

As subnational governments' responsibility for resource allocation and service provision has increased, so has the importance of transparency, participation, and accountability at this level. Recognizing this, as well as the scarcity of academic and policy literature on the subject, the International Budget Partnership's (IBP) Open Budget Initiative commissioned 10 pilot studies on the subject. The studies were carried out by the IBP's partners in Argentina, Brazil, Bolivia, China, Croatia, Ecuador, India, Mali, Mongolia, and Peru. In contrast to the methodology developed by the IBP for its Open Budget Survey (the IBP's biennial assessment of transparency in national government budgets), the methodologies for these subnational studies were developed by the organizations that implemented the studies.

For more information on the International Budget Partnership or the Open Budget Initiative, contact [info@internationalbudget.org](mailto:info@internationalbudget.org) or visit [www.internationalbudget.org](http://www.internationalbudget.org).

## Measuring Subnational Budget Transparency, Participation, and Accountability: Ecuador

Research conducted by Grupo Faro

### Background

The complex process of decentralizing revenues and expenditures in Ecuador has proceeded at an uneven rate, causing much fiscal stress on both the national and subnational governments. In light of decentralization's impact on provincial governments' budgets and policies, a local civil society organization, Grupo Faro, developed and implemented a tool to objectively evaluate whether citizens have access to subnational budget information and opportunities to participate throughout the budget process. Such access and opportunities can enable citizens to effectively monitor the administration of public funds and hold their governments accountable.

### Methodology

Grupo Faro developed a survey questionnaire to evaluate the municipal budget process in Ecuador. The survey, which focused on the 2009-2010 budget year, consisted of 83 questions (multiple choice and open ended) relating to the public availability of budget information on the following eight issues:

- 1) estimates (including those for expenditures, revenues, and debt) for the fiscal year under review and previous years;

- 2) the degree of detail in publically available budget information;
- 3) information on budget performance;
- 4) additional information for budget analysis and monitoring;
- 5) information on budget programming and formulation;
- 6) information on budget approval;
- 7) information on budget execution; and
- 8) evaluation and monitoring of the budget (Year-End Reports and internal and external Audit Reports).

Each question was assigned a score based on the optional answer selected for that question (e.g., if there were four options, each option was worth either 100, 75, 50, or zero points). The questionnaire was administered in the capital cities (Ambato, Cuenca, Esmeraldas, Guayaquil, Ibarra, Loja, Machala, Orellana, Portoviejo, Quito, San Cristobal, Tena, and Zamora) of 13 of Ecuador's provinces, chosen for their demographic, economic, and bureaucratic characteristics and diversity.

Field investigators used the questionnaires to interview a number of stakeholders and officials involved in the budget process, including public servants (like the heads of the finance, auditing, and other relevant departments) and members of the media, local civil society organizations, unions, and others. Data obtained from interviews was cross-checked with official sources. The analysis of the data gathered was used to produce an overall index score and ranking for each of the 13 provinces. The results were also analyzed by section so that individual categories and phases of the budget process were evaluated independently.

## Key Findings

Grupo Faro's study finds that transparency varies across municipalities. The average score on the index is 48 out of 100, ranging from 78 in Ambato to 16 in Esmeraldas. The study finds that more populated provinces and those rich in natural resources achieved higher scores, which led Grupo Faro to conclude that there is a positive correlation between the size of the budget and the degree of transparency.

In addition to its analysis of the overall level of transparency, Grupo Faro also examined the individual section results, which revealed interesting patterns. By tracking the availability of estimates of budget expenditure, revenues, and debt, Grupo Faro finds that the governments studied provide the most comprehensive information on revenues, while only six provinces provide details on debt and borrowing. While 76 percent of the municipalities provide budget information for the previous year, none provide information from two years or more prior to the budget year, despite the importance of tracking budget changes from year to year. For example, many development and infrastructure projects are multi-year projects, and such historical information can help ensure that these projects receive the funding necessary for their completion.

The questions relating to the degree of detail provided assess supplementary information like extra-budgetary funds, transfers, tax credits, etc. The average municipal score of 31 for this section demonstrates that much of this type

of information is not even produced, let alone made available to the public. Information about budget performance in the province is also poor. Questions about performance evaluation systems, such as mechanisms for ensuring that government expenditures are linked with policies in local development plans, find very weak capacity to measure performance in many of Ecuador's provincial governments. While some cities like Cuenca (subscore of 89) demonstrate efficient management of government budgets and policy outcomes, the lack of a legal mandate to link budgets to specific results in most of the municipalities studied contributed to an average score of only 25 on these questions.

The final four sections of the questionnaire address transparency in different stages of the budget process, including programming and formulation, approval, execution, and evaluation and monitoring, and they reveal a set of common issues throughout all phases of the budget cycle. One of the main weaknesses identified in this study is that there is limited public access to budget information and opportunity for public participation throughout the entire budget process. In the subnational governments investigated, most key budget documents are produced periodically, but many of these are only available for internal use. Information that is available to the public tends to be released in an untimely fashion and is only available through an official request, as opposed to being published online or publicized through the media. Although there are some strong performers, including Ambato, Orellana, and Cuenca, there is much room for improvement throughout the budget process in all provinces.

## Dissemination

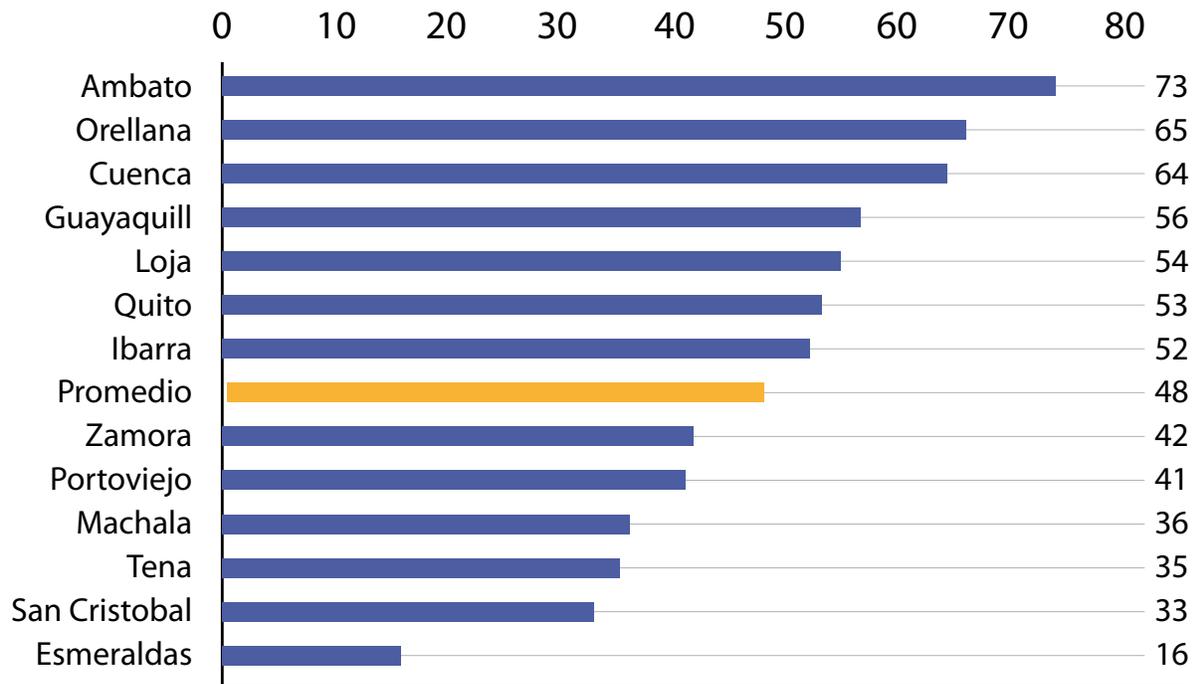
Grupo Faro shared the results of their investigation with the local governments evaluated and with the media. This has raised awareness of the importance of better public financial management in the country. Grupo Faro feels that future studies of local budget management and processes could benefit from including more public institutions. For further information, contact Ivan Borja at [iborja@grupofaro.org](mailto:iborja@grupofaro.org).

## Recommendations

Based on the findings from the study on provincial budget processes in Ecuador, Grupo Faro makes the following recommendations:

- Governments should make available comprehensive and timely information in each phase of the budget process and throughout all aspects of budget management.
- Processes of performance evaluation and linking the budget to specific local development plans and policies should be mandated by law.
- Forums and mechanisms for public participation, such as assemblies, legislative hearings, etc., should be implemented throughout the budget process in order to meet the legal obligations of Article 100 of the Constitution, which mandates that budgets at all levels of government be constructed through participatory means.
- Governments should improve the accessibility of budget information by making it available online and through the media.

Figure 1. Index of Budget Transparency in Municipal Governments



(Note: Scores out of 100)