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# Legislatures and Budget Oversight in Latin America: Strengthening Public Finance Accountability in Emerging Economies

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## 1. Introduction: Legislative budgeting, government accountability and fiscal prudence

Reforming budgetary institutions for effective government is a critical task for emerging economies. Strengthening the role of parliament in the budget process is an integral part of the restoration of democracy throughout Latin America, which requires a re-equilibration of executive and legislative prerogatives in public policy. The role of legislatures in public budgeting and public finance management has nevertheless been largely overlooked in the first stage of economic reform. This is starting to change, as the contribution of legislatures to the budgetary process is currently being re-evaluated, both in developed and, more recently, in developing countries.[1] It is increasingly being recognised that parliaments have a critical role to play to strengthen economic governance, improve transparency in public finances and ensure government accountability. Enhancing legislative scrutiny of the budget and oversight of its execution is increasingly considered as a means to strengthen government accountability and curb corruption (OECD, 2002; G8, 2003).[2] The international financial institutions are particularly keen to promote greater transparency in public finance management and to improve governmental financial information systems in emerging economies.[3]

Legislative budgetary institutions perform critical accountability functions in public budgeting. They help enforce ***ex ante* accountability**, ensuring that budget allocations adequately reflect policy priorities; **concurrent accountability**, overseeing the execution of the budget by the executive; and ***ex post* accountability**, holding government to account for performance and results. Henceforth, in theory at least, parliaments constitute central agencies of state restraint and external accountability in public finance management (Schedler *et al*., 1999; Mainwaring and Welna, 2003). In practice, however, legislatures in emerging economies have often failed to adequately and responsibly perform these accountability functions. What then explains this disjuncture between the potential contribution of legislatures to public budgeting and their actual role?

Legislative budgetary institutions have largely been neglected in the first stage of economic reform and modernisation of financial administration. After decades of fiscal mismanagement, first-generation reforms have focused on improving transparency and efficiency in governmental financial administration **within** the executive branch (Dorotinsky and Matsuda, 2002). In the course of the 1990s, Latin American countries have undertaken significant efforts to upgrade their public finance management and financial information systems.[4] However, less attention has been paid to the simultaneous need to strengthen the mechanisms of integrity and accountability in budget management beyond the executive branch. Latin American legislatures are typically characterised by operational, administrative, and resource problems that limit the fulfillment of their legislative, representative, and oversight responsibilities.

The second wave of budgetary reforms currently underway is thus broadening its reach to include those institutions participating in the governance of the budget **beyond** the executive. In this second stage of reform, the contribution of legislative budgetary institutions, such as parliamentary budget committees, legislative budget offices and general audit offices, is being re-evaluated. However, what explains the effectiveness of legislative budgetary institutions in emerging economies remains under-theorized. There continues to be great controversy as to what the most appropriate role of legislatures ought to be in public budgeting. The prevailing economic orthodoxy warns against the dysfunctional fiscal effects of unrestrained legislative budgetary powers and consequently favours the insulation of economic policy making in the executive branch. Nevertheless, recent experience also demonstrates the risk to public budgeting of excessive executive discretion, when the latter is not adequately balanced with effective mechanisms of internal restraint and external accountability. A key challenge for governance of the budget in emerging economies thus concerns the ability of institutional arrangements to adequately combine democratic accountability and fiscal prudence.

This paper explores the effectiveness of legislative budgetary institutions in contemporary Latin America. It provides an overview of the current debate on the strengthening of the role of parliaments in public budgeting, as well as a review of the main constraints and conditions for effective and responsible legislative budgeting. It illustrates the challenges of legislative budgeting in presidential systems of government characterised by executive predominance in the budget process and weakly institutionalised mechanisms of accountability. Furthermore, the paper underscores the inherent risks to budget governance of unrestrained executive discretion and the insulation of economic policy. While it is yet too early to assess the impact of legislative activism on budgetary outcomes and fiscal discipline, the paper reveals increased legislative activism in public budgeting in recent years. However, the contribution of Latin American legislatures to budget oversight remains inhibited by structural factors related both to the internal organisation of parliamentary work and the broader external context of executive-legislative relations. Legislative budgeting requires the capacity to discharge budgetary functions effectively and responsibly, as well as the existence of an enabling environment that allows it.

Ultimately, the governance of the budget reflects a delicate balance between executive power and legislative oversight.

The concept of the **governance of the budget** is used to underscore the institutional dimensions of public budgeting in emerging economies and the political economy of public finance accountability. The budget is a pivotal instrument of public policy and a critical arena for political bargaining between the executive and the legislature. It is, essentially, a political process (Wildavsky, 1964 and 1992). As Scartascini and Stein (2004:2) emphasise: "Understanding the budget process and the incentives of the multiple agents that participate in this process is a key ingredient for any fiscal reform seeking long lasting results in terms of improvements in fiscal discipline and efficiency in the use of public resources." While our knowledge of the dynamics of public budgeting within the executive has considerably improved in recent years, the interaction of budgetary institutions has, until recently, been the subject of less systematic scrutiny.

In Latin America, there exists an important gap between the formal powers and the actual role of parliaments in public budgeting. A first set of factors explaining this gap are **internal** to the legislatures themselves, related to deficiencies in the structures, processes and procedures of legislative budgeting, as defined by constitutional rules, legislative norms and parliament's internal rules. The factors essentially relate to organisation, resources and capacity. A second set of factors are **external** to the legislatures, linked to the formal and informal rules shaping executive-legislative relations, the presidential nature of the political system, the over-reliance on executive decree authority, skewed electoral incentives, and a fragmented political party system. These two sets of factors interact in different ways along the different stages of the budget cycle. Evaluating what explains the behaviour of parliaments in public budgeting thus requires considering the capacity, ability and willingness of legislators to exercise their budgetary powers effectively and responsibly.

The paper argues that parliaments have a critical role to play to bridge the accountability gap in public finance management. Legislatures help ensure government accountability in public finances, by approving budget allocations, overseeing budget execution and controlling budget performance. The paper posits thus that sound public finance management and accountability require finding an adequate balance between executive and legislative prerogatives in the **different phases of the budget cycle**. While executive dominance in public expenditure management is more likely to ensure fiscal prudence, legislative oversight is critical to provide effective checks and balances and enforce accountability in the formulation, execution and control of the budget.

The paper is structured in four sections. Section 2 briefly reviews the contemporary debate on budgetary institutions in the first stage of economic reform. Section 3 analyses the scope of legislative budget authority in Latin American emerging economies, while section 4 discusses the constraints and conditions for the effective exercise of legislative budgetary powers. Section 5 offers concluding remarks.

## 2. Budgetary institutions and government accountability

### *2.1. Hierarchical budget institutions and fiscal discipline*

Finding the most adequate balance between executive and legislative prerogatives in budget policy making is a critical challenge for emerging economies struggling to consolidate their democratic institutions. In theory, increased legislative budgetary powers ought to enhance transparency, accountability and integrity in public expenditure management. Risks nevertheless exist, as effective legislative budgeting requires the capacity to discharge budgetary functions in an effective and responsible manner (Wehner, 2001 and 2004; Krafchik and Wehner, 1998). There is great controversy as to what the most appropriate role of parliaments ought to be in budget policy making, as immature legislatures and unstable party systems are often the source of dysfunctional economic governance, budget deficits and fiscal imbalances. At the same time, however, unconstrained executives and autocratic presidents have tended to abuse their constitutional authority and delegated powers, left largely unchecked by amenable parliaments. The use, misuse and abuse of executive discretion in public budgeting have often led to serious economic mismanagement, pervasive corruption and state capture.

The prevailing consensus posits that legislative activism in public budgeting tends to be dysfunctional in fiscal terms, leading to greater budget deficits and public debt. Bradbury and Crain (2001) find that government spending tends to rise with the number of legislators, although bicameralism dampens this effect. Exploring the influence of budgetary institutions on fiscal performance in Latin America, Alesina *et al.* (1999) show that the nature of budget procedures strongly influences fiscal outcomes. Stein *et al.* (1998) find similar results for other measures of fiscal discipline. Consequently, it is argued, "hierarchical" budget systems that "concentrate power in the finance minister, *vis-à-vis* other ministers, and in the executive *vis-à-vis* congress" (Stein *et al.*, 1998:3) tend to provide stronger procedural incentives for promoting economic prudence and ensuring fiscal discipline. Such views, which have significantly influenced economic policies in Latin America in the 1990s, also counsel giving greater independence to the institutions of economic governance, in particular central banks, tax authorities and regulatory agencies.

The core argument linking institutional arrangements to fiscal performance resides in the "common pool" dilemma of public budgeting: while the costs are borne by the general fund, benefits go to specific groups, sectors, or localities (Wingast *et al.,* 1981). As a result, overspending and undertaxation are likely results. This problem can be minimised by assigning control over the budget to agents with incentives to internalise the costs of the programmes financed by the state. Examples of hierarchical institutions are those that strengthen the power of the executive to impose fiscal restraint and hard budget constraints, such as limits on the size of deficits, debt ceilings or fiscal targets. The introduction of procedural and numerical budget constraints and the strengthening of transparency and integrity mechanisms can help mitigate some of those risks.

After the fiscal crisis of the state in the 1980s, many Latin American countries have rationalised their public finance management systems and strengthened the institutions of economic governance accordingly. They have upgraded their finance ministries, increased the independence of central banks and strengthened the autonomy of tax agencies. The move towards more hierarchical budgetary institutions was pioneered in Argentina under Carlos Menem (1989-99) and in Peru under Alberto Fujimori (1990-2000) (Stein *et al.*, 1998). In Argentina, changes in the budget process were formalised in the 1992 Law of Financial Administration. The changes involved adopting quantitative spending limits for different ministries at the beginning of the process and forbidding parliament to propose amendments that would increase budget deficits. The 2000 Law of Fiscal Responsibility adopted in Brazil constitutes a more recent attempt at establishing numerical and procedural budget constraints.

### *2.2. Executive-legislative relations in public budgeting*

Nonetheless, there are risks associated with hierarchical arrangements. They tend to allow for excessive executive discretion in public budgeting, especially in presidential systems of government, and thus impede the emergence and consolidation of institutions of accountability and self-restraint in governmental financial management. In most Latin American countries, the executive dominates the budget process, and legislatures have largely acted as "rubber stamps". Unfettered executive discretion in public budgeting has not only hindered the consolidation of mechanisms of self-restraint in public budgeting, but has also tended to circumvent or neutralise the few mechanisms that existed. Indeed, the greatest risk of hierarchical budget institutions resides in their replicating the mechanisms of autocratic government in public budgeting in democratic regimes.

Clearly, a re-equilibration of executive-legislative relations in public budgeting is required to ensure greater government accountability in public expenditure management. In Brazil, the role of parliament in the budget process was at the centre of the debates of the Constituent Assembly on the draft constitution in the early 1980s. Restoring the powers of parliament in public budgeting was considered as an integral part of the restoration of democracy. Reflecting a compromise between executive and legislative prerogatives, the 1988 Brazilian Constitution gave parliament great powers in public budgeting and limited the discretionary prerogatives of the executive (OECD, 2003).

Unconstrained executive discretion has also tended to undermine the credibility of the budget as an instrument of policy making and strategic planning. The instability of budgetary institutions and fiscal rules has hampered the consolidation of credible budget processes with predictable procedures and enduring structures. Frequent alternations of authoritarian and democratic regimes have been detrimental to the institutionalisation of parliamentary structures and processes and to the emergence of stable legislative budgetary institutions that provide the necessary checks on executive discretion. Furthermore, since the restoration of democracy in the region in the mid-1980s, legislatures have been dominated by majorities belonging to or associated with the president's ruling party. The combination of presidential constitutional powers and delegated legislative authority has reinforced vertical patterns of power relations. Parliaments themselves remain largely unconsolidated.

## 3. Legislative budget authority: Legal framework

Legislative budgeting is a recent development in the history of Latin American legislatures. It is indeed telling that the first budget formally approved by the Argentinean legislature was that of 1990. Legislative budgeting can be defined by the scope of budget authority and the effectiveness of budget oversight. The legal framework for legislative budgeting only partly explains the actual performance of legislatures in the budget process.

The ability of parliaments to effectively engage in the budget process in the different phases of the budget cycle, namely its formulation, adoption, execution, and control (Allen and Tommasi, 2001), is contingent on four sets of variables: whether parliament is legally empowered to intervene in budgeting, whether it is endowed with the required technical capacities, whether it possesses the necessary political will, and whether the governance environment is conducive.

### *3.1. Legislative budgetary powers*

Compared to similar-sized economies, legislative budget authority is severely constrained in Latin American presidential systems. Apart from frequent episodes of authoritarian government, presidents have had extraordinary budgetary powers under constitutional governments. Constitutional provisions endow Latin American executives with uncommon

Table 1. **Constitutional restrictions on legislative budget authority in Latin America**

| | Argentina | Bolivia | Brazil | Chile | Colombia | Costa Rica | Ecuador | Peru | Uruguay | Venezuela |
|---|---|---|---|---|---|---|---|---|---|---|
| Year of constitution (amendment) | 1994 | 1967 (1994) | 1988 (1999) | 1980 (1989) | 1991 (1997) | 1949 (1997) | 1998 | 1993 | 1997 | 1999 |
| Only the president can propose the budget | Yes: Article 100.6 | Yes: Article 147 | Yes: Article 61(1)II(b) | Yes: Article 64 | Yes: Article 346 | Yes: Article 178 | Yes: Article 258 | Yes: Article 78 | Yes: Article 215 | Yes: Article 313 |
| Congress cannot increase the budget for any items or create new budgetary categories | No | No | Yes, with loophole Article 166 | Yes, with loophole Article 64 | Yes: Article 351 | No | No | Yes: Article 79 | Yes: Article 215 | No |
| If no new budget is passed, current budget remains in effect | Yes, implicit | No | No | No | No | Yes, implicit | No | No | Yes, implicit | Yes: Article 313 |
| OR: president's proposal takes effect | No | Yes: Article 147 | No | Yes: Article 64 | Yes: Article 348 | No | Yes: Article 258 | Yes: Article 80 | No | No |

*Source:* Santiso, based on World Bank (2001:36).

powers in public budgeting. Furthermore, constitutions also give presidents significant leverage and bargaining power over legislatures. As a general rule, legislative budgetary powers are described in the constitution and the organic budget law. Parliaments' internal rules and procedures contain provisions regulating the budget process within parliament. The executive has a predominant role in budget policy making. In the formulation stage, executive predominance tends to confine parliament to a secondary role. The parliamentary prerogatives are greater in the later stages of the budget process: parliament proposes amendments, adopts the budget, oversee its execution and controls performance.

The budgetary powers of Latin American presidents are significant, both in absolute and relative terms, despite the important variations that exist between countries. Assessing the budgetary powers of presidents in 23 presidential systems, Shugart and Haggard (2001) find that in seven of them presidents enjoy exclusive power over spending legislation and the legislature encounters severe constraints on amending presidential proposals. Table 1 captures the budgetary powers of presidents in ten countries in the region. In all ten cases, the executive is endowed with the exclusive right to initiate the budget process and propose a draft budget bill.

### *3.2. Legislative taxation powers*

Interestingly, parliaments' powers in tax policy tend to be greater than in public budgeting, reflecting the historical origins of legislative powers in public finance (Schick, 2002). In Peru, parliament is the only branch of government legally empowered to raise revenue through taxation and establish or modify taxes – except custom duty and excise rates. Furthermore, budget laws cannot include tax issues. The executive is barred from resorting to emergency decrees in taxation policy. However, there exist loopholes, as the legislature can, and often does, delegate its taxation powers. The dichotomy between taxation and budgeting powers also reflects the fact that taxation policy and the budget process are essentially separate processes. Indeed, an important shortcoming in public finance management resides in the disjuncture between revenue and expenditure policy.

In practice, however, the contribution of parliaments to tax policy and taxation reform tends to be constrained by the same institutional and capacity constraints that inhibit their role in public budgeting. Legislatures lack the technical capacity to articulate their own proposals and the political incentives to effectively engage in taxation policy. Tax reform initiatives thus tend to originate in the executive, which usually obtains the delegation of legislative authority it seeks. Faced with intractable collective action dilemmas and capacity constraints, parliaments willingly delegate their taxation authority to the executive branch, which proceeds to reform tax policy by legislative decree.

### *3.3. Executive dominance of budget formulation*

While the executive dominates taxation policy *de facto*, it does dominate budget policy making *de jure*. It has a preponderant role in the formulation of the budget and the drafting of the budget bill and controls the execution of the budget. It is also the only branch of government that possesses the required technical capacity for doing so.

The central budget offices of the ministries of economy and finance are responsible for the general co-ordination of the budget drafting process within the executive and for overseeing its execution by spending agencies. They also are the supervisory agency for controlling public expenditure and managing government financial information. Access to and control over governmental financial information gives the central budget offices an undisputed advantage over both the legislature and the other ministries and executing agencies within government. The introduction in the late 1990s of integrated public finance management systems in many Latin American countries has significantly improved the reliability and credibility of government financial information (Dorotinsky and Matsuda, 2002). Furthermore, the laws of fiscal prudence and transparency adopted in many countries, such as Peru in 1999 and Brazil in 2000, establish guidelines for ensuring fiscal discipline and disciplining public finance management within the executive branch.

### *3.4. Legislative amendment powers*

Once approved by the government, the draft budget bill is submitted to parliament for consideration. Two issues are important to take into account when assessing the role of parliament in the review and adoption of the budget: the time allocated to review the budget and the powers endowed to parliaments to review and amend the budget. Limiting both set of powers is a distinctive feature of "hierarchical institutional arrangements".

The time allocated to parliament to review the budget and propose amendments varies greatly between countries, between 30 days in Mexico to 120 days in Honduras (Table 2). This is partly explained by the different institutional arrangements: as a general rule, federal states with bicameral legislatures tend to require more time to review the budget than unitary states with unicameral legislatures. The case of Mexico is an important exception (*Cámara de Diputados*, 2001). As the fiscal year generally corresponds to the calendar year, most legislatures must approve the budget in December. In Peru, for example, the executive branch must submit the draft budget bill by 30 August and parliament must approve it by 30 November, while in Mexico the federal government must submit its proposal by 15 November and parliament has until 31 December to approve the final budget.

Table 2. **Time for budget review in Latin America**

| | Parliamentary structure | Budget approval authority | Days allowed for reviewing budget proposal |
|---|---|---|---|
| Argentina | Bicameral | Both chambers | n.a. |
| Bolivia | Bicameral | Both chambers | 60 |
| Brazil | Bicameral | Both chambers | 100 |
| Colombia | Bicameral | Both chambers | 90 |
| Chile | Bicameral | Both chambers | 60 |
| Paraguay | Bicameral | Both chambers | 90 |
| Dominican Republic | Bicameral | Both chambers | Max. 90 |
| Uruguay | Bicameral | Both chambers | 90 |
| Venezuela | Bicameral | Both chambers | n.a. |
| Mexico | Bicameral | Chamber of Deputies | 30 |
| Costa Rica | Unicameral | Legislative Assembly | 90 |
| Ecuador | Unicameral | National Congress | 90 |
| El Salvador | Unicameral | Legislative Assembly | 90 |
| Guatemala | Unicameral | Congress of the Republic | 120 |
| Honduras | Unicameral | National Congress | 105-120 |
| Nicaragua | Unicameral | National Assembly | n.a. |
| Panama | Unicameral | Legislative Assembly | 90 |
| Peru | Unicameral | Congress of the Republic | 90 |

*Source:* Gutiérrez *et al.* (2001: Chapter III).

During this period, the negotiations between the executive and the legislature occur within the standing budget and finance committee of parliament. Each spending agency must substantiate its budget requests to the committee. Once formally approved, the committee's opinion is debated in the plenary. The proposed amendments are discussed with the executive, which considers them and produces a final budget bill (accepting or rejecting the proposed amendments). The approved budget law must be published in the official bulletin before the beginning of the fiscal year to become effective.

Latin American constitutions establish important restrictions on **legislative amendment powers**. In five of the ten cases included in Table 1 (Brazil, Chile, Colombia, Peru, and Uruguay), the legislature cannot increase the budget for any items or create new budgetary categories. Parliament is not allowed to create or increase public spending, except as it pertains to its own budget. Furthermore, if the budget is not approved by parliament by the set deadline, the current budget remains in effect in only four cases (Argentina, Costa Rica, Uruguay and Venezuela). In five other cases (Bolivia, Chile, Colombia, Ecuador, Peru), the executive's proposal automatically becomes law, usually by legislative decree. Only in Brazil, the inability of the executive and the legislature to reach agreement over the budget leads to deadlock.

These clauses give the executive extraordinary leverage over the legislature, as legislative inaction does not preclude the executive proposal from being adopted. The rationale behind these provisions is to avoid deadlock over the budget by establishing procedural constraints on parliaments' budgetary prerogatives. This mechanism *de facto* neutralises legislative obstruction and significantly diminishes the legislature's bargaining power, as the legislature has no veto power over the executive's budget proposal. It also creates a set of incentives shaping the bargaining process between the executive and the legislature in public budgeting. In those five countries where the executive's proposal takes effect despite the opposition of parliament, the executive clearly has the upper hand and does not possess many incentives to genuinely negotiate, make concessions and reach compromises.

### *3.5. Legislative oversight of budget execution*

Constitutions do nevertheless give parliaments an important role in the oversight of budget execution, the scrutiny of budget reallocation, and the review of public accounts. In practice, however, legislative oversight of budget execution is still embryonic in emerging economies. Legislatures exercise only a limited monitoring of the government's compliance with budget rules and procedures. Largely unable to monitor compliance with the approved budget, they are even less able to monitor the performance of public expenditure and enforce results-based budgeting.

Parliaments do nevertheless possess a potentially powerful instrument to control budget execution and enforce *ex post* accountability: the **annual discharge of government**. The accountability cycle of the budget process ends with the discharge of government and the certification of the state's public accounts. Public accounts, which are prepared by the general accounting office, must be audited by the general audit office, which emits its opinion on their accuracy and reliability.[5] The general accounting office is a technical body of the finance ministry responsible for maintaining the state's accounting system and preparing the state's public accounts every year following their execution. The public accounts committee of parliament considers the audited report on public accounts and the opinion of the general audit office. It reviews the accounts and emits its own opinion. The plenary subsequently considers the committee's opinion and decides whether to discharge government.

The **review of public accounts** is a tool that parliaments in Latin America have seldom used effectively to hold government to account. This is explained by a series of factors rooted in the political economy of executive-legislative factors, including the dominance of the executive and the disincentives of parliaments to enforce government accountability. Institutional and technical considerations also partly explain the ineffectiveness of the legislative review of public accounts. Legislative certification powers are often constrained by the ambiguity of constitutional provisions regulating this process. For instance, in Argentina, the likely consequences of the legislature refusing to discharge government are unclear. This has led to a paralysis of the certification process in the joint public accounts committee, when budgets and public accounts clearly were a fiction such as in 1995 following the Mexican “tequila crisis” of 1994. Indeed, in 2002, parliament was examining the public accounts of 1996. In other countries, the process may be denaturalised by “hierarchical institutional arrangements”. In Peru, a constitutional provision stipulates that if parliament fails to act on the public accounts reports within the imparted time, the public accounts committee’s opinion is transmitted to the executive for adoption by legislative decree. This constitutional clause, while providing for continuity in the budget process in the event of legislative inaction, nevertheless neutralises the oversight prerogatives of parliament in the certification of public accounts and the discharge of government. In practice, the Latin American public accounts committees have seldom refused to discharge governments or threatened to do so.

Furthermore, lags and inconsistencies in the **timing and sequencing** of legislative scrutiny also constrain effective government accountability. Often, the review of public accounts and the evaluation of the auditor general’s report take place at a time that does not always allow adequate feedback into the budget process. In Peru, for example, there is only limited opportunity for the external audit report of public accounts to inform the evaluation of the budget bill of the following year, and in practice it does not occur. The Peruvian parliament receives the reports on the previous year’s public accounts by 15 November and must approve the following year’s budget by 30 November. During that short period of fifteen days, the budget debate takes place in plenary, which further limits technical input into the process. The review and certification of public accounts by parliament take a further four months. In effect, the parliament’s review of the government’s budget proposal is largely dissociated from its control of the budget executed in the previous period, significantly weakening the accountability functions of legislative oversight.

## 4. Legislative budget oversight: Actual performance

As the preceding section has shown, the legal framework of public budgeting in Latin American countries imposes serious constraints on the role of the legislature in budget oversight. In recent years, however, parliaments have exhibited increased activism in public budgeting. The performance of legislatures in public budgeting is contingent on the scope of budgetary powers vested in parliament, the technical and advisory capacity available to it, and the incentives for legislators to effectively exercise their budgetary prerogatives. Assessing the actual configuration of powers vested in legislatures, Krafchik and Wehner (1998) show that *de facto* amendment power depends on a second set of factors relating to the effective role of committees in the budget process. This role is determined by a combination of factors, including the scope of amendment powers, the time allocated to committee review, the organisation of committee involvement, and access to independent advisory and research capacities.

### *4.1. Budget credibility and transparency*

There exists an important disjuncture between the legal framework for legislative budgeting and parliament's actual performance. Compliance with fiscal responsibility legislation and multi-annual expenditure frameworks has often been weak, which casts doubts on their ultimate usefulness. While significant progress is being made, the general absence of **enforcement mechanisms** significantly hinders legislative budget oversight and affects the credibility of the budget as a policy instrument.

Recent research on budget transparency in Latin America has revealed the gap between the quality of the legal framework for public budgeting and adherence to it (Morón *et al.*, 2003; IBP, 2003; Lavielle *et al.*, 2003). According to the survey data reproduced in Table 3, while the quality of the legal framework for public budgeting in Argentina, Brazil, Chile, Mexico and Peru is generally sound, perceptions of budget transparency are poor, especially in Peru. Table 4 reveals that legislative oversight and external auditing are particularly deficient.

Table 3. **Budget transparency in Latin America**
Aggregate index

| | Assessment of legal framework[1] | | Perceptions index[2] | Average index (unweighted) |
|---|---|---|---|---|
| | Out of 1 000 points | 1 to 10 | 1 to 10 | 1 to 10 |
| Argentina | 700 | 7.0 | 5.1 | 6.1 |
| Brazil | 636 | 6.4 | 5.1 | 5.8 |
| Chile | 733 | 7.3 | 5.9 | 6.6 |
| Mexico | 507 | 5.1 | 5.0 | 5.1 |
| Peru | 598 | 6.0 | 3.7 | 4.9 |

1. The legal framework score is on a scale of 0 to 1000.
2. The index of perceptions is an average on a scale of 1 to 10, of not transparent to transparent.

*Source:* IBP (2003:5).

Table 4. **Budget transparency in Latin America**
Disaggregate index

| Phases of the budget | Average score of 1 to 5 | | | | |
|---|---|---|---|---|---|
| | Most transparent | | | | Least transparent |
| Formulation | Chile | Mexico | Argentina | Peru | Brazil |
| *Average* | *3.36* | *2.67* | *2.57* | *2.47* | *2.47* |
| Approval | Chile | Argentina | Brazil | Mexico | Peru |
| *Average* | *2.80* | *2.79* | *2.63* | *2.44* | *2.39* |
| Execution | Chile | Argentina | Brazil | Peru | Mexico |
| *Average* | *3.16* | *2.71* | *2.40* | *2.38* | *2.36* |
| Oversight and auditing | Chile | Brazil | Mexico | Argentina | Peru |
| *Average* | *3.07* | *2.31* | *2.27* | *2.19* | *1.89* |
| Economic information | Chile | Argentina | Brazil | Mexico | Peru |
| *Average* | *3.53* | *3.15* | *3.15* | *2.75* | *2.66* |

*Source:* Santiso, based on IBP (2003:3).

Furthermore, **budget rigidity and inertia** tend to limit the scope for exercising legislative budgetary powers. In Brazil, 90% of the budget is considered rigid as a result of constitutionally mandated expenditures, earmarking of tax revenues and mandatory expenditures. As the OECD (2003:4) notes: "The effect is to insulate a very large proportion of the budget from effective scrutiny each year." Budget inertia is accentuated by the small size of Latin American budgets, in particular capital expenditures. The type of public spending on which parliament could potentially have the greatest influence – capital expenditure – represents only a small fraction of public expenditures. Current expenditures (public sector wages and pensions) and debt repayments (principal and interest) consume most of public spending. Nevertheless, capital expenditure allocation is strategic and subject to intense political bargaining. Recent research on public budgeting in Brazil reveals that executive-legislative bargaining over the execution of appropriation amendments and public investment projects can be used as an effective tool for building the ad hoc coalitions needed to pass legislation (Pereira and Muller, 2004).

Legislative budget oversight is further hindered by the **gap between the approved and executed budgets**. Optimistic assumptions on revenues and the weak execution capacity of sector ministries partly explain underspending in Peru, which can be as large as almost 15% of the approved budget as in 2000 (Santiso and García Belgrano, 2004; Mostajo, 2002). In order to stay within the fiscal limits agreed with the International Monetary Fund, the government is often forced to implement *ad hoc* reductions in expenditures.

Furthermore, executives often reassign expenditure during the execution of the budget. Budget reallocation is often abused to introduce important changes to the budget approved by parliament. This is reflected in both the quantity and the earliness of the changes introduced by the executive. Moreover, the recurrent use of **off-budget expenditures** throughout the 1990s, in particular in military, defense and intelligence spending, has damaged the reliability of the official budget. While providing flexibility in the management of public expenditures to adapt to unforeseen circumstances, the frequent recourse to executive decrees to reallocate budget appropriations not only undermines legislative oversight, but also weakens the integrity of the budget as an instrument of economic governance and strategic planning.

### *4.2. Legislative budgetary institutions*

The mechanisms of legislative oversight and financial scrutiny are being enhanced, reflecting the initiation of second-generation budgetary reforms. Deficient parliamentary structures and procedures weaken the ability of parliaments to effectively and responsibly exercise their budgetary prerogatives. Parliaments often lack the human and financial resources to effectively discharge their budgetary responsibilities. The lack of institutionalisation of parliaments themselves, as a result of repeated alternations between democratic and authoritarian regimes, is a major impediment to effective budget oversight, which requires parliamentary structures and procedures that are sufficiently institutionalised to counterbalance the executive's overwhelming budgetary powers. In democratic periods, the presidential nature of government institutions and the autocratic modes of government used by democratically elected presidents have also hampered the institutionalisation of parliaments. Enhancing the role of parliaments in public budgeting requires strengthening legislative budgetary institutions, in particular budget and public accounts committees, legislative budget offices and legislative research capacities.

#### *4.2.1. Legislative budget and public accounts committees*

Strong and capable parliamentary committees enable legislatures to develop their expertise and fulfill their accountability and oversight functions in public budgeting. The budget and public accounts committees are strategic parliamentary committees. In Brazil, the Joint Committee on Plans, Public Budgets and Oversight, the *Comissão Mista de Planos, Orçamentos Públicos e Fiscalização* (COM), is a strategically important parliamentary committee composed of 84 members from both chambers. The *Comissão de Fiscalização Financeira e Controle* (CFFC) of the Brazilian upper chamber was established in 1995 and is responsible for overseeing the execution of the budget and certifying public accounts. This committee first appeared in 1936 in the internal rules of parliament, which created 14 committees including the public accounts committee (*Tomada de Contas*).

However, in Latin America, budget and public accounts committees are generally weak, and the organisation of committee work often lacks the kind of institutionalisation that would allow specialised committees to effectively contribute to the budgetary process. The division of responsibilities between the different committees dealing with different facets of public finance (taxation, budgeting, oversight and control) remains unconsolidated and has fluctuated over time. These shortcomings are particularly detrimental to budgetary work, given its increasing complexity. For example, while in Peru three distinct parliamentary committees oversee public finances, in Venezuela these structures are sub-committees of the finance committee of the unicameral National Assembly. In turn, the organisation of legislative standing committees has an important impact on the incentives for inter-committee co-ordination and coherence. Furthermore, the internal composition of committees is proportional to that of parliament. Hence, the legislative majority has a decisive influence on the agendas and work plans of the budget and finance committees, which it generally chairs. Such institutional arrangements tend to lessen the incentives for legislative oversight since, as Messick (2002:2) says, "in all legislatures, it is the party or parties out of power – the opposition – that has the incentive to oversee government". Indeed, in many Commonwealth parliamentary systems, public accounts committees are chaired by the opposition.

Deficient internal structures and procedures prevent parliaments from effectively and responsibly exercising their budgetary prerogatives. In many countries, such as Peru, committee members and chairs rotate every year, which negatively affects the continuity of their work and the institutionalisation of budget expertise. Furthermore, legislators as a rule attend several committees, which limits the time and energy they can dedicate to each one of them. The budget review process within legislative committees has seldom been institutionalised in permanent and stable rules. In Peru, the budget and public accounts committee sets its procedural rules and work programme every year. Nevertheless, important reforms are being considered and introduced to rationalise the role of legislatures in public budgeting. In Chile, for example, the Political Agreements for the Modernisation of the State (January 2003) made the Special Joint Budget Committee a permanent parliamentary committee.

### *4.2.2. Legislative technical advisory capacity*

Budget and public accounts committees rely on technical advice to perform their tasks. In Latin America, however, legislative technical advisory capacity is weak, reflecting the embryonic nature of apolitical legislative advisory services in budgetary matters. While the number of staff assigned to the budget and public accounts committees has tended to increase in recent years, albeit slightly, it remains inadequate to effectively engage in increasingly complex budgetary processes. Furthermore, budget and public account committees as such are seldom assigned permanent technical advisers with the required knowledge of legislative procedures and budgetary matters. Committee advisers are usually appointed on a short-term basis, usually renewable every year, by members of the committees. In fact, the political advisers of the legislators sitting in legislative committees carry out most of the advisory work. As a result, technical input in the budget review process tends to lack the sufficient technical substantiation required for impartial evaluation. The absence of a tenure-track civil service career for parliamentary staff is accentuated by the structural weaknesses of most Latin American civil services.

Parliaments nevertheless do have at their disposal limited resources for independent research, for example through legislative research offices and parliamentary libraries. Although not as well resourced as the Congressional Research Service and the Library of Congress in the United States, research and advisory facilities are being gradually strengthened in the region. In Brazil, the budget committee of the lower house of parliament is assisted by a research office consisting of about 35 professionals, which is however exclusively focused on providing advisory services to the committee. The public accounts committee of the Senate is also able to call upon the research and advisory services of the *Consultoria Legislativa*. In Peru, with the return to democracy in 2001, there are attempts at enhancing parliamentary capacity for independent research and analysis. With support from the Inter-American Development Bank (IADB) and the United States Agency for International Development (USAID,) a Parliamentary Research Centre (*Centro de Investigación Parlamentaria,* CIP) is being established. Similarly, in Colombia, the Legislative Modernisation Plan adopted in 2002, with support from USAID, includes provision for the creation of an office providing for general research and advisory support to parliament, the *Oficina de Asistencia Técnica Legislativa* (OATL).

### *4.2.3. Legislative budget research capacity*

Access to independent information on budget performance is critical for legislatures to effectively oversee governmental financial management. While significant efforts are currently being made to enhance parliaments' budget research capacities, information asymmetries between the executive and the legislative branches of government remain important. In general, budget and public accounts committees rely almost exclusively on the information provided by government agencies, which significantly constrains their ability to carry out independent budget reviews and adequately oversee budget execution.

While financial constraints partly explain the lack of budget research capacity, there are also political reasons why parliament has not purposefully sought to build such capacity. Timely and reliable access to independent budget information is strategic in the sense that it is the parliamentary opposition that has the greatest incentives to strengthen parliament's capacities for independent budget analysis (Messick, 2002; Rubio Llorente, 1993). As Messick (2002:3) notes, "The majority in parliamentary systems has no need for – or interest in – information provided independently of government. Only the opposition does. And the more the opposition uses such information to criticize government, the greater the majority's interest in abolishing or weakening the units that provide it."

This situation is gradually starting to change as parliaments throughout the region recognise the strategic importance of their access to independent budget analysis, either from specialised policy think tanks or from their own research departments. Capable professional staff and institutionalised technical expertise within parliament itself are necessary conditions for legislatures to be able to exercise their budget oversight functions effectively and responsibly. The contribution of legislative budget offices to effective budget oversight is increasingly being recognised. Although not as powerful as the United States Congressional Budget Office, incipient legislative budget offices are gradually emerging throughout Latin America, reflecting an increasing recognition of the current weakness and, simultaneously, the potential contribution of parliaments to budget oversight. In Mexico, for example, the research and advisory capacities of parliament for independent budget analysis have been significantly enhanced with the establishment, in 1998, of a Centre for the Study of Public Finances (*Centro de Estudios en Finanzas Públicas*, CEFP) in the lower chamber of parliament. The Mexican parliament's general research capacities were already relatively important by that time, with the Research and Analysis Service (*Servicio de Investigación y Análisis*, SIA) of the parliamentary library and the Institute for Legislative Research of the upper chamber of parliament (*Instituto de Investigaciones Legislativas del Senado de la República*, IILSEN) established in 1985 to provide general technical advice to the Senate.

Similarly, in Venezuela, an Economic and Financial Advisory Office (*Oficina de Asesoría Económico y Financiera de la Asamblea Nacional,* OAEF) was created in 1997 within the National Assembly, with support from the IADB, to enhance the technical advisory services of parliament in public finance. This new parliamentary structure was able to draw on the existing sources of legislative research and analysis, such as the Autonomous Service of Legislative Information (*Servicio Autónomo de Información Legislativa*, SAIL) created in 1994. Nevertheless, increasing tensions between the executive and the legislature since President Hugo Chávez took office have undermined the functioning of this office. The OAEF was closed in February 2000 to be subsequently reopened in June of the same year, as part of the reactivation of the suspended loan by the IADB. In 2002-03, the office was under renewed pressure (Rojas and Zavarce, 2004).

Indeed, a main impediment to legislative budgeting often resides in parliament's incapacity to purposefully engage in the budget process, rather than the restraints put on its budgetary powers. Technical capacities are thus important considerations to take into account when assessing the performance of legislatures in budget oversight. A critical challenge for strengthening legislative budget oversight is that the parliamentary opposition, when it exists, has the greatest interest in and incentives for enhancing parliament's capacities for effective budget oversight, and consequently for strengthening legislative capacities for independent budget review. Henceforth, strengthening legislative budgetary institutions must necessarily be approached in the broader context of executive-legislative relations in presidential systems of government.

### *4.2.4. Legislative oversight and external auditing*

The institutional linkages between public accounts committees and general audit offices are determinant for the effectiveness of legislative budget oversight. Improving these linkages is critical to anchor accountability in public finance and budget management (Santiso, 2004d; SIGMA, 2002). General audit offices are generally autonomous organisations with functional links to parliaments. They provide critical advisory services to parliaments, directly or indirectly, in the exercise of their accountability functions. At the same time, the effectiveness of audit reports largely depends on the follow-up parliaments give to them (or lack thereof). However, relations between supreme audit institutions and budget and public accounts committees remain deficient and often dysfunctional, characterised, at best, by polite disregard.

Relations between general audit offices and parliamentary public accounts committees vary according to the institutional arrangements for external auditing. Three distinct institutional models exist: that of an autonomous state institution, such as the Chilean and Peruvian *Contralorías Generales de la República* (CGR); that of an advisory body to parliament, such as the Argentinean *Auditoría General de la Nación* (AGN); and that of an independent institution with quasi-judicial powers, such as the Brazilian *Tribunal de Contas da União* (TCU).

Furthermore, securing the political independence of general audit offices is critical to guarantee effective external auditing of government finances (INTOSAI, 2001). Issues such as criteria guiding the nomination and removal of auditor generals and the length of their term in office, as well as the procedures regulating recruitment, promotion and dismissal of professional staff are critical determinants of the effective independence of general audit offices. Predictable financial resources are also necessary, yet not sufficient for institutionalising supreme audit institutions and insulating them from political meddling. The political independence of general audit offices has often been compromised, however. Nominations of auditor generals and, consequently, of the general audit office's staff, have tended to respond to political considerations. When government controls a majority in parliament, nominations often reflect political bargains. Furthermore, short terms of office that coincide with that of the president tend to reduce the incentives of auditor generals to exercise any political independence they may have. In Argentina, the constitution and the law on financial administration stipulate that auditor generals are appointed for an eight-year renewable term. However, in an effort to increase the independence of the AGN, an amendment to the constitution in 1994 established that the president of the AGN is to be chosen from the main opposition party. As a result, presidents of the AGN have changed as government majorities have changed. The extreme politicisation of the civil service has entailed high rates of staff turnover and thus has not allowed the consolidation of technical expertise and an "esprit de corps" within the institution. A highly prepared and recognised civil service, with stability of tenure and reasonable career prospects within the institution, is determinant for anchoring professionalism in external auditing of government finances.

Furthermore, the general unavailability of timely information on budget performance hampers effective financial accountability and limits effective budget oversight by the legislature. There is limited publicity of audit reports, which have often failed to be adequately followed up. Those institutions that ought to act upon audit findings largely ignore them. These considerations, in turn, question the capacity and willingness of parliamentary public accounts committees to effectively supervise the work of general audit offices and act upon the recommendations of the audits they perform. Reversing these trends will prove particularly challenging, but efforts are being made to enhance the functional linkages between the institutions participating in the national systems of integrity and contributing to the oversight of government finances.

Acknowledging these important shortcomings, Latin American countries are seeking to strengthen their external auditing functions with the support of international financial institutions (Santiso, 2004d). Important reforms have been introduced in recent years. In Mexico, for example, a general audit office, the *Auditoría Superior de la Federación* (ASF), was established in 1999 as an advisory body to the lower chamber of parliament, to assist the latter in the oversight of federal public finances and the review of federal public accounts. Shortly thereafter, in 2000, parliament approved the law on external accountability (*Ley Superior de Fiscalización de la Federación*). In Chile, the 2003 Political Agreements for the Modernisation of the State confirmed the political consensus on the need to continue strengthening the general audit office, with the financial backing of the IADB.

### *4.3. Economic governance and budgetary decision making*

Beyond the constraints imposed by institutional frameworks for legislative budget oversight, the **presidential nature of political systems**, coupled with an **over-reliance on executive decrees**, have been detrimental to the strengthening of the institutions of government accountability in public budgeting. In most Latin American presidential systems, the use of executive decrees in public budgeting is impressive both in absolute and relative terms, and legislatures exercise little oversight on presidential decrees (Carey and Shugart, 1998). The frequent use of urgency decrees to change budget appropriations and approve supplements adversely affects the quality of budget management. In Peru, for example, between January 1994 and March 2001, parliament passed 1 152 laws or legislative resolutions, while the president issued 870 decrees, 86% of which were urgency decrees. Of those 748 urgency decrees, 27% directly amended the budget and a further 41% had a clear effect on the budget or public finances (World Bank, 2001:60-62).

Nevertheless, the institution of urgency decrees is a double-edged sword, as there is an inherent trade-off between decisiveness and resoluteness in economic policy making (Santiso, 2004a; Haggard and McCubbins, 2001): when political systems allow for more decisiveness in economic governance by insulating economic policy making and extending the use of executive decrees, decisions can be as easily reversed as they can be adopted. Such institutional arrangements tend to generate erratic patterns of policy making. The cases of Peru under Alberto Fujimori, Brazil under Fernando Collor and Argentina under Carlos Menem are symptomatic of the dysfunctional effects of abusing executive decree authority.

The over-reliance on executive decrees is symptomatic of the **insulation of economic policy making** within the executive branch. A defining characteristic of first-generation market reforms implemented in the early 1990s is its emphasis on insulating economic policy making from political meddling (Pastor and Wise, 1999; Naím, 1995). Indeed, the insulation of economic policy making and the building of hierarchical budget institutions were both a reflection of the consensus in the early 1990s on how radical reforms ought to be implemented (Santiso, 2004b). Nevertheless, the manner in which first-generation economic reforms were implemented has often undermined the mechanisms of political accountability, external scrutiny and legislative oversight in public finance, sometimes unintentionally, but often purposefully (Santiso, 2003 and 2004a). The neutralisation of "veto points", such as legislative oversight or judicial review, did facilitate the implementation of market reforms. Over time, however, the institutions of economic governance became vulnerable precisely because they were isolated, ultimately leading to dramatic cases of state capture, such as in Argentina during Menem and in Peru under Fujimori. Clearly, government by executive decree, while an asset in the initial phase of economic reform, progressively becomes a liability in the second phase of reform.

### *4.4. Political governance and legislative budgeting*

Legislative behaviour and executive-legislative relations in public budgeting are necessarily intermediated by political parties and electoral rules. Stein *et al.* (1998) have indeed uncovered a statistically significant relationship between electoral systems and fiscal performance. Electoral systems characterised by a large degree of proportionality (*i.e.* large district magnitude) and political fragmentation (*i.e.* number of effective parties represented in parliament) tend to have larger governments, larger deficits and a more pro-cyclical response to the business cycle.

Research on the politics of budgeting in Brazil (Morgenstern and Manzetti, 2003; Figueiredo, 2003; Pereira and Mueller, 2002) shows that participation by the legislative branch in the budget process can only be understood when the political parties and electoral rules are taken into account. In Brazil, the inchoate nature of the political party system, and the fact that the executive dominates the budget process and controls budget execution, means that partisan participation in the budget process depends on the parties' relations with the executive (Pereira and Mueller, 2002). The quality of the political party system and the incentives created by electoral rules are determinant variables to explain the effectiveness of legislative budget oversight. The role of the parliamentary opposition is particularly important, as "opposition parties have the greatest incentive to oversee government" (Messick, 2002:2). Ultimately, the degree of cohesion and discipline of political parties determines, to a great extent, the effectiveness of the institutions of accountability and the quality of executive-legislative relations.

The excessive fragmentation and volatility of political party systems in many Latin American consolidating democracies is detrimental to the effective exercise of legislative budget oversight. Parties lack the sort of internal coherence, cohesion and discipline that would allow them to act purposefully and consistently within parliament. Party fragmentation is compounded by a high degree of volatility of parties and, consequently, the short-term time horizons of legislators. Furthermore, when the ruling coalition holds a disciplined majority position in parliament, as is often the case in Latin American presidential systems, there exists a possibility of control dilution. Presidential systems marked by fused executive and legislative majorities tend to have inoperative systems for enforcing government accountability. As Messick (2002:2) notes: "When the interests of a legislative majority and the executive branch coincide, the majority has little incentive to oversee the executive" and, as a result, "legislative oversight is often weak" (Manning and Stapenhurst, 2002:2). Interestingly, legislative budget activism in Mexico since the late 1990s is a direct result of the emergence of a parliamentary opposition as a result of the 1997 elections. The emergence of an effective parliamentary opposition, which ultimately succeeded in defeating the long-time ruling party in the general elections of 2000, has provided strong incentives for enhancing legislative budget oversight and increasing parliament's capacities for independent budget review. As the case of Mexico clearly demonstrates, the emergence of credible parliamentary opposition significantly increases both the incentives and capacities for effective legislative budget oversight. Ultimately, effective and responsible legislative oversight requires the existence of a sufficiently effective parliamentary opposition and the strengthening of the legislative capacities for independent budget analysis.

The case of Mexico also underscores that the new patterns of executive-legislative relations that are gradually emerging throughout Latin America are having an important impact on the role of legislatures in public budgeting (Mainwaring and Welna, 2003; Morgenstern and Nacif, 2002; Haggard and McCubbins, 2001). Legislatures are gradually reasserting their budgetary powers, partly as a result of the emergence of more active parliamentary oppositions. Divided government, *i.e.* situations where the executive and legislative majorities do not coincide, is a new phenomenon in Latin America. It is an increasingly common one. It creates new confining conditions constraining executive discretion in public budgeting. In Mexico, for example, conflict over the budget has increased since the long-time ruling party, the *Partido Revolucionario Institucional* (PRI), lost its parliamentary majority in 1997 (Carbonell, 2002; Weldon, 2002). In Brazil, parliament has traditionally been the privileged arena for pork-barrel politics over budget appropriations and amendments (Samuels, 2002). Even in Argentina, a country characterised by relatively disciplined parties, public budgeting has been the subject of more conflict and bargaining than previously thought (Eaton, 2002; Jones, 2001).

## 5. Conclusions: The politics of public budgeting

The analysis of legislative budgeting in Latin America illustrates the constraints and conditions for enhancing the contribution of parliaments to budget oversight in presidential systems of government. The political economy of the budget process reveals that political and technical aspects interact in determining the effectiveness of legislative budget oversight along the budget cycle. Parliaments do possess important budgetary powers. However, they seldom exploit fully those few powers they have. Capacity constraints and information asymmetries tend to explain why parliaments do not exercise their budgetary power effectively, while governance constraints and the nature of executive-legislative relations tend to explain why they sometimes do not exercise them responsibly. Parliaments' ability to establish their credibility as institutions of economic governance is thus contingent both on strengthening their budgetary capacities and on the existence of an enabling governance environment that allows it.

The core challenge remains to adequately combine increased legislative budget activism with the furtherance of fiscal discipline. As Schick aptly points out (Schick, 2003): "As legislatures enhance their budget role, one of the challenges facing budget architects will be to balance the impulse for independence with the need to be fiscally responsible. The future of legislative-governmental relations will be strongly influenced by the manner in which this balance is maintained." Strengthening the capacities of legislatures to effectively engage in the budget process and assume their budgetary responsibilities certainly helps to minimise the dysfunctional effects of irresponsible legislative budgeting and to ensure a positive contribution of legislatures to fiscal discipline and prudence. The weakness of legislative budgetary institutions results in an inadequate access to independent budget analysis, the insufficiency of apolitical technical advice and the unavailability of timely information on budget performance. Redressing these shortcomings would require strengthening legislative structures and procedures, the legislative budget offices and the contribution of general audit offices to legislative budget oversight.

However, increasing technical capacity alone is likely to remain ineffectual as long as the right political incentives do not exist for it to be exercised effectively. Technical improvements can easily be neutralised or emasculated by adverse political economy constraints. Henceforth, rehabilitating legislative budgeting in Latin America is a typical "chicken and egg" problem: Should legislative capacity be built first or should it emerge as a result of increased legislative activism? The study of legislative budgeting in Latin America clearly demonstrates that capacities and incentives ought to be addressed simultaneously. The challenge of effective legislative budgeting in Latin American presidential systems is to move from a context of trade-offs between democratic accountability and fiscal discipline, to one of positive synergy and "virtuous circle". Fiscal responsibility and democratic accountability are to be forged simultaneously.

This paper further underscores that that one ought to more clearly differentiate the contribution of legislatures to budget policymaking in the **different phases of the budget**. While the management of public expenditures ought to firmly remain within the purview of the executive, the role of the legislature is critical to ensure that government is held to account for the manner in which it allocates, executes and oversees public spending. Sound economic governance requires the effective and responsible oversight of the budget by the legislature. Furthermore, by strengthening the mechanisms of accountability in public budgeting, legislative budget oversight is likely to enhance, over time, the credibility of the budget and provide effective restraints on executive discretion in public expenditure management.

Ultimately, the governance of the budget reflects a delicate balance between executive power and legislative oversight. The central challenge of legislative budgeting and budget policy making in Latin American presidential systems is how to retain the advantages of strong executive authority required to manage the economy and ensure fiscal discipline, especially in times of turbulence, while at the same time providing the institutional checks and balances that guarantee effective accountability (Santiso, 2004a and 2004b). In turn, the quality of the mechanisms of "vertical accountability" – in particular the nature of the political regime and the coherence of the political party system – greatly influences the efficacy of the institutions of "horizontal accountability" such as legislative oversight of the budget (O'Donnell, 1998; Schedler *et al.*, 1999). Ultimately, the effectiveness of the mechanisms of "horizontal accountability" within the state ultimately depends on the effectiveness of the mechanisms of "vertical accountability". Strengthening the institutions of legislative budget oversight and the agencies of public finance integrity is undoubtedly a structural challenge for Latin American emerging economies. It is nevertheless a critical one.

## *Notes*

1. Diamond, 2002; Gustafson, 2003; Manning and Stapenhurst, 2002; Messick, 2002; Norton and Elson, 2002; OECD, 1998, 2001, 2002; Parliamentary Center, 1998; Petrei, 1998; Schick, 2002; Wehner, 2004. Since 2000, chairs of OECD member country parliamentary budget committees meet every year to discuss the challenges of legislatures in public budgeting, in the context of the OECD Public Governance Committee's work on public budgeting, management and accountability – see *www.oecd.org/gov/budget*. Similarly, the Inter-Parliamentary Union has organised a series of regional seminars examining the role of parliaments in the budget process in developing countries in Nairobi (2000), Bamako (2001), Manila (2002) and Colombo (2003) – see *www.ipu.org*.
2. In 2003, in co-operation with the World Bank, the OECD carried out extensive comparative research on budget practices and procedures, including the role of legislatures in the budget process. The results of the first OECD budget survey cover about 40 countries – see *http://ocde.dyndns.org*.
3. In 2001, the International Monetary Fund adopted a *Code of Good Practices on Fiscal Transparency,* and a country's observance of these standards is to be regularly assessed in the *Reports on the Observance of Standards and Codes*. These diagnosis instruments complement those of the World Bank assessing the quality of public finance processes, such as *Public Expenditure Reviews* and *Country Financial Accountability Assessments*.
4. Already in the 1920s and 1930s, the United States-sponsored "Kemmerer missions" helped establish central banks and upgrade the systems of government finance in the Andean countries.
5. There are important exceptions to this procedure, such as in Chile where the external audit office is also responsible for maintaining the national accounting system.

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