

# **The Challenge of a Participative Budget Process in Peru<sup>1</sup>**

Eduardo Morón  
Claudia Gonzales del Valle

Universidad del Pacifico  
Economics Department

## **The Background**

In the last years, Peru has been newsworthy basically due to the incredible history of the Fujimori – Montesinos duo. For the Peruvians has been a sudden nightmare. The President was able to stop the hyperinflation process, abate the Shinning Path terrorist group, and storm into the Japanese embassy to end the 127-day MRTA kidnapping. The same President suddenly was abandoning the country in the midst of a massive corruption scandal. All of a sudden the President has been a Japanese citizen, the network of corruption involve most of the high ranking military, and the main advisor of the President was able to amass and sent abroad more than 1 billion dollars.

The years of high GDP growth and the modernization of the 1990s were no longer enough for a society absolutely shocked by the string of videos displayed one per night showing how the military, the judiciary, the entrepreneurs, the politicians, the media, even the showbiz people were co-opted by this amazing network.

The democracy returned in 1980 after 12 years of military rule, with that the possibility to have a Congress playing a key role in the discussion of public policies and monitoring the government. However, an overwhelming majority not willing to discuss or keeping a close and critic eye on the ruling government characterized the Congress elected in 1980 and 1985. During that decade, the Congress was an example of fiscal imprudence, the army of advisors to the Budgetary Committee was not well prepared to do a critical appraisal of the budget proposals and was just an instrument to exert lobby over to the government. The civil society was coming out of a long process of military censorship and the organizations were still emerging.

---

<sup>1</sup> This paper is part of an international effort to work on Budget Transparency in Latin America funded by Ford Foundation. This work has been benefited with the interaction of several Latin American institutions with the innovative work at IDASA.

As the decade went through, the increasing public sector deficits provoke the first hyperinflation in our history. When Fujimori came to office in 1990, the Congress has been a crucial factor allowing the fiscal disarray. They didn't toss out the members of the Central Bank Board or impeach the Ministers of Finance that were responsible of such misdeeds.

There is no surprise that most of the population support President Fujimori when he decided to close the Congress (in which he had a minority) in 1992, or when he asked to have a unique chamber instead of a Senate and a Representatives Chamber. Politicians in the beginning of the 1990s were an endangered species.

### **The Challenge**

We are about to elect a new government and one of its main tasks will be to setup mechanisms to avoid stepping into the same problems. In Peru, every time that we had had a Congress without a strong majority the government has finished with a coup d'état!

We need a Congress willing to do a responsible job of closely scrutinize all the acts of the next government but doing the fine balance of not asking for powers to erode an already weak fiscal position (the fiscal deficit will close in 3% in 2001, the same as in 2000). Their powers to change the Executive budget proposal were stripped after years of uncooperative behavior.

In the current legislation, the Congress will host a series of budget hearings with officials of the Executive. They can even ask for specific changes in the budget proposal. However, the Executive has the power to ignore absolutely all the demands raised by the Congress and sanction as a law, the budget proposal as it was presented in the very first place. There is no veto power or anything else. The Congress is just a guest with voice but no real power in the approval phase.

This limited role only will change if the Congress shows that it can combine a very active monitoring role with a bias toward fiscal prudence and the accomplishment of public commitments and priorities. In early 2000 it was sanctioned the Law of Fiscal Prudence and Transparency that forces the Executive to prepare a multi-annual budget that fits under strict macroeconomic goals. This law has been violated since the day it was enacted. There are no real penalties for authorities that show lack of compliance and therefore an unenforceable law is no real restriction. A responsible Congress should be the first to raise the voice and demand an exhaustive explanation instead of keeping the silence of an accomplice.

But this limited power is not just in the approval stage. In terms of monitoring capabilities the Peruvian Congress is composed only by 120 members. The office that used to exist to support budget analysis was dismissed in 1990, as their contribution was

scarce<sup>2</sup>. Even though the Executive has recently been quite active fostering budget transparency, setting up an internet portal (<http://transparencia-economica.mef.gob.pe>) that carries the daily budget execution in a very detailed way there is still much work to be done<sup>3</sup>. For instance, a lot of information is not the same as transparent information. Despite the effort to put online manuals in the portal, is still a very cumbersome way to present budget data. Even if we have all the information on how much does it cost to provide free breakfast to 100 communities, if we don't have the data on how many breakfasts are being served at each community how could we pinpoint an inefficient expenditure? It seems that the government need to put quite a large effort in using a much more accessible language. The civil society needs to be informed but in an effective way.

In this respect is important to remark that one of the tasks for the next government is to foster the participation of the civil society in all stages of the budget process. Therefore, it has to put a lot more effort to receive inputs from the civil society. It should not just invite them to the Congressional hearings. It should be the task of the government to establish a feedback from the civil society that will be useful to both parts.

The government might incentive this feedback through a two-way strategy: the first one should be carried out by local government and the second one by the Congress. There are a bunch of prerequisites linked to the establishment of policies to enhance civil society participation at the local level. However, a fundamental one could be pushed by the central government decentralizing the resource allocation and empowering local governments. Once this expenditures are assigned in a decentralized way, the society will have a much clear reason to intervene in the local budget process. Not only they will improve the allocation of very scarce resources putting the money in projects needed by the community, but also will improve the accountability of local authorities as the community will be able to monitor their local governments as they are the responsible of projects execution instead of the central government..

It's important to mention that in Peru there have been some preliminary efforts to introduce the civil society in the formulation of the municipal budgets. For example, in the district of Villa el Salvador in Lima the community is working out a participative budget<sup>4</sup> with the support of Porto Alegre County (Brazil).

On the other hand, the Congress should direct its strategy to foster the involvement of civil society organizations in the monitoring phase of the budget process, specially aimed to check the effectiveness of public expenditure. In Peru, the Congress has lost its power to act as a counterbalance to the Executive. This is explained by the ineptitude of its members. This open a space for some sectors of the civil society: those that have expertise in following the impact and effectiveness of public projects and in budgetary

---

<sup>2</sup> This Congressional Budget Office was composed by 200 advisors and were more a lobby force than a true unit of budget analysis.

<sup>3</sup> All government transactions come through a centralized and electronic system called SIAF. Now is possible to see all the budget execution as the internet portal replicates a SIAF terminal.

<sup>4</sup> This is an innovative process of policy formulation aimed to strengthen the role of citizens in the decision making process of issues of public interest, in the reform of the government administration and the allocation of resources.

issues (like academic research centers or specialized NGOs). Both of these actors could start a dialogue in which the civil society gives the Congress the inputs to press the executive in order to improve the quality of the public expenses.

Naturally, the Congress should spread out this information through the media, in order to obtain better results in terms of the influence over the public officials in charge of formulating the budget.

The responsibility of opening spaces for the civil society participation is not just in the hands of the government. The civil society by itself should assume a more active role looking to show the inequities in budget allocations and voicing out public official misdeeds. Unfortunately, in Peru most of the newly created NGOs lack of a real commitment to deliver changes and end up assuming a passive role about the public and budgetary issues.

The forthcoming government will have a divided Congress and there is growing support to the idea of having a more powerful Congress and a more limited and supervised Executive. Some people had suggested that we should continue videotaping all government decisions and make that public to enforce a more transparent decision process and a better accountability.

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