



# **Strengthening the Capacities of Parliaments in the Budget Process**

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# Strengthening the Capacities of Parliaments in the Budget Process

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# STRENGTHENING THE CAPACITIES OF PARLIAMENTS IN THE BUDGET PROCESS

## ABSTRACT\*

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In the past decade, parliaments have shown increasing activism in the budget process by demanding more information about the government's performance in managing public resources. Nevertheless, in Latin America and the Caribbean (LAC), parliaments face important challenges, taking an effective part in the budget process and in fiscal policy management. Their capacity to influence budgetary matters—and more generally fiscal policy and public financial management—is hindered not only by the centralized nature of the budget process, but also by the lack of technical and institutional capacity of parliaments themselves to exercise their budgetary powers. This policy brief argues that the creation of parliamentary budget offices (PBOs) can help strengthen their effectiveness and accountability in budget processes. Several countries in the region have created or are considering creating this type of mechanism. These offices can help strengthen the parliament as a competent and constructive partner with the finance ministries and compensate for the legislature's limited technical capacity and credibility in budget matters through a series of effects, including reducing asymmetries in fiscal information; simplifying fiscal information and improving the quality of budget analysis; enabling a more constructive budget debate, and improving the alignment of incentives among government branches. This paper analyzes the conditions for creating and maintaining these offices, evaluates the effectiveness of such institutional changes, and weighs the lessons learned from recent experiences in various countries of the region. The conclusion is that parliaments can strengthen their impact on the budgeting process not necessarily by increasing their budgetary powers, but by improving their institutional capacity to exercise those powers more effectively and responsibly.

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**Key words:** parliaments, congresses, budget, public financial management, institutions, fiscal analysis, budget analysis, institutional capacity

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**“Good scrutiny makes for good government.”**

*Robin Cook, former Leader of the House of Commons of the United Kingdom, 2001.*

**1. INTRODUCTION: MORE POWERS OR GREATER CAPACITIES?**

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In public policy matters there are two themes that naturally conflict because they imply juggling political vision and economic priorities: (i) in the political realm, the relationship between the executive and legislative powers; and (ii) in the economic realm, the treatment of the budget. This dynamic converges in the role of parliaments in setting fiscal policy and the budget process, and tends to generate a significant amount of tension.<sup>1</sup> As Wildavsky states (1961; 2006), budgeting is governing. However, there are institutional mechanisms that help mitigate conflict and incentivize cooperation in the relationships between these powers in managing public finance, fiscal policies, and budget processes.

Parliaments exhibit increasing activism and importance in the public budget by demanding more and better information about the performance of government in managing public resources (Stapenhurst et al., 2008). In industrialized countries, parliaments have been engines of budget management modernization to generate greater transparency and accountability. The current public debt crisis in Europe has generated greater demand for analysis and independent auditing of public finances, which has led to the creation of independent fiscal institutions, such as ad hoc advisory boards, most of which are tied to the parliaments (Kopits, 2011; Von Trapp, 2011).

Parliaments are a key factor in the system of budget checks and balances, not only in the debate and approval of the state’s annual budget, but also in the ex-ante analysis of fiscal reforms and their fiscal impact, auditing public spending, monitoring public investment, and ex post accountability for executing the budget (Santiso, 2006; 2008). Likewise, with the support of auditing groups and the vigilance of comptrollers or courts of auditors over the budget, parliaments are key actors in the public financial management auditing system.

The academic literature on the role of parliaments in the budget process emphasizes the need to increase their budgetary powers. However, this paper argues that parliaments can improve their effectiveness and influence with the budgetary powers they already have if they strengthen their technical and institutional capacities. The creation of parliamentary budget offices (PBOs) within parliaments is an institutional innovation that enables the legislature to engage in the budget process in a more objective, effective, and responsible manner. This paper also emphasizes that the role of parliament in the budgetary and fiscal process must go beyond the annual approval of the budget bill to encompass the complete budget cycle and the critical questions of policy and fiscal reform. This paper does not focus on the statutory budget and auditing committees that are fulfilling their constitutional mandate to vote on the annual budget law, but rather on their technical capacities for fiscal and budgetary matters of the parliamentary institution.

Governments have established PBOs with the primary goal of being the “technical arm” for budgetary and fiscal matters, in the various steps of the budget-making process and the different realms of fiscal policies (both for income and expenditures). The primary goal of these offices

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<sup>1</sup> Throughout this text, the terms congress and parliament are used interchangeably to refer to the political institution of the legislature.

is to provide parliamentarians with more information and better independent analysis of the government's budget and fiscal policies in order to facilitate a more balanced and better-informed discussion between the two branches (Gazmuri, 2012). However, PBOs remain an exception in the region, as many countries have not achieved the necessary political consensus and institutional maturity to create these offices, which require a high degree of impartiality and independence to be effective. The paradox and primary challenge of PBOs lies in guaranteeing their impartiality and independence in order to better serve institutions, which are, by nature, highly politicized.

This paper begins by contextualizing the role of PBOs in the evolution of the budget debate and later focuses on the conditions needed to create, run, and sustain a PBO. It describes the experiences of the countries in LAC and integrates lessons learned from other regions. Finally, this paper concludes with the benefits that PBOs can provide, for both the legislative and executive branches. The benefits stem from a more balanced relationship between branches and are anchored on the principle of shared responsibility.

## 2. PARLIAMENTS AND BUDGET MODERNIZATION

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In the past two decades, the modernization of the budget process has been characterized by two factors. On the one hand, countries have introduced legislation to modernize public financial management, to discipline fiscal policy, and to increase transparency and access to information. On the other hand, governments have strengthened and modernized their institutional arrangements for managing the budget process, such as the appropriation, monitoring, evaluation, and auditing of government finances.<sup>2</sup> Likewise, there has been a rise of alternative mechanisms for fiscal transparency and budget information, such as fiscal watchdogs, fiscal observers, specialized think tanks, and political foundations (Hallerberg, Scartascini, and Stein, 2009).

These legal and institutional changes have created a setting in which fiscal responsibility laws have defined new mechanisms for both vertical relationships among the various levels of government (e.g., central government ministers and provincial and municipal representatives) and horizontal relationships among government bodies (e.g., finance ministries and sectorial ministries and governing bodies and publicly owned businesses). The mechanisms for the horizontal relationships have helped to contain and rationalize an increase in public spending, but, above all, have established control incentives for the medium and long term, embodied in annual and multiannual budget laws (Corbacho and Schwartz, 2007; Filc and Scartascini, 2007).

These reforms have led to new processes and technical requirements in the planning of public budgets and fiscal policy. To effectively analyze and evaluate the increasingly complex reforms and policies, parliaments must increase their knowledge and technical capacities (Arizti et al., 2009; Robinson, 2012). Simply put, the role of parliaments in the budget process includes: (i) analyzing, debating, and approving the proposed budget for the coming year on the basis of evaluating prior years' budget performance; (ii) auditing and funding the execution of the current year's budget to ensure transparency and alignment with the political priorities of the budget law; and (iii) evaluating the prior year's budget to ensure that the government adequately balances the budget.

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<sup>2</sup> For more information about the theoretical advances in the areas of fiscal regulation, performance budgeting, and integrated financial management information systems (IFMIS), please see chapters 1, 2, and 3 of Corbacho (2013), available at <http://www.iadb.org/en/publications/publication-detail,7101.html?id=70901>.

### 3. PERFORMANCE BUDGETING AND BUDGET MODERNIZATION

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The budget is the most important law passed by parliaments because it “fulfills a fundamental role as a guide for public sector management. It not only organizes and regulates public expenditures, but also provides a gauge for measuring all subsequent government activities” (Marcel, Martinez, and Sangines, 2013: 45). There are various ways to budget and various types of budgets. The traditional model was line item or incremental budgeting. Later, zero-based budgeting was established, and then program budgeting. Finally, performance budgeting was introduced. The countries with the most advanced budgetary institutions in the region—Brazil, Chile, Colombia, Mexico, and Peru—continue to improve the budget process by combining program based budgeting with performance based budgeting (Filc and Scartascini, 2012). Shah and Shen (2007: 151) suggest that performance budgeting reform can “enhance communication between budget actors, improve public management in terms of efficiency and effectiveness, facilitate more informed budgetary decision making, and achieve high transparency of and accountability for government activities<sup>3</sup>.” Marcel (2009) distinguishes between three concepts:

1. **Presentational performance budgeting.** Publication of performance information in the budget and other government documents for the purpose of increasing transparency and accountability in government operations, but not to be used for decision making on budget allocations.
2. **Performance information budgeting.** Use of information regarding performance—past or expected—to guide resource allocation. The performance data are used together with other criteria and types of information for decision making and budget allocation.
3. **Formula-based performance budgeting.** Resource allocation is based exclusively on past performance. This data are used only in specific sectors, such as education and health.

An increase in demand for more objective and transparent budget information—spurred by independent public organizations, audit institutions, and specialized organizations of the civil society as part of the process toward strengthening democracy—supports efforts to strengthen parliaments’ budget prerogatives and capacities. This demand is reflected in the propagation of independent observers or fiscal watchdog agencies, the increase in foundations and think tanks that specialize in budget and fiscal matters, and the progressive strengthening of auditing institutions.

### 4. A KEY, ALBEIT IMPERFECT, ROLE

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Despite the important role parliaments play in the budget process, they show significant weaknesses in effectively carrying out their roles and responsibilities in budgetary matters. The budget law—both the organic law and the annual law—is one of the most important laws. Its importance is based on its permanent nature, given that it is approved year after year and, more fundamentally, that it reflects the political priorities of the government and enables the execution of public policies (Bustos, 2010). The budget represents the intentions, quality, and transparency of public spending, and reveals the fiscal health and economic competitiveness of the country.

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3 <http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf>

In this context, it is important for parliaments to have the institutional, technical, and analytical capacity to take on the magnitude of their budgetary responsibilities. This includes not only the technical capacities of the finance or budget commissions, but also those of the members of these commissions. However, various indicators, such as the Public Expenditure and Financial Accountability (PEFA) framework, the Open Budget Index (OBI), and the Global Integrity Index (GII),<sup>4</sup> reveal substantial weaknesses in these capacities.

The PEFA framework analyzes the quality of public finance management systems over the course of the budget cycle—preparation, hearings, execution, and evaluation—using 28 indicators. The first group of indicators, numbers 1 to 25, reflects the government’s capacity, while the second group, numbers 27 and 28, shows the parliament’s capacity.

Performance indicator number 27 covers annual voting on the budget law and contains the following sub-indicators: (i) scope of the legislature’s scrutiny; (ii) extent to which the legislature’s procedures are well-established and respected; (iii) adequacy of time for the legislature to provide a response to budget proposals, including both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined); and (iv) rules for in-year amendments to the budget without ex ante approval by the legislature. Indicator 28 rates legislative scrutiny of external audit reports for the most recent reporting period. The sub-indicators are: (i) timeliness of the legislature in examining audit reports (those received within the last three years); (ii) extent of hearings on key findings undertaken by the legislature; and (iii) issuance of recommended actions by the legislature and implementation by the executive.

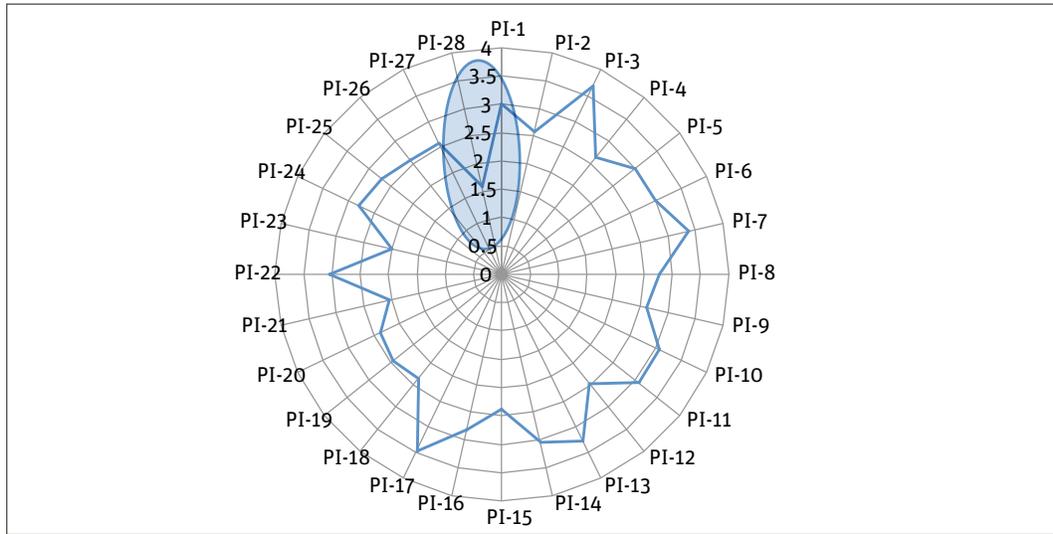
The analysis of the regional average of these two indicators in Latin America and the Caribbean measures the difference between parliaments’ effective and potential capacity to influence and control the budget by subtracting the average value of the indicator set from the maximum value, which is four. The results reveal a significant weakness in legislative budgetary capacity in terms of both indicators, particularly number 28, as shown in Figure 1.<sup>5</sup> This weakness is significantly more pronounced than those in the other dimensions of the budget process. It should be noted that the gap in indicator 28 also reveals significant dysfunction in the relationships between the parliaments and the auditing offices, two entities that, in theory, should have a symbiotic relationship in overseeing the government (Santiso, forthcoming).

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4 For more information on these indices, see:  
PEFA (Public Expenditure and Financial Accountability, at [www.pefa.org](http://www.pefa.org)),  
OBI (Open Budget Index, at <http://survey.internationalbudget.org/>),  
GII (Global Integrity Index, at [www.globalintegrity.org/report/methodology/white-paper](http://www.globalintegrity.org/report/methodology/white-paper)).

5 The PEFA rating scale goes from A to D. The following scale was used to compare the data from different countries: A = 4, B+ = 3.5, B = 3, C+ = 2.5, C = 2, D+ = 1.5, and D = 1. The capacity gap is shown by the difference between the maximum possible score (4 or A) and the grade received. Countries with updated PEFA evaluations (2009–12) are Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Paraguay, Peru, and Trinidad and Tobago.

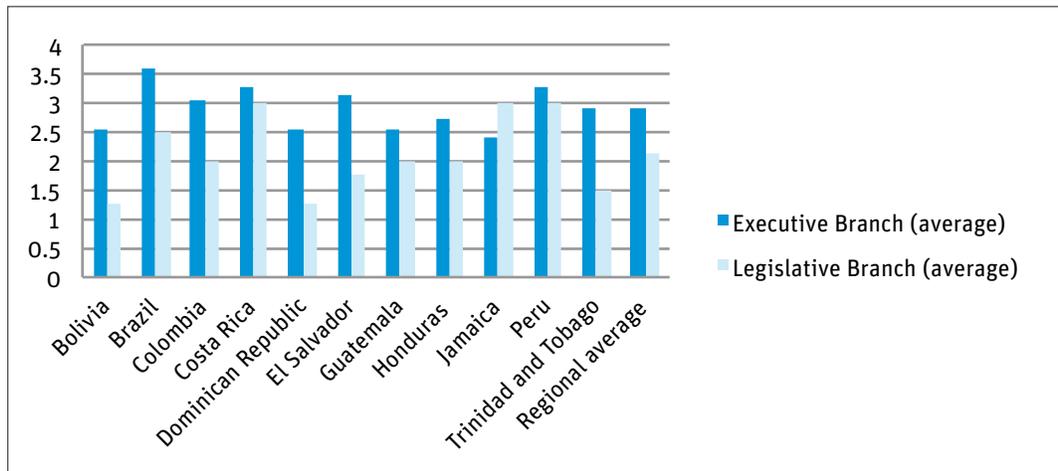
**Figure 1: Weakness in the Budget Capacity in LAC Parliaments**



Source: Authors' based on PEFA evaluations.

Similarly, averages of PEFA performance indicators in two groups were calculated for the purpose of identifying the gap between the effective and potential capacities of the executive and legislature to manage their budgetary responsibilities. As in the previous case, the gap is measured by the difference between the average effective value and the potential maximum value, which is four on a scale of zero to four. Figure 2 shows that the gap in the legislature's capacity is greater than the gap in the executive's capacity in all of the countries, which indicates that there is significant room for improvement in the absolute and relative performance of the parliaments in the budget process. Likewise, it suggests that parliaments have a limited influence on the budget, due partially to the lack of budgetary powers by law, but mainly to the lack of technical capacity to effectively exercise the budgetary powers they already possess.

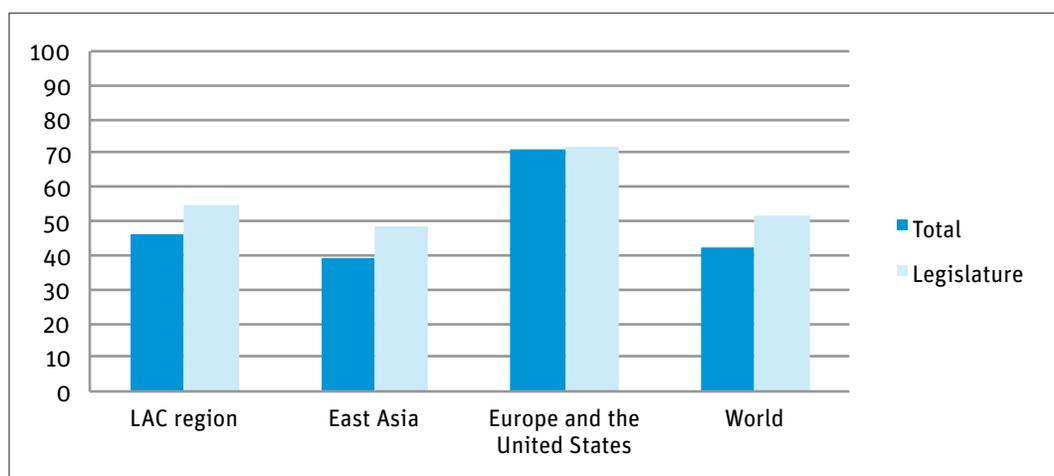
**Figure 2: Gap between Government and Parliament Budget Capacity**



Source: Authors' elaboration based on PEFA evaluations.

We performed a similar comparative analysis on capacity in terms of transparency of the budget process, without considering the exercise of powers, based on OBI indicators. We evaluated the gap in the legislatures' capacity and obtained the average for indicators 59, 97 to 100, and 102 to 107 of the OBI. The scale is based on 100 and—in this instance—the comparison is continent to continent. Figure 3 shows that the smallest gap in this area is in Europe and the United States, and the greatest is in Asia, followed by the LAC region.<sup>6</sup>

**Figure 3: Capacity Gap in Transparency in the Budget Process**



Source: Authors' elaboration based on PEFA evaluations.

## 5. CONTRIBUTION OF PARLIAMENTARY BUDGET OFFICES

Strengthening parliaments' technical expertise and capacity is key to modernizing public sector financial management and effectively facing the increasing complexity of fiscal policies and budget processes. Greater transparency and higher quality data are also needed to inform complex decision making and reduce inconsistencies in fiscal information between the executive and the legislature.

Under certain conditions, PBOs can compensate for parliaments' limited capacity for budget and fiscal policy evaluations, since congress plays many roles in the various stages of the budget process. PBOs can contribute in three ways. First, PBOs can help reduce data discrepancies and systematize, process, and disseminate information about the budget, as well as analyze and evaluate the executive's proposals. It is important to emphasize the value of integrated financial management information systems (IFMIS), which, when updated and incorporated into the process, enable parliaments to increase access to budget information and make informed decisions. Second, PBOs can become a permanent source of information and analysis for parliamentary officials regarding the various aspects of fiscal policies, budget management, and the fiscal impact of public policies. This is an important role, since there is a high degree of turnover of legislators and parliamentary commissions in each electoral cycle. Third, PBOs help

<sup>6</sup> An additional analysis of capacity indicators for legislatures (confidence in the congress, effectiveness of the legislative bodies, technical expertise, and the congress' capacity index, among others) can be seen in IDB (2006: Table 3.6).

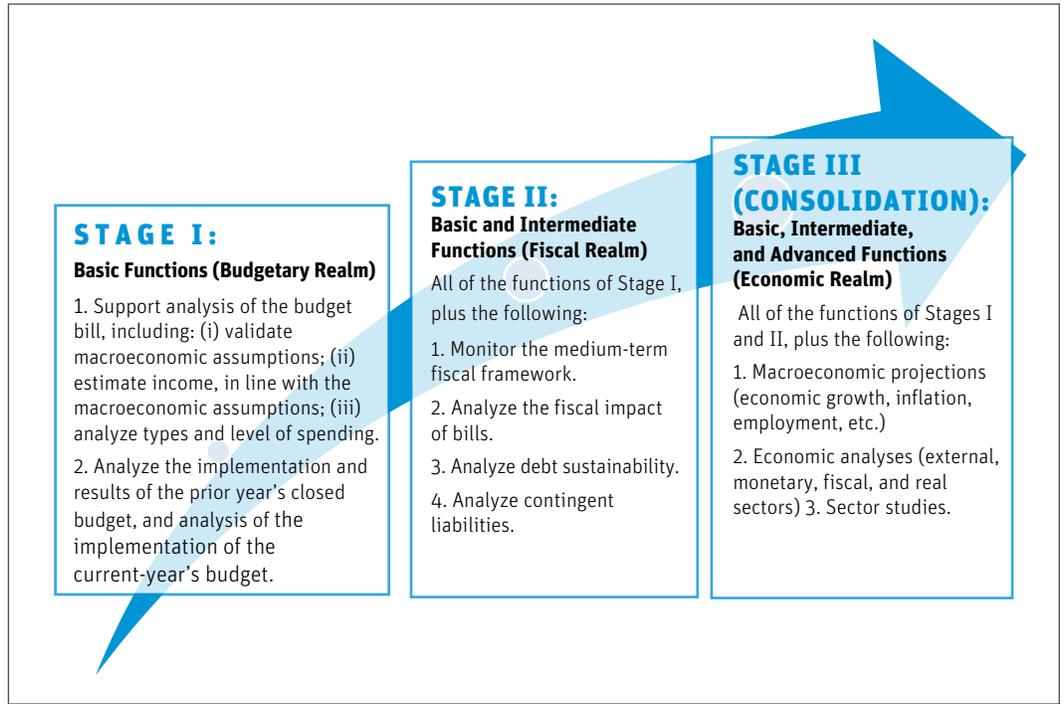
simplify budget and fiscal information. Budget information is presented in terms of governmental accounting codes, expenditure classifications, and other financial administration requirements. This is not always understandable or politically useful to legislators and citizens, so it must be adjusted and synthesized.

The PBOs may perform various functions in analyzing fiscal and budget information, as befits its institutional mandate and level of development, but also to determine the quality of other fiscal institutions. According to Anderson (2010) and Gazmuri (2012), PBOs can analyze the macroeconomic assumptions that underlie the budget bill, perform an ex ante evaluation of the fiscal impact of legislative proposals, conduct follow-up of budget implementation, and evaluate the results of public spending.

The budget bill submitted to parliament takes into account the following fiscal data: (i) the macroeconomic assumptions for projecting the real, external, monetary, and fiscal sectors; (ii) policy guidelines for drawing up the budget with the necessary methodology, directives, and definitions; (iii) the budget bill per se—that is, disaggregate revenue and expenditures under their respective classifications; and (iv) the medium-term fiscal goal—that is, the set of principles and medium-term projections for the economic sectors with their financial resources.

The functions of the PBOs may change over time, depending on the extent of institutional development and the demand for their services. The three different types of functions are basic, intermediate, and advanced (Figure 4).

**Figure 4. Functions of Parliamentary Budget Offices**



Source: Authors' elaboration based on Sangines (2013).

## 5.1 BASIC FUNCTIONS

In considering the phases of development, the functions of a PBO will depend on its placement within the government.<sup>7</sup> The “basic” or “essential” functions should include: (i) analysis and evaluation of the budget bill, which involves validating the macroeconomic assumptions within the budget, making sure income estimates are consistent with the macroeconomic assumptions and analyzing the budgeted expenditures;<sup>8</sup> and (ii) evaluating the implementation and results of the prior year’s budget, as well as the implementation of the current year’s budget for spending programs, with their respective performance indicators.

## 5.2 INTERMEDIATE FUNCTIONS

Once the PBO has consolidated its technical credibility and demonstrated its political impartiality in executing these functions effectively and satisfactorily, it can take on a second group of functions, deemed “desirable.” This group includes: (i) monitoring the medium-term fiscal framework; (ii) ex ante evaluation of the fiscal impact of legislative bills submitted by the government or by the parliament itself; and (iii) analysis of debt sustainability.

## 5.3 ADVANCED FUNCTIONS

In the third stage, the PBO has the capacity to perform a set of advanced functions, to include undertaking (i) economic growth projections (for the short, medium, and long term); (ii) economic analyses; and (iii) sector studies.

Another important question that frequently arises is whether the PBO should assume functions beyond budget analysis and become involved in designing fiscal policy, for example by defining and evaluating policy options. There is some controversy as to which is the best approach: (i) PBOs should generate only the necessary analysis and information, and legislators should evaluate the options and design the appropriate policy; or (ii) PBOs must also help define the respective policy, recommending the one best supported by the evidence.

In order to effectively function, the PBO should receive sufficient financial, technological, and human resources. More fundamentally, they should be anchored on guaranteed independence and impartiality, that is, they should not be party organizations comprised of officials nominated because of their capacity and technical credibility. Anderson (2010) argues that for a PBO to be sustainable over time, “Once created, said entity should be able to operate in a credible and impartial manner in order to maintain its value.” Thus, the criteria and methods for naming the PBO’s director, as well as his or her guarantee of permanency once named, are critically important.

According to Gazmuri (2012) and Anderson (2010), the basic conditions for the creation and functioning of PBOs include: (i) political agreement and institutional compromise among the political forces represented in the legislature; (ii) clear definitions of the basic functions—in association with specialized parliamentary commissions—and of the tangible results expected

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<sup>7</sup> See OECD (2012) for an analysis of the functions of a group of PBOs or independent offices in Australia, Austria, Belgium, Canada, Denmark, Ireland, Korea, Mexico, the Netherlands, Portugal, Slovak Republic, Slovenia, Sweden, the United Kingdom, and the United States.

<sup>8</sup> The linear budget can be analyzed in sections, whereas other types of budgets require analysis of separate programs and their projected results.

from the office; and (iii) guarantees of independence and impartiality in naming directors, defining internal structure, and receiving financial, logistical, technological, and human resources.

The criteria and methods for selecting personnel and determining operating finances also impact the medium-term sustainability of the PBO. International experience suggests that this sustainability can be compromised in various ways, for example, in the case of an office with temporary consultants appointed or nominated by voting blocs, with no access to information and financed by donations from outside or temporary funding resources. It is important that PBOs receive adequate financing that is guaranteed in the parliament’s administrative budget, and hire permanent, technically competent staff, selected on the basis of merit, political independence, and the ability to operate with the latest technology.<sup>9</sup>

Finally, the sustainability of PBOs depends on their relevance and the technical quality of their analyses and advice, which will be reflected in the demand for their services. Likewise, their effectiveness will depend to a large extent on their technical reputation, the institutional confidence of the parliamentarians, and their ability to collaborate efficiently with other fiscal institutions, particularly the finance ministry and watchdog agencies.

**6. MIXED EXPERIENCE IN THE LAC REGION**

Six LAC countries have created PBOs: Brazil, Chile, Costa Rica, the Dominican Republic, El Salvador, and Mexico.<sup>10</sup> However, only Brazil and Mexico have professional-level PBOs, with personnel hired through a competitive, merit-based process, and guaranteed political independence, a high level of professional preparation, and competitive salaries compared to those of technical specialists and senior executives.

As mentioned above, the PBOs in Brazil and Mexico are institutionally more mature. In Brazil, each house has its own consulting office: the Senate has the Budget, Audit, and Control Advisory office (Consultoria de Orçamentos, Fiscalização e Controle, or CONORF) and the House of Representatives has the Budget and Financial Control Advisory office (La Consultoria de Orçamento e Fiscalização Financeira, or COFF). These PBOs are very similar in terms of scope in their technical work, but COFF has a greater impact. In Mexico, the Center for Public Finance Studies (Centro de Estudios de las Finanzas Públicas, or CEFP), managed by the Budget Commission of the House of Representatives, has been operating since 1998. It was originally created as a unit, but later changed to be conceived as “a technical support service to the legislative commissions that handle public finance and to the parliamentary groups that require this type of support to better complete their tasks” (Gazmuri, 2012). In both Brazil and Mexico, the officers of the PBOs are selected through a competitive, merit-based process.

9 Although there is no “optimal” size in terms of staff for starting a PBO, some potentially determining factors include whether the parliament is unicameral or bicameral and the number of legislators in congress. In any case, as a starting point, the PBO should hire specialists in the areas of fiscal policy, budgets, and macroeconomics; analysts who are authorities on quantitative methods; and specialists in technology, information, and communication (TIC). The PBO can later add more specialists and technology as the demand for services and products increases.

10 For information about the development of PBOs in Brazil, Chile, Ecuador, Mexico, Peru, and Venezuela, see Gazmuri (2012: 25–65).

Since 2003, Chile has had a budgetary support unit (Unidad de Apoyo Presupuestario, or UAP); however, this office “has failed to become a true technical office for budget consulting with formally defined structure, budget, personnel, and tasks. A small budget-counseling unit has been created in its place. Organized within the Senate Finance Committee, it also serves as the secretariat of the joint budget committee” (Gazmuri, 2012). However, it should be noted that Chile still provides sound institutional examples of fiscal responsibility and external budget auditing, as validated by its structural fiscal balance rule and experts’ committee.

Other LAC countries are in the process of forming PBOs. El Salvador’s Office of Budget Analysis and Monitoring (Oficina de Análisis y Seguimiento del Presupuesto, or OASP) was established in 1998 and falls under the responsibility of the Finance Committee. OASP began with three budget analysts, but currently operates with two.<sup>11</sup> Congress in the Dominican Republic has had a similar experience with its Permanent Advisory Office (Oficina Permanente de Asesoría, or OPA), since, like El Salvador, it has not managed to consolidate its fiscal architecture. Ecuador has an advanced project to create a Unit of Budget Execution Control (Unidad de Control de la Ejecución Presupuestaria, or UCEP).

Colombia, on the other hand, is currently reconsidering this type of project, after a first attempt in 2006 proved unsuccessful. Uruguay, as well as some Central American and Andean countries, is raising awareness about the usefulness and scope of a PBO. Peru has yet to develop a PBO, despite having taken steps in that direction. Some countries created PBOs and subsequently closed them, because they were unable to sustain the offices over time. For example, in the late 1990s, Venezuela established a PBO with high technical standards, but the government closed it when it enacted the new constitution in 1999.

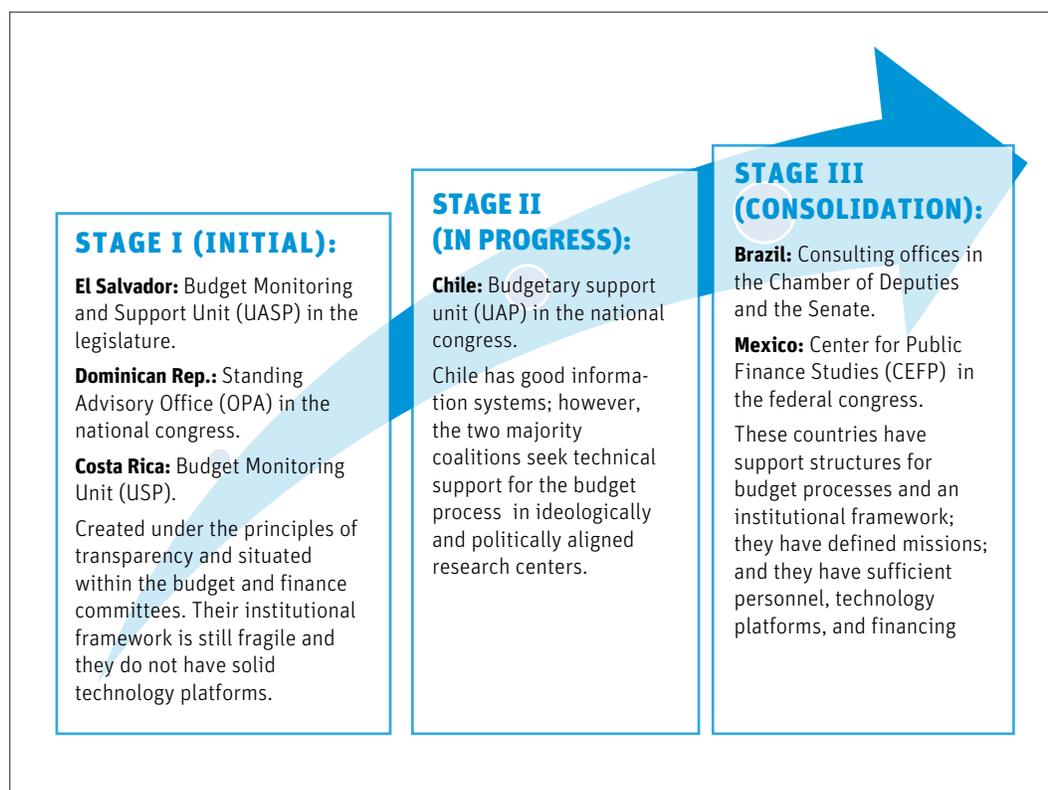
The Costa Rican Legislative Assembly has a budget analysis division, which performs the functions of a PBO, but lacks the necessary independence. This division supports the three committees that handle financial, fiscal, and economic matters (special committee, auditing, and income and expenses) and the two ordinary commissions (finance and economics). According to the PEFA evaluation, Costa Rica is one of the countries with the highest grades on indicators 27 and 28.<sup>12</sup> Figure 5 summarizes the framework in each of these countries and the stages of development of their PBOs.

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11 OASP was created by Agreement 1094 in October 1998. It should be noted that in dollarized economies, such as El Salvador, Ecuador, and Panama, where fiscal policy governs economic policy, the PBOs carry more weight. Under a fixed exchange rate, monetary policy disappears and all variables of the real sector (inflation, employment, growth) become dependent on budget funding, allocation, and execution. Fiscal policy becomes the central axis of the political economy and the country’s development.

12 According to the Political Constitution of the Republic of Costa Rica (article 184, paragraph 2), the General Comptroller approves approximately 60 percent of the investment budget, which the autonomous entities execute; the Legislative Assembly approves the remaining 40 percent, which is the central government’s budget.

Figure 5. Stage of Development of PBOs in Select LAC Countries



Source: Authors' elaboration.

In the English-speaking Caribbean countries, the legislatures often do not have PBOs. However, in addition to finance and budget committees, they usually have public accounts committees, which are typical of British parliamentary systems. These committees tend to exercise more ex post control over the execution of the budget than in Latin American presidential systems. When planning and designing a PBO, it is important to consider the quality of the connection between the parliament and its budget committees and the autonomous auditing and control organizations. This relationship is one of the weakest links in the chain of public finance management, as revealed by the PEFA development indicator 28 in Figure 1 (Santiso, forthcoming).

Parliamentary Budget Offices are expanding in various OECD countries. While in 2000, only seven OECD member countries had these types of office in place, in 2003, this number grew to 10 and in 2007 to 15 (OECD, 2011).<sup>13</sup> Among the most relevant examples are the United States Congressional Budget Office, with 250 employees; the PBO in Canada, created in 2006; the National Assembly Budget Office in Korea, created in 2003 and now with 135 employees; the Office for Budget Responsibility of the United Kingdom, created in 2010 and now with 35 employees; and the PBO in Australia, created in 2011.<sup>14</sup>

13 The 15 countries are Australia, Austria, Belgium, Canada, Denmark, Ireland, Korea, Mexico, the Netherlands, Portugal, the Slovak Republic, Slovenia, Sweden, the United Kingdom, and the United States.

14 For more detailed information of the OECD survey, see <http://www.oecd.org/governance/budgetingandpublicexpenditures/internationalbudgetpracticesandproceduresdatabase.htm>.

## 7. NEW INDEPENDENT BUDGET ANALYSIS INSTITUTIONS

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Parliaments in countries without PBOs often rely on reports from advisors, who use information and analysis from the budget or finance committees, to make decisions. However, these advisors often lack the expertise or capacity, or the necessary amount of time, to produce comprehensive reports, since they are not exclusively dedicated to budget and fiscal matters. Thus, parliaments in these countries also rely on external think tanks, specialized organizations in the civil sector, or foundations from the political parties, as in the case of Chile (Bustos, 2010; Gazmuri, 2012). In fact, nonpartisan independent offices, independent fiscal institutions, or fiscal watchdog agencies can handle some of the PBO functions.

Independent financial institutions (IFIs) are ad hoc structures or advisory boards that do not fall under the legislative or executive branches. These institutions have been created in response to the demand for more information and better independent oversight of fiscal policies and budget execution. IFIs provide independent budget and fiscal analyses, have greater access to information, and maintain cooperative relationships with various institutions without compromising their independence; most importantly, they have had a noticeable impact strengthening the overall capacities of the budget process (Kopits, 2011; Von Trapp, 2011).

Since independence is relative and its legitimacy depends on the quality of the political institutions and the public perceptions, IFIs must meet certain conditions to protect their own independence: they must have financial and administrative independence, competent employees, an ability to produce quality and timely reports, international recognition, and legal status (Allen, 2013). Nevertheless, as Allen himself emphasizes, “independence should be seen as a means to an end and not an end in itself.” In Europe, examples of effective IFIs can be found in the Netherlands (Center for Economic Planning and Analysis) and Sweden (Fiscal Policy Council).

In some LAC countries, such as Brazil, Colombia, Ecuador, and Paraguay, the fiscal or public-spending oversight committees carry out some of the PBO functions. In other countries, there is growing interest in civil-sector fiscal and budget watchdog organizations, such as, for example, the Juan Montalvo foundation in the Dominican Republic. In other cases, research centers—such as the Center for Research and Teaching in Economics in Mexico—or civil sector organizations that specialize in analyzing and overseeing public spending—such as Ciudadanos al Día in Peru—take on some of the PBO functions.<sup>15</sup>

PBOs and IFIs have grown in number across the LAC region, and the countries have made them part of fiscal responsibility structural reform packages, promoted by organizations such as the European Union and the OECD (OECD, 2011; Von Trapp, 2011). In 2013, European countries that have experienced severe financial crises, such as Greece, Ireland and Portugal, are now establishing independent budget watchdog and auditing offices.<sup>16</sup>

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15 For more information on these foundations and organizations, see the following pages: Colombia (<http://politica.fiscal.utadeo.edu.co/>), Ecuador ([www.observatoriofiscal.org](http://www.observatoriofiscal.org)), Paraguay (<http://www.cadep.org.py/2009/05/proyecto-observatorio-fiscal-y-presupuestario>), Mexico ([www.cide.edu](http://www.cide.edu)), Peru (<http://www.ciudadanosaldia.org>).

16 In 1990, Spain created a PBO, although it is still waiting for the basic elements to be defined to begin functioning (Gutierrez, 2010).

## 8. CONCLUSIONS: SCOPE AND LIMITATIONS OF PBOS

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What are the benefits of PBOs to parliaments? These offices offer an alternative to strengthen the technical and institutional capacities of parliaments so they can carry out their fiscal responsibilities more effectively and responsibly. Uña and Bertello (2006) argue that one of the causes of institutional weakness is the legislators' lack of technical expertise in fiscal and budget matters. It follows that there is no robust empirical evidence to demonstrate the contribution that PBOs make in terms of improving fiscal and economic results. In fact, existing evidence on budget and fiscal policies suggests that greater budget powers in parliaments may lead to higher deficits (Von Hagen, 1992). Nevertheless, some of the most important benefits of PBOs can be seen on the institutional level and are tied to strengthening fiscal governability.

1. **Aligning incentives.** Parliamentary Budget Offices can help align differences of incentives over time between the executive and legislative branches. The government and the parliament may have different preferences and distinct visions for development, and thus different motivations and incentives for mobilizing, allocating, and spending public resources, in both the short and long term. The PBOs can help to mitigate these differences not only by reducing asymmetries, but also by aligning the incentives of both branches with the definition of the medium- and long-term budget policies. The PBOs can facilitate consensus-building by providing impartial information and serving as a go-between or “honest broker.” A clear example of this is the United States Congressional Budget Office and its role in debates about raising the debt ceiling.
2. **Oversight of the complete budget cycle.** Parliaments in the region tend to concentrate their budget work on examining, negotiating, and approving the budget bill, but neglect the other critical phases of the budget process. The PBOs can help correct this imbalance by providing continuous analysis and support to parliaments in the various phases of the budget cycle, thereby expanding parliamentary oversight to all phases, from preparation (upstream) to execution, monitoring, and evaluation (downstream). They can do so, for example, by analyzing the fiscal impact of legislative initiatives and formulating recommendations, reviewing and approving the budget bill, overseeing and auditing budget execution and budget reallocations, and evaluating performance and the results of public spending.
3. **Simplification, transparency, and credibility.** According to Gazmuri (2012), the greatest contribution of a PBO resides in strengthening fiscal governability. A PBO “simplifies the complexity, promotes transparency, improves credibility, promotes responsibility, improves the budget process, serves both the majority and the minority, and provides rapid responses.” In other words, it contributes technical expertise and, in a certain manner, helps depoliticize the budget debate. With the migration to integrated financial management information systems in the LAC region, parliaments have access to more and better quality information, and thus have greater capacity for analyses, responses, and proposals.
4. **Strengthening capacities for exercising powers.** This analysis identifies a gap between the potential power of the legislature and the use of its effective capacity. In other words, empirical evidence would imply that the effectiveness of the parliament’s funding and oversight of the budget is not so much a problem of lesser versus greater powers, but rather of how responsibly the powers are exercised. This emphasizes the need to strengthen the technical and institutional capacities of parliaments to assume their responsibilities.

This paper shows the important benefits that strengthening the technical and institutional capacities of parliaments in the budget process can have on fiscal governability; that is, it is not a matter of parliaments increasing their powers, but rather of using the powers they already have more effectively. In the political realm, the most effective and responsible parliaments help build consensus on fiscal matters among different voting blocs. In the institutional realm, PBOs strengthen parliaments' relationship with accountability agencies and civil society in terms of budget management. By generating and strengthening their technical and institutional capacities to responsibly influence the budget discussion, parliaments can become more credible and effective partners with finance ministries.

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