

Budget earmarks set aside a percentage of government funds, which can be estimated as a share of GDP for specific sectors such as health, education or defence, and are established by the constitution, or by primary or secondary legislation. Their purpose is to pre-commit a percentage of government spending to specific sectors. In the wake of the recent economic and financial crisis, earmarked funds have become increasingly relevant as governments seek to improve the efficiency and effectiveness of public spending. Furthermore, many LAC countries pre-assign a certain percentage of total expenditures as transfers to regions as a means to deepen the decentralisation processes.

Budget earmarks can result in budget rigidities and the inability of public officials to fund programmes that are in line with their policy priorities as opposed to those that are pre-committed. This, in turn, can lead to a lack of new and strategic initiatives, and a perpetuation of programmes that are no longer necessary or constitute an efficient use of resources. Excessive amounts of earmarks can also compromise macroeconomic stability by making it difficult for governments to adjust fiscal aggregates to changing macroeconomic perspectives, leading to further indebtedness in cases of sudden macroeconomic shocks. Finally, when calculated as a share of GDP, earmarks contribute to pro-cyclical spending by increasing expenditures when the overall economy is growing, and decreasing them in times of crisis.

From the point of view of line ministries, however, budget earmarks increase the predictability of resources in the medium- and long-term, giving them greater flexibility to plan annual and multi-annual operations. Earmarks also protect important social sectors from short-term fluctuations in funding that may hinder long-term national objectives.

Many countries in LAC have budget earmarks embedded in the constitution or created through primary legislation. In Brazil and Costa Rica, earmarks constitute between 81% and 100% of total central government expenditure destined primarily to health, education and security. Colombia has a similar level of earmarked funds, 61%-80%, which are destined for transfers to sub-national governments, pensions and public sector employee costs. Budget earmarks in Guatemala amount to 41%-60% of public expenditures and cover a variety of sectors ranging from health to justice. The

specific public service that is most commonly committed through constitutional or legal mandates is education. Of the surveyed countries, Jamaica, Panama and Peru do not have budget earmarks.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude practices at the sub-national level.

A budget earmark is defined as a pre-assigned fund. It is a line item established by law, decree or constitutional mandate, and is independent of the executive. It corresponds to revenues from a specific source or other transfers. Earmarks do not correspond to those expenditures stemming from operational concepts such as payroll value or debt service.

Further reading

- Bonilla, J., J. Echeverry and A. Moya (2006), "Rigideces Institucionales y Flexibilidad Presupuestaria: Origen, Motivación y Efectos sobre el Presupuesto", Inter-American Development Bank, Washington, DC.
- Diamond, J. and B. Potter (1999), *Guidelines for Public Expenditure Management*, International Monetary Fund, Washington, DC.


Table notes

- 4.13: In the case of Peru, although no budgetary earmarks are reported, the country has "regular resources" and "specific resources". Regular resources are transfers to the regions that are not included in the budget. Specific resources are transfers resulting from specific sources of revenues such as customs revenues and royalties. For Guatemala, the percentage reflects the percentage of tax revenue that is earmarked. Data for Chile and Mexico refer to 2012.

4.13. Budget earmarks (2013)

| | Percentage of total expenditure that is pre-assigned | Legal basis of budget earmark and corresponding sector | | | | | |
|------------------------------------|--|--|-----------|---------|----------|---------|---------------------------------------|
| | | Health | Education | Defence | Security | Justice | Transfers to sub-national governments |
| Argentina | 41-60 | ■ | ■ | x | x | ■ | x |
| Brazil | 81-100 | ● | ● | x | ■ | x | ● |
| Colombia | 61-80 | x | x | x | x | x | ● |
| Costa Rica | 81-100 | ■ | ●■ | x | ■ | ●■ | x |
| Chile | 0-20 | x | x | ■ | x | x | ■ |
| Ecuador | 0-20 | ●■ | ●■ | x | x | x | ●■ |
| El Salvador | 0-20 | x | x | x | x | ● | ■ |
| Guatemala | 41-60 | ●■ | ●■ | ●■□ | ●■ | ●■ | ●■ |
| Honduras | 0-20 | x | ● | x | x | ■ | ● |
| Jamaica | .. | .. | .. | .. | .. | .. | .. |
| Mexico | 41-60 | x | x | x | x | x | ■ |
| Panama | .. | .. | .. | .. | .. | .. | .. |
| Paraguay | 21-40 | x | ●■ | x | x | ■ | x |
| Peru | x | x | x | x | x | x | x |
| Total | | | | | | | |
| ● Constitution | | 3 | 6 | 1 | 1 | 3 | 5 |
| ■ Primary legislation | | 4 | 5 | 2 | 3 | 5 | 5 |
| □ Secondary legislation | | 0 | 0 | 1 | 0 | 0 | 0 |
| ○ Other legal basis | | 0 | 0 | 0 | 0 | 0 | 0 |
| x Not applicable/no budget earmark | | 7 | 5 | 10 | 9 | 6 | 4 |
| .. Not available | | 2 | 2 | 2 | 2 | 2 | 2 |

Source: 2013 OECD Survey on Budget Practices and Procedures.

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