

Preliminary version for comments

THE BUDGETARY PROCESS IN PERU: IS A PARTICIPATIVE BUDGET TOO RISKY?

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1. THE BUDGETARY PROCESS IN PERU

The budgetary process consist of six different stages: (1) programming, (2) formulation, (3) debate and approval, (4) execution, (5) monitoring and (6) evaluation. The timetable of this process is described in Figure 1.

1.1 Programming

In this stage the budget is in the hands of several branches of the Executive, the so-called budgetary sectors¹. During this stage, the officials in charge (sometimes in coordination with their subordinate agencies) establish institutional objectives (general, partial and specific objectives) to be achieved during the fiscal year and propose measurable budget objectives² that will serve to monitor the fulfillment of the objectives. They also establish a priority scale of the objectives planned.

Another responsibility of government entities at this stage is the global assessment of the outlays dedicated to cover the services usually rendered, and the estimation of revenues generated by other funding sources³. These revenues are included in the total budgetary assignment of each entity in the next stage (formulation).

The National Office of the Public Budget (DNPP, in Spanish) at the Ministry of Economics and Finance (MEF) is responsible of the estimation of the government revenues (generated by ordinary sources) and they determine the amount of assigned funds to each government entity.

1.2 Formulation

The formulation of the government budget is basically the sole responsibility of the Executive, and the DNPP coordinates this task with the rest of the public sector. In this stage the government entities have to translate institutional objectives into specific budgetary assignments.

¹ These government entities (i.e. ministries, decentralized public institutions) are denominated budgetary sectors (pliegos presupuestales) and they are the main beneficiaries of the annual budget to fulfill its activities and projects. Provincial and local municipalities are also budgetary sectors.

² These should be quantifiable outputs that will help to determine the degree of progress in the achievement of institutional objectives of each budgetary sector.

³ In the budget the government distinguishes ordinary sources that come mainly from tax revenues and less importantly from the proceedings of the privatization and concession programs.

The DNPP sends to each government entity a budget proposal denominated “programmatically functional structure”⁴. The official in charge of each entity has to review the proposal and adjust it with respect to the institutional objectives previously set. In this way, these institutional objectives are translated in terms of monetary assignments in the following way:

- The general objectives are translated in budgetary programs.
- The partial objectives are translated in budgetary subprograms.
- The specific objectives are translated in budgetary activities and projects.

After those assignments are set, the public entities have to prioritize the budgetary objectives based on the institutional objectives and the harmonization of expense demands and the total budget assigned by the DNPP. Once all this is set, the next step is to assign resources to each type of budgetary expenses (payroll, investment outlays, among others) and determine the sources of funding of all expenses at the activity and programs level.

Finally, each public entity prepares a proposal of institutional budget, which is sent and sustained along with the report on programmatic functional structure up to the DNPP. We should say that up to this point there is no formal role for the Congressional Budget Committee, however, it might be the case that informally there is some issues raised directly by some legislators to the public entities.

1.3 Debate and Approval

After deliberations between the DNPP and the government entities, the Cabinet has to approve the so-called Budget Act Proposal. This proposal is submitted to the Congressional Budget Committee, which responsibility is to review the proposal and send comments to each of the members of the Executive⁵. Once all modifications are made, the Committee will write up the Budget Act Proposal that will be discussed by the whole Congress later on.

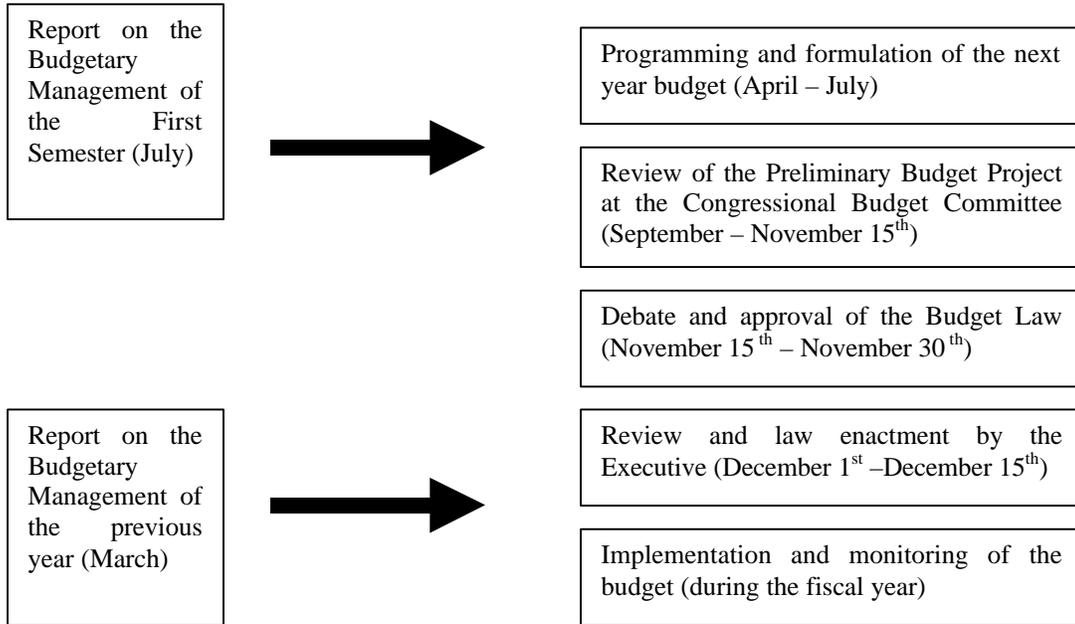
During the debate, the members of the Executive have to sustain the expenses and revenues. The Congress vote should take place not later than November 30th. After that the Executive has the power to enact as law its own proposal with or without the modifications suggested by the Legislative.

⁴ This name come from the way the budget is divided in functions, programs, sub-programs, activities and projects. The functions included are: Legislative, Judicial, Administrative and Planning, Agrarian, Social Assistance, Communications, Defense and National Security, Education and Culture, Energy and Mineral Resources, Manufacturing, Commerce and Services, Fishing, External Affairs, Health and Sanitation, Labor, and Transportation, Housing and Urban Development.

⁵ Once the comments are received, each of the members of the Executive will have to coordinate with the DNPP and MEF authorities to make an amendment to the Budget Act Proposal.

Figure 1

Timetable of the Budgetary Process in Peru⁶



⁶ The sources of this timetable are: Directiva para la programación y formulación de los presupuestos institucionales del sector público para el año fiscal 2001 (N° 006-2000-EF/76.01), Directiva para la aprobación, ejecución y control del proceso presupuestario para el año fiscal 2001 (N° 001-2001-EF/76.01), Directiva para la evaluación presupuestaria institucional del sector público para el año fiscal 2000 (N° 004-2000-EF/76.01) and with information given to us in an interview with the former president of the Congressional Budget Committee, Carlos Blanco.

1.4 Execution

During this stage, the government spends the resources and raises revenues scheduled in the budget. There is a preliminary step that involves the estimation of quarterly expenses based on the monthly expenses estimated, the quarterly assignment of ordinary resources set by the DNPP to each entity and the estimation of resources generated by each entity. In addition, the budget offices of each entity has to establish a calendar of necessities that will a proposal of expenditure ceilings to be used each month by each government entity at the level of budgetary functions and programs. These expenditure ceilings have to be approved by the DNPP⁷.

One of the aspects of this budget stage is that in Peru the MEF introduced the Integrated System of Financial Management (SIAF, in Spanish) in 1999. This electronic record system registers all transactions (revenues and expenditures) of each executing unit. One of the most important contributions of the system is the possibility to avoid expenditures without a previous authorization and a proper justification.

1.5 Monitoring

The monitoring of the budget consist of following up the levels of execution of revenues and expenditures compared to the ones authorized in the budget. This process is the responsibility of the DNPP and by each government entity as well. These entities should also verify the level of compliance of the budgetary objectives both in terms of levels of expenses and physical attainment.

Another two institutions are part of the monitoring of all expenses: the Auditor-General and the offices of internal supervision at each government entity. Both institutions will keep control of the budget management. In addition, the Congress has the power to supervise the budget execution and check and approve the General Account of the Republic, document that reports the budget execution of the previous year.

1.6 Evaluation

During this stage public sector entities determine the results of the previous budget execution. In order to do so, they perform a review of topics as the efficiency of budget expenses and revenues, the level of attainment of budget goals, the degree of efficiency attaining budget goals (average cost budgeted with respect to average cost realized for a specific goal), and the performance of each entity achieving its institutional goals. Based on the analysis of this information, each entity should pinpoint the problems faced during the execution period and suggest possible solutions for next period budget.

⁷ Fiscal Transparency Manual, available at the website of the Ministry of Economics and Finance.

This information should be delivered to the DNPP, the Congressional Budget Committee, the Congressional Committee that reviews the General Account and to the Auditor-General.

2. THE ROLE OF THE CONGRESS AND THE CIVIL SOCIETY IN THE BUDGETARY PROCESS IN PERU

2.1 The Congress

The role of the Congress is rather shallow. For example, it does not have a formal participation in the process of allocating budgetary resources, and it does not have real capacity to introduce changes in the formulating or execution stages of the budget.

In principle the fact that the Congress does not take part of the programming or formulation stages of the budget is not inappropriate per se. The Executive branches are much better suited to establish their own objectives and prepare its own budgets as they are more conscious about their needs and the needs of the beneficiaries of their projects. In this way is rather cumbersome that a group composed of 120 legislators replace the whole budgeting system of the public entities across the country.

The Congressional hearings on the budget constitute the best opportunity for a more effective role of the Congress. In this stage the Congress could revise the budget proposal of the Executive and suggest some changes. But all the power is in the Executive who can easily choose to ignore all the Congressional suggestions and stick to their own initial proposal. Their more active role is in the discussion of the budget macroeconomic projections. Since 2000, the Executive is forced by the Act of Fiscal Transparency and Prudence to limit its budget to the goals established in this law. However, the recent experience shows that it needs amendments as it has been systematically violated without punishment.

On the other hand, the Congress is the most effective source of surveillance and scrutiny of the Executive. In the Peruvian case, the Congress has used the power of the press to voice out cases related with mismanagement of public funds and/or corruption of public officials. This is interesting as this is a way to incentivize towards a more active role of the civil society in politics.

However, in terms of scrutiny of the budget execution, the Congress is not allowed to line item veto or modify a program even in the case of a mismanagement allegation. The Congress is limited to warn the Executive, who is free to ignore the warning without legal implications. These limited powers come in contrast to all the information that the Congress has to scrutinize the Executive.

2.2 The Civil Society

Currently, the civil society has no formal role in the budget process. The civil society works only via lobbies aimed to government officials or to members of the Congress. This is an effective way to take advantage of a highly political process such as the budget process. One of the most active areas of lobby are the participants of the Glass of Milk Program, which is a program in charge of feeding children under six years old and pregnant women or breastfeeding mothers. They have been very active in demanding more resources during the Congressional Budget Hearings.

In many cases these demands are attended, especially in those cases that involve groups of the population with a strong political influence. Notwithstanding, the increase in expenses are not a significant share of the budget.

There have been some preliminary efforts to introduce the civil society in the formulation of the municipal budgets. For example, in the district of Villa el Salvador in Lima the community is working out a participative budget⁸ with the support of Porto Alegre County (Brazil)⁹.

This first experience of civil society participation have been an initiative from the local government and it was helped by the participatory tradition of the Villa el Salvador's population. It's also important to point out that in recent years a group of NGOs have been coordinating with other organizations and international governments to replicate participative experiences and to introduce equity considerations in the budget. For example, the feminist NGOs have been quite active trying to pass along gender equity considerations in the government budget.

Slowly, civil society organizations are realizing the need to move from advocacy to budget changes and, in some degree, this have had an effect in the way government prepare the budget. Evidence of the above is the recent initiative of the Ministry of Women Issues and Human Development (PROMUDEH, in Spanish) that aims to introduce a gender approach in the formulation of its budget for the year 2002. One the tasks of this project consist of designing a methodology that allows civil society to identify the priorities in social spending throughout a national poll. However, as the preliminary budget need to be presented in July, this methodology could not be used for this year.

But this attitude to generate effective mechanism of civil society involvement has not been the rule across a wide sample of newly created NGOs. Most of these NGOs lack of

⁸ This is an innovative process of policy formulation aimed to strengthen the role of citizens in the decision making process of issues of public interest, in the reform of the government administration and the allocation of resources.

⁹ The proposal of participative budgets appeared in Brazil as a reaction of more progressive sectors of civil society against the military dictatorship between 1964 and 1985. This reaction was the consequence of a regime that increase social exclusion, corruption, political clientelism and lack of transparency.

a real compromise to deliver changes and assume a passive role about the inequities observed in the budget and the improper behavior of public officials.

3. HURDLES FOR A MORE ACTIVE ROLE

3.1 The Congress

We have argued that the Congress has a weak participation in the budget process. During the review of the budget proposal of the Executive, the Congress is limited to observations and comments but no direct changes. All changes have to be approved by the Ministry of Economics and Finance. Even during the budget hearings, the Executive has the last word. So, we have a budget proposal almost fully prepared by the Executive that is too rigid to be modified. The inability of the Congress to make changes is not necessary a bad thing. A very powerful Congress could destroy all the previous coordination work between the MEF and the different public entities. Precisely because a previous performance of fiscal irresponsibility in the past the Congress was stripped out of their ability to add items in the budget.

Before 1992, the Congressional Budget Committee had that power and each Congressman had the ability to allocate resources and very easily the expenditure priorities were lost. Moreover, the Executive had to bargain directly with the Congress their budgets and therefore making all the previous work done with the DNPP irrelevant.

Another hurdle that the Congress faces is the lack of coordination and dialogue with the Executive as the following evidence shows up. For example, at the beginning of this year it became public that a series of arm deals (during Fujimori's period) have been done without the proper paperwork. As expected, the Congress started an investigation, the MEF also initiated its own query instead of teaming up with the Congressional committee.

Another example of this lack of coordination with the Executive is the excessive use of Urgency Decrees with the specific use to increase expenditures. The Executive has the option to ask for supplementary credits during the year if there is a need to increase public expenses, but this involves a lot of hustle with the Congress (who has to approve the additional expenses) and a longer procedure.

The Constitution establishes that all Urgency Decrees have to be informed at the Congress. The President of the Congress has to derive the decree to the Constitutional Committee that has to approve the constitutionality of the norm. But in terms of the budget, there is no procedure to stop an Urgency Decree that may be circumventing all the locks put into the MMM or shifting the priorities set in the Government Budget. The only legal possibility is to void the decree which is very unusual.

Another difficulty that the Congress faces is related with the impossibility of monitoring the budget objectives. The Congress has no technical assistance to follow up closely the budget execution. In the 90s there used to be a Congressional Budget Office of about 200 advisors but this office was scrapped in the 1993 reform.

The decision to dismantle the Congressional Budget Office was prompted by a too-intrusive behavior. The CBO ended up reallocating budget resources instead of helping legislators to have a better understanding of the budget decisions. Despite that, we cannot think this is the solution for all the problems of the budgetary process because making good policies is about finding checks and balances. Thus, scrapping the budget monitoring as a role of the legislative is very dangerous. From our standpoint the CBO duties of budget analysis should be decentralized to different civil society organizations as we propose below.

3.2 The Civil Society

The most important limitation faced by civil society in Peru (up to this year) was the restrictions in the access to budget information. This problem has been overcome thanks to a big effort of transparency during the transitional government of President Paniagua. The MEF launched in February an Internet Portal of Fiscal Transparency. Through that portal anyone can have free access to extremely detailed information of the budget and especially of the budget execution as the computer becomes a window to the System of Integrated Budget Management (SIAF, in Spanish) that since this year it includes all sectors even defense and national security.

But all that humongous amount of information is worthy as far as is used by civil society to interact with the government. In this respect, we believe that the real users of this portal will be civil society institutions as NGOs, research centers, or think-tanks¹⁰. These institutions are the most able to supervise the budget execution and alert to the rest of the society about issues of inefficiency, suggest budget priorities, discuss not only macroeconomic aspects of the budget but also issues within the budget.

However, in Peru the number of institutions concerned with budget issues is scant. In some way this is the consequence of limited information about the budget. But the explanation of this seems to be more a direct consequence of the scarce activism of the civil society. Our recent experience with the fallout of Fujimori's government suggests that the population has had a passive role notwithstanding the size of the wrongdoings.

But the civil society faces other problems related with a direct participation in the budget process. Even if they were able to evaluate and suggest changes to the budget, there are no formal mechanisms to introduce them in the budget proposal. As we mentioned above, the current legislation does not assign a space, or a time in which these organizations

¹⁰ Ordinary citizens will not be the users as the internet access is restricted to a very small minority in Peru and perhaps more importantly, the content of the information is rather technical notwithstanding the effort to have an online help.

could make hear their voices at the Congressional budget hearings. Moreover, as the Congress is also limited in its ability to introduce changes, a space in these proceedings would not guarantee the possibility of effective changes in the budget.

An additional problem is the fact that the budget is very centralized in the hands of the Central Government (Ministries, etc). Not only the resources are mostly raised out of Lima, but also these resources are executed mostly by the Ministries and not by the local authorities. Sometimes, the projects are not even coordinated with the needs of local communities. Thus, the lack of involvement of civil society is also explained by a quite centralized budget decision process. In this way the government does not benefit from the feedback of the local communities about the real needs¹¹, and the community is not interested to talk with their local authorities as they know that the money is not in those pockets but in the central government. A weak Congress and weak local authorities are a combination in which the Executive is the sole responsible of the decisions and the feedback with the community is not fostered.

4. SOME THOUGHTS ON HOW TO IMPROVE THE ROLE OF THE CONGRESS AND THE CIVIL SOCIETY IN THE BUDGETARY PROCESS IN PERU

In the balance we have a powerless Congress with a bad track reform of reckless spending, a civil society not accustomed to participate in the budget process, a very centralized budget allocation that increases the lack of civil society involvement and finally a structure of weak regional governments. There is a full list of constraints to a more participative budget process that the next government may want to work at.

In first place, is important to decentralize the resource allocation in order to bolster regional and local governments financially speaking. There is a need to empower the sub-national governments to get (i) more funds to attend their local needs in a more demand driven process, and (ii) better accountability as people will be more able to monitor their local governments if they are the responsible of projects execution instead of the central government.

In second place, the lack of civil society participation has also been hindered by the way the Congress used to be elected. Until the last election the 120 congressman were selected out of a national pool. There were no real representatives of small circumscriptions and therefore it was very hard to establish a compromise with a local community. This has been changed but without establishing sufficiently small circumscriptions and so the control is still too diffuse. The multiple district electoral system is a key mechanism to bring the community closer to local politics.

¹¹ Only in very few isolated cases as in Villa El Salvador, the local authorities are trying to cope with this problem.

A third key issue is the language used. Even though the current government has made a huge effort to appear as transparent as possible, there is still a huge gap to fill. Transparency is effective communication. If the budget information is presented in a way that is too hard to grasp, to comment, to analyze then the government is not as transparent as they are pretending. As Joao Sucupira, from IBASE¹², said the budget is a language. Is a way of speaking to the civil society. You can have a ton of information that most often than not tends to be a ton of useless information¹³.

The government needs to keep opening spaces to improve civil society contribution to a more participative budget process. This is a key ingredient to form a true democracy. The civil society has to demand more actively those spaces and the Congress needs to combine a concern for budget priorities and fiscal prudence. The Congress true role is to be the monitoring eye of a democracy, but if its members are not up to the task, the Congress could end up being just a go-getter of the Executive. The experience of the last years shows in the case of Peru, that the Congress could be digging its own tomb if they allow urgency decrees that are clear violations to the budget and to the fiscal balance. If they withdraw its role of fighting corruption at all levels of the Executive, civil society will distrust them more and more up to the point to become the least trustful institution¹⁴.

So the task now is to focus in alternative ways in which the legislative might increase its participation in the budgetary process. But we must not leave behind the role of the civil society. There are easy and effective ways for the legislative to participate. First, it might have the role of ensuring that the policy commitments of each Ministry¹⁵ are reflected in their budgets. Moreover, the legislative might assume the role of pressing the executive for the elimination or modification of the less effective public programs and also propose modifications of the budget according to the politic prioritization previously made by the executive¹⁶.

In doing so, the Congress counts with two useful tools: the participation of civil society and the openness of the media. Given that most of the legislators does not have the necessary technical expertise for evaluating programs, they can rely on sectors of the civil society that have expertise in following the impact and effectiveness of public projects

¹² Instituto Brasileiro de Análisis Sociales y Económicos.

¹³ So instead of that, the government should spread out some key budgetary issues like the expenditure per capita distributed geographically and by Ministries; the salaries perceived by the public officials; the number of beneficiaries from the public social programs and so on.

¹⁴ According to a poll survey, the percentage of approval (in Lima) with respect to the Congress performance, went from 53% in June 1995 (a month before Fujimori's second period) to 37% in June 2000 (a month before Fujimori's third period). Now, under the government of President Paniagua, the percentage of approval has increased to a level of 51% (April 2001) but has remained unstable up to this time of the year. See Apoyo Opinión y Mercado, Lima, December 2000 and April 2001.

¹⁵ As we mentioned earlier, by law the institutional objectives must be translated into each Ministry's budget (see point 1.2).

¹⁶ A previous step towards this kind of reform must be to put some pressure onto the executive to offer the legislative and the civil society budget information in a simple way and also information necessary to evaluate the effectiveness of public expense.

(people who have skills in project evaluation methodologies and budget process, i.e. academic centers or specialized NGOs).

Both of the actors above mentioned could start a dialogue in which the civil society gives the Congress the inputs to exert pressure with the Executive in order to improve the quality of public expenditure. Evidently, the Congress should spread out this information through the media, in order to obtain better results in terms of the influence over the public officials in charged of formulating the budget.

From the other corner, the partial renovation of the Congress along with the multiple-district initiative is a way to put some pressure on the legislators towards a closer connection with their constituency. Another issue with the Congress is how to improve its independence with respect to the Executive and also a voting process less influenced by party considerations. In the last years we have been accustomed to see how the majority was instructed by pagers how to vote in each initiative. This lack of independence has been the excuse to exclude them of any important decision process.

As we can see -and why not as expected- there is a large road to improve the budget decision process, even more in an emerging democracy in which establishing consensus tend to be the last recourse action instead of the first sought action.