In addition, the number of questions was reduced from 350 to 97. This revised questionnaire was then reviewed internally within the OECD and by an external international steering committee. This committee was comprised of officials from the ministries of finance of member and non-member countries, academics, and officials from other international organisations including the IADB and the World Bank. In light of the comments received from this review process, the survey was further refined and an online version created.

The OECD then wrote to the budget directorates of 17 countries from the Latin American and Caribbean region inviting them to participate in the questionnaire and to name a country co-ordinator for the survey. These countries were Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

In late December 2005, the survey and a detailed and comprehensive glossary of terms used in the questionnaire were sent to the appointed country co-ordinator in the ministry of finance in these countries. Countries were able to fill out the survey either on line or in a paper format in Spanish or English over a period of six weeks from late December 2005 through early February 2006.

In total 13 out of the 17 countries completed the survey in full: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay and Venezuela. Panama filled out only the first section of the survey. The countries that did not fill in the survey are Barbados, Jamaica, and Trinidad and Tobago. All countries completed the questionnaire in Spanish.

All answers were self-reported. In order to improve the accuracy and quality of the data, the responses were checked for internal consistency. Clarifying questions were compiled and sent to countries to double-check any response that appeared inconsistent or unusual and to follow up on questions that were omitted. In addition, where possible, the data presented were double-checked against secondary sources.

Finally, the results were sent to participants in the survey. In an additional effort to check the accuracy, the results were presented to a selection of Latin American budget directors and senior budget officials who attended the IADB regional policy dialogue meeting in May 2006 in Washington DC.

1.3. The content

The 2006 OECD survey for Latin American countries consists of 97 questions covering four major areas: general information, budget formulation and approval, budget execution, and performance information. These areas contain questions on different stages of the budget process and budgetary institutions including the constitutional and institutional framework, budget laws, the role of the legislature in the budget process, and flexibility in budget execution. In addition there are questions on budgetary reforms such as fiscal rules, medium-term frameworks, modernising financial practices, and performance measures and evaluations.

2. Legal and institutional framework

During the 1990s, important economic and institutional reforms took place in most Latin American countries. The last decade has emphasised the importance of reforming and reinforcing budget institutions to achieve not only stability but also sustainable economic growth.

Most Latin American countries have reformed their budgetary institutions and introduced new budget laws. At the same time, countries adopted several budget reforms to improve fiscal policy and transparency, to control public sector spending, and to improve public sector performance and efficiency.

The results of this survey provide a summary of the current status of budgetary institutions and reforms in Latin American countries. Section 2 examines the institutional framework, taking into account the legal framework and the role of the legislature in the budget formulation and execution processes. Section 3 describes budget reforms concentrating on fiscal rules, medium-term frameworks, other efforts to improve spending controls, and the introduction of performance information. Section 4 examines budget transparency.

In addition, Section 3.4 on performance information compares the results of a 2006 survey with those of a separate OECD 2005 questionnaire on the development and use of performance information in the budget process.[3]

2.1. Legal framework

This section examines the legal framework which regulates the budget process and fiscal policy. Nearly all countries possess an organic budget law. Chile and Mexico were the pioneer Latin American countries. They first adopted a law in the early 1970s, while most other countries implemented an organic budget law during the 1990s (Table 1).

Table 1. **Name and date of organic budget law**

	Name	Date adopted
Argentina	Ley 24.156 de Administración Financiera y de los Sistemas de Control del Sector Público Nacional	1992
Bolivia	There is no organic budget law. They have presented a project law to the legislature	n.a.
Brazil	Ley 11.178 de 20 de setembro de 2005 (Lei de Diretrizes Orçamentárias 2006)	2005
Chile	Ley Orgánica de Administración Financiera del Estado, Decreto Ley n° 1263, de 1975	1975
Colombia	Ley 38 (1989), Ley 179 (1994), Ley 225 de 1995 in the Decret 111 (1996), Ley 819 (2003) y Ley 617 (2000)	1989
Costa Rica	Ley de la administración financiera de la república y presupuestos públicos, n° 8131 de 18 de septiembre de 2001	2001
Ecuador	Ley de presupuestos del sector público	1992
Guatemala	Ley Orgánica del Presupuesto. Decreto Legislativo 101-97 del año 1997	1997
Mexico	Ley de Presupuesto, Contabilidad y Gasto Público Federal	1976
Paraguay	Ley 1.535 de Administración Financiera del Estado	1999
Peru	Ley 28411, Ley General del Sistema Nacional del Presupuesto publicada el 8 de diciembre de 2004	2004
Uruguay	It does not exist	n.a.
Venezuela	Ley Orgánica de la Administración Financiera del Sector Público (LOAFSP) of 05/09/2000, reformed 31/05/2005	2000

The legal framework is established not only by the organic budget law, but also by the constitution, the annual budget law and other internal regulations. The legal basis for different fiscal topics varies across Latin American countries as can be observed in Table 2. For example, provisions on what happens when the budget is not approved by the beginning of the fiscal year are regulated by the organic budget law in Argentina, Brazil, Colombia and Venezuela. In all other countries, the provisions are regulated by the constitution.

Table 2. **The legal basis for certain actions**

	Requirement for legislative authorisation of taxes and spending	The form and structure of the annual budget and related legislation	The timing of the annual budget process	Provisions on what happens when the budget is not approved by the beginning of the fiscal year	Roles and responsibilities of the legislature and the executive in the budget process	Budget formulation and execution, including the role of the ministry of finance or the central budget authority	Rules for the use of contingency or reserve funds	Management and reporting related to off-budget expenditures	Requirement for independent audit of government accounts
Argentina	C	OBL	R	OBL	C, OBL, ABL, R	OBL, ABL, R		OBL	C, OBL
Bolivia	ABL		NFB		C	R	ABL	NFB	C
Brazil	C, OBL	C, OBL, ABL, R	C, OBL	OBL	C, OBL, ABL	C, OBL, ABL, R	C, OBL, ABL, R		C, OBL, R
Chile	C	ABL	R	C	C	OBL	ABL	ABL	NFB
Colombia	C, OBL, ABL, R	C, OBL, R	C, OBL, R	OBL	C, OBL, R	C, OBL, ABL, R	OBL, R		C
Costa Rica	C, ABL, R	ABL, R	C, ABL, R	C	C, ABL, R	C, ABL, R			
Ecuador	C	C, OBL	C, OBL		C, OBL	C, ABL, R		OBL	C, OBL
Guatemala	C, OBL	OBL, R	C, OBL, R	C	C, OBL, R	OBL, ABL, R	NFB	NFB	R
Mexico	C	C, OBL	OBL, ABL, R	NFB	C, OBL, ABL	OBL, ABL, R	ABL, R	C, OBL, R	OBL
Paraguay	C	OBL	OBL	C	C, OBL	OBL	OBL	NFB	OBL
Peru	C, OBL, ABL	C, OBL	C, ABL	C	C	C, OBL	OBL		C
Uruguay	C, ABL	C, ABL, R	C, R	C	C, ABL	C, ABL	ABL	ABL	C
Venezuela	C, ABL	OBL, ABL, R	C, OBL, ABL	OBL	C, OBL	OBL, ABL, R	OBL, R	C, OBL	OBL, R

Key:
C = Constitution.
OBL= Organic budget law.
ABL= Annual budget law.
R = Regulations.
NFB = No formal basis.

2.2. Role of the legislature

The constitution creates the political system and the macro-institutional framework which sets the parameters of the relationship between the legislature and the executive. The formal role of the legislature in the budget process depends on the nature of executive-legislative relationships, which in turn are influenced by the characteristics of the party and electoral systems. Latin American countries have a presidential system of government, where the executive administration tends to have a strong role in the policy-making process. Despite the existence of several mechanisms through which the legislature has a role in the budget process, in most countries power tends to be concentrated in the hands of the executive.

This survey reveals that the role of the legislature during the budget process varies across Latin American countries. One indicator of legislative involvement is the level of detail at which the legislature approves the budget. No country approves budget appropriations at aggregate amounts of outputs or outcomes. Among the countries surveyed, Brazil and Chile approve the budget at the highest level of detail. The Brazilian and Chilean legislatures approve the budget at a sub-programme level.

There is significant variation in the ability of the legislature to alter the budget (see Table 3). In Guatemala, there are no restrictions on the legislature's

Table 3. **If there are any restrictions on the right of the legislature to modify the detailed budget proposed by the executive, what form do these restrictions take?**

Restriction	Countries[1]
No restrictions.	Guatemala
Legislature may not increase or propose new expenditure.	Chile, Uruguay
Legislature may reallocate funding levels, but only if there is no net change in total deficit or surplus.	Brazil, Chile, Colombia, Costa Rica
Legislature may create new spending items, but only if it reduces others or approves new revenue sources.	Argentina, Brazil, Costa Rica, Paraguay
Number of amendments is capped.	Brazil
Other.	**Colombia:** The legislature does not have any power in the budget process. It can only reduce variable expenditure which is not regulated by the law. **Ecuador:** The legislature can only reassign budget approvals without modifying the total budget proposed by the executive. **Mexico:** The legislature cannot create new programmes, and when it reassigns expenditures it must indicate the new finance sources. **Peru:** The legislature cannot increase nor propose new expenditures. The legislature can reassign expenditures without modifying the deficit. **Venezuela:** The legislature can create or modify specific expenditures only if it reduces other ones.

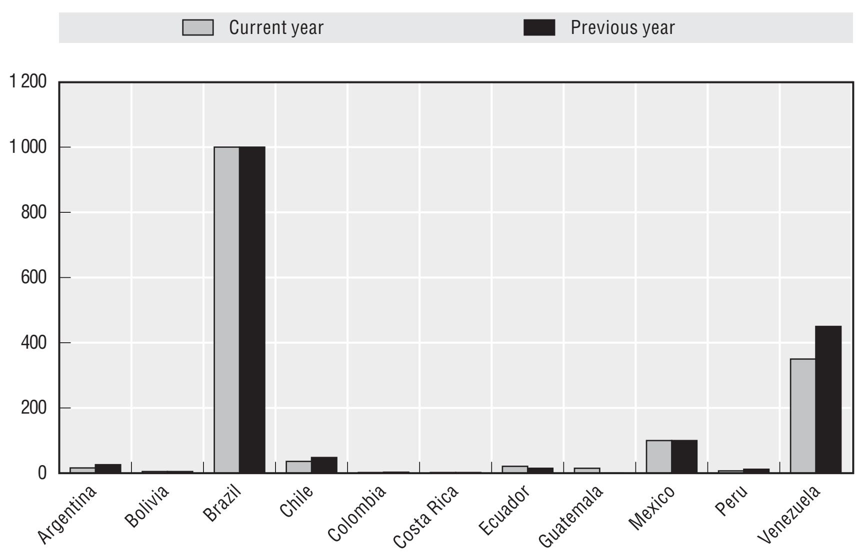
1. Due to an apparent inconsistency in the data from Bolivia, it has been excluded from this answer.

ability to modify the executive's budget proposal. In many countries, the legislature can only make changes in spending if the overall deficit or surplus is not altered. For example, the Chilean and Uruguayan legislatures may not propose new spending. In no country surveyed is the legislature restricted to only approving or rejecting the budget as a whole, with no opportunity to make any changes.

Of course, while a legislature may be legally entitled to make changes to the budget, that does not mean that changes are made in practice. Only Brazil (1 000), Mexico (100) and Venezuela (300-500) have passed more than 50 budget amendments during either of the past two years. In the case of Venezuela, it appears that the majority of the amendments are actually proposed by the executive, reflecting its need to revise its original budget submission. Meanwhile, Colombia, Costa Rica and Peru had fewer than ten amendments passed by the legislature in the most recent budget (Figure 1).

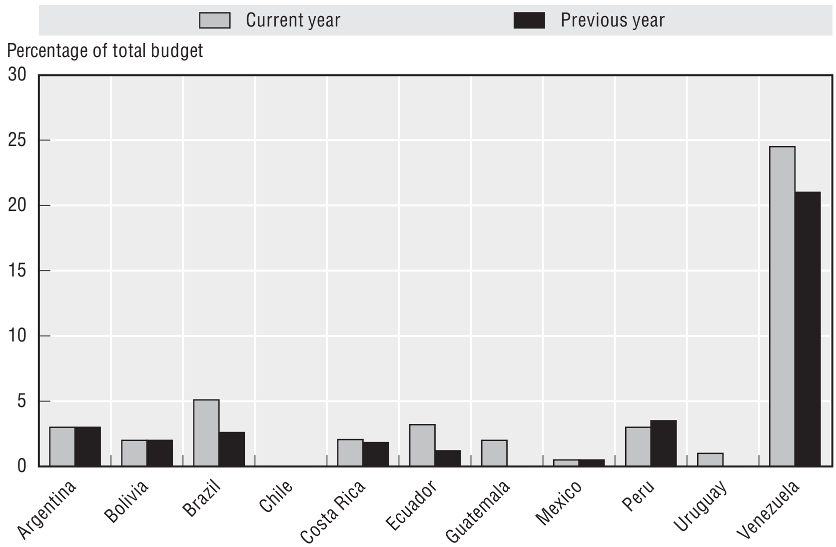
However, even in countries such as Brazil with large numbers of legislative amendments, the proportion of overall spending affected by the amendments is generally low, with no more than 5.1% of total government spending impacted

Figure 1. **Number of amendments to the proposed budget adopted by the legislature**



Note: The number of amendments for each country: Argentina (current year, 11-20; previous year, 21-30); Bolivia (current year, 1-10; previous year 1-10); Brazil (current year, 1 000; previous year, 1 000); Chile (current year, 36; previous year, 48); Colombia (current year, 2; previous year, 3); Costa Rica (current year, 2; previous year, 2); Ecuador (current year, 21; previous year, 15); Guatemala (current year, 15); Mexico (current year, 100; previous year, more than 100); Peru (current year, 7; previous year, 12); Venezuela (current year, 301-400; previous year, 401-500). Paraguay and Uruguay did not complete this question.

Figure 2. **The proportion of total spending affected by changes made to the budget by the legislature**



Note: Colombia and Paraguay did not respond to this question. Chile's response is "zero".

(Figure 2). The major exception is Venezuela, where 24.5% and 21% of total spending has been altered for the most recent and previous fiscal years respectively.

A constraint on the influence of the legislature is the ability of the executive to veto legislative amendments. The executive has veto powers in ten countries (see Table 4). Five countries (Colombia, Guatemala, Paraguay, Peru and Uruguay) have a total budget package veto. This means that they can only veto the total budget legislation and not specific items within it. In four countries (Argentina, Brazil, Chile and Mexico) the executive has the authority to use both a line-item veto and a total budget package veto for budget legislation.

Despite the prevalence of veto powers, over the past two years, the use of formal veto powers has been limited. In the last fiscal year (2005), the veto has been used in only two countries: in Argentina on 14 occasions and in Mexico once. For the previous fiscal year (2004), only Argentina reported using the veto. A number of factors could explain the lack of veto use. These include the composition of the majority in the legislature. If the president's party or supporting coalition has the majority, then the government has sufficient support to defeat unwanted amendments, thus making the use of the veto unnecessary. Given that in a number of countries the executive has extensive veto powers, the very existence of the veto and the threat of using it can be a sufficient weapon in negotiations between the executive and the legislature to ensure that the executive achieves its aims.

Box 1. **Brazil: the role of budget amendments**

In Brazil, there are two types of amendments to the budget proposed by the government: individual amendments, presented by a representative, and collective amendments presented by a group of representatives. According to the Brazilian constitution, amendments may be approved only if they are compatible with the plan and the budget guidance law. However, in practice the legislature finances new appropriations through concluding that there are "errors and omissions" in the economic assumptions used by the executive.

Although there are constitutional restrictions on amending the budget, Brazil is the country that has the largest number of budget amendments adopted by the legislature during the past two years (1 000). There are two possible explanations for this practice of the legislature.

First, this practice of budget amendments has to be seen in the context of presidential budget implementation decrees, which limits the role of the legislature regarding decisions on supplementary budgets (Blondal, Goretti and Kristensen, 2003). Therefore, budget amendments are used by the legislature as an instrument to participate in the decision on supplementary funds.

Second, another possible explanation may relate to the organisation of the political party system. Brazil is characterised as an extreme multiparty system, with more than four political parties that have an effective chance to win elections. This fragmentation of the political party system induces the formation of coalitions. In general, there are strong regional alliances and thus most legislative proposals are viewed in terms of their regional impact. The combination of a presidential and federal government with powerful regions can help to equalise the relationships between the executive and the legislature.

Nevertheless, despite the large numbers of legislative amendments, the proportion of overall spending affected by the amendments is generally low in Brazil, with no more than 5% of total government spending impacted. In practice the legislature does not assign a high level of expenditure to these amendments, as the Brazilian budget is characterised by a high degree of rigidity due to the large amount of expenditures that are mandated by the constitution (Blondal, Goretti and Kristensen, 2003).

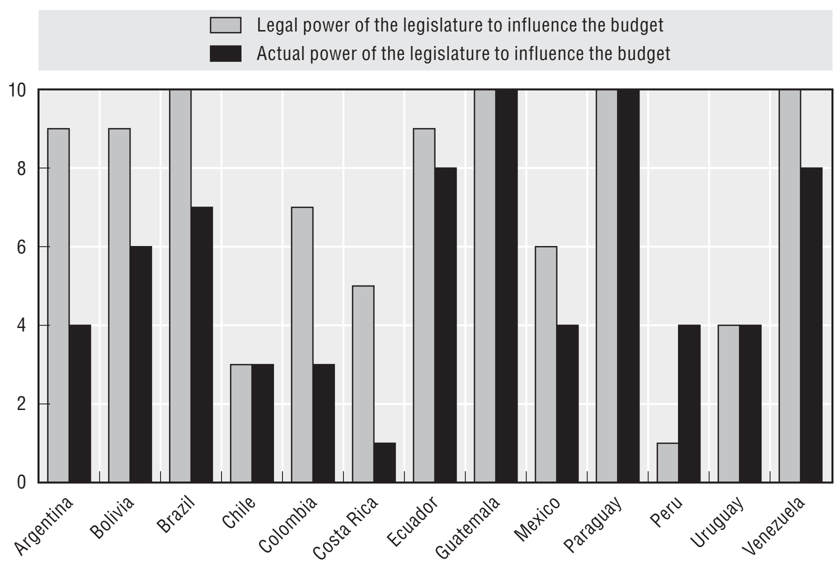
Table 4. **Does the executive have a formal veto authority for budget legislation?**

Yes, the executive has a line-item veto for budget legislation.	Bolivia
Yes, the executive has a package veto for budget legislation.	Colombia, Guatemala, Paraguay, Peru, Uruguay
Yes, the executive has both line-item and package veto authority for budget legislation.	Argentina, Brazil, Chile, Mexico
No, the executive does not have any type of veto authority for budget legislation.	Costa Rica, Ecuador, Venezuela

Countries were asked to assess the power of their legislature to influence the budget and to compare the legal power to the actual power (Figure 3). The scale went from 0 to 10 with 10 being a very high degree of power and 0 being no power. Overall country assessments varied, with Argentina, Bolivia, Brazil, Ecuador, Guatemala, Paraguay and Venezuela finding that legally the legislature has significant power to influence the budget. However, 8 out of 13 countries find the legislature's actual power to influence the budget is lower than its legal power. Only in Peru is the actual power perceived to be greater than what is legally granted, while only in Chile, Guatemala, Paraguay and Uruguay does actual power equal legal power. This result is related to the presidential system of government where the executive administration has a strong role in the budget process, and in practice the actual power of the legislature tends to be weaker than its legal power.

Figure 3. **Legal *versus* actual power of the legislature to influence the budget**

Scale of 0 to 10



This section has concentrated on the role of the legislature in budget preparation and approval; however, the legislature can also have a role once the budget is passed. The power and flexibility of the executive in executing the budget is influenced by whether it requires legislative approval to make changes once the budget has been approved. Table 5 outlines whether the executive is able to make certain budget reallocations with or without restrictions and, if so, whether the change requires legislative approval. Chile, Ecuador and Mexico do not require legislative approval for any type of budget reallocations although they

Table 5. **Procedures for reallocation of funds and appropriations**

The type of budget reallocation	Does the executive have the authority to change or reallocate expenditures after the budget has been approved?*			Is legislative approval needed?		
	Yes, with no restrictions	Yes, with restrictions	No	Yes	No	Depends on the change
Increased expenditure in existing programmes	Brazil (+50), Mexico (+50)	Argentina (28), Bolivia, Chile, Colombia, Costa Rica (2), Ecuador (+50), Guatemala (10), Paraguay, Peru, Uruguay, Venezuela (+50)		Argentina, Bolivia, Colombia, Paraguay, Peru, Venezuela	Chile, Ecuador, Mexico, Uruguay	Brazil, Costa Rica, Guatemala
Create new programmes	Bolivia	Brazil (+50), Chile, Colombia, Costa Rica (2), Ecuador (+50), Guatemala (none), Mexico (+50), Paraguay, Venezuela	Argentina, Uruguay	Argentina, Brazil, Colombia, Paraguay, Uruguay, Venezuela	Bolivia, Chile, Ecuador, Mexico	Costa Rica, Guatemala
Reallocate expenditures	Mexico (+50)	Argentina, Bolivia, Brazil (+50), Chile, Colombia, Costa Rica (+50), Ecuador (+50), Guatemala (+50), Paraguay, Peru, Venezuela (+40)	Uruguay	Bolivia, Brazil, Colombia, Paraguay, Peru, Uruguay, Venezuela	Argentina, Chile, Ecuador, Mexico	Costa Rica, Guatemala
Cut expenditures	Argentina (2), Colombia, Ecuador (+50)	Bolivia, Brazil (+50), Chile, Costa Rica (+50), Guatemala (none), Mexico (+50), Paraguay, Peru, Uruguay, Venezuela (none)		Paraguay, Peru, Venezuela	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico	Costa Rica, Guatemala

Note: The numbers in brackets are the average number of times over the past two fiscal years that the executive has employed these changes.

have some restrictions on the changes the executive can make. At the other end of the spectrum, Paraguay and Venezuela require legislative approval for all budget reallocations.

The flexibility of the executive is influenced by whether it can increase expenditure to existing programmes. In all countries the executive has the power to increase expenditure but in most countries, with the exception of Chile, Ecuador, Mexico and Uruguay, it needs legislative approval to do so. In most countries, the executive also has the right to create new programmes once the budget has been approved.

Nevertheless, for around 50% of countries the executive requires legislature approval to create new programmes. In most cases the executive can also reallocate expenditures, but it needs legislative approval in all countries except Argentina, Chile, Ecuador and Mexico.

In all Latin American countries the executive has the authority to cut expenditures and only in Paraguay, Peru and Venezuela does the executive need the approval of the legislature to do so. Even though legislative approval is required for some changes, in most countries surveyed the executive has extensive powers in the execution of the budget.

3. Budget institutions and reforms

Under pressure to improve fiscal balances, many Latin American countries began reforming budget institutions in the late 1990s and 2000s. These reforms have taken place within the context of the legal and institutional framework described in Section 2 above. Reform of budget institutions has focused on maintaining and/or improving aggregate fiscal discipline through policies seeking to control spending, reduce debt and improve fiscal balances. To achieve these objectives, many countries have introduced reforms such as fiscal rules, medium-term expenditure frameworks and other initiatives and rules to control expenditure.

There has also been increased emphasis on achieving the other objectives of budget systems, mainly to allocate resources in accordance with government priorities and to promote the efficient delivery of services. Efforts to improve the performance and efficiency of the public sector have incorporated attempts to introduce performance information into budgeting and management processes. In this section, each of these reforms will be examined in turn.

3.1. Fiscal rules

Budget institutions and especially fiscal rules are important to achieve economic targets and stable and sustainable economic growth. Only Costa Rica and Guatemala reported that their governments do not have fiscal rules. All the other countries have fiscal rules, although they have adopted different types of rules.

Table 6 shows differences across countries in their fiscal rules. All countries except Colombia have a limit on the annual deficit or surplus. Argentina, Chile, Peru and Venezuela do not have a fiscal rule that limits the debt held by the public sector. Argentina, Bolivia and Uruguay have a limit on nominal expenditure set by their fiscal rules, whereas Colombia, Ecuador, Peru and Uruguay have a limit on real expenditure.

Table 6. **The nature of fiscal rules**

	Limit on debt held by the public sector	Limit on debt held by the general government sector	Limit on expenditure	Limit on the annual deficit or surplus	A golden rule	Limit on nominal expenditure	Limit on real expenditure	Another rule
Argentina	No	No	Yes	Yes	No	Yes	No	–
Bolivia	Yes	Yes	Yes	Yes	No	Yes	No	No
Brazil	Yes	Yes	No	Yes	Yes	No	No	–
Chile	No	No	No	Yes	No	No	No	Yes
Colombia	Yes	No	Yes	No	No	No	Yes	–
Ecuador	Yes	Yes	Yes	Yes	Yes	–	Yes	–
Mexico	Yes	No	No	Yes	Yes	No	No	Yes
Paraguay	–	–	Yes	Yes	–	–	–	–
Peru	No	No	Yes	Yes	No	No	Yes	No
Uruguay	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Venezuela	No	No	Yes	Yes	No	–	No	Yes

Note: Costa Rica and Guatemala do not have fiscal rules.

Fiscal rules in most of the countries are formal rules defined by formal legislation. In Bolivia, Chile, Paraguay and Uruguay there are rules which are not defined by formal legislation but by political commitment. For example, in Bolivia, Chile, Paraguay and Uruguay the specific rule that limits the annual deficit or surplus is based on a political commitment.

However, some of these fiscal rules can be waived in practice (see Table 7). The rule that limits the amount of debt held by the public sector can only be waived in Brazil, while the limit on expenditure can be waived in Colombia, Uruguay and Venezuela. The rule that establishes a limit on the annual deficit or surplus can be waived only in Mexico and Venezuela. In most countries these fiscal rules have enforcement mechanisms (Table 7).

3.2. Medium-term expenditure framework

The medium-term expenditure framework (MTEF) is an important means of laying out plans for future government spending. The MTEF should be based on medium-term projections that are updated regularly. Most Latin American countries have introduced medium-term frameworks in their

Table 7. **Enforcement of rules**

Fiscal rule	Can the rule be waived?		Is there an enforcement mechanism?	
	Yes	No	Yes	No
Limit on debt held by the public sector (per cent of GDP)	Brazil	Bolivia, Colombia, Ecuador, Mexico, Uruguay	Brazil, Ecuador, Mexico, Uruguay	Colombia
Limit on debt held by the general government sector (per cent of GDP)	Brazil	Bolivia, Uruguay	Bolivia, Brazil, Uruguay	
Limit on expenditure (per cent of GDP)	Colombia, Uruguay, Venezuela	Ecuador, Peru	Ecuador, Peru, Venezuela	Colombia, Uruguay
Limit on annual deficit/surplus as percentage of GDP	Mexico, Venezuela	Argentina, Brazil, Chile, Ecuador, Peru	Argentina, Brazil, Chile, Ecuador, Peru, Venezuela	Mexico
Golden rule	Mexico	Brazil	Brazil	Mexico
Limit on nominal expenditure	–	Argentina, Colombia	Argentina, Colombia	–
Limit on real expenditure	–	Peru	Peru	–

budget process over the past few years. The potential benefits of an MTEF are that it can reduce uncertainties about future funding and policy orientation and allow the public debate to focus on longer-term policy priorities.

Seven countries have an MTEF: Argentina, Brazil, Chile, Guatemala, Peru, Uruguay and Venezuela. Additionally, Bolivia is currently in the process of approving a law that will create an MTEF and Costa Rica has a law calling for MTEFs but it has yet to be implemented. They expect to begin implementation within two years.

The MTEF generally covers three years beyond the next fiscal year although it covers four in Brazil and five in Uruguay (Table 8). Nearly all countries include all central government expenditures in their MTEF while several also include other information that will affect future spending.

Of the countries that took part in both the 2003 and 2006 surveys[4] some have taken steps towards further development of the MTEF. Chile has instituted a legal requirement for an MTEF. Mexico enacted a law in 2006 introducing an MTEF.

In general, the MTEF is the executive's planning document. In most countries, medium-term expenditure estimates do not require legislative authorisation. Ten out of thirteen countries make medium-term fiscal policy objectives publicly available.

Table 8. **Medium-term expenditure frameworks**

	MTEF	Legal requirement	Number of years beyond next fiscal year	Frequency of revision	Do medium-term expenditure estimates require authorisation by the legislature?	Does the government make its medium-term fiscal policy objectives publicly available?
Argentina	Yes	Yes	3	Annually	No, they are for information purposes only.	Yes, legal requirement.
Bolivia	No	–	–	–	Not applicable; medium-term expenditure levels are not presented.	Yes, but not a legal requirement.
Brazil	Yes	Yes	4	Annually	Yes, but apart from the appropriation bill for the budget year.	Yes, but not a legal requirement.
Chile	Yes	Yes	3	Annually	No, they are for information purposes only.	Yes, but not a legal requirement.
Colombia	Other[1]	No	–	–	No, they are for information purposes only.	Yes, legal requirement.
Costa Rica	No	–	–	–	Not applicable; medium-term expenditure levels are not presented.	No.
Ecuador	No	–	–	–	Not applicable; medium-term expenditure levels are not presented.	No.
Guatemala	Yes	Yes	3	Annually	No, they are for information purposes only.	Yes, but not a legal requirement.
Mexico[2]	No	–	–	–	No, they are for information purposes only.	Yes, but not a legal requirement.
Paraguay	No	–	–	–	Not applicable; medium-term expenditure levels are not presented.	No.
Peru	Yes	Yes	3	Annually	No, they are for information purposes only.	Yes, legal requirement.
Uruguay	Yes	Yes	5	Annually	Other.	Yes, but not a legal requirement.
Venezuela	Yes	Yes	3	Annually	Not applicable; medium-term expenditure levels are not presented.	Yes, legal requirement.

1. Decree law 4730 (2005).
2. Mexico introduced an MTEF as part of its 2006 Federal Law of Budget and Fiscal Responsibility. However, this law was introduced after the survey had been completed. Therefore the answers in the survey pre-date the introduction of the new law.

3.3. Controlling expenditure in budget formulation

The central budget authority has the leading role in maintaining aggregate fiscal discipline, ensuring compliance with the budget laws and enforcing effective control of budgetary expenditure. In most countries, there is some form of top-down budgeting in which there are fixed limits for initial ministry spending plans (see Table 9). These are set by the ministry of finance or the central budget authority. In Colombia they are set by the National Department of Planning. Only in Guatemala and Uruguay are the fixed limits for the initial ministry spending plans based on the MTEF.

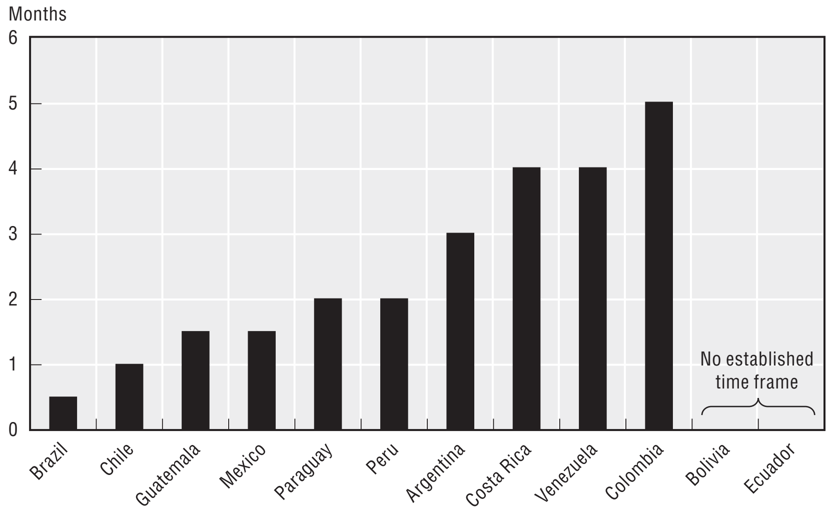
Table 9. **Fixed limits for spending plans and formal rules for negotiations**

	Are there fixed limits for the initial ministry spending plans?	Are there formal rules or procedures to guide central budget authority negotiations with line ministries?
Argentina	Yes, they are set by the ministry of finance or the central budget authority.	Yes.
Bolivia	Yes, they are set by the ministry of finance or the central budget authority.	Yes.
Brazil	Yes, they are set by the ministry of finance or the central budget authority.	No, but there are established practices.
Chile	Yes, they are set by the ministry of finance or the central budget authority.	Yes.
Colombia	Other.	No, but there are established practices.
Costa Rica	Yes, they are set by the ministry of finance or the central budget authority.	Yes.
Ecuador	Yes, they are set by the ministry of finance or the central budget authority.	No, but there are established practices.
Guatemala	Yes, they are based on the MTEF.	No, but there are established practices.
Mexico	Yes, they are set by the ministry of finance or the central budget authority.	No, but there are established practices.
Paraguay	Yes, they are set by the ministry of finance or the central budget authority.	Yes.
Peru	Other.	Yes.
Uruguay	Yes, they are based on the MTEF.	No, but there are established practices.
Venezuela	Yes, they are set by the ministry of finance or the central budget authority.	No, but there are established practices.

In Argentina, Bolivia, Chile, Costa Rica, Paraguay and Peru there are formal rules to guide the negotiations between the central budget authority (CBA) and the ministries (Table 9). In the rest of the countries, although there are no formal rules, there are established practices which regulate these negotiations.

Figure 4 shows the timeframe for executive negotiations between the CBA and the ministries. In Brazil these negotiations last only fifteen days, while in Colombia they can last five months. Only Bolivia and Ecuador do not establish a timeframe for these negotiations.

Figure 4. **What is the timeframe for executive negotiations between the central budget authority and line ministries?**



Note: Uruguay did not specify the timeframe.

3.3.1. Controlling expenditure in budget execution

As discussed in Section 2, the executive is authorised to reallocate, adjust or modify expenditures within limits during execution of the budget. Depending on the type of transfer, the approval of either the CBA or the legislature may be required to transfer funds between accounts. This section details the characteristics of budget execution and the conditions under which the executive can modify expenditures or use supplementary budgets.

Most Latin American countries have special measures to modify budget expenditures depending on changes in economic conditions (Table 10). In Costa Rica, Guatemala, Mexico and Venezuela there are automatic expenditure reductions during worse economic conditions. In some countries there are specific laws regulating the modification of budget expenditures in light of a mid-year change in economic or fiscal forecasts: Brazil (fiscal responsibility law), Costa Rica (law of extraordinary budget) and Mexico (decree of budget related to the excess of petrol revenues).

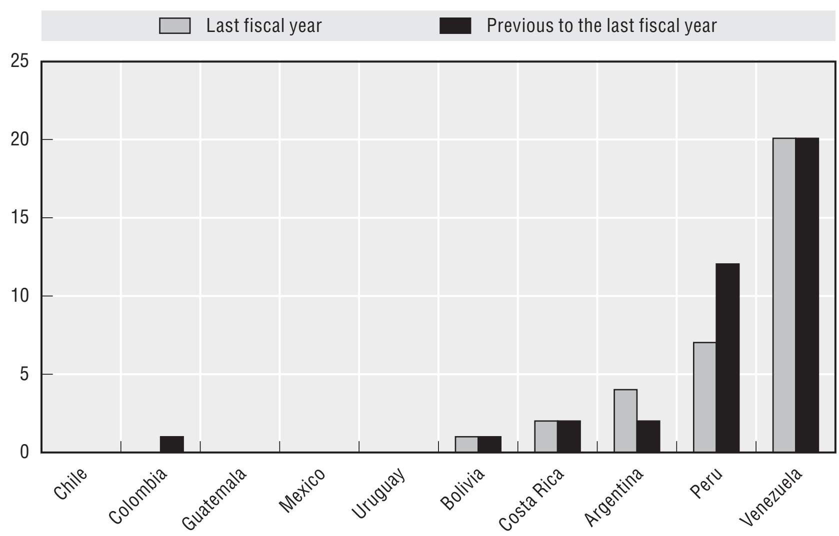
Figures 5 and 6 show the amount of supplementary budgets and the gross effect as a percentage of total planned expenditure over the past two years. Most countries have submitted less than five supplementary budgets in the past two years. Peru has submitted more than five in the last fiscal year and more than ten in the past two years, while Venezuela has had 20 supplementary budgets in the past two years (Figure 5). The total gross effect of supplementary budgets as a percentage of total planned expenditure

Table 10. **What measures are taken in light of a mid-budget cycle change in economic or fiscal forecasts?**

	With worse economic conditions	With better economic conditions
No changes legally required.	Argentina, Costa Rica, Guatemala, Venezuela.	Argentina, Costa Rica, Guatemala, Paraguay, Peru, Uruguay.
Automatic expenditure reductions.	Costa Rica, Guatemala, Mexico, Venezuela.	None.
Automatic tax/fee increases.	Venezuela.	None.
Reserve funds are used.	Mexico, Paraguay, Venezuela.	None.
Other.	**Brazil:** fiscal responsibility law. **Chile:** reductions of the budget. **Colombia:** the executive can modify the budget. **Ecuador:** reductions of the budget. **Peru:** modify the budget to achieve the fiscal goal.	**Brazil:** rise in fiscal expenditure and credits. **Chile:** increase of spending subject to the fiscal law. **Colombia:** the executive can modify the budget. **Costa Rica:** law of extraordinary budget. **Ecuador:** modification of the budget. **Mexico:** decree of budget related to the excess of petrol revenues. **Venezuela:** increase of expenditure and reduction of taxes.

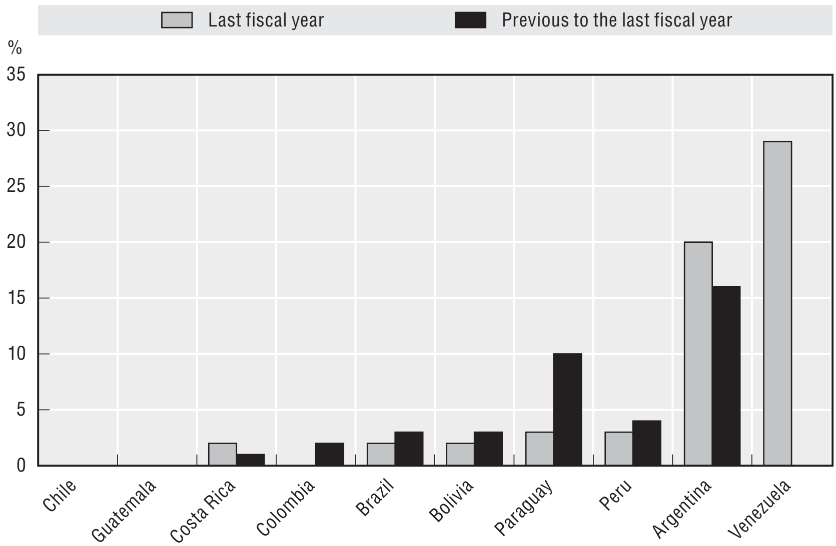
Note: Due to an apparent inconsistency in the data from Bolivia, it has been excluded from this answer.

Figure 5. **How many supplementary budgets have been submitted annually in the past two years?**



Note: Brazil, Ecuador and Paraguay did not reply to this question. Chile, Guatemala, Mexico and Uruguay report zero supplementary budgets. Colombia reported zero supplementary budgets for the last fiscal year.

Figure 6. **What has been the total gross effect of supplementary budgets as a percentage of total planned expenditure in the original budget over the past two years?**



Note: Ecuador, Mexico and Uruguay did not reply to this question. Chile and Guatemala reported "zero".

is less than 5% in most countries. Exceptions are Paraguay with nearly 10% in the previous fiscal year and Venezuela with almost 30% in the last fiscal year. For the last two fiscal years, Argentina has had over 15%.

The major factors requiring supplementary budgets include changing economic forecasts resulting in lower revenue or higher expenditure as shown in Table 11. In Bolivia, Brazil, Colombia and Venezuela the main causes included natural disaster.

While budget execution stresses controlling the expenditure of ministries and agencies, it also seeks to provide flexibility in the use of funds and to promote the efficient delivery of public services. According to this survey, in most cases government organisations are allowed to transfer funds from one programme to another but the approval of the ministry of finance or the CBA is needed (Table 12). In Colombia and Costa Rica the approval of the legislature is required to make these transfers.

Only in Venezuela can government organisations transfer funds between operating expenditures and investments without restrictions, whereas in Bolivia, Ecuador, Guatemala, Mexico, Paraguay and Peru, these transfers require the approval of the ministry of finance or the CBA. In most other countries, these transfers need the approval of the legislature.

Table 11. **What have been the major factors requiring supplementary budgets?**

Factors	
Legal requirement for supplementary budget	Bolivia, Brazil, Venezuela
Changing economic forecasts resulting in lower revenue or higher expenditure	Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Venezuela
Natural disaster	Bolivia, Brazil, Colombia, Venezuela
Ad hoc emergency needs	Brazil, Colombia, Ecuador, Venezuela
New policy initiatives	Bolivia, Brazil, Colombia, Paraguay, Venezuela
Transfer of funds from one appropriation to another (no net increase)	Brazil, Colombia, Costa Rica, Venezuela
Formal approval of appropriations carried forward from one fiscal year to the next	Brazil, Ecuador, Venezuela
Rescinding planned spending	Costa Rica, Ecuador, Venezuela

Note: Chile, Guatemala, Mexico, Peru and Uruguay did not reply to this question.

3.4. Performance information in the budget process

Over the past five to ten years, as part of efforts to improve public sector performance and accountability, many Latin American countries have sought to introduce performance information into their management and budgeting systems. Countries are at different stages of developing their performance systems. Argentina, Chile and Mexico have been working on developing performance measures for around ten years. In contrast, Ecuador's reform is in its pilot phase and Venezuela has yet to implement its reforms.

Performance measures (outputs or outcome measures) and evaluations are the methods most commonly used to assess the performance of agencies and programmes (Table 13).

In most Latin American countries these reforms are enacted in legislation. For example, 77% of countries surveyed reported that it is a legal requirement to carry out evaluations for all or most programmes. In 54% of cases it is a legal requirement to include performance measures in the budget for all or most programmes.

However, the experience of OECD countries has shown that the enactment of legislation does not mean that reforms are actually implemented in practice (OECD, 2005). In a few of the countries surveyed, the implementation of these reforms has been not been systematic. There appears to be a gap between the formal requirements to adopt performance management and budgeting frameworks and the actual practice. For example, there are legal requirements to development performance measures for all or most programmes in Guatemala and Venezuela but Guatemala has developed performance measures for only some programmes, while Venezuela has not developed any performance measures.

Table 12. **Are government organisations allowed to transfer funds?**

	From one programme to another	Between operating expenditures and investments	Between different operating expenditures	Between operating expenditures and programme funds	Between investments and programme funds
There are no restrictions on such transfers.	Bolivia, Venezuela.	Venezuela.	Bolivia, Mexico, Uruguay, Venezuela.	Venezuela.	–
There can be transfers, but only with the approval of the ministry of finance/central budget authority.	Argentina, Chile, Colombia, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay, Venezuela.	Bolivia, Ecuador, Guatemala, Mexico, Paraguay, Peru.	Argentina, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Paraguay, Peru, Uruguay, Venezuela.	Argentina, Bolivia, Chile, Ecuador, Guatemala, Mexico, Paraguay.	Bolivia, Ecuador, Guatemala, Mexico, Paraguay.
There can be transfers, but only with the approval of the legislature.	Colombia, Costa Rica.	Argentina, Bolivia, Brazil, Colombia, Costa Rica, Peru, Venezuela.	Brazil, Colombia, Peru.	Brazil, Colombia.	Argentina, Bolivia, Brazil, Colombia.
There can be transfers, but the legislature must be notified.	Brazil, Colombia, Venezuela.	Colombia, Peru.	Colombia, Peru, Venezuela.		
Other		**Chile.** **Guatemala:** There can be transfers from operating expenditures to investments but not the other way around.			**Chile:** There are no restrictions to transfer funds from capital expenditure to current expenditure.

As can be seen from Table 14, countries have diverse experiences with developing performance measures. Brazil and Chile have developed the highest number of performance measures including both output and outcomes measures.

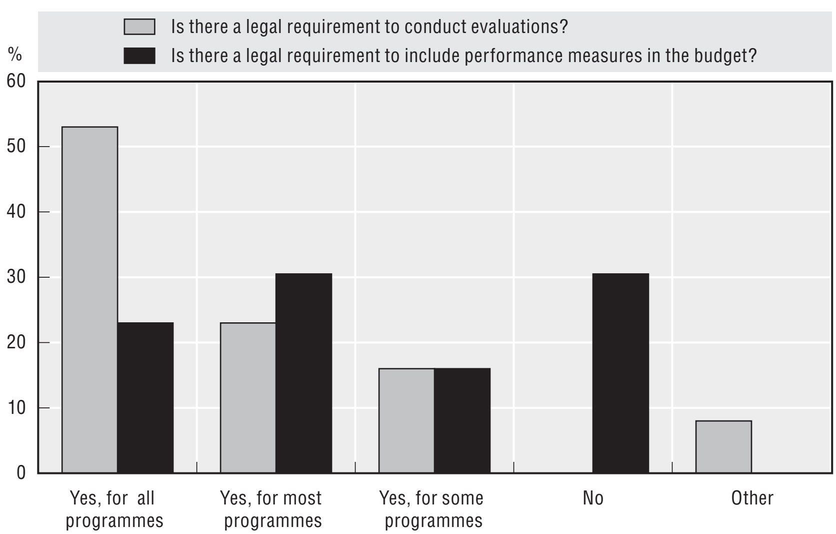
In seven out of the thirteen countries surveyed, ministries are required to report to the central budget authority or to the ministry of finance on performance against targets. In three countries (Costa Rica, Ecuador and Mexico), ministries report on performance to the president. In Guatemala, ministries are not required to report on performance to any government organisation.

Table 13. **Country approaches to assessing performance: types of measures in place**

	Performance measures	Evaluation	Benchmarking	Other
Argentina	✓			
Bolivia		✓		
Brazil	✓	✓		
Chile	✓	✓	✓	✓
Colombia	✓	✓		
Costa Rica	✓	✓		
Ecuador			✓	
Guatemala	✓			
Mexico	✓	✓		
Paraguay	✓			
Peru		✓	✓	
Uruguay	✓	✓		

Note: Venezuela has not yet implemented this reform.

Figure 7. **Are there legal requirements to include performance measures (outputs and outcomes) in the budget and to conduct evaluations?**



Five out of the thirteen countries surveyed do not display results against performance targets in budget documents presented to the legislature. In contrast, Argentina, Brazil, Chile and Uruguay routinely display performance results in their main budget documents given to the legislature. Not all monitoring and reporting on performance takes place as part of the budget process. For example, in Mexico there are presidential goals and outcome targets that are not set or reported on as part of the budget process.

Table 14. **What types of non-financial performance measures have been developed?**

	Output	Estimated per cent of expenditure	Outcome	Estimated per cent of expenditure
Argentina	763	60	–	–
Bolivia	–	60	–	–
Brazil	1 162	100	674	98
Chile	974	–	275	–
Costa Rica	500	48	25	2
Guatemala	300	35	–	–
Mexico	More than 300	30	0	0
Paraguay	24	37	10	30
Peru	264	–	259	–

While most countries surveyed have a legal requirement to conduct evaluations, the institution responsible for carrying out evaluations and the type of evaluations conducted vary across countries. Table 15 outlines the types of evaluations and the institutions that carry out these reviews. In many countries responsibilities for conducting evaluations are shared between the central budget authority, line ministries and/or the supreme audit institution. In Guatemala and Venezuela, neither the line ministry nor the supreme audit institution nor the central budget authority conducts any evaluations.

The independent auditing of performance information and/or performance systems is seen as an important factor in improving the validity and quality of the information. Three countries (Brazil, Mexico and Paraguay) require ministries to report their performance against targets to the supreme audit institution. In six countries (Bolivia, Colombia, Costa Rica, Ecuador, Peru and Venezuela), 90% of central government spending can be subject to performance or value-for-money audits by the supreme audit institution. However, the estimated number of performance or value-for-money audits conducted by the supreme audit institution (SAI) varied from one in Colombia and Ecuador, to 15 in Costa Rica, and 66 in Paraguay.

Information on the performance of agencies and programmes is provided in order to support better decision making, leading to improved performance and/or accountability. If this information is to bring these benefits, it has to be used in the decision-making process. While all countries surveyed except Venezuela monitor performance in some manner, this information is rarely used for political decision making. In a ranking of the frequency of consideration of performance information in political decisions, average scores were consistently low. The scale went from 0 to 10 with 10 being very frequently and 0 being never. Average scores were 2.6 (standard deviation 2.7) for the minister with the relevant portfolio, 2.3 (2.8) for the president or prime minister, 1.6 (2.7) for the cabinet,

Table 15. **The type of evaluations commissioned or conducted by the following institutions**

	Central budget authority	Line ministries	Supreme audit institution	Other institution
Review of ongoing programmes	Argentina, Bolivia, Brazil, Chile, Uruguay.	Brazil, Chile, Colombia, Mexico, Peru.	Brazil, Colombia, Costa Rica, Mexico.	Colombia, Mexico.
Ex post review of programmes	Argentina, Bolivia, Brazil, Chile, Costa Rica, Paraguay, Uruguay.	Brazil, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, Peru.	Brazil, Colombia, Costa Rica, Ecuador, Mexico.	Colombia, Mexico.
Review of new initiatives or programmes	Bolivia, Brazil, Chile, Costa Rica, Mexico, Paraguay, Uruguay.	Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Uruguay.	Mexico.	Mexico.
Sectoral reviews	Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay.	Bolivia, Brazil, Chile, Colombia, Costa Rica, Peru.	Bolivia, Colombia, Costa Rica, Mexico, Peru.	Colombia, Mexico.
Efficiency and/or cost effectiveness reviews	Chile, Mexico.	Chile, Mexico, Paraguay.	Mexico.	Colombia.
Other	**Ecuador:** Reviews over three months of sectoral budget execution. **Peru:** Financial evaluations and evaluations of administration for results agreements.	None.	None.	**Chile:** The Ministry of Planning has to give technical and economic approvals to all public investment projects based on *ex ante* project evaluations.

Note: Guatemala and Venezuela do not use evaluations.

0.8 (1.3) for members of budget committees in the legislature, and 1.6 (2.5) for members of the relevant sectoral committee of the legislature. Performance information is most commonly used by the minister with the relevant portfolio. No country surveyed except Colombia gave a ranking above 6. In fact, five countries (Costa Rica, Ecuador, Guatemala, Mexico and Uruguay) do not use performance information in any type of decision making.

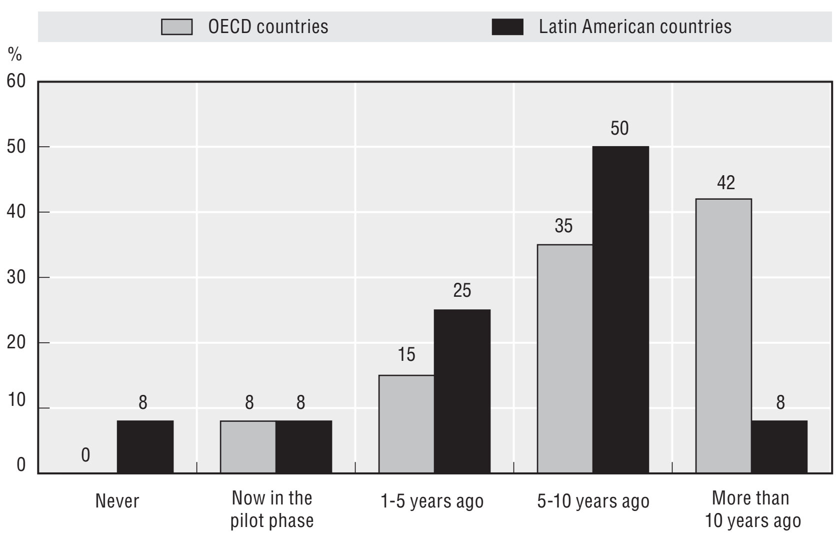
This result is not surprising given that many Latin American countries, with the exception of Argentina, Brazil and Chile, are still in the early stages of developing performance management and budgeting systems. It takes time to develop these systems and to obtain data of sufficient quality to be useful to decision makers. In addition, it is challenging to obtain and maintain the interest of politicians in these initiatives. Many OECD countries continue to struggle with getting politicians to use performance information in decision making. This is especially the case for politicians in the legislature.

3.4.1. Comparison with OECD countries

Some questions in the 2006 survey on budgeting are the same as some questions in the 2005 OECD survey on performance information[5] and can be used to compare the development of performance information in the two groups of countries. Data from Mexico and Chile, as both a member (Mexico) and observer (Chile) to the OECD and participants in the Latin American survey, have been included in both groups.

In general, OECD countries have been developing performance measures for longer than most Latin American countries. Over 40% of OECD countries introduced output measures more than ten years ago while only 8% of the Latin American countries did so, and many Latin American countries have introduced performance measures only within the last five to ten years (Figure 8).

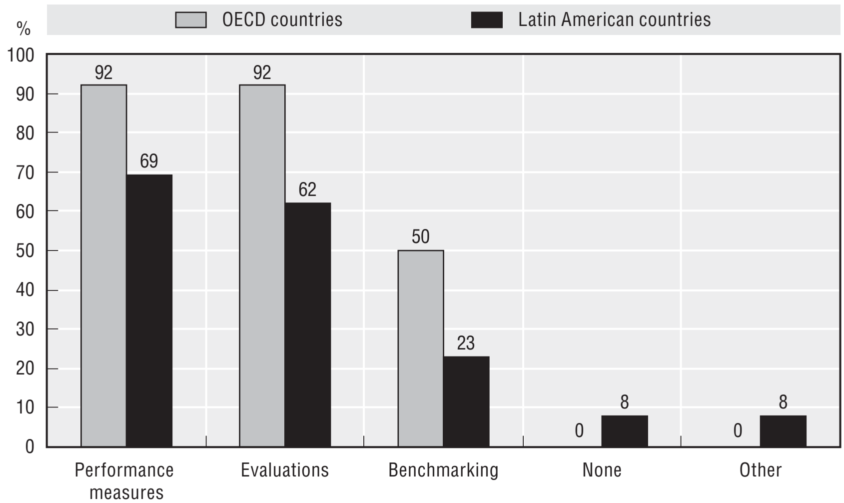
Figure 8. **When was the first government-wide initiative to introduce performance measures?**



The majority of OECD countries develop both performance measures and evaluations; to a lesser extent the same is the case for Latin American countries that responded to this survey (see Figure 9).

In terms of performance measures, 21 out of 30 OECD countries have developed a combination of outcomes and outputs (although not for all programmes) while to date only 4 out of 13 Latin American countries work on outcomes. This difference can be explained by the fact that many Latin American countries are still in the early stages of developing measures.

Figure 9. **What types of performance information are produced to assess government performance?**



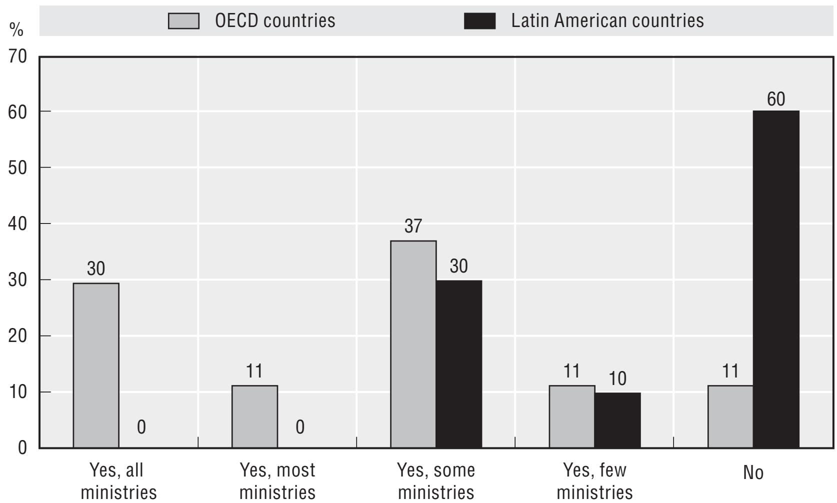
Over two-thirds of Latin American countries that conduct evaluations have some sort of legal requirement to do so for all or most programmes. In contrast, although nearly all OECD countries conduct evaluations, only 27% have a legal requirement to do so for all or most programmes. This difference reflects in part the more legalistic tradition of public administration systems in Latin American countries and the more legal nature of their reforms.

The process through which programmes are selected for evaluation is very similar across OECD and Latin American countries. In both cases it is the line ministry or agency responsible for the programme that most commonly selects activities or programmes for evaluation; 43% of OECD countries and 35% of Latin American countries. The supreme audit institution decides in 20% of cases for OECD countries and 12% for Latin American countries.

The most common type of evaluation conducted by OECD country ministries of finance is reviews of ongoing programmes, while for Latin American countries the main types of evaluation are an *ex post* review of programmes and a review of new initiatives.

It is also important to see if performance information is used in budgetary decision making. Over three-quarters of OECD countries use performance measures in negotiations between the ministry of finance and all, most, or some line ministries. In contrast, 60% of Latin American countries do not use this information in budget negotiations (Figure 10).

Figure 10. **Are performance measures used in negotiations between the ministry of finance and line ministries?**



It is important to note how OECD country ministries of finance use performance information in the budget process. In the majority of cases, they engage in performance-informed budgeting – that is, they use performance information in budget negotiations along with other information on fiscal factors and political priorities. It is one factor in the decision-making process; and it is generally used to inform, but not determine, budget allocations (OECD, 2006). The current practice, on a government-wide scale, in OECD countries is not to automatically or mechanically link funding to results. It is questionable if such an approach is even desirable at this level given the technical issues and questions of incentive that are involved with adopting it.

OECD country experiences have shown that having a procedure to integrate performance information into the budget process is a necessary but not sufficient condition to ensure its use in budgetary decision making. Other factors that also influence use include: the institutional capacity of the ministries of finance and spending ministries; the quality of the performance information; and the political and economic environment. These factors can also impact on the use of performance information in budgetary decision making in Latin American countries (OECD, 2006).

Over the past five to ten years, Latin American countries have made progress in developing performance management and budgeting frameworks. They are however at different stages of development. Despite not having a legal requirement to develop performance measures, Chile appears to have the most sophisticated performance framework. This framework has high coverage and development of both outputs and outcome measures, systematic monitoring of performance and its subsequent use in budgetary decision making. Some of the countries surveyed continue to face challenges with increasing the quantity of performance measures and evaluations and with developing measures for many activities. Similar to OECD countries, all Latin American countries are struggling with improving the quality and use of performance information.

4. Budget transparency

Budget transparency is an increasingly important issue throughout OECD countries. According to the "OECD Best Practices for Budget Transparency" (OECD, 2002), transparency – namely openness about policy intentions, formulation and implementation – is a key element of good governance. Transparency is also seen as a vital ingredient in ensuring the health of public finances and macroeconomic stability over the medium and long term. Achieving budget transparency is an important and central goal for Latin American countries. In most of these countries, while several improvements have been made, enhancing transparency and confidence in fiscal policy making over the longer term remains an important challenge.

The "OECD Best Practices for Budget Transparency" define budget transparency as the full disclosure of all relevant fiscal information in a timely and systematic manner. Budget transparency consists of many different components, including independent economic assumptions, comprehensiveness of budget documentation, and timely and clear processes and procedures for reporting information. Selected aspects of each of these topics will be examined in turn in the remainder of this section.

4.1. Macroeconomic forecasting: transparency of economic assumptions

The guidelines state that all key economic assumptions should be disclosed explicitly, including the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates (monetary policy). A sensitivity analysis should be made of the impact that changes in the key economic assumptions would have on the budget. It is also important to have independent economic assumptions in fiscal policy making. Deviations from the forecast of the key economic assumptions underlying the budget are the government's key fiscal risk.

In 56% of Latin American countries it is the ministry of finance that has primary responsibility for the formulation of economic assumptions. Almost all responding countries (86%) reported regularly publishing economic assumptions in budget documents, the exceptions being Costa Rica and Paraguay. While most of the countries surveyed publish economic assumptions, however, only about half conduct an independent review of the economic assumptions used in the budget (Table 16) and only in Bolivia is this review a legal requirement.

Table 16. **Is there any independent review of the economic assumptions used in the budget?**

	Yes, independent panel; not a legal requirement	Yes, legislative body; legal requirement	Yes, legislative body; not a legal requirement	Yes, other	No
Argentina					✓
Bolivia		✓			
Brazil					✓
Chile	✓				
Colombia				✓	
Costa Rica				✓	
Ecuador					✓
Guatemala					✓
Mexico			✓		
Peru				✓	
Uruguay					✓
Venezuela			✓		

Note: Paraguay did not respond to this question.

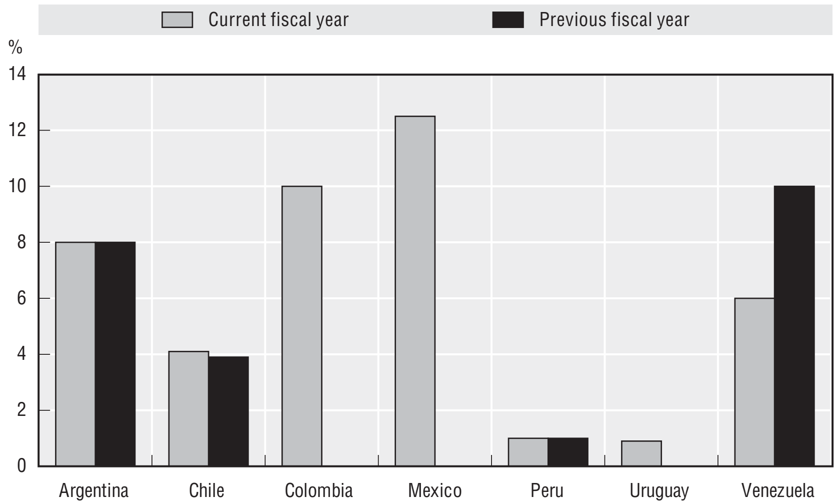
4.2. Comprehensiveness of government reporting: transparent reporting of government liabilities

A key aim of budget transparency is to ensure that governments are open about their expenditures and all existing and future liabilities. In order to get a true picture of government expenditure and total public spending, it is important that information on government liabilities be presented in budget documentation. The OECD best practices state that a comprehensive budget document should, *inter alia*, include information on financial liabilities and assets, non-financial assets, employee pension obligations and contingent liabilities.

The 2006 questionnaire asked six questions about off-budget expenditure and contingent liabilities. This section received a low response rate (on average 6 of the 13 countries answered the questions in this section), partly due to the sensitivity of the subject matter and the lack of available information. There are different types of off-budget expenditure: public-private partnerships, funds for higher education, public health care funds, social security funds, and public sector pensions.

Ten of the countries surveyed have some sort of off-budget fund or expenditure. Costa Rica, Guatemala and Paraguay do not allow any off-budget expenditures either by law or regulation. Figure 11 details by country the size of off-budget expenditure in relation to total expenditure in the central government budget over the last two fiscal years. The size varies from over 12% in Mexico to less than 2% in Uruguay. It is important that this expenditure be presented in a transparent manner and be included in budget documents.

Figure 11. **Approximately how large is off-budget expenditure in relation to total expenditure in the central government budget?**[1]



1. Only 7 of the 13 countries replied to this question.

The following tables describe the types of off-budget expenditures (Table 17), funds (Table 18) and loans or entitlements (Table 19) that exist in particular countries, and whether countries with off-budget items include information on them in budget documentation.

There is wide variation in the prevalence of off-budget items between countries, ranging from the countries without any (*e.g.* Costa Rica) to Colombia with two types of off-budget expenditure, five types of off-budget funds and two types of off-budget loans or entitlements. Brazil is a leader in including off-budget expenditure in budget documentation. The only other country to do so is Chile.

4.3. Reporting to the legislature: timing

Another aspect of budget transparency is the extent to which the executive provides access to fiscal reports to both the legislature and the public. The OECD recommends that the legislature have access to any fiscal report it deems necessary and that all reports should be available free to the public, including on line.

Most countries surveyed make information on their economic assumptions publicly available, either within budget documents or separately. Ten of the countries surveyed make their medium-term fiscal policy objectives available to the public; the exceptions are Costa Rica, Ecuador and Paraguay.

Table 17. **Inclusion of off-budget expenditures in budget documents**

Type of off-budget expenditure	Countries with this off-budget expenditure	Those that include the expenditure in budget documentation
Public-private partnerships	Bolivia, Brazil, Ecuador, Mexico, Peru.	Brazil, Mexico, Peru.
Funds for higher education	Bolivia, Brazil, Colombia.	Bolivia, Brazil.
Public health care funds	Bolivia, Brazil, Uruguay.	Bolivia, Brazil.
Social security funds	Bolivia, Brazil, Colombia, Peru.	Bolivia, Brazil.
Public sector pensions	Brazil.	Brazil.
Private finance initiative	Mexico, Peru.	Mexico.
Other	**Argentina:** decentralised organisms, fiduciary funds, and funds to public firms. **Brazil:** to produce money. **Chile:** petrol price stabilisation funds, expenditures in interest rates and consumption goods and services generated with the resources of the Ley Reservada del Cobre. **Guatemala:** off-budget expenditures are not allowed. **Mexico:** there are investment projects in infrastructures with a different impact on public expenditures (PIDIREGAS). **Venezuela**.	Brazil, Chile.

Budget transparency is also concerned with the provision of information in a timely manner, providing sufficient time to enable effective scrutiny. As demonstrated in Figure 12, most countries present the budget proposal to the legislature between three and five months before the beginning of the fiscal year. This is in line with OECD best practices guidelines, which state that the legislature should receive the budget proposal at least three months before the beginning of the fiscal year in order to have adequate time to review it properly. The exception here is Venezuela where the budget is submitted only one month before the beginning of the fiscal year. Also, in Mexico the budget was submitted one month before the beginning of the fiscal year in the previous to last fiscal year; it was increased to 3.5 months in the most recent year.

According to the "OECD Best Practices for Budget Transparency", the year-end report is the government's key accountability document. The year-end report should be audited by the supreme audit institution and released within six months of the end of the fiscal year. While all respondents to this survey publish final audited accounts, the timing of their release varies considerably (Figure 13). Over half of the countries (Brazil, Chile, Costa Rica, Guatemala, Peru, Uruguay and Venezuela) meet the OECD recommendation that the report be released within six months of the end of the fiscal year.

While only seven of the countries that completed the 2006 survey also participated in the 2003 survey, among those that did, these are positive trends in the transparency of documentation provided to the legislature. During this

Table 18. **Inclusion of off-budget funds in budget documents**

Type of off-budget fund	Countries with this off-budget fund	Those that include the fund in budget documentation
Revolving funds	Argentina, Ecuador, Uruguay.	Argentina.
Trading funds (for business activities and commercial services carried out by the government)	Argentina, Colombia.	None.
Emergency or contingency funds	Brazil, Ecuador.	Brazil.
Donor funds	Brazil, Ecuador, Uruguay.	Brazil.
Stabilisation funds	Chile, Colombia, Ecuador, Peru, Venezuela.	Chile, Venezuela.
Expenditure financed by external loans	Brazil, Mexico, Uruguay.	Brazil, Mexico, Uruguay.
Budgets of autonomous or decentralised agencies	Argentina, Brazil, Colombia, Uruguay.	Brazil, Colombia, Uruguay.
Military expenditure	Brazil, Chile, Colombia, Ecuador, Uruguay.	Brazil, Chile, Uruguay.
Special accounts managed by the central budget authority	Ecuador, Venezuela.	None.
Special funds for the judiciary or justice programmes	Argentina, Ecuador.	None.
Special funds for specific one-year expenditure	Argentina, Brazil.	Brazil.
Other	**Colombia:** fiscal funds of primary sector (agriculture). **Mexico:** there are two funds for financial rescue, one for the banking system (IPAB) and one for the privatisation of routes (FARAC), which are not taken into account in the traditional budget deficit.	Mexico.

Table 19. **Inclusion of off-budget loans or entitlements in budget documents**

Type of off-budget loan or entitlement	Countries with this off-budget loan or entitlement	Those that include the loan or entitlement in budget documentation
Direct loans (*i.e.* loans financed from taxes or levies)	Brazil, Mexico, Uruguay	Brazil, Mexico
Loan guarantees (guarantees by the government to non-governmental lenders)	Argentina, Brazil, Colombia, Mexico	Argentina, Brazil
Tax expenditures (exemptions, allowances, credits, rate relief or deferrals)	Argentina, Brazil, Colombia, Ecuador, Mexico, Peru, Venezuela	Argentina, Brazil, Colombia, Mexico, Venezuela

time period, both Chile and Colombia have started to link appropriations to the appropriate administrative unit, and Colombia now includes fiscal policy objectives in the budget. Additionally, Mexico now includes budget plans for off-budget expenditures.

Figure 12. **In practice how far in advance of the beginning of the fiscal year has the executive presented its budget to the legislature?**

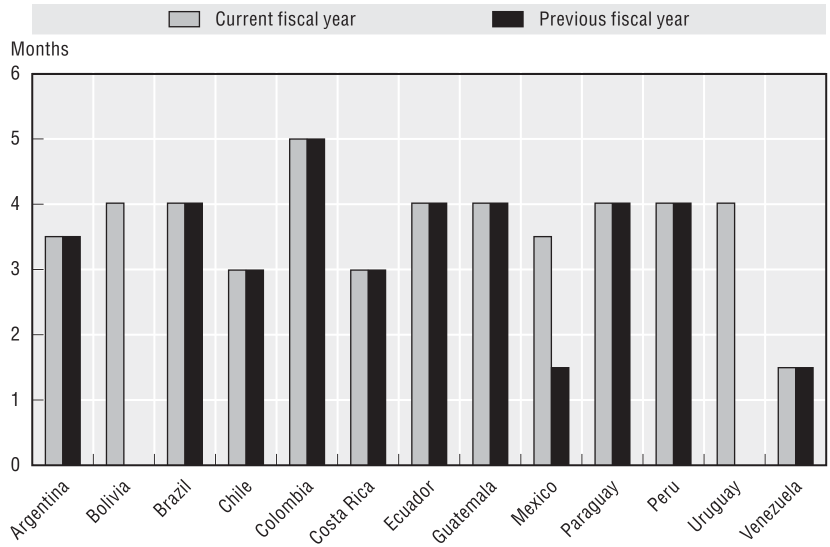
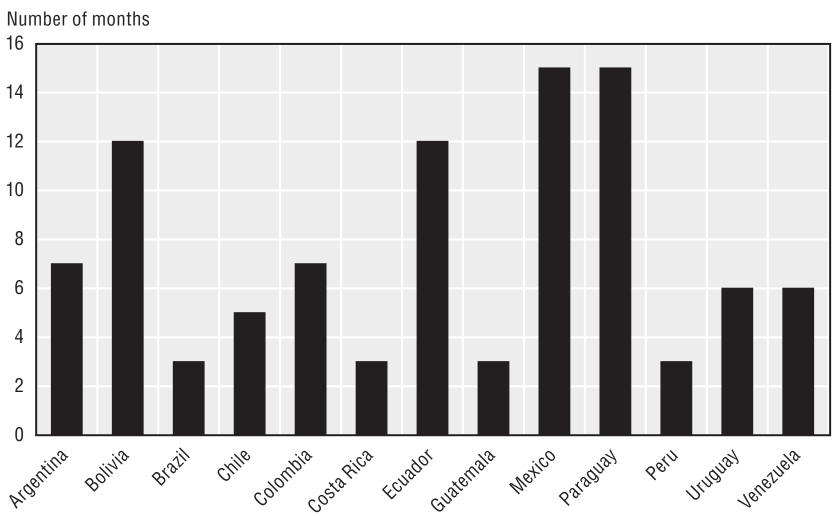


Figure 13. **Number of months after the end of the budget year that final audited accounts are published**



5. Conclusion

Since the 1990s most Latin American countries experienced pressure to improve fiscal discipline and transparency. In response, many governments sought to reform the structure of their economy and their budgetary institutions and processes. This article provides a snapshot of the status of budget institutions, procedures and practices in Latin American countries based on the results of the OECD 2006 budget survey. It offers an overview of several important aspects and changes in budgeting, including the introduction of budget laws, the role of the legislature, the development of fiscal rules and medium-term expenditure frameworks, the development of performance information, and changes in budget transparency.

There are several significant findings. The majority of countries now have an organic budget law. Most countries introduced these laws in the late 1990s and 2000s. In general, the form and the structure of the annual budget are regulated by the organic budget law or by the annual budget law.

The role of the legislature in the budget process is heterogeneous across Latin American countries. In all the countries surveyed, the legislature can modify the executive's budget proposal; however, there is a wide variation in the degree to which they can alter the budget. Despite the legislature's formal right to amend the budget, in practice there are few actual budget amendments. A common feature in Latin American countries, which is corroborated by this survey, is the concentration of power in the hands of the executive in the policy-making process in general and in the budget process. This is highlighted by the fact that the executive has formal veto authority over budgets approved by the legislature in 10 out of the 13 countries.

Most countries introduced reforms which sought to improve aggregate fiscal discipline and the efficiency and effectiveness of the public sector. The majority of countries have a fiscal rule (11 out of 13) although there is wide variation in the type of rule. Seven Latin American countries have introduced medium-term expenditure frameworks. Countries have also adopted other reforms to control expenditure in the budget formulation and execution processes.

Another recent budgetary reform is the development of performance measures (outputs and outcomes) and evaluations. Within the last five years, a number of Latin American countries have introduced performance measurement systems for at least some programmes. In the majority of countries, these reforms are enacted in legislation. While progress has been made with the initial development of performance information frameworks, many countries are struggling with improving the quantity and quality of performance information. Similar to OECD countries, they are also facing the challenge of improving the use of performance information by politicians and managers in decision-making processes.

Finally, a key challenge for Latin American countries is to foster and achieve budget transparency. Most of the countries have made many improvements in this field, enhancing transparency and boosting confidence in the budget process. In nearly all countries, the executive presents the budget proposal to the legislature between three and five months before the beginning of the fiscal year. Most countries regularly publish economic assumptions in budget documents, but only around half of the countries conduct an independent review of these assumptions. Many countries have off-budget expenditures and there is an extensive variation in the type of off-budget items. More importantly for transparency, there is also a wide variation in the extent to which these expenditures are reported in budget documentation.

In summary, in most Latin American countries pressure to obtain and maintain healthy fiscal outcomes remains high, as does the need for budgetary institutions which support this objective. While the majority of countries have introduced several reforms, including fiscal rules, a medium-term expenditure framework and performance information frameworks, in some countries these reforms are still under development.

The results of the survey provide a unique source of comparative data on budget institutions and procedures in Latin American countries. The OECD will continue to collect these data, and in 2007 a revised version of this survey will be issued. The results presented here and the survey data available on line are intended to contribute to and stimulate future research, debate and discussion on budgetary institutions and reforms in general and specifically in the Latin American context.

Notes

1. The OECD would like to thank all the government officials who filled in the questionnaire.
2. This survey was conducted in co-operation with the Inter-American Development Bank (IADB) and the Public Policy Group of the London School of Economics. The IADB provided financial support to assist with carrying out this survey.
3. For the results of this survey, see Curristine (2005).
4. The countries that participated in both the 2003 and 2006 surveys are Argentina, Bolivia, Chile, Colombia, Mexico, Peru and Uruguay.
5. In total 28 countries completed the 2005 OECD survey on performance information in the budget process: 26 of the 30 OECD countries and two observer countries (Chile and Israel).

References

Alesina, A. and R. Perotti (1996), "Budget Deficits and Budget Institutions", NBER Working Paper No. 5556, May, National Bureau of Economic Research, Cambridge, Massachusetts, United States.

Berman, E., J. Bound and S. Machin (1997), "Implications of Skill-Biased Technological Change: International Evidence", NBER Working Paper No. 6166, September, National Bureau of Economic Research, Cambridge, Massachusetts, United States.

Blöndal, J.R. and T. Curristine (2004), "Budgeting in Chile", *OECD Journal on Budgeting*, 4(2), pp. 7-45.

Blöndal, J.R., C. Goretti and J.K. Kristensen (2003), "Budgeting in Brazil", *OECD Journal on Budgeting*, 3(1), pp. 97-131.

Curristine, T. (2005), "Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire", *OECD Journal on Budgeting*, 5(2), pp. 87-131.

Guidotti, P. (2006), "Argentina's Fiscal Policy in the 1990s: A Tale of Skeletons and Sudden Stops", in *Challenges to Fiscal Adjustment in Latin America: The Cases of Argentina, Brazil, Chile and Mexico*, OECD Publishing, Paris.

Haggard, S. and R.R. Kaufman (1995), *The Political Economy of Democratic Transitions*, Princeton University Press, Princeton, New Jersey, United States.

International Monetary Fund (various dates), *Report on the Observance of Standards and Codes, Fiscal Transparency Module* (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, Uruguay), International Monetary Fund, Washington DC, *www.imf.org*.

Liphart, A. and C. Waisman (1996), "Institutional Design and Democratization", in A. Liphart and C. Waisman (eds.), *Institutional Design in New Democracies: Eastern Europe and Latin America*, Westview Press, Boulder, Colorado, United States.

Mainwaring, S. and M.S. Shugart (2002), *Presidencialismo y democracia en America Latina*, Paidos; also published (1997) as *Presidentialism and Democracy in Latin America*, Cambridge University Press, New York, United States.

Nohlen, D. (1996), "Electoral System and Electoral Reform in Latin America", in A. Liphart and C. Waisman (eds.), *Institutional Design in New Democracies: Eastern Europe and Latin America*, Westview Press, Boulder, Colorado, United States.

OECD (2002), "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, 1(3), pp. 7-14.

OECD (2005), *Modernising Government: The Way Forward*, OECD Publishing, Paris.

OECD (2006), "Summary of Key Findings from the 2006 Meeting of the Senior Budget Officials (SBO) Network on Performance and Results", GOV/PGC/RD(2006)5, OECD, Paris.

OECD (2007), *Performance Budgeting in OECD Countries*, OECD Publishing, Paris (forthcoming).

OECD and World Bank (2003), "OECD/World Bank budget practices and procedures survey", *www.oecd.org/gov/budget/database*.

Pavcnik, N. (2000), "What Explains Skill Upgrading in Less Developed Countries?", NBER Working Paper No. 7846, August, National Bureau of Economic Research, Cambridge, Massachusetts, United States.

Santiso, C. (2004), "Legislatures and Budget Oversight in Latin America: Strengthening Public Finance Accountability in Emerging Economies", *OECD Journal on Budgeting*, 4(2), pp. 47-76.

Schick, A. (2001), "The Changing Role of the Central Budget Office", *OECD Journal on Budgeting*, 1(1), pp. 9-26.

Stein, E., E. Talvi and A. Grisanti (1998), "Institutional Arrangements and Fiscal Performance: The Latin American Experience", NBER Working Paper No. 6358, January, National Bureau of Economic Research, Cambridge, Massachusetts, United States.