Improving fiscal governance in emerging economies: Multilateral support to budget oversight and public sector auditing

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Abstract There is increasing recognition that improving economic governance and fostering fiscal responsibility in emerging economies requires strengthening transparency and accountability in the management of public finances. This study reviews multilateral support to the strengthening of national parliaments and external audit agencies in Latin America and the Caribbean. It underscores recent developments in development finance, grounded in a broadening of the understanding on what conditions the credibility and performance of governmental financial management systems. It reveals a learning curve in multilateral assistance to budget oversight institutions, as well as some of its limitations linked to the political economy of financial accountability. It argues that there exists unexplored potential to improve the effectiveness of multilateral assistance to fiscal control institutions, including in the choice of lending strategies and the synergies between instruments.

Key words: Multilateral lending, budget oversight, external audit, emerging economies.

JEL classifications: H61, F34, O23, P16

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Introduction: Improving economic governance and fostering fiscal responsibility

There is increasing recognition that improving economic governance and fostering fiscal responsibility in emerging economies requires strengthening transparency and accountability in the management of public finances. Promoting greater external oversight of public finances necessarily entails enhancing the systems of checks and balances governing the budgetary process. There is indeed heightened awareness of the weaknesses of the mechanisms of fiscal control and financial integrity, especially in presidential systems, and the consequent need to enhance the institutions of ‘horizontal accountability’ (O’Donnell 1994, 1998, 1999, 2003; Mainwaring and Welna 2003). As a result, the governance of the budget is the subject of renewed scrutiny. In particular, information asymmetries are indeed major impediments to the effective oversight of budget performance. Yhe generation, management and use of governmental financial information is strategic, which puts a further onus on those institutions tasked with guaranteeing its reliability and credibility.

National parliaments and external audit agencies are key institutions of budget oversight and fiscal control. They occupy a critical juncture in the institutional architecture of public finance management, combining both vertical and horizontal accountability functions. Mitigating the risks associated with excessive executive discretion in economic policy necessarily requires reinforcing the countervailing mechanisms of oversight and accountability. Consequently, the role of parliaments and the contribution of external audit agencies are being reassessed, placing the reform of governmental financial management in the broader context of the political economy of executive-legislative budget relations. However, these key institutions of economic governance and fiscal integrity have often been overlooked in the reform of the budgetary processes and the modernisation of financial management systems that many emerging economies have embarked upon in the past two decades. This is starting to change, as policymakers increasingly acknowledge their contribution to fiscal responsibility and financial accountability.

The gradual broadening of the reform agenda is also noticeable in agendas of the international financial institutions (IFIs), which have traditionally focused on financial management systems within the executive branch of government. IFIs realise the limitations of an exclusive attention to the institutions of economic governance within the executive, such as finance ministries or central budget offices, or semi-autonomous agencies such as central banks or tax authorities. It is increasingly acknowledged that reforming budgetary systems and financial accountability requires tackling dysfunctions in the institutions and processes shaping the budgetary process. While first-generation budgetary reforms have centred on strengthening the executive functions

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1 ‘Horizontal accountability’ is hereby defined as: ‘The existence of state agencies that are legally enabled and empowered, and factually willing and able, to take actions that span from routine oversight to criminal sanctions or impeachment in relation to actions or omissions by other agents or agencies of the state that may be qualified as unlawful’ (O’Donnell 1999:38). Horizontal accountability deals exclusively with those actions that ‘are undertaken by a state agency with the explicit purpose of preventing, cancelling, redressing, and/or punishing actions (or eventually non-actions) by other state agencies that are deemed unlawful, whether on the grounds of encroachment or of corruption’ (O’Donnell 2003:35.)

2 The governance of the budget refers to the interest, incentives, individuals and institutions governing the formulation, approval, execution and oversight of the budget and shaping fiscal outcomes.

3 Those institutions performing the external auditing of public finances are hereafter referred to as external audit institutions. They are often referred to as supreme audit institutions, state audit in institutions, general audit offices, general auditor’s office, or national audit offices.

of government in the management of public finances, second-generation reforms increasingly emphasise the mechanisms of transparency, oversight and accountability. This latter approach necessarily requires engaging with a broader set of institutions and processes beyond the executive. Nevertheless, these two types of assistance are not mutually exclusive; they are indeed mutually reinforcing.

This study reviews and assesses recent developments in the assistance provided by the IFIs to the strengthening of fiscal institutions and budget oversight in emerging economies. It focuses on the case of multilateral lending by the World Bank (WB) and the Inter-American Development Bank (IDB) to Latin American and the Caribbean countries. Latin America and the Caribbean provides a particularly adequate case study for the analysis of legislative budget oversight institutions, considering the presidential nature of political systems and the high degree of centralisation of budgetary systems within the executive branch of government. A puzzling paradox resides in why governments accept subscribing to external loans to strengthen those very institutions tasked with overseeing and restraining them, especially in countries characterised by divided governance where governments no longer have stable and reliable legislative majorities, as it is increasingly the case in Latin America and the Caribbean.

The purpose of this study is to understand how recent developments in development finance are being shaped by a broadening of the understanding of the governance of the budget and the management of public finances. It seeks to extract the lessons learned of a decade of engagement with the strengthening of budget oversight institutions by multilateral development banks (MDBs). The essay is structured in three main sections. The first section analyses changes in the international financial institutions’ understanding of the governance of the budget and the strengthening of budget oversight, fiscal transparency and financial accountability. The second section assesses the main features of multilateral lending to national parliaments and external audit agencies, focusing on investment loans specifically designed to strengthen those institutions. The third and final section offers some concluding remarks on the political economy of fiscal control and budget oversight.

**Understanding financial accountability and strengthening fiscal integrity**

**Broadening the reform agenda**

The IFIs have both a fiduciary and a developmental interest in improving transparency and accountability in public finance management (Santiso 2004d, 2004e). Mitigating fiduciary risk in policy-based lending, adjustment lending and direct-budget support necessarily requires strong, credible and reliable budget management systems in borrowing countries. The MDBs provide significant support to strengthen the institutions of public finance governance in emerging economies in the broader context of the second-generation institutional reforms (Santiso 2004a, 2004b, 2003, 2001, 2000). Often, specific operations aimed at strengthening public finance management and accountability are included in policy-based loans or direct budgetary support grants. Increasingly, the IFIs are designing technical assistance and investment operations

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5 Bilateral aid agencies, specialised multilateral agencies such as the Inter-Parliamentary Union (IPU), regional organisations such as the Commonwealth, the Organisation for Security and Cooperation in Europe (OSCE) or the Council of Europe (COE), and other multilateral development institutions such as the United Nations Development Programme (UNDP), the European Union (EU) and the Organisation for Economic Co-Operation and Development (OECD) have been particularly active in recent years in supporting national parliaments and external audit agencies.
specifically intended to strengthen those systems. Since the early 1990s the WB, the IDB and USAID have assisted Latin America and Caribbean countries to modernise their financial administration through the establishment of integrated financial management systems (Dorotinsky and Matsuda 2002). In the course of the 1990s, Argentina, Bolivia, El Salvador, Honduras, Guatemala, Nicaragua and Venezuela have benefited from technical assistance loans and grants to enhance their financial management systems.

Ensuring sound management of public finances and efficacious oversight of the budget performance process are key dimensions of good governance, which, according to the standard WB definition, captures ‘the manner in which power is exercised in the management of a country’s economic and social resources for development’ (World Bank 1992:1). The IFIs recognise that strengthening of public finance accountability is a critical institutional reform required to consolidate second-generation economic reforms (Kuczynski and Williamson 2003; Santiso 2004c, 2003). In the first stage of reform of public budgeting, Washington consensus policy prescriptions have advocated a predominant role for the executive and the insulation of economic policymaking, leading to an increasing centralisation of the budgetary process within the executive branch. However, the abuse of executive discretion by autocratic presidents misusing the prerogatives of executive decree authority and the delegation of legislative authority have often led to the neutralisation of accountability mechanisms, restrictions on the role of parliaments in the budget process and the capture of oversight institutions.

Undeniably, the introduction of the governance agenda has led the IFIs to broaden the scope of their interventions (Santiso 2004d, 2001, 2000). In 1996, the International Monetary Fund (IMF) was urged by its governors to ‘promote good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability in the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper’ (IMF 1996:327). The IMF’s role in fiscal governance has expanded considerably since then, integrating concerns over transparency, accountability and predictability of fiscal policy (IMF 1997 and 2001a; Op de Beke 2002; Abed and Gupta 2002). The IMF nevertheless restricts itself those economic aspects of governance that could have a significant macroeconomic impact and those that affect the implementation of economic reforms, in particular the transparency of government accounts, the effectiveness of public resource management, and the stability of the regulatory environment for private sector activity.

In the mid-1990s, the WB began supporting programs to strengthen accountability institutions, such as the rule of law, judicial systems, public finance management systems, and parliamentary oversight mechanisms (World Bank 2000). In 1997, it adopted an anticorruption strategy and, in 2000, guidelines to orient its involvement in governance issues (World Bank 1997 and 2000). Between 1996 and 2000, it undertook over 600 governance-related projects in 95 countries. Between 1987 and 1998, it carried out 169 civil service reform programs in 80 countries. In Latin America and the Caribbean, between 1982 and 2002, it implemented 126 public sector reform projects totalling US$12 billion (Fuhr and Krause 2003). A majority of these projects, usually policy-based loans with a marked emphasis on fiscal reform, have a strong component on public budgeting and government financial management.

Nevertheless, the IFIs have yet to develop clear policy guidelines clarifying their approach to the strengthening of budget oversight institutions, in particular parliaments and external audit agencies. Parliamentary strengthening remains a controversial and contested area of engagement for the WB (Stapenhurst 2004, Pelizzo and Stapenhurst 2004; Messick 2002; Manning and Stapenhurst 2002). The 2000 WB governance strategy remains ambivalent in its approach to the strengthening of parliamentary institutions, including regarding the financial oversight functions
performed by parliaments. It acknowledges the importance of achieving ‘greater cognizance and support of the role and functioning of parliamentary oversight bodies, ombudsman offices, public audit institutions’ (World Bank 2000:60). It nevertheless appreciates that any engagement in parliamentary strengthening is intrinsically political, considering the very nature of representative institutions, as engaging parliaments and strengthening legislative oversight often entail dealing with the opposition. The WB is thus careful to underscore that ‘for reasons of either limited mandate or limited expertise, we do not envision the Bank becoming involved in some other areas of public sector reform, such as […] general parliamentary processes or political governance’ (62).

The WB’s approach to external audit agencies has traditionally focused on fiduciary risk aspects and the WB’s own audit policy, under the purview of the WB’s Operations Policy and Country Services (OPCS) (World Bank 2003b, 1995, 1982). The WB’s assessment of the strength of audit arrangements in borrowing countries is primarily designed to gauge their capacity to provide sufficient assurances that lent funds would be managed efficiently according to internationally recognised standards of integrity. WB’s policy on fiduciary risk in investment lending is set out in Operational Policy OP10.02 on Financial Management revised in April 2004 (World Bank 2004a) and its policy on fiduciary risk in policy-based lending is contained in Operational Policy OP8.60 on Development Policy Lending revised in August 2004.

As part of the reform of WB’s audit policy, fiduciary risks objectives are gradually being complemented by developmental objectives. In 2003, the WB reviewed its audit policy in order to better link fiduciary and development objectives. The revised audit policy indicates that the WB ‘would determine whether an operation should include measures to address weaknesses identified in relevant analysis of the country’s public financial management’ (World Bank 2004b:27). The WB’s own assessment of the quality of financial management in borrowing countries informs its decisions on the amounts of policy-based lending, as well as the conditions attached to it. Furthermore, in 2004, the WB has started to articulate a more comprehensive strategy towards the strengthening of external audit agencies (World Bank 2004c). The WB seeks ‘to place greater reliance on the normal financial reports and audit processes of borrower countries when these are considered to meet acceptable standards. Where weaknesses are identified, the Bank supports programs to build capacity’ (World Bank 2003b:7; Wolfensohn 2004).

At the regional level, regional development banks are also broadening their support to budget oversight institutions (Santiso 2004c). In Latin America and the Caribbean, the IDB is implementing innovative loan programmes specifically designed to strengthen legislative budget institutions. The role of parliaments and external audit agencies in public budgeting, financial accountability and corruption control figure prominently in the new strategy on the modernisation of the state of the IDB adopted in 2003 (IDB 2003). The IDB stresses the need to ‘strengthen the institutional capacity of the legislative branch,’ in particular by supporting programs designed to ‘strengthen technical assistance systems that will improve the quality of legislation and help ensure budgetary, monitoring and oversight functions are performed based on objective and technical criteria’ (12). Unlike the WB, parliamentary strengthening is an area of explicit engagement for the IDB, which recognises the representative, legislative and oversight functions of parliaments.

Furthermore, the strategy allows the IDB to provide support for increasing ‘the technical capacities and functional independence of institutions that oversee government performance, for example, the offices of the comptroller general, court of accounts, auditor general, ombudsman, public defender, public prosecutor and attorney general’ (13). The IDB emphasises the necessity to ‘strengthen the fiscal capacity of the state and improve the efficiency and transparency of
expenditure management’ (18) and to implement ‘comprehensive financial and accounting management systems and promoting the transparency of budgetary information’ (18). Parliaments and external audit agencies are thus approached as key components of the national systems of fiscal control. The IDB recognises that ‘audit and other supervisory institutions do not always have the independence, objectivity and technical capacities necessary for them to be able to oversee adherence to the rule of law’ (IDB 2003:5). It notes that ‘the prevalence of corruption is to some degree an expression of the weakness of the rule of law, but calls attention also to the weakness of the state’s financial administration’ (5).

Upgrading fiscal standards

In recent years, the IFIs have upgraded international standards, analytical guidelines, and diagnosis instruments to better assess the quality of public budgeting and the robustness of the mechanisms of accountability in financial management. The main channels through which the IMF promotes good fiscal governance are surveillance, lending and technical assistance (IMF 1997, 2001b). In terms of surveillance, the IMF has actively sought to promote standards and codes of good practice through its Article IV consultations in fiscal matters. It has reviewed its guidelines on fiscal policy management and integrated considerations on the quality of fiscal transparency and the strength of the ‘assurances of integrity,’ such as external audit offices (IMF 2001b). Since the late 1990s, prompted by the fall-out of the Asian financial crisis, it has acknowledged the importance of transparency in monetary and financial policy management, adopting a Code of Good Practices on Fiscal Transparency in 1999 (IMF 1999). It has identified twelve key areas, which include accounting, auditing, anti-corruption, and fiscal transparency.

IFIs are attaching greater importance to the contribution of legislative budget institutions to budget policymaking and oversight. It is being increasingly recognised that these institutions are critical to improving fiscal governance and ensuring financial integrity. While the IMF’s Code of Good Practices on Fiscal Transparency updated in 2001 (IMF 1999, 2001b) tends to restrict itself to fiscal governance within the executive, the OECD Best Practices for Budget Transparency include considerations over the role of parliaments in the budget process (OECD 2001a). However, there continues to exist a certain restraint in the IFIs’ approach to budgetary reform. IFIs’ technical assistance tends to concentrate either on the expenditure side, providing assistance to prime minister’s offices, the finance ministries or the central budget offices, or the revenue side, providing tax reform advice and strengthening the capacities of tax authorities. It seldom addresses the budget cycle as an integrated process in a comprehensive manner.

Improving financial diagnoses

The IFIs have also updated and upgraded their diagnosis instruments in the area of fiscal policy and public finance management. In the case of the IMF, a country’s observance of these standards is regularly assessed in the Reports on the Observance of Standards and Codes (ROSCs,) 264 have been completed for 80 countries at the end of June 2002, 193 of which have been published. Recent fiscal ROSCs include considerations about the strength of accountability mechanisms in public budgeting and the quality of executive-legislative relations. For example, the report on Peru underscores the dysfunctional links between the executive and the legislature in the budgetary process and recommends the strengthening of the national system of control and external auditing (IMF 2004). In Brazil, the IMF advises strengthening the functional linkages between external and internal auditing in governmental financial administration at the different levels of government (IMF 2001c). In Chile, the IMF advises improving state accounting and external auditing (IMF 2003).
These diagnosis instruments are complement by those of the WB assessing the quality of public expenditure management and economic governance. Three new diagnosis instruments are of particular relevance: the Public Expenditure Reviews (PERs), the Country Financial Accountability Assessments (CFAAs) and the Institutional and Governance Reviews (IGRs). PERs analyse a country’s fiscal position and expenditure policies, evaluate the robustness of its public expenditure management systems and efficacy of its resource allocation. They may also examine institutional arrangements for public expenditure management, civil service reform, and revenue administration (World Bank 2001a). Recommendations of the PERs are used to develop loan conditionalities. The WB carries out, on average, 20 to 25 PERs a year. Similarly, the Public Expenditure Tracking Surveys (PETS) undertaken jointly by the WB and the IMF in Highly Indebted Poor Countries (HIPCs) assess the capacity of borrowing countries to track spending. The HIPC expenditure tracking assessment has been applied in 24 HIPCs over the period 2000-2002. The results showed that these countries generally have low capacity to track spending.

CFAAs are another important diagnostic tool. The CFAA assesses the strength of a country’s public financial management system (World Bank 2003a). CFAAs are particularly important where multilateral lending is managed by the country’s own public finance management system, as in the case of adjustment lending. They are intended to help the WB and borrowing countries assess and manage the risk that public funds will be used other than for agreed purposes (the fiduciary objective), and to support the borrower in the design and implementation of financial management capacity-building programs (the developmental objective). These assessments inform the preparation of the WB’s Country Assistance Strategy (CAS), particularly the sections dealing with the size of the support program, the sectors to be supported, the selection of lending instruments, and approaches to risk management. CFAAs identify critical areas of weakness in financial management and often lead to the design of targeted investment lending projects. In 2003, the WB produced 28 CFAAs, bringing the total number of countries with current report to 63. It is also starting to produce sub-national financial accountability assessments, such as in India. The governance and institutional aspects of budget management are important dimensions of CFAAs. Increasingly, CFAAs are conducted jointly with PERs and Country Procurement Assessment Reviews (CPARs), which examine public procurement institutions and practices in borrower countries.

IGRs, while not necessarily focusing on budget institutions and financial management, are important analytical instruments to understand the political economy of public finance accountability. First piloted in 1999-2000, IGRs assess the quality of public policymaking, public sector governance and service-delivery institutions, focusing on critical areas for reform in the countries under review. They nevertheless tend to focus on the institutions of economic governance and are thus particularly useful to adequately capture the political economy of economic reform and the institutional dimensions of public finance management. As the WB notes, ‘The IGR relates to the CFAA in its diagnosis of the shortcomings of formal public finance management systems that are due to inadequate capacity, incentives, or signals’ (World Bank 2003a:2-3). Indeed, there is a gradual convergence between the economic approach to public finance management and the political economy approach to public finance accountability. Increasingly, the WB increasingly undertakes Public Expenditure and Institutional Reviews (PEIRs), such as in Turkey or Croatia in 2001 (World Bank 2001b, 2001c).

These different diagnosis instruments inform country strategies, investment lending operations and the conditionality attached to policy-based loans. Country Policy and Institutional Assessments (CPIAs) are produced annually by WB staff and used to assess the quality of a country’s policy and institutional framework in terms of how conducive it is to fostering poverty reduction and ensuring the effective use of development assistance. They serve to identify
challenges and current capacities in allocating the concessional resources of the International Development Association (IDA) in response to country performance. As shown in Table 1, CPIAs include twenty equally weighted criteria grouped in four clusters. The cluster on public sector management and institutions includes key indicators of public sector governance, including the quality of budget and financial management (#17), the efficiency of revenue mobilization (#18), the efficiency of public administration and transparency (#19), and accountability and control of corruption in the public sector (#20).

TABLE 1 ABOUT HERE

Harmonising assessment instruments

The expansion of activities in public expenditure work in recent years reinforces the need for improved cooperation between bilateral donors and multilateral institutions. Although they possess different mandates and perform different functions, the IFIs are seeking to coordinate their approaches to public finance reform and harmonise their assessment standards and instruments (OECD 2003b; PEFA 2003).

In 1995, the IMF and WB issued guidelines for improving operational coordination based on complementarities of the two institutions, a commitment that was subsequently reaffirmed in 1998. In 2003, further policy guidelines strengthened the framework for collaboration (World Bank and IMF 2003). Similarly, a Working Party on Aid Effectiveness and Donor Practices was established in May 2003 within the OECD Development Assistance Committee (DAC), following the Rome Declaration on Harmonisation of February 2003. A sub-group of this working party, the Joint Venture on Public Financial Management, focuses on improving international harmonisation in the area of financial management. In 2003, the OECD DAC issued Good Practices Reference Papers on Financial Reporting and Auditing and Measuring Performance in Public Financial Management (OECD 2003b).

Furthermore, the Public Expenditure and Financial Accountability (PEFA) program, a multi-donor initiative established in December 2001, aims at harmonising international public sector standards in accounting, auditing and internal control in developing and transitional countries, eventually leading to the design of a Standardised Assessment (SA). A Joint Public Expenditure Working Group of the WB, IMF and PEFA is articulating a Public Financial Management Performance Measurement Framework, whose second draft was issued in May 2004. This standardised framework contains 28 indicators of public finance management and two indicators of donor performance. Interestingly, as shown in Table 2, it concedes a greater role for parliaments in the promotion of fiscal transparency and financial accountability.

TABLE 2 ABOUT HERE
Lending credibility to budget oversight and external auditing

IFIs assist developing countries in the reform of their financial management systems in several ways, through analytical work, advisory services, policy-based lending, technical assistance and investment lending. For methodological and practical reasons, this sections focuses on those investment loans specifically designed to strengthen parliaments and external audit agencies as proxy indicators of multilateral support to budget oversight and fiscal control.

Lending to national parliaments

The WB and IDB differ in substantial ways in their support to national parliaments. The WB does not directly assist parliaments through targeted investment lending. Furthermore, its analytical and diagnosis instruments only partially address parliamentary governance and the dynamics of executive-legislative budget relations. Only the World Bank Institute (WBI), through a small parliamentary programme, provides technical assistance and professional training to parliaments. By contrast, the IDB has been more active in this field, providing investment loans specifically designed to strengthen parliaments in borrowing countries. As previously mentioned, its 2003 governance strategy explicitly sanctioned the role of the IDB in parliamentary strengthening. IDB’s support to parliaments is embedded in its broader support to the consolidation of democracy, which has become a corporate objective of the IDB since 1994 with the eighth replenishment of its resources (IDB 1994, 1999).

Parliamentary strengthening is a relatively new area for both banks. The first IDB investment loan dates back to the late 1980s, coinciding the restoration of democracy in the region. As Table 3 shows, since 1994 the IDB has approved or designed 13 lending operations between, totalling over US$100 million (as part of parliamentary reform programs totalling over US$150 million). The stated aim of IDB financing is to strengthen the representative, legislative and oversight functions of parliaments. The assistance provided is primarily aimed at contributing to the institutionalisation of parliaments, improving legislative quality, enhancing legislative processes, and enhancing the interactions with civil society. The bulk of financing is directed at ‘hardware investments,’ such as physical infrastructure development, information technology improvements, and human resources management.

A salient feature of these loans is their increasing focus on the role of parliaments in the budget process, contributing to improve committee work, strategic planning and research capacities. Indeed, legislatures are central budget institutions, both in the making of budget policy (through the budget committees approving the state budget) and the oversight of budget execution (through the work of public accounts committee). A first set of initiatives IDB aims at strengthening the internal structures, rules and procedures shaping the legislative process. There is a marked emphasis on those parliamentary committees involved in the budget process, either at the approval or the oversight stage. The role of budget and public accounts committees receive special attention. Public accounts committees provide a critical link between parliaments and external audit agencies in the oversight of public finances. For example, the IDB’s Fiscal and Financial Management Programme in Guyana includes a component specifically designed to strengthen legislative capacities for budget oversight and fiscal control, through its assistance to the Economic Services Committee, the Public Accounts Committee and the Public Procurement Commission. A second set of initiatives aims at enhancing the capacities of parliaments for independent budget analysis. This is the case, for example, of the IDB loan to Brazil, through the
The strengthening of legislative budget capacity coincides with the gradual rehabilitation of legislative budget authority, which reflects a gradual shift in the balance of power between the executive and the legislature in public budgeting (Santiso 2004c; Schick 1998, 2002). Parliaments are re-asserting their powers in budget oversight, partly as a result of the newfound assertiveness of parliamentary opposition. Historically, legislatures have been dominated by majorities belonging to, or associated with the president’s party. This is starting to change and many presidents no longer control legislative majorities. Changing executive-legislative relations have a significant impact on budget policymaking and oversight. The surge of legislative activism in the budget process in Mexico is party the result of the emergence of an assertive opposition since the long-time ruling party, the Institutional Revolutionary Party (PRI), lost its parliamentary majority in 1997 (Carbonell 2002; Weldon 2002).

In that context, the contribution of legislative budget offices to budget oversight is increasingly recognised. The lack of professional legislative staff and the weaknesses of legislative advisory services are major hindrances to effective legislative oversight. Standing parliamentary committees lack the necessary research and advisory capacity with the required technical expertise. This is gradually starting to change. Although not as powerful as the US Congressional Budget Office (CBO), incipient legislative budget offices are gradually emerging throughout the region. Chile, Mexico and Venezuela possess incipient legislative budget offices, while Argentina and Colombia are currently considering establishing such offices. Legislative budget offices allow parliaments to access independent sources of budget analysis, rather than relying on the information provided by the government. Access to reliable budgetary information is indeed strategic in the sense that it helps redressing information asymmetries between the executive and the legislative. Independent budget analysis is also important for political reasons, as it is the parliamentary opposition that has the greatest incentives to oversee government and hold it to account. Therefore, it is the parliamentary opposition has the greatest incentives to strengthen parliaments’ capacities for independent budget analysis (Messick 2002; Rubio Llorente 1999).

The case of Venezuela is particularly interesting, as the IDB became, willingly or not, an actor in the struggle between the executive and the legislature over the distribution of budgetary powers. In Venezuela, an Economic and Financial Advisory Office was created in 1997 within the National Assembly, with support from the IDB to enhance the technical advisory services of parliament in public finance. Nevertheless, increasing tensions between the executive and the legislature since President Hugo Chávez took office have undermined the functioning of this office. OEAF 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 IDB. In 2003, the office was under renewed pressure (Rojas and Zavarce 2004).

The MDBs increasingly recognise that the nature of the political regime, the quality of the political party system and the incentives provided by the electoral code are key variables for effective legislative budget oversight, as ‘opposition parties have the greatest incentive to oversee government’ (Messick 2002:2). Indeed, in many parliamentary systems, parliamentary public accounts committees are chaired by the main opposition party. Ultimately, the discipline of political parties determines, to a great extent, the effectiveness of the institutions of accountability and the quality of executive-legislative relations. These are sensitive difficult questions and highly contentious areas of engagement for the MDBs and lending operations tend to confine
themselves to the inner working of parliaments, rather than addressing the political economy of the budget process. As a result, loan operations often fail to generate the systemic impact they potentially could have on the budget process and parliament’s role in its oversight.

**Lending to external audit agencies**

Multilateral lending to external audit agencies is a less contention area of engagement within the MDBs. External audit agencies are independent state institutions responsible for auditing government performance and public accounts and, in some cases, supervising the government accounting system, such as in Chile, and the internal auditing system, such as in Peru. External audit agencies not only constitute an important component of the framework for budget oversight and financial accountability needed to support a country’s development (the development objective), but they also provide lending institutions with assurances that their funds will be used appropriately (the fiduciary objective).

MDBs provide support to external audit agencies through several informal and formal means, including policy advise, analytical work, technical assistance, policy-based lending, and investment lending. The WB supports external audit systems essentially through the conditionality attached to its policy-based loans. According to a recent WB estimate, in the five years between 1997 and 2002, policy-based loans included about 90 conditions requiring borrowing governments to improve external auditing. A review of all 1479 adjustment lending conditions that referred to public sector governance over that period shows that about 90 of them (or six percent) addressed the external audit arrangements of 38 borrowing countries (World Bank 2004c:10).

MDBs also provide technical assistance through small grants, at times supporting larger policy-based loans or preparing the ground for investment loans. Two WB trust funds, the Institutional Development Fund (IDF) and, within the IDF, the Development Grant Facility (DGF), finance institutional strengthening. According to one estimate, in 2003, more than 30 IDF grants, with a value of US$10 million were for public expenditure and financial accountability (Wolfensohn 2004:3). For example, in 2000, the WB provided an IDF grant to Mexico to improve the auditing capacities of sub-national governments and, in 2003, another such small grant to strengthen the Argentinean external audit agency. In 2001, it approved a regional-wide initiative to support external audit agencies in Central America. Since 2001, the WB’s DGF also provides assistance to the Development Initiative (IDI), the training arm of International Organisation of Supreme Audit Institutions (INTOSAI).

More importantly, MDBs provide investment loans specifically designed to strengthen external audit agencies. As Table 4 shows, since 1993, the WB and the IDB have designed 14 lending operations, wholly or partially intended to strengthen external audit agencies. These operations represent an investment of US$80 million, as part of modernisation programmes totalling over US$120 million. They include ten investment loans by the IDB and four by the WB. The number of such investment operations has increased significantly in recent years. While WB tends to confine itself to high-quality advisory and analytical work and technical assistance operations, the IDB also approves investment loans specifically intended to strengthen external audit agencies. Interestingly, the four loan operations by the WB in Ecuador, Haiti, Honduras and Bolivia are part of larger operations designed to improve public financial management systems.

**TABLE 4 ABOUT HERE**

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Nevertheless, the relative size (in financial terms) of these operations varies across countries, both in absolute and relative terms. Therefore, expectations on their impact ought to be realistic. Table 5 illustrate the relative contribution of multilateral lending to the budget of the external audit institutions of Brazil, Chile, Colombia and Nicaragua.

TABLE 5 ABOUT HERE

Several issues are worthwhile underlining. First, multilateral lending represents only a portion of the agencies’ budget, which can nevertheless be important in low-income countries. While in Nicaragua multilateral lending contributes to almost 30 percent of the agency’s budget, in Brazil this figure barely reaches one percent. In Chile and Colombia, it represents approximately 18 and 11 percent of the institution’s annual budget, respectively. Second, the budgets allocated to external audit agencies have also tended to increase in recent years, although their share of the national budget remains small. For example, the budget of the Brazilian Tribunal de Contas da União (TCU) represents 0.08 percent of the federal budget (TCU 2002:38). Third, counterpart financing is often significant, such as in Brazil (50 percent), Chile (40 percent) or Colombia (45 percent). These latter two aspects reflect the increasing importance national governments attach to the strengthening of external audit functions. As countries realise that sound public finance management and effective anti-corruption mechanisms require robust oversight institutions, multilateral initiatives necessarily insert themselves in the wider context of the strengthening of governmental financial administration. As such, the subscription of multilateral lending constitutes an important signalling mechanism that can strengthen the hand of reformers.

In broad terms, multilateral loans tend to focus on improving the administrative efficiency of external audit agencies through strategic and organisational development, human resource management, capability building and training, and improvements in information technology, equipment and infrastructure. They also include provisions for improving relations with civil society, enhancing publicity of audit findings, and increasing transparency in auditing practices. Furthermore, they tend to emphasise legal and financial compliance auditing, admittedly the core business of external audit agencies. They sometimes include provisions for ‘innovative initiatives,’ in particular performance auditing, environmental auditing or auditing techniques for regulating agencies of public utilities. Moreover, they privilege improving operational auditing of government programs, especially in the social sectors, rather than enhancing the role of external audit agencies in the auditing of public accounts. Arguably, this latter core function would be naturally enhanced as a result of the strengthening of the external audit agency as a whole, albeit not automatically.

Audit agencies are not stand-alone institutions with self-enforcing decisions. They rely on other institutions part of the system of fiscal control and anticorruption to enforce accountability. The paradox of audit institutions lies in the fact that they both need to be independent to adequately and responsibility perform their tasks, yet they dependent on other state institutions to have a meaningful impact. They are part of the system of integrity, which includes other state agencies, such as the government itself, the finance ministry, the central budget office, the state prosecutor’s office, the public ministry, the legislature, civil society and the media. For instance, the reports and recommendations of external audit agencies are largely ineffective if they are not acted on by other institutions part of the system of control, in particular the public administration itself (administrative accountability), the judiciary (criminal accountability) and parliament (political accountability). The impact of external audit agencies largely depends on the extent to which parliaments act upon the recommendations of their audit reports. Conversely, the consent of a qualified majority of members of parliament (often a two-third majority), including that of the ruling party, is required for nominating auditor generals. The political bargains that are struck
often undermine the political independence of the chosen candidate. Ultimately, the effectiveness of national integrity systems largely depends on the quality of inter-institutional linkages and the strength of the synergies between their different components, *inter alia* government accounting systems, internal auditing mechanisms, external control institutions, administrative and criminal courts, and parliamentary oversight committees (Diamond 2002).

However, the effectiveness of external control mechanisms and legislative budget oversight in Latin America and the Caribbean is hampered by the dysfunctional relations between the individual components of the systems of fiscal control. In general, these tend to act in isolation from one another, reflecting the vertical nature of governance institutions. This has allowed corruption to flourish almost unrestricted in countries such as Argentina under Carlos Menem (1989-1999) or Peru under Alberto Fujimori (1990-2000), as accountability institutions were neutralised. Enhancing the performance of audit agencies thus entails improving its insertion in the system of fiscal control and strengthening the overall architecture for public finance management.

The case of the support provided by the IDB to Colombia is noticeable, as it reflects an integrated effort to strengthen financial integrity and law enforcement. In April 2003, the IDB approved a US$14 million loan (as part of a US$20 million programme) to the Office of the Attorney General, the judicial office in charge of oversight and discipline of public agencies. This programme completes a decade-long financing cycle of modernisation of agencies of financial oversight and law enforcement, which included a US$23 million loan (as part of a US$42 million program) to the Office of the Comptroller General, and Office of the Auditor General in March 2000 and a US$9.5 million loan (as part of a US$15.7 million programme) to modernise the administration of justice and the General Prosecutor’s Office in December 1995. All three loans had significant counterpart financing (US$77.7 million) reflecting the recipient country’s commitment to the objectives of the programmes.

As part of the national system of fiscal control, the links between external audit agencies and parliamentary public accounts committees are key (McGee 2002; SIGMA 2002). External audit agencies provide critical advisory services to parliaments, directly or indirectly, in the exercise of their oversight responsibilities. In the great majority of cases, they act as auxiliary or supporting institutions to parliaments. However, relations between external audit agencies and parliamentary public accounts committees are often deficient. It should nevertheless be noted that external audit agencies greatly vary in terms of their position in the broader architecture of fiscal control. In Argentina, for example, the *Auditoría General de la Nación* (AGN) is a collegial body that acts as the technical advisory agency to parliament to ensure government accountability and budget oversight. The main parliamentary opposition party nominates the president of the AGN. In other countries, such as Chile or Peru, external audit agencies are nominally autonomous from both the executive and the legislature. In Brazil, the TCU is a collegial body with a long institutional history that combines functions analogous to that of an administrative court.

Multilateral lending operations are only gradually addressing these dysfunctional institutional links. IDB loans to national parliaments are increasingly focusing on enhancing their role in budget policymaking and oversight. Simultaneously, IDB support to external audit agencies is integrating consideration of their advisory role in the oversight of the budget by parliaments, in particular in the certification of public accounts. The IDB loans to the Dominican Republic in 2000 and to El Salvador in 1999 partially address the dysfunctional relationships between parliaments and external audit agencies. In these two instances, a loan to the external audit agencies was designed in conjunction with a larger loan for the modernisation of the legislature.
In the case of the Dominican Republic, these were merged into a single loan, which reflects the recognition of the mutually reinforcing role of these two institutions.

External audit agencies are particularly exposed to political meddling and prone to capture by partisan interests not inclined to enforce accountability. Several means can be used to compromise or neutralise external audit agencies, depending on the specific characteristic of each agency, the procedures for nominating its head and staff, or the criteria for setting its budget. Therefore, political economy considerations are key to explain the effectiveness of external audit agencies. The politicisation of the auditor general’s appointment procedure and that of the staff of external audit agencies are major hindrances to independence. When government controls a majority in parliament, either in parliamentary or presidential systems, 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. 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 independence of external audit agencies. Credible appointment criteria and stability of tenure determine the extent to which auditor generals are likely to behave independently. Predictable financial resources are also a necessary, yet not sufficient for institutionalising external audit agencies and shielding them from undue political interference. Ultimately, these individual incentives motivate the institutional behaviour of external audit agencies.

Multilateral lending operations could make a more decisive contribution to the strengthening of the political independence and financial autonomy of external audit agencies, in line with international standards. Securing independence goes beyond legal provisions to encompass adequate funding and access to skilled personnel. It is a critical determinant of the agency’s ability to hold government to account, as underscored by the 1977 Lima declaration of principles of INTOSAI and the report of its task force on independent government auditing (INTOSAI 2001). Multilateral banks could more purposefully enhance the agencies’ functional and institutional relations with the legislature (in particular with budget and public accounts committees, responsible for holding government to account politically), the judiciary (the administrative and criminal courts tasked with following-though the recommendations of audit reports) and civil society and the media (those civil society organisations involved in social auditing and budget oversight) (Smulovitz and Peruzzotti 2003). Similarly, multilateral banks could promote greater international dialogue, networking and partnerships between external audit agencies, contributing to the upgrading of standards and codes, the dissemination of best practice, and the encouragement of mutual learning.

Lastly, until recently, multilateral loans have tended to concentrate their efforts at the national or federal level. However, in most cases, external auditing of government finances is far weaker at the sub-national level than at the national level (Diamond 2002). Multilateral banks are starting to address the weaknesses of sub-national government auditing in federal systems, such as in Brazil, or accompany their de-concentration in unitary states, such as in Peru. In Brazil, the IDB is designing a US$38 million loan to strengthen state external audit offices, in the context of a US$60 million institutional strengthening programme (IDB 2004). If approved, this would represent the biggest loan to external audit agencies. The commitment of the Brazilian government to strengthening sub-national auditing is reflected in the relative importance of counterpart financing, 60 percent of the total, which demonstrates the federal government’s desire to anchor fiscal discipline in the public finances of Brazilian states and municipal governments in the context of the 2000 Law of Fiscal Responsibility.
Conclusions: Political economy of public finance accountability

Multilateral lending to budget oversight institutions is still evolving. Nevertheless, four important lessons can be learned from the experience of the WB and the IDB in Latin America and the Caribbean over the past decade.

Question of strategy

A first lesson concerns the choice of the most effective strategy for strengthening budget oversight and external auditing. Integrated approaches such as those privileged by the WB incorporate the support to external audit agencies into broader interventions aimed at strengthening financial management systems. Focused approaches, such as those adopted by the IDB, entail designing stand-alone investment loans specifically and exclusively intended to strengthen national parliaments or external audit agencies. Both strategies have their advantages and disadvantages, as targeted investment loans tend to be more self-contained and focused, while integrated investment loans allow for greater consistency and coherence in multilateral support to financial management systems. However, WB lending operations primarily focus on improving financial management systems within the executive branch, while IDB loans increasingly incorporate considerations of the role of parliaments in the budgetary process.

The US$28 million IDB loan to Guyana is particularly interesting in this context, for two reasons. First, it includes both a US$15 million policy-based loan component and a US$12.7 million investment loan component. Conditions attached to the policy-based loan component include provisions to strengthen external auditing, such as the adoption of a new audit law and the definition of rules, policies and procedures for the external audit agency, the Office of the Auditor General (OAG). Second, it combines support to both the executive and legislative branches of government in the strengthening of fiscal oversight. One of the three sub-components of the investment loan aims to strengthen financial oversight functions of parliament.

Choice of instruments

A second lesson from the review of multilateral support to budget oversight institutions relates to the choice of instruments. There is indeed scope for enhancing the synergies between available instruments. It could well be argued that some of these instruments are more effective at reforming budget oversight institutions, whilst others are more effective at strengthening them. Investment lending and technical assistance are likely to be more effective when they add capacity to an already capable institution. In contrast, the conditionality attached to larger policy-based loans is likely to be more effective at reforming institutions whose performance is judged lacking or inadequate. Analytical work, advisory services and policy dialogue can serve both purposes, as do IMF’s surveillance mechanisms, such as the periodic review of fiscal standards and codes.

These considerations are also reflected in the IDB loan to Guyana subscribed to in 2004. The conditionality attached to its policy-based loan component is intended to accompany a process of constitutional and institutional reform, which started in 2000. As a result of the Herdmanston Accord signed by the two main political parties in the wake of the disputed 1997 elections, a series of constitutional amendments were passed in 2000-2001, several of which relate to financial oversight. The political process broke down in 2002, to be only partially reinitiated in 2003. It is in that context that the IDB designed the Fiscal and Financial Management Programme, which combined the ‘stick’ of policy-based lending conditionality and the ‘carrot’ of
technical assistance grants and investment lending to tackle the structural dysfunctions of the external audit agency. The OAG lacked political independence, technical capacity and financial autonomy.

The WB completed a CFAA in June 2002, which made a series of recommendations for reforming fiscal control. The adoption of a new audit loan was part of the conditionality package, yet technical assistance was also promised. In 2001, a constitutional amendment was passed to enhance the independence of the auditor general and, with IDB technical assistance, a new audit law and new internal rules and procedures were drafted. Once these prior conditions have been fulfilled, the IDB made it clear that a US$0.6 million technical cooperation grant would be made available to support the strengthening of the external audit agency.
Political economy dimensions

The third lesson from the review concerns the centrality of the political economy of budget oversight and external auditing of public finances. It underscores that strengthening technical capacity per se does not necessarily improve the effectiveness of external audit agencies, nor has it prevented them from being captured.

The case of Nicaragua is symptomatic in that regard (World Bank 2004d). Public sector reform in Nicaragua suffered major setback in the wake of the constitutional reforms of 2000. These resulted in the division of key state institutions along party lines, including the external audit agency, the Contraloría General de la República now headed by five-member council. At the same time, the new administration reaffirmed its commitment to fight corruption and increase transparency. Fiscal control system is generally characterised by poor government accounting, weak ex-ante controls and ineffective internal audit systems and inconsequential external audits. Capacity constraints and organisational dysfunctions are now compounded by the politicisation of the agency and the neutralisation of the external audit function. In mid-2002, the IDB approved a US$5.4 million loan for a US$6 million programme to modernise the external audit agency. It could nevertheless be argued that what the audit agency needs is not being strengthened, but being reforms. The use of an investment loan might thus be questioned.

Increasing technical capacity and enhancing analytical capabilities through improving information technology or upgrading investigation techniques are likely to remain ineffectual as long as there does not exist the political space for them to be exercised effectively and responsibly. Furthermore, technical improvements are likely to be emasculated by adverse political developments. Even a perfect technical solution would be powerless before overwhelming political incentives against sound financial management. Therefore, the key question is whether endowing budget oversight institutions with more technical capacity can strengthen them, or whether increased independence would lead these institutions to create and utilise technical capacity more effectively. Consequently, should institutional capacity be build first or should it emerge as a result of the emergence of the right political incentives? Clearly institutional capacities and political incentives ought to be addressed simultaneously. This, in turn, requires grappling the political economy of public finance accountability.

However, multilateral banks tend to resist confronting the broader governance context in which external audit agencies operate and the incentives conditioning public finance accountability. This reluctance might be explained by the fact that loans are ultimately subscribed to by borrowing governments. It might also be explained by the fact that such issues are best addressed through other instruments, such as policy dialogue, analytical work, advisory services, or as part of the conditionality attached to policy-based loans. Nevertheless, the MDBs increasingly acknowledge the centrality of political economy factors in initiating, pursuing and sustaining institutional reform. The IDB (2003:8-9) recognises that ‘projects that are limited to changing instrumental elements or simply strengthen technical organizational capacities, without altering the structure of incentives that affect the political will to apply them are likely in general to have a negligible impact. Thus institutional changes that condition the effectiveness of instrumental and organizational reforms need to be addressed at the same time […] It does little good to establish a financial management system without the development of a budgetary authority with the professional independence, power, and capacity to enforce it.’

Therefore, there exists unexplored potential in the support provided by multilateral banks to national parliaments and external audit agencies. Multilateral support to budget oversight
institutions should more purposefully seek to strengthen the political independence and financial autonomy of external audit agencies and enhance the functional linkages between institutions of fiscal control, in particular parliamentary budget and public accounts committees and external audit agencies. Reform efforts fail not only because they are incomplete, but also because they are often designed to solve technical shortcomings when problems lie in the institutional framework and the structure of incentives.

Explaining the unexpected

A puzzling paradox of the review of multilateral lending to budget oversight institutions resides actually in their occurrence: Why do governments accept strengthening those very institutions tasked with overseeing and restraining them? Why do they subscribe multilateral loans to do so? The very fact that borrowing governments subscribe such loans, even reluctantly, is, in itself, a considerable achievement. Lending to oversight institutions necessarily requires the consent or ascent of borrowing governments, as multilateral banks only lend to governments. It reflects the increasing recognition by governments of the importance of strengthening budget oversight and financial accountability functions. Further research is indeed required to explain why governments agree to restrain themselves by strengthening the institutions of government oversight and the conditions under which these institutions can be reformed.

These considerations partly explain the limitations placed on multilateral loans, both by borrowing government as well as by the multilateral banks themselves. Such initiatives tend to challenge the prevailing consensus on the most adequate institutional arrangement for guaranteeing fiscal responsibility (Alesina and Perotti 1995; Alesina et al 1999; Stein et al 1998). Economic orthodoxy posits that the centralisation of budgetary systems and the concentration of budgetary powers within the executive are ‘more likely to enforce fiscal restraint, avoid large and persistent deficits and implement fiscal adjustments more promptly’ (Alesina and Perotti 1996:7). It warns against the dysfunctional fiscal effects of unrestrained legislative budgetary powers and consequently favours the insulation of economic policymaking within the executive branch.

While these arguments are substantiated by empirical and statistical evidence, the recent emphasis strengthening the institutions of oversight and accountability in public finance management reveals recognition of the risks of excessive executive discretion in public budgeting. Admittedly, 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 lead to serious economic mismanagement, pervasive corruption and state capture.

The governance of the budget reflects a delicate balance between executive power and legislative oversight. The key challenge of effective budget oversight and financial accountability in Latin American presidential systems is how to retain the advantages of strong executive authority required to ensure fiscal discipline while providing the institutional checks and balances that guarantee effective accountability. Ultimately, fiscal responsibility and democratic accountability are forged simultaneously. Strengthening the institutions of 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.
References


_________. 2004d. ‘Lending to Credibility: The Inter-American Development Bank and Budget Oversight Institutions in Latin America,’ *CEPAL Review* 83:171-190.


Table 1: Country policy and institutional assessment variables

<table>
<thead>
<tr>
<th>CPIA VARIABLES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Economic Management</strong></td>
</tr>
<tr>
<td>1. Management of inflation and macroeconomic imbalances</td>
</tr>
<tr>
<td>2. Fiscal policy</td>
</tr>
<tr>
<td>3. Management of external debt</td>
</tr>
<tr>
<td>4. Management and sustainability of the development programme</td>
</tr>
<tr>
<td><strong>B. Structural Policies</strong></td>
</tr>
<tr>
<td>5. Trade policy and foreign exchange regime</td>
</tr>
<tr>
<td>6. Financial stability and depth</td>
</tr>
<tr>
<td>7. Banking sector efficiency and resource mobilisation</td>
</tr>
<tr>
<td>8. Competitive environment for the private sector</td>
</tr>
<tr>
<td>9. Factor and product markets</td>
</tr>
<tr>
<td>10. Policies and institutions for environmental sustainability</td>
</tr>
<tr>
<td><strong>C. Policies for Social Inclusion and Equity</strong></td>
</tr>
<tr>
<td>11. Gender</td>
</tr>
<tr>
<td>12. Equity of public resource use</td>
</tr>
<tr>
<td>13. Building human resources</td>
</tr>
<tr>
<td>14. Social protection and labour</td>
</tr>
<tr>
<td>15. Monitoring and analysis of poverty outcomes and impacts</td>
</tr>
<tr>
<td><strong>D. Public Sector Management and Institutions</strong></td>
</tr>
<tr>
<td>16. Property rights and rule-based governance</td>
</tr>
<tr>
<td>17. Quality of budgetary and financial management</td>
</tr>
<tr>
<td>18. Efficiency of revenue mobilisation</td>
</tr>
<tr>
<td>19. Quality of public administration</td>
</tr>
<tr>
<td>20. Transparency, accountability and corruption in the public sector</td>
</tr>
</tbody>
</table>

Source: IDA 2002:11.
Table 2: Indicators of public finance management performance

A. Public finance management out-turns
1. Aggregate fiscal deficit compared to the original approved budget.
2. Composition of budget expenditure out-turn compared to the original approved budget.
3. Aggregate revenue out-turn compared to the original approved budget.
4. Stock of expenditure arrears; accumulation of new arrears over past year.

B. Key cross-cutting features: Comprehensiveness and transparency
5. Comprehensiveness of aggregate fiscal risk oversight.
6. Extent to which budget reports include all significant expenditures on central government activities, including those funded by donors.
7. Adequacy of information on fiscal projections, budget and out-turn provided in budget documentation.
8. Administrative, economic, functional and programmatic classification of the budget.
10. Publication and public accessibility of key fiscal information, procurement information and audit reports.

C. Budget cycle

C(i) Medium term planning and budget formulation
11. Extent of multi-year perspective in fiscal planning, expenditure policy-making and budgeting.
12. Orderliness and participation in the budget formulation process.
13. Coordination of the budgeting of recurrent and investment expenditures.
14. Legislative scrutiny of the annual budget law.

C(ii) Budget execution
15. Effectiveness of cash flow planning, management and monitoring.
16. Procedures in operation for the management and recording of debt and guarantees.
17. Extent to which spending ministries and agencies are able to plan and commit expenditures in accordance with original/revised budgets.
18. Evidence available that budgeted resources reach spending units in a timely and transparent manner.
19. Effectiveness of internal controls.
20. Effectiveness of internal audit.
21. Effectiveness of payroll controls.
22. The existence of a transparent procurement system as an integral part of the overall PFM system, which is supported by a clear regulatory framework that provides for competition, value for money and effective controls.

C(iii) Accounting and reporting
23. Timeliness and regularity of data reconciliation.
24. Timeliness, quality and dissemination of in-year budget execution reports.
25. Timeliness and quality of the audited financial statements submitted to the legislature.

C(iv) External accountability, audit and scrutiny
26. The scope and nature of external audit.
27. Follow up of audit reports by the executive or audited entity.
28. Legislative scrutiny of external audit reports.

Table 3: Multilateral lending to national parliaments

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Lender</th>
<th>Project</th>
<th>Amount (in US$ million)</th>
<th>Total</th>
<th>Multilateral lending</th>
<th>Counterpart financing</th>
<th>Disbursement period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Argentina</td>
<td>IDB</td>
<td>Institutional Strengthening of the Senate of the Republic</td>
<td>8</td>
<td>4.8</td>
<td>3.2</td>
<td>4 years</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>Guyana</td>
<td>IDB</td>
<td>Fiscal and Financial Management Programme</td>
<td>1.2&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1.2&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0</td>
<td>4 years</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>Costa Rica&lt;sup&gt;d&lt;/sup&gt;</td>
<td>IDB</td>
<td>Modernisation of the Legislative Assembly</td>
<td>7</td>
<td>6</td>
<td>1.48</td>
<td>4 years</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>Peru</td>
<td>IDB</td>
<td>Institutional Strengthening of the Peruvian Congress</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>4.5 years</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>Guatemala&lt;sup&gt;e&lt;/sup&gt;</td>
<td>IDB</td>
<td>Modernisation of the Congress of the Republic</td>
<td>14.40</td>
<td>12.00</td>
<td>2.40</td>
<td>4 years</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>Honduras</td>
<td>IDB</td>
<td>Modernization of the Honduran Congress</td>
<td>3.25</td>
<td>2.60</td>
<td>0.65</td>
<td>4 years</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>Dominican Republic</td>
<td>IDB</td>
<td>Programme for Modernising the National Congress and the Office of the Comptroller General</td>
<td>25.55&lt;sup&gt;f&lt;/sup&gt; (28)</td>
<td>22.30 (22.30)</td>
<td>3.25 (5.70)</td>
<td>3 years</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>Colombia</td>
<td>IDB</td>
<td>Modernisation of the Congress of Colombia</td>
<td>10</td>
<td>6</td>
<td>4</td>
<td>n.a.</td>
<td></td>
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<tr>
<td>1999</td>
<td>El Salvador</td>
<td>IDB</td>
<td>Modernisation and Strengthening of the Legislative Assembly</td>
<td>4.40</td>
<td>3.50</td>
<td>0.90</td>
<td>4 years</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>Brazil</td>
<td>IDB</td>
<td>Interlegis - Legislative Integration and Participation Network</td>
<td>50</td>
<td>25</td>
<td>25</td>
<td>3 years</td>
<td></td>
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<tr>
<td>1996</td>
<td>Panama</td>
<td>IDB</td>
<td>Project to Modernise the Legislature</td>
<td>4.10</td>
<td>2.80</td>
<td>1.30</td>
<td>4 years</td>
<td></td>
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<tr>
<td>1994</td>
<td>Peru</td>
<td>IDB</td>
<td>Institutional Development for the Legislative Branch of Government</td>
<td>3.74</td>
<td>2.70</td>
<td>1.04</td>
<td>n.a.</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL**                                           | 150.14 | 102.30 |

Source: Based on projects approved or in design, as of October 2004.

<sup>a</sup> Loan operation under consideration (DCP), 23 June 2004.
<sup>b</sup> The program consists of two interrelated components: a policy-based component (US$15 million) and an investment component (US$13 million), with a sub-component (US$1.2 million) aimed at enhancing fiscal and fiduciary oversight by strengthening key economic oversight committees of the National Assembly, the long-standing Public Accounts Committee and the newly-established Economic Services Committee.
<sup>c</sup> Amount assigned to National Assembly of Guyana. As it is not possible to distinguish the share of counterpart financing, the overall amount of the programme is attributed to the IDB.
<sup>d</sup> Loan operation in the design stage (Perfil I), 6 June 2003.
<sup>e</sup> Loan operation in the approval stage (Perfil II), 21 March 2002.
<sup>f</sup> Amount allocated to the parliament of a larger loan.
Table 4: Multilateral lending to external audit agencies

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Lender</th>
<th>Project Description</th>
<th>Amount (in US$ million)</th>
<th>Counterpart financing</th>
<th>Disbursement period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Multilateral lending</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>Haiti a</td>
<td>WB</td>
<td>Economic Governance Reform Operation Project (includes a component on strengthening financial oversight and fiscal control institutions)</td>
<td>n.a (50.3)</td>
<td>n.a</td>
<td>1 year</td>
</tr>
<tr>
<td>2004</td>
<td>Peru</td>
<td>IDB</td>
<td>Modernization of the Office of the Comptroller General</td>
<td>14.50</td>
<td>10.15</td>
<td>4 years</td>
</tr>
<tr>
<td>2002</td>
<td>Brazil</td>
<td>IDB</td>
<td>Modernization of the Federal Court of Accounts</td>
<td>10</td>
<td>5</td>
<td>3 years</td>
</tr>
<tr>
<td>2002</td>
<td>Chile</td>
<td>IDB</td>
<td>Modernization of the Office of the Comptroller General of the Republic</td>
<td>25</td>
<td>15</td>
<td>4.5 years</td>
</tr>
<tr>
<td>2002</td>
<td>Ecuador</td>
<td>WB</td>
<td>Public Sector Financial Management Project</td>
<td>1.03 (18.84) b</td>
<td>1.03 (13.86) c</td>
<td>4.5 years</td>
</tr>
<tr>
<td>2002</td>
<td>Nicaragua</td>
<td>IDB</td>
<td>Modernization Program of the General Auditing Office</td>
<td>6</td>
<td>5.40</td>
<td>4 years</td>
</tr>
<tr>
<td>2000</td>
<td>Colombia</td>
<td>IDB</td>
<td>Strengthening the Offices of the Comptroller General and Auditor General of the Republic</td>
<td>42</td>
<td>23</td>
<td>4 years</td>
</tr>
<tr>
<td>2000</td>
<td>Dominican Republic</td>
<td>IDB</td>
<td>Program for Modernizing the National Congress and the Office of the Comptroller General</td>
<td>2.45 (28) d</td>
<td>2.45 (22.30) e</td>
<td>3 years</td>
</tr>
<tr>
<td>2000</td>
<td>Honduras f</td>
<td>IDB</td>
<td>Strengthening and modernisation of the Directorate for Administrative Probity</td>
<td>3</td>
<td>2.5</td>
<td>0.50 n.a.</td>
</tr>
<tr>
<td>2000</td>
<td>Honduras</td>
<td>WB</td>
<td>Economic and Financial Management Project (amended in 2003)</td>
<td>2.33 (23) g</td>
<td>2.33 (19) h</td>
<td>0 (4)</td>
</tr>
<tr>
<td>1999</td>
<td>El Salvador</td>
<td>IDB</td>
<td>Modernization and Strengthening of the Accounts Tribunal</td>
<td>4</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>1997</td>
<td>Bolivia</td>
<td>WB</td>
<td>Public Financial Decentralization and Accountability Project</td>
<td>7.3 (19.6) i</td>
<td>7.3 (13.3) j</td>
<td>0 (6.3)</td>
</tr>
<tr>
<td>1994</td>
<td>Uruguay</td>
<td>IDB</td>
<td>Modernization of the Accounts Tribunal</td>
<td>1.50</td>
<td>1.41</td>
<td>0.09 n.a.</td>
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<tr>
<td>1993</td>
<td>Caribbean</td>
<td>IDB</td>
<td>Audit Institutions of the Caribbean Countries</td>
<td>0.81</td>
<td>0.60</td>
<td>0.21 n.a.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>119.92</strong></td>
<td><strong>76.17</strong></td>
</tr>
</tbody>
</table>

Source: Based on projects approved or under consideration, as of October 2004.

a Loan operation in the approval stage.
b Total amount allocated to the entire Public Sector Financial Management Project in Ecuador.
c Amount assigned to the external audit agency of Ecuador. As it is not possible to distinguish the share of counterpart financing, the overall amount of the programme is attributed to the WB.
d Total amount allocated to the strengthening of both the national parliament and external audit agency of the Dominican Republic.
e Amount assigned to the external audit agency of the Dominican Republic. As it is not possible to distinguish the share of counterpart financing, the overall amount of the programme is attributed to the IDB.
Loan operation in the design stage (Perfil I) as of 19 July 2000. The Directorate for Administrative Probity was established in 1975 as an auxiliary institution to the external audit agency of Honduras. Nowadays, it is an autonomous control agency with constitutional rank (article 232 of the Constitution), assisting parliament in its oversight functions.

Total amount allocated to entire Economic and Financial Management Project.

Amount assigned to the external audit agency of Honduras, until 2003 the Contraloría General de la República (CGR) and thereafter the Tribunal Superior de Cuentas (TSC). As it is not possible to distinguish the share of counterpart financing, the overall amount of the programme component is attributed to the WB.

Total amount allocated to entire Public Financial Decentralization and Accountability Project.

Amount assigned to the external audit agency of Bolivia. As it is not possible to distinguish the share of counterpart financing, the overall amount of the programme component is attributed to the WB.

### Table 5: Multilateral lending to external audit agencies in relative terms

<table>
<thead>
<tr>
<th>Country</th>
<th>External audit agency annual budget</th>
<th>Annual multilateral lending</th>
<th>As percentage of external audit agency’s annual budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil (2003)</td>
<td>242.2</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Chile (2002)</td>
<td>19.0</td>
<td>3.3</td>
<td>17.4</td>
</tr>
<tr>
<td>Colombia (2003)</td>
<td>54.3</td>
<td>5.8</td>
<td>10.6</td>
</tr>
<tr>
<td>Nicaragua (2002)</td>
<td>5.2</td>
<td>1.5</td>
<td>28.8</td>
</tr>
</tbody>
</table>

Source: Based on the information provided by the respective external audit agencies’ websites.

*: The fluctuation of the dollar warrants caution when using it as a referent.