ELLA
Evidence and lessons from Latin America

Latin American countries are at the forefront of pushing through innovative budget reforms to improve policy impact. From results-based budgets, to transparency portals, to participatory budgeting, Latin America's experience is useful for any country seeking to improve the impact of public spending.

IMPROVING POLICY IMPACT IN LATIN AMERICA THROUGH THE BUDGET

SUMMARY

In the last few decades, Latin American (LA) governments have implemented innovative budget reforms to improve public spending and the overall impact of public policies. LA's reforms sought four main objectives: enhance efficiency and effectiveness of spending; incorporate citizen participation in the budget process; increase transparency and control over public spending; and use the budget as a tool to advance rights and equality. An important part of the LA story is that, alongside these government reforms, strong civil society organizations (CSOs) emerged to demand greater accountability, transparency, and participation in the budget process. This guide presents an overview to LA's budget reform experience, emphasizing contextual factors enabling the design and implementation of these reforms and on outcomes and lessons learned.

PUBLIC POLICIES IN THE DEVELOPING WORLD SEEM TO HAVE LIMITED IMPACT

The budget is key to promoting successful social and economic development. Whether at the national or local level, the budget is the government's single most important policy instrument to solve development challenges, meet the population's needs, guarantee rights, redistribute income, and achieve fairness and equity. It is through the budget that governments can implement public policies that aim to achieve these desired ends. However, in many regions of the developing world, even though governments allocate resources to public policies, these have not always achieved their goals, and poverty and development challenges persist.

KEY LESSONS LEARNED

Budget transformations require long-term institutional and legal reforms, as well as changes in budgeting culture and sufficient political will.

A strong civil society willing and able to participate in the budget process is necessary to promote accountability, enhance transparency, and ensure that spending reflects social priorities and needs.

LA shows that the effort to implement budget reforms pays off with improved transparency, citizen participation, and oversight, and overall with better efficiency and impact of public spending.

Limitations in terms of budgeting and public spending are indeed one of the key factors behind poor policy performance, and there are four main reasons why:

1. Public funds are spent but do not achieve the intended impact.

2. The budget process does not include citizen participation in the formulation stage and, consequently, does not reflect social needs and priorities.

3. The budget process tends to be opaque and mechanisms for controlling public spending are weak. This limits citizens' and audit institutions' ability to hold governments accountable.

4. The budget is not seen as a tool that can be used to advance human rights and reduce inequality.

These limitations in budgeting and policy impact are not unique to LA; consequently, the LA experience in tackling them will be useful for South Asia and Sub-Saharan Africa as well.

LATIN AMERICAN BUDGET APPROACHES FOR INCREASING PUBLIC POLICY IMPACT

The budget reform initiatives implemented in LA generally follow one or more of these four guiding principles, each reflecting the four main limitations described above:

1. Enhancing budget efficiency and effectiveness, such as by adopting schemes that link budget allocation to impact indicators

2. Incorporating citizen participation in budget formulation to ensure policies reflect citizens' needs and priorities

3. Increasing control over the use of public funds, including by promoting budget transparency

4. Using the budget as a tool to advance rights and reduce inequality.

The following table summarises the key LA reforms:

GUIDING PRINCIPLE	REFORMS
Enhancing efficiency and effectiveness of spending	• Results-based budgeting
Incorporating citizen participation in budget designation	• Participatory budgeting • Advisory Committees or Councils
Increasing control over spending and promoting transparency	• Strengthening or creating Supreme Audit Institutions • Institutionalised social control mechanisms • Social audit • Budget Benchmarking Exercises • Budget transparency reforms • Citizens budgets
Using the budget as a tool to advance rights and reduce inequality	• Gender-sensitive budgets • Budgeting with a human rights approach

ENHANCING EFFICIENCY AND EFFECTIVENESS OF SPENDING

Results-based budgeting (RBB)

RBB aims to increase policy impact by linking public spending to the achievement of specific impact indicators. These indicators provide evidence and information that help public officers decide if a programmes or policy is achieving its goals and if future funds should be allocated to it. RBB requires adopting a new process for designing the budget, as well as changing public institutions' management culture to become oriented towards achieving specific results. Since the 1990s, several LA countries – Brazil, Chile, Colombia, Guatemala, Mexico, Peru, and Uruguay – adopted RBB.

The Region's Innovator: Chile's RBB

Chile was one of the first LA countries to adopt a RBB scheme in the mid-1990s. Some of the monitoring and evaluation (M&E) systems created within the RBB framework are: a system of performance indicators with more than 1500 indicators and an evaluation system that, since 1997, has generated more than 200 programme evaluations. These systems have been linked to the budget process to ensure that resources are allocated to those programmes that generate greater impact and that are more efficient.

Source: Marcel, M. 2009. Bureaucratic trend or new paradigm in public management. In: Inter- American Development Bank (IADB), *Effectiveness in Development and Results-Based Management*. IADB, Brasilia.

RBB Outcomes

- The RBB has helped governments to prioritize spending on programmes with greater impact. In Chile, during the economic crisis, RBB supported the reallocation of resources to programmes with greater proven social impact. In 2009, the Mexican President's Office and the Ministry of Finance used the evaluations of all 106 social programmes to inform the budget formulation[1].

- The publication of the M&E information generated as part of the RBB process, such as impact indicators and assessments, improves transparency and facilitates greater accountability. Chile, Mexico, and Peru all publish results from the previous year's spending.

[1]Castro, M. F., et. al. 2009. *The M&E system in Mexico: a leap from the sectoral to the national level*. Working Paper 20. World Bank, Washington D. C.; Marcel, M. 2009. Bureaucratic trend or new paradigm in public management?. In Inter American Development Bank (IADB), *Effectiveness in Development and Results-Based Management*. IADB, Brasilia.

CITIZEN PARTICIPATION IN BUDGET DESIGNATION

Participatory Budgeting (PB)

First launched in Porto Alegre, Brazil, PB is now implemented in more than 2,500 local governments in 15 countries in the region. To learn more about PB, read the ELLA Policy Brief and Spotlight On Publications.

Advisory Committees or Councils

Establishing Advisory Committees or Municipal Councils that bring together civil society, government, and business to discuss and approve the allocation of spending, is another innovative participatory mechanism implemented, especially at the local level. Unlike PB, which is not always formalised and can incorporate as many participants as are interested in designating spending, Committees and Councils are usually mandated by municipal law and have specific seats that need to be filled by representatives from the civil, business, and government sectors. So far, Advisory Committees and Councils have been created in countries such as Brazil, Chile, Guatemala, and Mexico.

Outcomes of Advisory Committees

- Creating these mechanisms gives citizens formal ways to participate in budget decisions. In some countries, this participation is quite extensive, such as in Brazil, where, between 1990 and 2001, local governments created over 35,000 tripartite sectoral councils covering 99% of municipalities, involving civil society, the state and service providers to authorize funding allocations[2].
- These Committees have helped to make sure public spending is designated to those most in need. In Quezaltenango, Guatemala, the committee succeeded in increasing investments in low-income and rural areas[3].

INCREASING TRANSPARENCY AND CONTROL OF PUBLIC SPENDING

Strengthening Supreme Audit Institutions (SAIs) and Social Control Mechanisms

SAIs are external government agencies that are in charge of monitoring that public spending is done according to the law and for the policies and programs for which it was designated. LA countries have undertaken important reforms to strengthen their SAIs. In particular, SAIs have taken social control a step further by creating formal mechanisms for involving citizens in the monitoring and oversight of public funds. To learn more about SAIs' reforms in LA, read the ELLA Policy Brief.

Social Auditing

Social auditing is a monitoring and control exercise voluntarily undertaken by citizens or CSOs without using the formal oversight mechanisms created by the government. By conducting these exercises and generating independent information on government spending, LA civil society actors have highlighted mismanagement practices, advocated for reforms, and pushed governments to enhance accountability and transparency. To learn more, read the ELLA Practice Brief, Spotlight On Publications, and Spotlight On Organisations.

Budget Transparency (BT) Benchmarking Exercises

In the last decade, several benchmarking indices measuring BT have been created, such as the Open Budget Survey, Global Integrity Report, and Latin American Budget Transparency Index (LABTI). These have been quite successful in generating useful information about government performance in terms of transparency, and the public comparison provides an important incentive for governments to improve.

The LABTI is particularly innovative because it takes into account the perceptions of users of budget information and includes citizen participation as a variable of analysis, thereby providing a comprehensive citizen-focused diagnosis of BT in any particular country. To learn more about the LABTI, read the ELLA Practice Brief.

Budget Transparency Reforms

LA governments have implemented three key types of BT reforms. First, to meet international standards, governments have provided comprehensive budget information by publishing budget documents such as pre-budget statement, executive's budget proposal, enacted budget, in-year reports, and mid-year reviews. Countries like Brazil, Chile, Colombia, Guatemala, Mexico, and Peru provide significant budget

information to citizens by producing and publishing these documents[4].

Second, national and sub-national LA governments have gone further to make budget information more accessible by creating electronic platforms that provide extensive budget information, sometimes in real-time, such as Costa Rica, Peru, Mexico, and Mexico City's sub-national government.

Finally, Brazil, Chile, El Salvador, Guatemala, Mexico, and Venezuela committed to make budget information as easy to understand as possible, by pioneering the use of Citizen Budgets (CBs).

What is a Citizen Budget (CB)?

CBs summarize and explain the budget to citizens using simple and easy-to-understand language, covering how taxes will be used and the government's spending priorities for a particular year. CBs are usually published by governments although in some countries CSOs also create them. In 2010, only 16 governments around the world published CBs.

Transparency Reform Outcomes

- Citizen control has improved as a result of BTR. Increasingly, CSOs in Argentina, Mexico, Peru, and Venezuela monitor public spending using this budget information, highlighting mismanagement practices and non-compliance with the budget enacted in order to hold authorities accountable.
- In Colombia and Mexico, the budget documents produced, such as the End Year Report, are used by the SAI to oversee public spending and by the Legislative to inform the discussion and approval of the budget.

THE BUDGET AS A TOOL TO ADVANCE RIGHTS AND REDUCE INEQUALITY

Gender-sensitive budgets

Designing gender-sensitive budgets means allocating public spending in such a way so that it directly reduces gender inequalities among men and women, including guaranteeing women's right to health, greater economic opportunities, and a life without violence and discrimination. National and local governments in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Honduras, Mexico, and Nicaragua, among others, implement gender-sensitive budgets. To learn more about gender-sensitive budgets, read the ELLA Policy Brief.

Budgeting with a human rights approach

In the last decade, human rights and budget activists from around the world began arguing that the budget could be a powerful tool for promoting and advancing human rights. In light of this, LA CSOs and local governments in LA have developed innovative budget analysis and designation methodologies that integrate a human rights approach. To learn more, read the ELLA Practice Brief and Spotlight On Publications.

[2]Melo, M., Rezende, F. 2004. *Decentralization and Governance in Brazil.* In: Tulchin, J. S. And Selee, A. (eds). *Decentralization and Democratic Governance in Latin America. Woodrow Wilson International Center for Scholars,* Washington, D.C.
[3]Selee, A. 2004. Exploring the Link Between *Decentralization and Democratic Governance.* In: Tulchin, J. S. And Selee, A. (eds). *Decentralization and Democratic Governance in Latin America*. Woodrow Wilson International Center for Scholars, Washington, D.C.
[4]International Budget Partnership (IBP). 2010. *Open Budget Survey 2010*. IBP, Washington, D.C.

CONTEXTUAL FACTORS

ENABLING LATIN AMERICA'S BUDGET REFORM EXPERIENCE

The democratization processes LA countries went through since the 1980s impacted the implementation and success of some of these reforms. Democratization helped citizens understand they had rights to participate and be informed about public decisions. Leaders seeking election felt an incentive to implement reforms promoting accountability, budget transparency, effectiveness, efficiency, and innovative forms of governance.

Many LA governments exhibited the political will to acknowledge and ensure citizens' right to participate in the budget process, particularly in the designation and control phase, and to improve transparency and accessibility of budget information. This likely came from a desire to increase public trust and as a response to social pressure and electoral competition. These governments implemented specific laws requiring the budget reforms, thereby mandating and consolidating the institutionalisation of reforms and ensuring sustainability.

The economic crisis that most LA countries experienced in the 1980s reduced central governments' financial resources. In this global context of limited resources, international financial institutions pushed LA governments to adopt RBB schemes, as these were thought as a means to enhance efficiency and effectiveness of spending.

International pressure has been instrumental since then as well. International and regional organisations like the World Bank, Inter-American Development Bank, and the Latin American Centre for Administration for Development, pushed governments to reform by providing incentives like technical or financial aid. International trends, such as the new public management approach, which promotes the idea that the public sector should adopt principles of the private sector for enhancing efficiency,[5] also influenced LA thinking. Finally, the international minimum standards for budget management and the many benchmarking exercises also provided incentives for reform.

The existence of CSOs and individuals willing to engage in the budget process has proven to be key for promoting accountability and transparency, improving oversight, and ensuring that spending better reflects citizens' priorities. CSOs have been able to push for reforms, highlight "opacity spaces" in the different stages of the budgetary cycle, create citizenship, and support the design and implementation of some of these policies. Governments have also built the capacities of citizens and CSO, especially as part of participatory budgeting, and citizen oversight mechanisms, to ensure that they can effectively participate.

LESSONS LEARNED

1. Budget reforms not only entail the enactment of laws, but also transform the way the budget is formulated, negotiated, executed, and evaluated. Governments should be willing to invest and allocate financial and human resources to the implementation and sustainability of these reforms.

2. A strong civil society willing to participate in the budget process, and strengthening its capacities when needed, are is crucial for sustaining these reforms over time and for ensuring greater accountability, transparency, and efficiency.

3. RBB schemes can yield greater results if performance monitoring and evaluation (M&E) systems that assess impact are developed; the budget process is transformed ensuring that these M&E systems are used to guide budget designation and allocation; and management reforms and incentives are also implemented to guarantee that public institutions' performance is oriented toward achieving results.[6]

4. Advisory Committees or Councils, and Participatory Budgeting, can improve spending allocation so that it reflects better citizens' needs and priorities, but only if the decisions made by these mechanisms are effectively implemented by the government; if representatives from all sectors have equal amount of information to make decisions and participate in the process; and if barriers for citizen participation, such as lack of capacities to participate, are addressed.

5. Budget transparency can enhance accountability and improve control and efficiency, but only if public officers use budget information to inform their decisions and make adjustments; if the budget information provided by the government is reliable, timely and accessible to citizens; and civil society has the capacity and interest to use the information.

[5] García López, R., García Moreno, M. 2010. *Results-based management in development: progress and challenges in Latin America and the Caribbean*. IADB, Washington, D.C.
[6] González Arreola, A. (coord.). 2008. *Governing by results? Implications of the Mexican government's performance evaluation policy*. GESOC, Mexico City.

CONCLUSION

Latin American countries implemented a variety of reforms that have successfully transformed the budgetary process and activated mechanisms to enhance spending effectiveness and efficiency; created participatory spaces between governments and civil society; promoted greater transparency, accountability, and control of public funds; and used the budget as a tool for advancing human rights and reducing inequalities. The success of these reforms was underpinned by the existence of sufficient financial resources and technical capacities for implementation; the transformation of political culture to support accountability, transparency, and results-based management; and the effective engagement of CSOs and citizens in the budget process. The strong results and lessons learned will be useful for countries in other regions considering how to improve the impact of their own public spending.

KNOWLEDGE PARTNERS

This is a sample of some of the key organisations involved in budget reforms in Latin America. For additional information about organisations working on budget oversight, read the ELLA Spotlight On Organisations.

The Global Campaign ¬On Urban Governance of the United Nations Human Settlements Programme (UN-HABITAT) aims to improve urban governance with a special focus on research and capacity building, and publishes case studies, reports, publications, and training material on urban governance practices, particularly on participatory budgeting and local government transparency experiences.

Formed by CSOs from thirteen LA countries, The Initiative for Transparency, Citizen Participation and Accountability (TPA Initiative) is a regional project to strengthen LA countries' oversight systems, focusing especially on SAIs. Their website offers access to research, publications, and best practices in SAIs.

Latin American and Caribbean Institute for Economic and Social Planning of the Economic Commission for Latin America and the Caribbean undertakes research, provides capacity building and training, and supports conferences and workshops on public finance in LA.

Latin American Centre for Administration for Development (Centro Latinoamericano de Administración para el Desarrollo - CLAD) offers capacity building and training on budget management reforms, access to research, publications, networks, and conferences.

The Inter-American Development Bank's Program to Implement the External Pilar of the Medium Term Action Plan for Development Effectiveness (PRODEV) provides an overview of LA implemented budget reforms and access to a network of organisations working on these reforms.

CIPPEC (Center for the Implementation of Public Policies Promoting Equity and Growth – Centro de Implementación de Politicas Públicas Para la Equidad y el Crecimiento), an Argentinian civil society organisation, is one of the regional leaders in producing research and publications on topics such as decentralization, oversight, local development, and public finance.

The World Bank's Public Sector and Governance Division works on a range of budget-related issues, and through its website, readers can consult publications, data, statistics, key resources, and partners working on public finance and governance reforms.

RECOMMENDED READING

García López, R., García Moreno, M. 2010. *Results-based Management In Development: Progress and Challenges in Latin America and the Caribbean*. IADB, Washington, DC.

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LEARN MORE FROM THE ELLA BRIEFS

These four ELLA Briefs hone in on some of the most innovative budget reforms undertaken in the region, showcasing the richness and inventiveness of the reforms and the valuable lessons that will be useful for other regions.

Improving Budget Transparency in Latin America

During the last decade, Latin American civil society organisations applied an innovative budget transparency index to benchmark countries' performance in transparency. The results have been used to put budget transparency on the public agenda and to push for reform.

Latin American Approach to Improve Public Spending Oversight

To enhance oversight of public spending, Latin American countries strengthened their Supreme Audit Institutions (SAIs), including by involving citizens in their monitoring efforts. As a result, SAIs have recovered large sums of money and thousands of citizens now participate actively in the auditing process.

Participatory Budgeting: Citizen Participation for Better Public Policies

Latin American countries pioneered participatory budgeting, an innovative mechanism enabling citizens to decide how public funds will be spent. First launched in Brazil in 1989, PB is now implemented in more than 2,500 local governments in 15 countries in the region.

Mexico City's Innovation: Budgeting With a Human Rights Approach

In 2009, the Mexico City government implemented an innovative budgeting approach – the first of its kind – to specifically link the budget with human rights. As a result, 75% of the Mexico City

CONTACT FUNDAR

To learn more about budgeting in Latin America, contact Janet Oropeza, Project Coordinator, janet@fundar.org.mx.

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To learn more about Latin America's approach to budgeting and public policies, read the rest of the ELLA Knowledge Products on this theme. To learn more about other ELLA Development issues, browse other ELLA Themes.

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