



Working Paper Series on  
**Public  
Sector**  
Management

## **Performance-Informed Budgeting in Latin America Experiences and Opportunities<sup>1</sup>**

**April 2009**

**Working Paper 0309**

---

<sup>1</sup> This note was prepared by Pedro Arizti, Mariano Lafuente, Nick Manning, Fernando Rojas and Theo Thomas, all from the Public Sector Management Unit in the Latin America and the Caribbean Region at the World Bank. The authors are grateful to the Instituto Latinoamericano y del Caribe de Planificación Económica y Social (ILPES) for their study, funded by the World Bank, of the budgeting practices in four Latin American countries. The paper benefited from significant inputs from Gerardo Uña (consultant - budget management) and from the comments of Bill Dorotinsky (Lead Public Sector Specialist in the World Bank) and Barry Anderson (Head of the Budgeting and Public Expenditures Division, OECD) in addition to a range of people both inside and outside the World Bank and builds on prior work, the most prominent of which are included in the references section.

*The paper does not reflect the official views of the World Bank, its Executive Board, member governments, or any other entity mentioned herein. The views expressed in this paper belong solely to the authors.*

## TABLE OF CONTENTS

<b>1. INTRODUCTION.....</b>	<b>5</b>
<b>2. WHAT IS PERFORMANCE BUDGETING?.....</b>	<b>6</b>
2.1 DEFINING PERFORMANCE .....	6
2.2 PERFORMANCE BUDGETING .....	7
2.3 WHY PERFORMANCE-INFORMED BUDGETING IN LATIN AMERICA? .....	9
2.4 IMPLEMENTING PERFORMANCE-INFORMED BUDGETING—THE INSTITUTIONAL CONTEXT IN SELECTED LATIN AMERICAN COUNTRIES .....	9
<b>3. THE USE OF PERFORMANCE INFORMATION IN THE BUDGET CYCLE .....</b>	<b>13</b>
3.2 USERS OF PERFORMANCE INFORMATION .....	13
3.2 USERS AND USES OF PERFORMANCE INFORMATION IN LATIN AMERICA.....	16
<b>4. THE TECHNICAL FOUNDATIONS OF PERFORMANCE-INFORMED BUDGETING ....</b>	<b>24</b>
4.1 INTRODUCING A BUDGET CLASSIFICATION BY OBJECTIVES AND PROGRAMS .....	24
4.2 A MULTI-ANNUAL FRAMEWORK .....	25
4.3 A ROBUST INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS) .....	26
4.4 STRENGTHENING THE ROLE OF PERFORMANCE AUDIT, AND MONITORING AND EVALUATION.....	27
4.5 STRENGTHENING THE QUALITY OF PERFORMANCE INFORMATION.....	28
<b>5. BEYOND THE BUDGET—MANAGEMENT OF PEOPLE.....</b>	<b>32</b>
<b>6. CONCLUDING REMARKS—AN AGENDA FOR LATIN AMERICA .....</b>	<b>37</b>
<b>7. REFERENCES .....</b>	<b>39</b>

### Tables

Table 1: Typical performance measures .....	6
Table 2: Performance budgeting categories.....	8
Table 3: Identifying the main users of performance information .....	14
Table 4: Use of performance information by key actors in selected Latin American countries ..	18
Table 5: Technical foundations of performance-informed budgeting in selected Latin American countries.....	30

### Boxes

Box 1: Introducing performance-informed budgeting in Spain.....	10
Box 2: Example of the French budget structure .....	25
Box 3: Spending Reviews in the United Kingdom.....	26
Box 4: Ensuring the quality of performance indicators in the United Kingdom .....	29
Box 5: Structured performance agreements.....	35
Box 6: Sequencing of reforms in Chile.....	36

Sector Manager: Nick Manning Task Manager: Theo David Thomas
---

## MAIN ABBREVIATIONS AND ACRONYMS

ASF	Auditoría Superior de la Federación—Supreme Audit Office of Mexico
CGR	Contraloría General de la República—Auditor/Controller-General of Chile and of Colombia
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social—National Evaluation Council in Mexico
DANE	Departamento Administrativo Nacional de Estadística—National Statistical Office of Colombia
DEPP	Dirección de Evaluación de Políticas Públicas—Directorate for Evaluation of Public Policy in Colombia
DIPRES	Dirección de Presupuesto—Budget Office at the Finance Ministry in Chile
DNP	Departamento Nacional de Planeación—Department of National Planning in Colombia
IFAI	Instituto Federal de Acceso a la Información Pública—Federal Institute for the Access of Public Information in Mexico
IFMIS	Integrated Financial Management Information System
ILPES	Instituto Latinoamericano y Del Caribe De Planificación Económica y Social
LGP	Ley General Presupuestaria—Spanish Organic Budget Law
M&E	Monitoring and Evaluation
MHCP	Ministerio de Hacienda y Credito Público—Ministry of Finance and Public Credit in Colombia
MIDEPLAN	Ministerio de Planeamiento—Ministry of Planning in Chile
MTEF	Medium-Term Expenditure Framework
NDP	National Development Plan
OECD	Organization for Economic Cooperation and Development
PI	Performance information
PMG	Programa de Mejoramiento de Gestion—Management improvement program in Chile
PPA	Programa Pluri-Annual—Multi-Annual investment Plan in Brazil
RBM	Results-Based Management
SED	Sistema de Evaluacion de Desempeño—Performance Evaluation System, Mexico
SFP	Secretaria de Finanzas Públicas—Ministry of Public Administration in Mexico
SIGOB	Sistema de Programación y Gestión por Objetivos y Resultados—System of Programming and Management by Objectives and Results in Colombia
SIGPLAN	Sistema de Informações Gerenciais e de Planejamento—Budget Planning and Management Information System in Brazil
SISPAC	Sistema de Monitoramento do PAC—System for monitoring performance of the Presidential investment program in Brazil (PAC)
SIIF	Sistema Integral de Información Financiera—Integrated Financial Management Information System in Colombia
SINERGIA	Sistema Nacional de Evaluación de Resultados de la Gestión Pública—National System for Evaluation of Public Sector Performance in Colombia
SUBDERE	Subsecretaria de Desarrollo—Ministry of Development in Chile

OECD member countries include Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

## SUMMARY

Governments around the world are having to adjust institutions, including their budget systems, to operate in a more global, market-orientated environment. For many OECD, and increasingly for emerging market countries, including those in Latin America, this incorporates the move toward performance-informed budgeting, i.e. systematically incorporating nonfinancial performance information into budgetary decision-making and allocation processes.

This paper firstly distinguishes how performance-informed budgeting differs from traditional budget systems through: the explicit, and greater, focus on the results of public program objectives; institutional arrangements that seek to promote a performance culture through a network of *structured performance agreements*; and the emphasis on holding senior officials accountable for deliverables, often in return for greater delegation of authority. The paper then provides a framework for analyzing the potential roles of key decision-makers and institutions that create this network of structured performance agreements throughout budget cycle. The framework is applied in four selected Latin American countries to highlight the progress made so far and also to identify possible opportunities for deepening the reforms. Lastly, the paper offers some suggestions with regard to the broader public sector reforms that are necessary to support performance-informed budgeting, particularly in the Latin American context.

## 1. INTRODUCTION

Over recent decades, OECD countries have sought new ways to use performance information in their budget systems<sup>1</sup>. While not a new concept, more recent reforms have enhanced the focus on *what actors are accomplishing with the resources provided*, rather than *how much money is being spent* in any area. Specific approaches and the tools adopted have varied considerably between countries, often reflecting the initial impetus for reform—such as the need for fiscal consolidation, a new government, or the need to improve and/or show value for money—and their various legal, political and administrative traditions.

**The objective of performance budgeting is to improve the quality of public expenditures by more efficient allocation and use of resources, consistent with political and social goals.** This has generally been a component of broader public sector reforms, especially administrative reforms, aimed at improving the efficiency and effectiveness of public services that are better aligned with government priorities. In many cases these reforms have also been designed to promote public sector responsiveness and accountability to parliaments and the public.

**Demands to improve results and to strengthen accountability have encouraged the move toward performance budgeting in Latin America.** Enabled by relatively good fiscal performance in recent years—which has improved the availability of public resources—and spurred by reformist presidents, politicians, technocrats and a demanding public, a number of countries in the region have started to develop the technical and administrative foundations needed to implement performance budgeting. However, significant challenges remain to using good quality performance information at each stage of the budget cycle.

**While country circumstance will dictate a particular reform path, this paper seeks to inform the policy and technical dialogue concerning the design and implementation of reforms throughout the Latin American region.** Firstly, the paper provides an overview of the meaning and types of performance budgeting. It then provides a framework for analyzing the potential roles and incentives of key decision-makers and institutions<sup>2</sup> that commonly create network of *structured performance agreements* throughout budget cycle. This can be critical in the move toward what is likely to be the most appropriate, and feasible, form of performance budgeting for the region, i.e. *performance-informed budgeting*. This is the systematic—though not exclusive—use of performance information in planning for public activities and ensuring accountability for deliverables, allowing for wide variation in how such information is used. Subsequent sections highlight some of the technical and managerial building blocks that have typically supported such reforms.

**This framework is highlighted using relevant OECD examples and four Latin American case studies—Mexico, Brazil, Chile and Colombia.** Each country has its own institutional arrangements that will impact on the precise nature of the reforms; for example, the strong presidential systems in Latin America have been a significant source of demand for better performance information and its use during the budget cycle. Given the complexity and diversity of reforms, and for the sake of brevity, only the most salient features have been highlighted and therefore caution should be taken in trying to generalize from these cases. These reforms are also dynamic and evolutionary in nature, meaning that the status and nature of the reforms can change rapidly.

## 2. WHAT IS PERFORMANCE BUDGETING?

Recent efforts to sharpen the focus of budgetary decisions on results entail the appropriate use of performance information by key actors at each stage of the budget cycle, to inform their decisions concerning resource allocation and value for money in the use of public resources. The main features of *performance budgeting* that distinguish it from traditional budgeting systems are:

- (i) The explicit focus on the achievement of public program objectives and their alignment with government policies, evidenced by (a) a greater use of performance targets and (b) the production and use of a distinctively wide variety of performance information throughout the budget system;
- (ii) New institutional arrangements that create a network of *structured performance agreements*, which provide incentives for the public sector to move beyond a compliance focus toward a performance culture; and
- (iii) An emphasis on holding senior officials accountable for deliverables, often with an accompanying change in the nature of expenditure controls, away from detailed ‘line item’ input controls to one where managers are held accountable for both results and the use of inputs.

### 2.1 DEFINING PERFORMANCE

The term ‘performance’ is typically used in two ways:

- (i) As a *general headline*, it is often used to convey that achievements matter as well as probity and economy in the use of resources. It is used to indicate that there is an expectation that managers or agencies should achieve certain standards or norms, and that management improvements will be directed towards that end; and
- (ii) As a *measure*, the term can refer to anything at all beyond solely inputs—whether it is in fact classifiable as outputs or outcomes, or even managerial arrangements and processes. Increasingly countries are trying to move toward outcome-based measures. Table 1 provides a brief description of the various types of performance measures.

**Table 1. Typical performance measures**

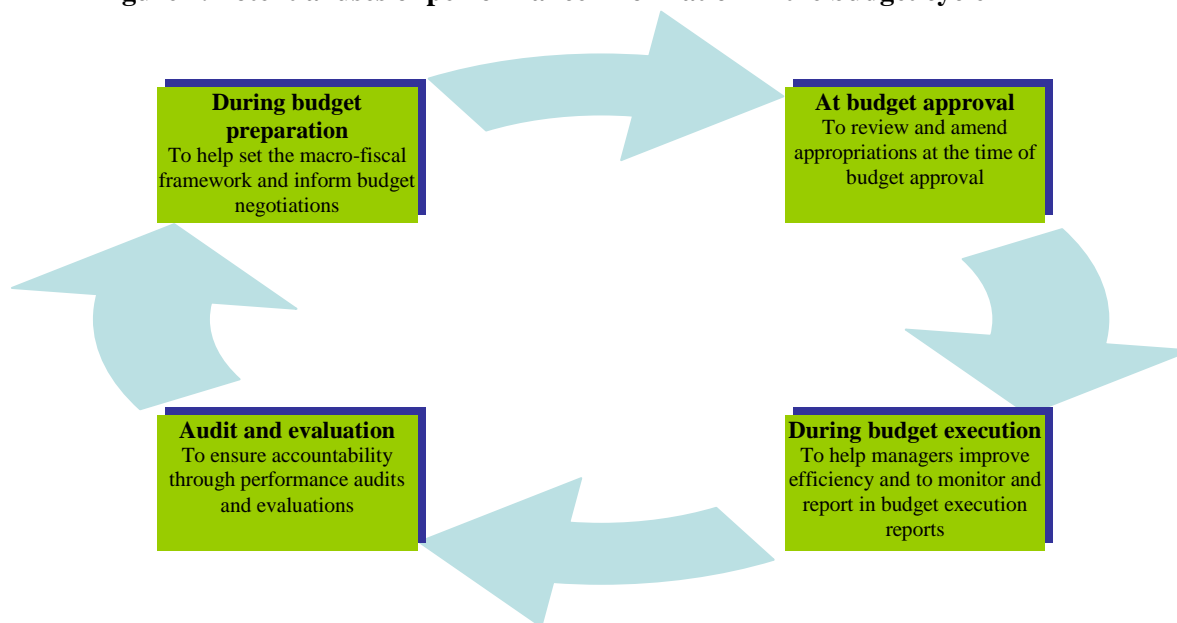
Outputs produced	Quantity, quality, cost and timeliness of products and services	
Efficiency	Output/costs	
Productivity	Output/input	
Policy goals achieved	Intermediate outcomes (direct consequences of the output)	These <b>outcome-based</b> measures are valid for performance only to the extent that there is a clear causal relationship to the individual or agency’s outputs <sup>3</sup> .
	Final outcomes (significantly attributable to the output)	
Effectiveness	Contribution of the output to the desired outcome (intermediate or final)	
Cost-effectiveness	Outcome/costs (intermediate or final)	

Source: Ketelaar, Manning *et al.* OECD 2007.

## 2.2 PERFORMANCE BUDGETING

The *foundation* of performance budgeting is the demand for, and access to, reliable information and the development of reliable management information systems that underpin the four phases of the budget cycle: preparation, approval, execution, evaluation and audit. Figure 1 summarizes some of the potential uses of performance information throughout the budget cycle.

**Figure 1. Potential uses of performance information in the budget cycle**



The *overall objective* of performance-informed budgeting is to improve the quality of public expenditures through more efficient allocation and use of resources, consistent with political and social goals.

The *intermediate objective* is that performance information be made available to decision-makers in a manner that allows them to connect it—loosely, in general—with planning and managerial actions, so that budget decisions are informed by performance measurement in addition to other sources of information such as experience, qualitative information and political priorities. The systematic use of performance budgeting and the emphasis on making performance information public and available in a user-friendly way, constitute necessary foundations for improving levels of accountability and responsiveness.

Table 2 depicts the ways in which performance information is used in budget decision-making processes in OECD countries:

**Table 2. Performance budgeting categories**

		<i>Linkages to decision-making</i>	
		<i>Tight</i>	<i>Loose</i>
<b>Degree of institutionalization</b>	<i>Institutionalized</i>	<p>Performance measurement leads to the decision in a direct way. Decisions are driven mainly by the measurement. Other sources of information play a negligible role.</p>	<p>Performance measurement is one source of information to be incorporated with others. Other sources of information are used to interpret the performance measurement data and decisions are informed by that measurement, but also by other sources of information.</p>
	<p>Use of performance information is based on rules and procedures, and is systematic and automatic.</p>	<p><b>Direct/formula based performance-budgeting</b></p> <p><i>Used in specific situations when the underlying demand for the service is sufficiently well known to ensure that performance-related variations in budgetary allocations are unlikely to lead to a politically awkward need for closure.</i></p> <p>Examples include the voucher system for child care, primary and secondary education, and university grants (direct funding for higher education). Per capita funding such as that for local clinics (primary healthcare) in Chile is an example of formula-based performance budgeting to the extent that the funding is provided for a per capita output, i.e. a form of output-based contracting. Other examples include the funding for technical schools and universities in Denmark, university and occupational education in Finland, the funding for higher education in Hungary and the Swedish Patent Office. Performance-based contracting for services has also been introduced in many countries.</p>	<p><b>Performance-informed</b></p> <p><i>The most common use of performance information in all aspects of the budget process.</i></p> <p>Most OECD countries require the consideration of performance targets and past performance information during budget preparation, but this is not the sole or even the predominant factor in formulating budgets. In Australia, Canada and the UK, performance information must be presented, but is treated along with other sources of information in reviewing the effectiveness of budget execution.</p>
	<i>Ad hoc</i>	<p>Countries may use performance information on an <i>ad hoc</i> basis in the evaluation of specific and ongoing programs or projects to amend or re-orientate implementation.</p>	<p><b>Presentational</b></p> <p><i>Tends to be found in settings that impose a high degree of social responsibility on actors (e.g. Nordic countries)</i></p> <p>Examples include Denmark and Sweden, where individual ministries can present performance information in budget negotiations, but there is no expectation of a formal consideration between the indicators and resource allocation.</p>
	<p>Use of performance information is opportunistic and not sustained.</p>		

Sources: Dooren, Manning *et al.* 2006; OECD 2007.

### 2.3 WHY PERFORMANCE-INFORMED BUDGETING IN LATIN AMERICA?

By far the most commonly adopted form of performance budgeting is *performance-informed budgeting*. With the exception of a few limited cases where formula-funding might be appropriate, most budget systems strongly avoid any mechanistic link between funding and performance. This recognizes the limitations of performance indicators<sup>4</sup> and also the perverse outcomes this approach might generate, e.g. cutting funding in a poorly-performing but priority area, or the creation of incentives to ‘game’ the system by focusing on often imperfect indicators rather than outcomes. Alternatively, sanctions for poor performance often involve tighter central oversight or program/management restructuring<sup>5</sup>.

In Latin America a great deal of performance information is currently drawn from programs and projects and the link to the budget is largely *presentational*. Goals and performance indicators have often been established for line ministries and their programs, with specific resources assigned to them, and these may be reflected in their strategic plans. This enables compliance to be monitored. Initially these indicators tended to measure the production levels achieved, yet they are increasingly used to measure intermediate or final outputs, although institutionalizing them and linking them to the budget process remains a challenge.

*Performance-informed budgeting* is likely to be most appropriate for Latin American countries. We are suggesting that for Latin American countries the use of performance information in budget decisions should be institutionalized, and that the connection with budget allocations should be—and in practice nearly always is—loose. This recognizes the intrinsically political nature of budgeting and also allows for other sources of information to be used by decision-makers.

### 2.4 IMPLEMENTING PERFORMANCE-INFORMED BUDGETING—THE INSTITUTIONAL CONTEXT IN SELECTED LATIN AMERICAN COUNTRIES

Countries have adopted a range of strategies for introducing performance information (PI) into budgeting and management systems. The approach each country takes depends largely on the institutional, legal and administrative traditions. For example, countries with a tradition of codifying systems in law—as in much of Latin America and countries like Spain and France—have initially introduced a lot of their reforms through legislation (*see* Box 1). Others, such as the United Kingdom, have issued central regulations and guidelines. The timeframe for reforms has also varied enormously, from a gradual evolutionary approach, as in Spain, to much more rapid reforms elsewhere.

The institutional arrangements will significantly affect the way performance information may be used by different actors in the budget cycle. While likely to impact on both demands for, and supply of, performance information these institutional characteristics are often perhaps the least dynamic, having been entrenched over long periods.

### Box 1. Introducing performance-informed budgeting in Spain: some key recent developments

<b>Early 1970s:</b>	The creation of development plans aimed at measuring program objectives and initial steps toward formulating budgets by programs and the adoption of a functional budget classification <sup>6</sup> ;
<b>1977–78:</b>	New Organic Budget Law ( <i>Ley General Presupuestaria</i> , LGP) was adopted, followed by the new Constitution ( <i>Constitución Española</i> ) that set out a basic framework for reforming public financial management, stressing the need for efficiency and economy in public expenditure and administration;
<b>1984:</b>	Ministerial order requiring more complete classification by programs across ministries, identifying objectives, permitting limited virement within programs and introducing program indicator sheets;
<b>1988:</b>	First macroeconomic and budgetary scenario approved, consisting of four-year projections with spending ceilings for the first year, which placed a greater emphasis on fiscal discipline—preceding the Maastricht Treaty (1992) that also set limits on the overall deficit;
<b>2001:</b>	Budget Stability Law approved for national and regional governments, requiring: i) stability, defined as a budget balance or surplus position (amended in 2006 to a cyclical balance); ii) long-term projections to promote sustainability; iii) transparency, focusing on the publication of sufficient information to allow the follow-up of compliance with the principle of budget stability; and iv) efficiency;
<b>2003:</b>	New Organic Budget Law approved to define the processes for improved performance, including the requirement for spending ministries to specify their objectives in their annual multi-year programs, which should also include a report on past performance against their objectives. The Budget Stability Laws and Organic Budget Law also strengthened the role of audit, highlighting both its control and performance auditing roles.

Source: Ruiz-Huerta, Zapico, Losco and Takahashi, in Robinson 2007.

The four selected country studies used to illustrate this paper—Brazil, Chile, Colombia and Mexico—have different institutional characteristics. Their political organization, legal framework and roles and responsibilities for each budgetary actor and tier of government differ. Their recent macroeconomic performance has also varied.

- Brazil and Mexico, the largest and most populous countries in the region, are federal states, with distinct federal, state or regional, and local or municipal levels of government. Colombia and Chile are mid-size countries organized as unitary republics, with two main levels of government, central and municipal, with the regional administrations largely dependent on the central government.
- The relationship between the different branches of government—executive, legislative and judicial—varies in each country, especially regarding public sector budgeting. For example, while the Brazilian and Mexican Congresses have a strong role in budget allocation decisions, which requires a high level of coordination and consensus generation to ensure consistent planning and policy prioritization, Chile’s legislature has traditionally focused more on evaluations than allocations.
- Government taxation and spending are generally lower than in OECD countries, and the often low expectations of the public that the state can effectively deliver services are reflected in the weak fiscal capacity of the state<sup>7</sup>. With the exception of Brazil, tax

revenues are significantly below the average in OECD countries (at around 36 percent of GDP)<sup>8</sup>.

These individual institutional contexts also affect the production and use of performance information in budget decisions, linking policy priorities with the budget cycle. The Constitutions of Brazil, Colombia and Mexico mandate the linkage of performance-informed budgeting to the objectives of their *National Development Plans* (NDP)<sup>9</sup>. This interaction is often achieved through relatively complex methodologies and systems covering planning, budgeting and evaluation<sup>10</sup>. Chile, like OECD countries, has replaced the formal global planning exercise with continuous exercises that determine strategic priorities at the national, sectoral and institutional levels, with objectives and goals subject to monitoring and evaluation.

There has undoubtedly been a strengthened focus on the achievement of public program objectives and their alignment with government policies:

- *Although NDPs try to provide the framework for setting out government policy priorities and linking the planning process to spending, their integration is often far from perfect.* All the sample countries, bar Chile, have an NDP that tries to link their strategic objectives with sectoral and institutional goals, monitored and evaluated using a variety of often sophisticated systems (SIGOB and SINERGIA in Colombia, SED in Mexico and SIGPLAN/SISPAC in Brazil). In Chile, the Office of the President and Ministries of Finance and Planning try to link the goals set by the President systematically with budget programs. The NDP is usually prepared by a different agency (e.g. the Planning Ministry) to the one formulating and consolidating the budget (e.g. the Finance Ministry). This heightens the risk that policy priorities and planning, particularly for investment spending, become divorced from the annual budget, i.e. with the creation of dual budgeting, accounting, and reporting systems<sup>11</sup>.
- *Nonetheless, the national goals of the NDP are usually monitored and receive some kind of evaluation.* This is done mainly to comply with requirements established by law. In Brazil, Mexico and Colombia the Constitution mandates that the legislative branch must be briefed on the compliance with the goals established in the NDP. This exercise is more related to a performance audit mechanism at the aggregate level, than as an input to analyze public sector efficiency and the quality of public expenditures. In Chile, every year on May 21st, the President reports to Congress the degree of compliance with presidential goals.
- *Despite the rigidities in budget systems, the utilization of performance information can help to create fiscal space for government priorities.* Most of the countries have a limited degree of freedom in prioritizing, planning and managing expenditures based on results information. Apart from significant structural rigidities and earmarked funds, there is often little time to use it during the budget cycle and there are other problems related to the complexity of the existing monitoring and evaluation systems. Chile, the only country that does not have an overarching planning process or a multi-annual budget framework, shows better performance in budget stability and public management evaluation and has been able to shift spending patterns towards priorities.

The emphasis on holding senior officials accountable for deliverables has been accompanied, to a lesser extent, by a change in the nature of expenditure controls, away from detailed ‘line item’ input controls to one where managers are held accountable for both results and the use of inputs. Accountability for results has continued to involve extensive central intervention:

- *The Finance and Planning Ministries play key roles in the existing initiatives to incorporate performance information into the budget cycle, but may also be constraining.* In Chile and Mexico the Ministry of Finance takes the lead, while in Brazil and Colombia the planning agency tends to be in charge of this initiative. While these agencies can be strong advocates for change, the centralization of budgetary decisions at the agency responsible for compiling the budget (typically the Finance Ministry), or even at the sector ministry level, may overly constrain the flexibility of those directly responsible for programs, during budget formulation and execution. There tends to be strong emphasis on internal and external controls that monitor processes and compliance with legal requirements rather than performance. This can hamper the creation of incentives and systems to encourage managers to focus on results, in exchange for greater delegated authority. Furthermore, the centralization of budgeting has limited the development of technical capacity in the sector ministries, while the complexity of the monitoring and evaluation systems tends to limit their usage by key actors (for example SIGPLAN in Brazil and SED in Mexico).

It is within this particular institutional context that Latin American countries are facing the challenge of implementing performance-informed budgeting—where evaluation systems are inefficiently linked to planning processes and have a weak interaction with the budget cycle, budget frameworks are rigid and management processes tend to focus on input controls and compliance.

One of the initial reforms in many countries has been the production of performance information, largely in response to the demands of one or more of the key actors in the budget process. This leads to the question: *How can, and do, the major players in the budget cycle use performance information?* This issue is addressed in section 3.

### **3. THE USE OF PERFORMANCE INFORMATION IN THE BUDGET CYCLE**

Offering performance information to the major players in the budget cycle is a very common first step. Consequently, it is critical to understand the role that the key actors can play in the budget process, such as the Presidency, planning agency, Finance Ministry, line ministers, Congress, external audit, and the public. Information must be provided in a manner that allows policy-makers to connect it, generally loosely, with planning and managerial actions, with decisions informed by performance measurement and with other sources of information such as affordability, experience, qualitative information and political priorities. Having access to such information—which enhances budgetary transparency by linking the use of public resources with the results—can also help to promote a broader participation by policy-makers, interested civil society groups or individuals. This is the main focus of this paper.

#### **3.2 USERS OF PERFORMANCE INFORMATION**

The major users of such information and the opportunities to use it in decision-making are set out in Table 3 below:

**Table 3. Identifying the main users of performance information**

User	Potential type and role in PIB	Decision points/use of information			
		During budget preparation	At budget approval	During budget execution	In audit and evaluation
1. Presidency	Commonly sets key objectives and policy priorities for government, and determines allocation of resources. Holds ministers and agencies to account for extent to which objectives were achieved, and is accountable to legislature and citizens on spending and achievements.	Performance indicators can be used to support political actions concerning closing/changing major policy programs.	Demonstrable results are a key input used during negotiations to secure budget approval from Congress.	Particularly strong use in the case where there are “performance agreements” between the President and secretaries/line ministers <sup>12</sup> .	Performance information can be included in the <i>Cuenta Pública Annual</i> submitted to the Congress after the end of the fiscal year.  <i>See budget preparation (this row in the table).</i>
2. Planning agency	Develops national plan, and negotiates outcome targets for public investment programs. Monitors degree to which the goals stated in the National Development Plan (or government plan) and investment program targets are being achieved.	Performance information on program outcomes can be used, loosely, in the negotiation between the planning agency and secretaries/line ministers in budget preparation <sup>13</sup> .	<i>Ditto.</i>	Limited use of performance information.	<i>See budget preparation (this row in the table).</i>
3. Ministry of Finance/ <i>Hacienda</i> <sup>14</sup>	Prepares consolidated budget submission incorporating performance information to justify allocations. Negotiates budget allocations with line ministers/agencies, drawing on performance information. Manages and monitors performance agreements with line ministries and agencies. Typically guides performance reforms with firm regulation and oversight.	Performance information on program outcomes can be used, loosely, in the negotiation between the Ministry of Finance and secretaries/ line ministers in budget preparation <sup>15</sup> .	Performance information on program outcomes can be used, loosely, in the negotiation between Ministry of Finance and the budget committee of the Congress. <i>Ditto.</i>	Particularly strong use in the case where there are “performance agreements” between the Finance Ministry and secretaries/line ministries <sup>16</sup> .	Performance information can be included in the <i>Cuenta Pública Annual</i> submitted to the Congress after the end of fiscal year.  <i>See budget preparation (this row in the table).</i>

User	Potential type and role in PIB	Decision points/use of information			
		During budget preparation	At budget approval	During budget execution	In audit and evaluation
4. Secretaries/line ministers	<p>Tend to generate the majority of performance information.</p> <p>Tend to use performance for internal management purposes, but increasingly for negotiating budgets with the Finance Ministry and managing agreements with service providers.</p>	<p>Performance information can be used for sectoral policy development<sup>17</sup>.</p> <p>In addition, sector ministries negotiate the budget with the Ministry of Finance/Planning. Those negotiations are increasingly based on/referred to performance<sup>18</sup>.</p>	<p>As sector ministries increasingly respond directly to congressional demands for information concerning their performance, those ministries can use performance information in lobbying with the Congress for budgetary support at the time of budget approval.</p>	<p>Particularly strong in the context of “performance agreements” between the Finance Ministry and sector ministries. Also used in the context of supplier-provider arrangements or output-based disbursements within the public sector or with external entities<sup>19</sup>.</p>	<p>Sector ministries can be required to improve the quality of data and of measurement on the basis of the findings and recommendations of audit reports.</p>
5. Congress	<p>Approves the budget, informed by previous and planned program outcomes.</p> <p>Holds the executive to account for achievements against the targets set.</p>	<p>In principle there is opportunity for using performance information in budget preparation<sup>20</sup>.</p>	<p>Growing congressional demand for performance information at the time of budget approval<sup>21</sup>.</p>	<p>There is some emerging reporting of performance in budget execution to Congress/Parliament in many OECD countries<sup>22</sup>.</p>	<p>Evaluation of the performance information included in the <i>Cuenta Pública Annual</i> provided by the executive. <i>See</i> budget preparation (this row in the table)<sup>23</sup>.</p>
6. External audit	<p>Undertakes performance audits of government programs, to assess efficiency and effectiveness in achieving government objectives. In some cases, attests the quality of performance information systems and performance measures.</p>	N/A	N/A	N/A	<p>Development of performance auditing—although there is no legal basis for the auditor’s opinion on performance information<sup>24</sup>.</p>
7. Public	<p>Aggregate level: Potentially, holds government to account for the budget objectives it sets and the degree to which global government-wide targets are being achieved.</p> <p>Individual level: Monitors compliance with service standards.</p>	<p>Performance information can be used by organized groupings as part of their lobby for particular funds and programs.</p> <p>There is less evidence of “participatory budgeting” techniques that allow individual voices to be heard using performance information—although there are some developments at the level of municipalities and locally-delivered programs.</p>	<p>Performance information can, in principle, be used to analyze the impacts of budget modifications made by Congress to the executive budget proposal.</p>	<p>Organized groupings can use aggregate performance measures to push for better execution in policy areas that concern them<sup>25</sup>.</p> <p>Individuals can use information concerning compliance with service standards to improve budget execution/seek redress in relation to particular services.</p>	<p><i>See</i> budget preparation (this row in the table).</p>

### 3.2 USERS AND USES OF PERFORMANCE INFORMATION IN LATIN AMERICA

Latin American countries have traditionally been caught in a suboptimal equilibrium characterized by low quality public service delivery. Accountability mechanisms and the generation and use of performance information have also been weak, and the public has tended to view the general effectiveness and efficiency of the public sector with skepticism. Institutionalizing the use of performance information by key decision-makers in the public administration can break this vicious cycle.

Table 4 sets out some headlines concerning the users and uses of performance information within some Latin American countries.

The President often plays a strong role in setting policy priorities and demanding performance information. The President commonly sets some of the key objectives and policy priorities for government. In some cases, the Office of the President plays a role in setting the targets for secretaries, ministries and agencies and is a key driver in the demand for performance information to monitor whether programs/policies are achieving the expected results.

Planning agencies tend to focus on multi-year national development plans and *ex-post* evaluations of investment projects. This focus limits the link with the annual budget. In contrast to many OECD countries (and Mexico), where planning functions have been integrated into finance and line ministries, the planning agencies in Brazil, Chile and Colombia play a significant role in conducting *ex-post* evaluations of investment projects. However, this partial approach can reduce the linkages between the multi-year national development plans, which are produced by the planning agencies, and the annual budget produced by the Finance Ministry.

The Finance Ministry tends to prepare the consolidated budget submission, and there is increasing use of performance information. Chile regularly uses performance information in its interactions with ministries, while Mexico has started to require the preparation of strategic indicators for each program, including baselines and targets. In Brazil the use of performance information in budget negotiations is *ad hoc*. Line ministries tend to use performance information for internal management and are also beginning to use it in negotiating budgets with the executive.

Congresses have access to increasing amounts of performance information, and are attempting to use it more systematically in the approval or review of the budget. Congresses generally demand and receive an increasing amount of the performance information from governments, particularly program evaluations, which can support their review functions, although the use of this information, so far, appears uneven. Despite the variable quality of the information they receive, the Mexican Congress is showing increasing interest in evaluation information for deepening the debate at all stages of the budget cycle among groups outside of government. Also the Chilean Congress has a role in the definition of programs that will be evaluated by the Ministry of Finance, and then in the analyses of the results at the end of the fiscal year.

Some external audit institutions have started to expand their role from financial and compliance audits to incorporate performance audits. The Colombian Constitution requires that performance audits are introduced, though implementation is at an early stage, while Mexico's Supreme Audit Institution (SAI) has been conducting performance audits for a number of years.

The public's use of performance information produced by the central government is generally limited. However, along with an increased interest in standard financial information, special interest groups and the media are starting to demand and utilize performance information. There may also be more use of such information at the local and municipal level, or in situations where there is strong use of participatory budgeting, such as in Brazil.

In summary, there is a growing demand for better information from an increasingly well-informed readership, but as yet the use of this information is distinctly limited. Line departments seem to be the most active users, employing performance information during budget execution to steer their service-providing units towards their targets.

**Table 4. Use of performance information by key actors in selected Latin American countries**

User	Type of performance information	Countries			
		Brazil	Chile	Colombia	Mexico
1. Presidency	<p>Whether implementation targets set for secretaries/ministers, agencies and/or programs are being achieved.</p> <p>Degree to which the goals stated in the National Development Plan (or government plan) are being achieved.</p>	<p>The President monitors the execution of priority goals regularly, but with no direct consequence on the budget cycle. Programs are selected by the President based on their political/policy relevance.</p> <p>The President heads a <i>Budget Execution Board</i> that includes the planning agency and Finance Ministry. The Board determines any changes in budget allocations to ministries during the year (it does not use PI to do this).</p>	<p>The President's Office establishes general objectives and priorities that are a strong reference for the development of sector strategies, performance indicators and the overall budget. Performance information for programs is presented annually by the executive to the Congress.</p> <p>The President's Office and the Finance Ministry—specifically the budget office (DIPRES)—select programs to be evaluated each year. Also, with DIPRES and the Interior Ministry (SUBDERE) the findings from the Management Improvement Program (PMG) are evaluated—this is one of six management control tools that assess the performance of each ministry and agency.</p>	<p>The President's Office has developed a system (SIGOB) to monitor and evaluate the results of the programs of ministries and their units that are expected to have the largest impact on the country's development goals. The information is also available to the general public.</p> <p>A committee comprising the President's Office, the National Department of Planning (DNP) and the Ministry of Finance and Public Credit (MHCP) is expected to serve as a technical coordination body to link evaluation findings to budget preparation, though with weak results so far.</p>	<p>The President's Office articulates the National Development Plan (<i>Plan Nacional de Desarrollo</i>) and its alignment with the sector strategies, programs and ultimately with the budget. The President's Office monitors the NDP and targets, but the effect on the budget cycle is still modest.</p> <p>The Ministry of Public Administration (SFP) is in charge of internal audit and management improvement, including: (i) the <i>Modelo Integral de Desempeño de Órganos de Vigilancia y Control</i> (MIDO) that carries out reviews with an emphasis on control and corruption prevention; and (ii) the <i>Intragob</i> program that is introducing quality standards for the administration. A new performance evaluation system (SED, <i>see</i> Table 5) will consolidate work related to improving the quality of public management under the PMG program.</p>

User	Type of performance information	Countries			
		Brazil	Chile	Colombia	Mexico
2. Planning agency	<p>Whether targets set for programs, especially related to public investment, are being achieved.</p> <p>Degree to which the goals stated in the National Development Plan (or government plan) are being achieved.</p>	<p>PI is used during budget formulation to select programs for multi-annual plan (PPA) and to justify exclusion of programs from the budget. In addition, investment projects are selected based on <i>ex-ante</i> and <i>ex-post</i> program assessments.</p>	<p>The Ministry of Planning (MIDEPLAN) is only in charge of <i>ex-ante</i> evaluation of investment projects, before the incorporation of those projects in the budget. MIDEPLAN does not participate in the definition or monitoring of goals of the government (<i>programa de gobierno</i>).</p>	<p>DNP is one of the major actors in the preparation of the budget, and through the Evaluation of Public Policies Unit, or Public Policy Evaluation Office (DEPP) it coordinates SINERGIA and the SIGOB. DNP coordinates evaluations with the sector ministries and should use this data to take decisions on public investment and set expected values and targets. However, the use of performance information for budget preparation, approval and execution is still incomplete.</p>	<p>The Planning Ministry has been merged with the Finance Ministry.</p>

User	Type of performance information	Countries			
		Brazil	Chile	Colombia	Mexico
3. Ministry of Finance/ <i>Hacienda</i> <sup>26</sup>	<p>Whether targets set for secretaries/line ministers, agencies and/or programs are being achieved.</p> <p>The degree to which centrally-led management and control systems are being followed.</p>	Occasionally uses PI to veto amendments during budget approval. Fiscal goals and financial execution drive budget decisions.	DIPRES uses performance information from the system of management control in the interaction with each ministry and agency. The indicators are annually defined during budget preparation and used by DIPRES for evaluation at the end of each budget cycle. Additionally DIPRES, through the afore-mentioned inter-ministerial committees, defines evaluations and uses program evaluation findings and recommendations, as well as data from the PMG, for feedback in the succeeding budget preparation cycle, in the interaction with ministries and agencies.	MHCP is the other major actor in the preparation of the budget, as it consolidates the budget and adds the current expenditures. There is no formal use of performance information by MHCP.	There are no formal ‘performance contracts’ between line ministries and the Finance Ministry (SHCP) and therefore no formal use of PI. However, under the new SED framework, as a first step, line ministries are expected to mainstream the log frame in their programs and provide SHCP with strategic indicators for each program, including baselines and targets.

User	Type of performance information	Countries			
		Brazil	Chile	Colombia	Mexico
4. Secretaries/line ministers	<p>Whether targets set for programs or agencies are being achieved.</p> <p>Whether secretaries/ministries are collecting data and reporting on performance per specifications.</p>	<p>Units with largest budgets tend to use PI for internal reallocation of resources and to obtain higher spending limits from Finance during formulation.</p>	<p>Ministries and agencies prepare budgets following the guidance from DIPRES that demands the definition of strategic products and performance indicators. This information is used in the negotiation with DIPRES during budget preparation, and increasingly within ministries as (i) a management tool linked to a financial and nonfinancial incentive structure and (ii) as a participatory planning tool for the revision of evaluations, preparation of the annual report and the setting of PMG targets.</p>	<p>Each ministry and agency reaches an agreement with the Office of the President, on key goals and indicators. The indicators are used exclusively by the ministers to keep track of progress and report back to the President, with no use for budget preparation or execution, either internally or externally. Some of the valuations are planned and executed in coordination with DNP, but the follow up and feedback loop into next budget preparation cycle remains the exception rather than the norm.</p>	<p>There are no formal ‘performance contracts’ between line ministries and SHCP. Line ministries use their own M&amp;E systems for internal program management and policy development. Most of the evaluations of social programs are generated by the National Evaluation Council or <i>Consejo Nacional de Evaluación de la Política de Desarrollo Social</i> (CONEVAL) that coordinates the evaluation of social programs and the measurement of poverty (for seven line ministries). There is evidence of use of evaluations both generated by the line ministries and by CONEVAL, as well as an incipient use of performance-based contracts between ministries and other actors across for service delivery.</p>

User	Type of performance information	Countries			
		Brazil	Chile	Colombia	Mexico
5. Congress	Whether targets set for line ministers and for programs are being achieved.	No use of PI during the budget cycle. Decisions are made based on political relevance and fiscal analysis.	The permanent Bicameral Budget Commission signs a protocol with DIPRES annually establishing the programs to be evaluated and other specific reports to be prepared throughout the year by DIPRES. Congress receives these evaluations annually as well as the sector reporting BGI, but the use of this information is modest.	Congress receives and has access to performance information coming from SINERGIA. However the use of this information is modest in the interaction between the legislative and the executive. SINERGIA is still seen mostly as an internal tool for the executive.	The executive (SHCP) reports on a quarterly basis on resource allocation and budget implementation. However, data is of questionable quality, not very user-friendly for the lay reader and based on basic input/output indicators that congress does not really use.
6. External audit	Degree to which government programs achieved their objectives.	PI generated by the external audit has improved quality of expenditures but has failed to change allocation decisions at the central level.	The auditor/Controller-General (CGR) is in charge of the accounting and external control of government activities and carries out traditional financial audit functions to maintain legal compliance, and sets sanctions when appropriate. It does not carry out performance audits.	The auditor/Controller-General (CGR) carries out traditional financial audit functions to maintain legal compliance, and sets sanctions when appropriate. No performance audits are being carried out. The link with SINERGIA is weak. However, the Colombian Constitution of 1991 requires the CGR to move into performance evaluation.	The Supreme Audit Office, (ASF), has an autonomous status and reports to Congress. In addition to traditional audits focused on finance and inputs, in 1997 the ASF started to carry out performance audits ( <i>auditorías de desempeño</i> ).

User	Type of performance information	Countries			
		Brazil	Chile	Colombia	Mexico
<p>7. Public</p> <p>Organized groupings like interest groups, including private sector, and think tanks</p> <p>Individuals such as beneficiaries/service recipients</p>	<p>Aggregate level: Degree to which global government-wide targets are being achieved.</p> <p>Individual level: Compliance with service standards</p>	<p>Use of PI by the public focuses on micro issues, but prevailing logic is to bargain for resources rather than demanding better service standards or the achievement of service targets.</p>	<p>Think tanks are increasingly starting to use financial information to analyze the budget, and citizens are starting to demand a better quality of services and products by using data based on perceptions, and not linked to the data generated by the government systems.</p>	<p>The knowledge, use and understanding of SINERGIA among citizens are uncertain and probably at best modest, even though it has a strong emphasis on transparency, managerial accountability and its external dissemination.</p>	<p>The Federal Institute for the Access of Public Information, (IFAI) is an autonomous decentralized public organization which guarantees citizens' access to government information, protects public information in the hands of the government and handles rejections to public information requests. The main legal framework for this initiative is the <i>Ley Federal de Transparencia y Acceso a la Información Pública Gubernamental</i> (2006).</p>

## 4. THE TECHNICAL FOUNDATIONS OF PERFORMANCE-INFORMED BUDGETING

In addition to the institutional context, consideration must be given to the technical characteristics that could support a move to performance-informed budgeting. While there are few firm ‘preconditions’ to starting on a reform program, it is probably advisable to identify the potential technical opportunities and weaknesses in the existing system<sup>27</sup>. While some of the issues raised by these assessments may best be addressed separately, it is worth highlighting some of the technical reforms implemented by many countries, notably:

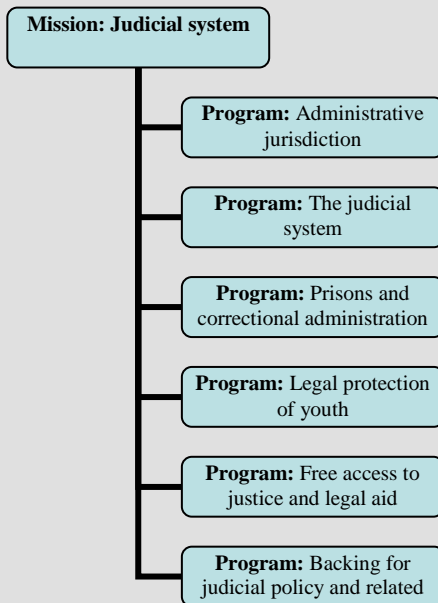
- Introducing the classification of budgets by objectives and programs;
- A multi-annual framework;
- Ensuring a robust integrated financial management information system (IFMIS);
- Strengthening the role of performance audit, and monitoring and evaluation; and
- Quality assurance of performance information.

### 4.1 INTRODUCING A BUDGET CLASSIFICATION BY OBJECTIVES AND PROGRAMS

The development of program classification is generally a precursor to the effective use of performance information in the budget process<sup>28</sup>. The objective is to allocate resources on the basis of government policy priorities and transform the budget from a system based on controlling inputs (line items) to one focused on meeting policy targets for outputs and outcomes. Accordingly, countries like the UK, Australia, Spain and France (*see* Box 2) have changed their budget structure. This entails:

- (i) Structuring administrative actions in terms of programs that reflect government policies and designing a program structure for the budget (or at least parts of it);
- (ii) Changing the nature of expenditure controls, normally with some increasing differentiation of roles between the policy-makers and service-providing units, and with greater management autonomy for executing agents, notably by:
  - a. Establishing consensus concerning the use of performance information in budget and multi-annual estimates and fiscal frameworks;
  - b. Introducing formal mechanisms to ensure that accountability is based on the results of programs; and
  - c. Maintaining or strengthening financial authority and accountability at the spending-agency level to ensure that budgets are more effectively executed, controlling for either over- or under-spending. This often entails moving from centralized controls over detailed line items toward programs, with new rules governing administrative expenditures (e.g. wages and maintenance costs).

## Box 2. Example of the French budget structure



The 2006 budget bill contained:

- **34 Missions**—corresponding to the major public policy priorities. Responsibility for a mission can lie with a single ministry or overlap between ministries
- **132 Programs**—the budget is appropriated on the basis of programs, each of which is the responsibility of a single ministry
- **614 Actions**—sub-programs that provide the operational means of implementing the programs

Prior to the reforms, around 94 percent of spending was renewed, virtually automatically, on the basis of just one vote—the current service appropriation that maintained the operations of government unchanged. The parliament now votes on each individual Mission, so that 100 percent of appropriations are now debated.

Source: Budget Reform and State Modernization in France, [www.lolf.minefi.gouv.fr](http://www.lolf.minefi.gouv.fr)

The introduction of a program classification does not, by itself, entail a significant change. In the early stages of reform, a ‘program’ may essentially be the aggregation of activities of a ministry or department, rather than a reflection of the link to government policies. In this case, measures of program ‘performance’ are more likely to focus on administrative outputs than the results of policies—this would appear to be the case in the four Latin American countries presented in Table 5, although efforts are being made to develop the output, or even outcome, focus of programs aligned to policies. In addition, in none of the countries has the move to a program classification, as yet, enabled much of a change to the nature of expenditure controls for executing agencies, which makes it harder to increase accountability for results accordingly<sup>29</sup>.

### 4.2 A MULTI-ANNUAL FRAMEWORK

A medium-term focus for the budget can help to maintain expenditure control, improve efficiency and assist in responding to priorities. This involves a robust system of forward expenditure estimates that provides agencies with some assurance that their programs will be properly funded<sup>30</sup>. In the UK, forward estimates are set for the three-year periods following a spending review (*see* Box 3)<sup>31</sup>. With a reduction in uncertainty over annual funding the budget process can then focus more on policy changes and improving the effectiveness of programs.

### Box 3. Spending Reviews in the United Kingdom

At the heart of the UK's performance management system are the Departmental Spending Reviews (SR) agreed between the Treasury and line ministries. Introduced in 1998, the aim of the SR is to review current government priorities, the outcomes being achieved and at what cost. One important outcome of the UK is an agreed set of budget forward estimates for the next three years. SRs take place every three years. In the last decade, three *Comprehensive Spending Reviews* across all spending ministries have taken a significant look at the allocation between programs—i.e. allocative efficiency—that can create fiscal space for new or higher priority initiatives by cutting lower priority or ineffective programs.

Source : [http://www.hm-treasury.gov.uk/spending\\_review/spend\\_sr04/psa/spend\\_sr04\\_psaindex.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr04/psa/spend_sr04_psaindex.cfm)

The medium-term focus in many Latin American countries has been on sustainability and program effectiveness. At the macroeconomic level countries like Brazil and Mexico have introduced fiscal laws and rules to help maintain fiscal sustainability and stability. In addition, the multi-annual NDPs in Brazil, Colombia and Mexico, and the often sophisticated monitoring and evaluation systems in all the reviewed countries, seek to improve program effectiveness and efficiency. However, as discussed earlier, the link between the NDP and the annual budget may be weak and, so far, there has been less focus on changing the resource allocation between programs.

#### 4.3 A ROBUST INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS)

A robust IFMIS must also be able to support performance information systems. The basic elements of an IFMIS include budget management, accounting, treasury, debt management, procurement and public accounts (*rendición de cuenta pública*). A robust IFMIS is essential at all stages of the budget process to help promote sound fiscal management in general, and to support performance-informed budgeting in particular:

- (i) *In budget formulation.* For planning purposes, quantifying the cost of producing results is essential—e.g. an intended result/outcome that costs one million pesos would not be viewed the same as if it cost ten thousand pesos. Timely information on previous year results on the costs of delivering specific program results are essential for planning, as central budget officers understand and negotiate the budget on a cost-result basis<sup>32</sup>.
- (ii) *In budget execution.* During implementation, managers need in-year information and must keep track of current program spending. When budgeting is not integrated with accounting, procurement and treasury, neither budget officers nor program managers will have reliable expenditure figures to compare budget execution and, for example, physical results of the project. Weak accounting and commitment control systems may also obscure obligations or contingencies throughout the system, making it more difficult to hold individual program managers accountable for results, as cash management problems may be primarily responsible for poor performance.
- (iii) *In budget audit and evaluation.* Slow or late submission of the *cuenta pública* hinders timely expenditure evaluations and reduces accountability.

The financial management systems in the selected Latin American countries appear relatively robust. In all four countries reviewed, the financial management systems provide timely financial information for in-year and *ex-post* monitoring and evaluation purposes. In the case of Chile, the financial management system is on an accrual accounting basis, with a full coverage of central government (centralized/decentralized agencies of the federal level), and the capacity to establish unit costs is being developed.

#### 4.4 STRENGTHENING THE ROLE OF PERFORMANCE AUDIT, AND MONITORING AND EVALUATION

Performance measures usually need to be supported by program evaluation. By themselves, performance measures are not normally sufficient to provide conclusive evidence of a program's economy, efficiency and effectiveness. Therefore, more in-depth program evaluations are often critical to providing analytical and qualitative assessments at various stages of program implementation. These can be undertaken internally or by external agencies. For example, Spain has created a national agency for the evaluation of public policies and the quality of services, under the Ministry of Public Administration, which is directed by the Council of Ministers each year to evaluate specified programs<sup>33</sup>.

Most of the Latin American countries reviewed have fairly extensive monitoring and evaluation systems. For example, Mexico was a world pioneer in evaluation in the 1970s, using support from the World Bank to focus on evaluating integrated rural development projects. These first-generation evaluations were antecedents of the evaluation of the *Progresas/Oportunidades* program that began in 1997, and have been influential in laying the groundwork for broader reforms<sup>34</sup>.

The Supreme Audit Institution (SAI), in addition to ensuring high quality financial compliance auditing in the context of robust financial reporting systems, may also be strengthened to undertake 'performance audits', or alternatively, attest to the quality of the performance indicators and/or systems<sup>35</sup>. The role of SAIs in performance auditing varies considerably across countries, depending on:

- (i) The legal basis, in the Constitution, SAI Law, or Financial Administration Law, which may need to be amended to incorporate performance auditing; and
- (ii) Appropriate investment in, or outsourcing of, skilled human resources. Performance auditing requires skills and competences that are more often associated with management consulting than traditional legal/accounting auditing.

In the OECD, the mandate of supreme audit institutions (SAIs) has broadened from a focus on financial compliance to encompass performance auditing. This has transformed SAIs, giving them a crucial role to play in respect to accountability to the parliament and the public for performance. This process has often developed separately from—and in some cases preceded—the broader performance budgeting reforms<sup>36</sup>.

The role of SAIs in performance auditing varies considerably. In countries like France, Spain and Portugal the court of auditors operates in a quasi-judicial role, passing judgments on the actions and accounts of government. France's *Cour de Comptes* has a long tradition of studying the "good use of funds" in addition to the "proper and legal use of funds". Since 2001, this role has expanded to include an explicit examination of the "coherence and reliability" of the information in the budget documents, both *ex-post* and *ex-ante*. In the UK, Canada and the US, the SAI operates as an auxiliary institution to the legislature. The mandate of the UK's National Audit Office (NAO) was expanded in the early 1980s to incorporate an examination of efficiency and effectiveness (but not of government policy).

#### 4.5 STRENGTHENING THE QUALITY OF PERFORMANCE INFORMATION

Performance management systems in OECD countries have focused on the development of high-quality performance indicators, supported by measurement, monitoring and reporting arrangements. Experience in countries like Australia, France, Spain, the UK and the US suggests that performance indicators can have the most impact on the behaviors of fiscal institutions and service delivery outcomes when they are<sup>37</sup>:

- Primarily outcome- and output-based measures, rather than inputs and processes. For ease of use a small number of key indicators per program should be identified;
- Exposed to effective internal and external controls and scrutiny. This highlights the role internal auditors and strong central leadership can play in a quality assurance role. External auditors, statistics offices and specialized advocacy groups can also play a role;
- Constructed in consultation with practitioners and service users. A leading agency, commonly the Finance Ministry, should play a key role in agreeing the key indicators with line ministries, drawing on the technical expertise of managers as well as the experience of users. Rarely will the central budget agencies have the capacity or expertise to "set" performance measures. However, they are likely to guide the process and set standards that should help to ensure that their definition and measurement are robust and that delivery reflects technical experience and preferences, helping to minimize the creation of perverse incentives, such as targeting quantity over quality. Other options include the use of academic panels, specialized consultants or special performance and evaluation offices.

Developing a set of performance measures for the whole government that is robust and relevant enough for use in the budget process takes considerable time. The leading countries often took decades to construct their sophisticated systems, which are being refined continuously. The performance indicators in the UK's Public Service Agreement (PSA) system have undergone a significant transformation since they were introduced in 1998, benefiting from a rigorous process of quality assurance (*see* Box 4).

#### **Box 4. Ensuring the quality of performance indicators in the United Kingdom**

At the heart of the UK's performance management system are Public Service Agreements (PSAs), agreed between the Finance Ministry and line ministries. Introduced in 1998, their aim is to focus resources on improving outcomes for the public and to strengthen accountability for cost effective service delivery. Published alongside departments' three-year budget allocations, PSAs specify: i) the department's aim; ii) five to 10 supporting objectives; iii) performance targets, including a value-for-money target; and iv) standards to be maintained, monitored and reported. PSA targets have been refined gradually to focus on outcomes rather than the inputs or processes. *The number of targets has been reduced, from 387 in 1998 to 30 in the 2008-11 Spending Review.* Biannual reports are published, which provide information on spending and performance against PSA targets.

While the public and parliamentary oversight of performance has generally been weak, there has been a great deal of emphasis on quality assurance of the performance measures. The Office for National Statistics provides advice to ministries and agencies on methods, and on quality assurance for statistical systems through central government, certifying appropriate indicators. The National Audit Office, who has created a Directorate of Performance Measurement to co-ordinate work on performance measurement in financial audits, provides advice, training and reviews of central government bodies' governance (and performance) arrangements, including in value-for-money studies.

Source: <http://www.hm-treasury.gov.uk>

The countries in Latin America are slowly building their quality assurance processes for performance information. There are no centralized quality control mechanisms in Brazil, Chile and Colombia, with much of the information collected by decentralized spending agencies. Mexico's statistics office is taking a more proactive role in trying to ensure the quality of statistical and performance information (as in the UK).

**Table 5. Technical foundations of performance-informed budgeting in selected Latin American countries**

Technical aspect	Countries			
	Brazil	Chile	Colombia	Mexico
1. Budget classification	Program budgeting. Finalistic programs (outputs oriented to society) and support for public policies programs (support finalistic programs).	The budget is organized by jurisdiction and, although there is a programmatic structure, the budget is still very much linked to the administrative structures.	The budget has a partially programmatic structure but is still linked to the administrative structures. There is still a lack of alignment between classification of activities and the indicators used for M&E.	The budget is organized primarily by administrative unit. There is a programmatic structure, but still very much linked to the administrative structures.
2. Multi-annual framework	Multi-year plan (PPA) for capital and some recurring expenses. However, it does not provide multi-annual budget certainty for spending agencies.	An overarching multi-annual fiscal framework exists as a reference, but it does not provide multi-annual budget certainty for spending agencies.	An overarching multi-annual fiscal framework exists as a reference, but it does not provide multi-annual budget certainty for spending agencies.	A multi-annual macroeconomic and fiscal framework exists at the level of aggregates. It does not provide multi-annual budget certainty for spending agencies.
3. Integrated financial management system	The financial management system (SIAFI) is considered sufficiently robust to provide spending and oversight agencies with accurate financial information on the use of resources. There are no direct links to performance information systems.	The financial management system (SIGFE) provides reliable and timely financial information for the whole public administration, including decentralized units.	The financial management system (SIIF) provides timely financial information.	The financial management systems provide robust financial information for the federal administration. However, lack of integration prevents further advances in timeliness and comprehensiveness of information. There are no direct links to performance information systems.
4. Performance audits	Supreme Auditing Court conducts performance audits of 30 programs annually. Primarily used by the agencies assessed and only secondarily by the public. Performance audits exchange information with the M&E systems.	The SAI (CGR) does not carry out performance audits and is focused on legal compliance and conducts traditional financial audits.	No performance audits are being carried out. The SAI is focused on legal compliance and conducts traditional financial audits.	The SAI (ASF), has an autonomous status and reports to Congress. In addition to traditional financial audits, the ASF started to conduct performance audits in 1997 <sup>38</sup> . Around 36 performance audits are conducted annually and the reports are published. The ASF also validate the indicators used in public programs. The standards are based on the INTOSAI guidelines.

Technical aspect	Countries			
	Brazil	Chile	Colombia	Mexico
5. Monitoring and evaluation (M&E) system	Relatively solid M&E: M&E system (SMA), centralized M&E database (SIGPLAN). Some sector ministries have integrated their information systems with SIGPLAN (INFRASIGs).	The system of management control, anchored in DIPRES, is the main M&E system and linked to the budget cycle.	SINERGIA is by definition a national M&E system that is coordinated centrally, but fed by each individual ministry and agency. It includes baselines and targets for each program and is linked to the national development plan.	A new legal framework aims to consolidate the existing M&E systems <sup>39</sup> into one umbrella program—the performance evaluation system (SED). SED will have had two main streams of work: (i) on the effectiveness and efficiency of federal programs (previously led by CONEVAL and SEDESOL) and evaluations of social federal programs and improvements in poverty measurement; and (ii) to consolidate work on improving the quality of public management under the new management improvement program (PMG).
6. Quality control of performance information	Based on exchange and crosscheck of information among M&E systems.	Quality control is a decentralized function to each jurisdiction. DIPRES analyses the information and data, but works on the presumption that data generated by the sectors is reliable.	SINERGIA has no formal data quality controls aside from internal control executed by ministries and agencies, which is done on an <i>ad hoc</i> basis and the internal SINERGIA team. There are no formal linkages to the National Statistics Office (DANE) or the CGR.	SHCP is charged with consolidating financial data and the PMG, and has a <i>de facto</i> quality control function on both. The National Statistics Office (INEGI) is in charge of generating, integrating and promoting geographic and statistical information. To enhance quality and methodological standards, INEGI has started two networks, at the sector and state level, to provide technical guidance for data quality control and capacity building.

## 5. BEYOND THE BUDGET—MANAGEMENT OF PEOPLE<sup>40</sup>

The focus of this paper is the budget process, but the budget does not prepare or execute itself. Ultimately the changed incentives in the budget process impact on agencies and most particularly on senior officials tasked with delivering outputs and achieving program objectives aligned with government objectives. These management reforms are fundamental to translating performance-informed budgeting from an interesting concept into a productive reform.

Management reforms are crucial, but they should accompany, and not precede, steps towards performance-informed budgeting. When performance-based management arrangements are introduced independently of budget process reforms, the focus tends to be more limited. Traditionally, in the OECD many public sector administrations have been structured consistent with their input-focused budgets. In this context, the introduction of performance-based management arrangements, which commonly focus on senior civil servants, is likely to have a narrower focus, concentrating “on the quality of outputs from agencies and not on responsiveness to changing policy priorities for government”<sup>41</sup>.

Setting performance management arrangements within the context of performance-informed budgeting can link staff incentives to wider policy priorities. The individual operational targets of managers and senior public servants can be set to explicitly reflect targets set at other levels in the public sector, helping to reinforce the focus on key policy-orientated priorities. This is the case in the US, France and the UK, where agency performance agreements cascade directly to managers’ performance ‘agreements’. However, in doing this, experience indicates that it is important that “there is a clear ‘line of sight’ through the maze of government performance objectives and targets, and to keep in mind that the most productive use of performance measurement is dialogue rather than control”<sup>42</sup>.

The question of delegation of managerial responsibility is nuanced—and the room for maneuver for agency and program managers is constantly changing. On the one hand, it is unreasonable to hold managers to account for performance if they are significantly constrained in how they can use inputs to meet the performance targets. On the other, “let the managers manage” is always a rather mixed message even in those OECD countries that have been pursuing performance-informed budgeting for many years.

OECD countries have given ministries and managers greater discretion to choose the mix of inputs that will deliver services most efficiently. This has generally been within the context of a move to program-based budgeting and management. This involves the removal of a large part of the detailed control of budgets by economic classification, internal organizational unit (“chapters” in France) and similar, which characterize traditional budgeting systems. Thus, in the UK, many ministries are free to use the funding provided for each program in any way they wish, subject to only two minimal restrictions: firstly, that the amount of money provided for employing staff cannot be

increased and, secondly, that money cannot be shifted away from capital to current expenditure. In France, only the first of these restrictions applies.

Increased delegation requires robust systems for accountability. Simply increasing the delegation of authority to spending agencies without strengthening accountability for the use of resources, in terms of both inputs and outputs/outcomes, increases the opportunities for the misuse of public funds. This involves changing the nature of expenditure controls by introducing formal mechanisms to ensure that accountability is based on the results of programs, while maintaining or strengthening financial authority and accountability at the spending-agency level so that budgets are executed more effectively. For example, in around 2006 France introduced a system whereby program managers are clearly identified for each program, both at the national and local level, to create a ‘chain of responsibilities’ the key elements of which are:

- A prior commitment to performance goals, agreed by the minister and program manager, through an Annual Performance Plan (APP) appended to the Budget Act, that sets out the main goals relating to the policy, performance indicators, and the expected result;
- Strengthened accountability for management decisions, through an Annual Performance Report (APR) that is appended to the Budget Review Act submitted to parliament. The APR covers their actual expenditure, management of human resources and the levels of performance, in a consistent format to the APP; and
- A new accrual-based public accounting system to provide greater transparency in the measurement of the costs of public policies and the assessment of assets and liabilities.

However, changing the culture of control is difficult. Firstly, systems that formerly emphasized financial control, with centralized finance ministries as in France and Spain, must be willing to delegate funds and responsibility to implementing agents. In addition agency managers must have the capacity, incentives and willingness to adopt change and accept accountability. These difficulties perhaps explain the numerous failed attempts at reform—in France there had been over 35 attempts to change the 1959 Organic Budget Law before 2001<sup>43</sup>—or the lengthy decades-long process of reform in Spain. In addition, numerous examples confirm that, whatever the formal notions of delegation of managerial accountability, when an issue becomes a topic of political interest, politicians can and will intervene.

In the OECD, performance measures and targets are often used within agreements that are structured as contracts or quasi-contracts. This generally applies to senior staff, although there is a wide variety in the nature of performance agreements and contracts adopted by countries, particularly regarding the roles of incentives and sanctions<sup>44</sup>. As with performance-informed budgeting, performance information tends to be just one factor in determining an individual’s assessment and reward or sanction. This recognizes the risks from “gaming” imperfect indicators as well as the potentially high transactions’ costs involved in setting up and maintaining elaborate performance management systems.

Although the contracting idea appeals to many OECD public sectors, particularly with an Anglo-Saxon tradition, these “contracts” are often interpreted rather flexibly in reality. As has been highlighted throughout this paper, performance information is generally used to inform and not to mechanically determine budgetary or managerial consequences. Also, as noted above, the contracts do not keep agencies or programs immune from political involvement when the stakes are high.

The scope for increasing delegation and devising “contracts” focused on results is limited in Latin American countries. Significant administrative reforms would be required for many of Latin America’s highly centralized administrations to move toward the more delegated systems found in many OECD countries. In situations where public administrations are less stable, and/or institutional authority is more disparate, traditional contracts may also be hard to enforce. In addition, it might be difficult to introduce more managerial flexibility and delegation while the primary focus of fiscal policy remains on issues such as fiscal sustainability, regulation and expenditure control. In this context, introducing performance contracts or granting a higher degree of autonomy to certain agencies or ministries, which achieve specific results, may entail additional risk.

This provides the opportunity for a more honest approach in Latin America of *formalized informality*—i.e. formal agreements between line agencies and ministries of finance and presidencies that recognize explicitly that performance information is the basis for a continuing dialogue, and not the automatic trigger for budgetary or management action. The greater use of performance information and results in the budget cycle will naturally create opportunities to increase management capacity and, hopefully over time, greater levels of trust between line ministries and the Ministry of Finance or the President.

Consequently, a network of *structured performance agreements* will probably be needed to encourage the transition toward a performance culture in the public sector. Given the region’s legal tradition, where reforms are typically codified in legislation, a standard regulatory framework may need to be developed to ensure the systematic use of such agreements and to encourage mechanism for compliance, quality and realism. However, such agreements would need to be flexible, relational, and probably negotiated on a semi-permanent basis to prevent them from becoming too rigid and used to reinforce a bureaucratic culture of control and compliance. This process can progress in parallel to the other technical and institutional ‘performance’ reforms (*See Box 5*).

### Box 5. Structured performance agreements

A general problem for PIB is defining performance in respect to what, and for whom? The public sector is complex, with varied objectives, multiple users and tasks of government services (some of which are intangible) that means, unlike financial information, it is difficult to apply performance measures and indicators across government (OECD 2007). Different users of performance information may also have different needs and perspectives on what constitutes good performance.

Trying to design and enforce a single performance contract to regulate and manage each government service is likely to be costly, time consuming and ultimately futile<sup>45</sup>. In practice, for PIB systems the relationships between budget actors tends to develop around a more complex network of, often overlapping, *structured performance agreements*<sup>46</sup>. For example, a service delivery ministry may have a performance agreement with the Ministry of Finance, but in many advanced countries there will also typically be an agreement with service users (e.g. a citizen's charter or standards), while the discussions with the legislature, external auditor and other private sector groups revolve increasingly around aspects of performance. All these are often reinforced by performance incentives for senior managers and staff.

This network of *structured performance agreements* seeks to promote a public sector culture that:

- i. Promotes transparency in the setting of performance goals and/or targets, based largely on government policies;
- ii. Identifies weaknesses in performance measures and systems, for example where a performance measure generates a perverse outcome or gaming behavior, and encourages learning and adaptation to mitigate these weaknesses;
- iii. Holds public sector actors to account for gaps between performance commitments and actual results; and
- iv. Requires them to indicate how they plan to achieve future commitments.

With the exception of limited cases where single purchaser-provider agreements might be appropriate (Robinson 2007), most reforms try to foster multiple *structured performance agreements* to create a web of mutually-reinforcing incentives that seek to maximize the probability that the culture within the public sector will focus on the key question of “*how well did you spend public money, and how are you planning to do better in the future?*”

The dangers of creating a system of overlapping *structured performance agreements* include the over-specification of objectives, redundancy and the proliferation of information, which can be costly and overburden the capacity of the system. Indeed, these appear to be common features at the early stages of most countries' reforms. Conversely, too few agreements risk creating only a narrower measurement culture, rather than a performance culture (Van Doreem 2008). However, the experience of most advanced OECD reformers has generally been one of ongoing adaptation and refining of their PIB and performance management frameworks, rather than gridlock or abandonment, although this remains a constant risk.

Where institutional authority is more centralized, performance may be encouraged with strengthened oversight. In a few countries this has involved the imposition of goals and enhanced regulation and oversight by a strong individual actor—for example, DIPRES in Chile and the President in Colombia—which has been accepted by the line ministries and program managers. Continuous monitoring and evaluation systems have been strengthened and consolidated to help implement this approach. Nonetheless, to be successful this approach requires the full involvement of line ministries and program managers who have the technical competency to design and agree to the performance measures.

Introducing management arrangements to support performance-informed budgeting will be challenging in Latin America, given the history of somewhat weak civil service institutions. However, to some degree this will likely be mitigated by the increasing use of performance information in determining political careers. Thus while there may be more difficulties in introducing a senior civil service across the public sector—whose career path is shaped by its past contribution to meeting government performance targets—as performance information becomes more widely circulated, individual ministers in Latin America are likely to find their own political futures determined by a president newly armed with performance information.

#### **Box 6. Sequencing of reforms in Chile**

The system was designed, managed and used by a strong hierarchical Finance Ministry. It has developed pragmatically over 13 years, as follows:

- i. Began with performance indicators (approximately 1,600) for all government programs <sup>47</sup> (launched 1994)
  - Based around organizations
  - Designed to be useful for managers
  - Measured performance along different dimensions (efficiency quality) and at different stages (process, output, outcome)
  - Vetted for quality
- ii. Then included program evaluations (approximately 185 to date) (launched 1996)
  - Evaluations conducted externally; fully transparent process; highly credible
  - All M&E findings reported to Congress
  - M&E system closely linked to the budget information needs of the Finance Ministry
  - Finance Ministry closely monitored extent of utilization of evaluation findings
- iii. Then management improvement programs (launched 1998)
  - Review of organizational performance
  - Assesses and rewards progress in seven managerial systems: (human resources; customer service; strategic planning and management control; internal auditing; decentralization; financial management and; gender focus)
- iv. Evaluations started with program reviews (launched 2001)
  - Logical framework methodology
  - Focus on outputs
- v. Then added impact evaluations
  - Program effectiveness—outcomes
  - Sophisticated data collection
- vi. Then spending reviews
  - Review of ministry portfolios
  - Consistency between sectoral programs

*Source:* World Bank staff files

Specific institutional arrangements and capacity will necessarily shape the appropriate path of management reforms. In any government there is a limit to the scope for one agency, be it the Office of the President or the Finance or Planning Ministries, to expand its mission into performance specification, service delivery and evaluation of the work of other ministries. What is important in any reform is that each actor—as discussed in chapter 3—negotiates an appropriate role in supporting system-wide performance improvements and is then seen to try and implement it.

## **6. CONCLUDING REMARKS—AN AGENDA FOR LATIN AMERICA**

Performance-informed budgeting has the potential to significantly transform budgeting in Latin America. It is seen as a way to improve upon the poor quality of public service delivery and to help to enhance the overall allocation of resources, in what have traditionally been viewed as rigid, unresponsive budget systems. Responding to internal and external demand, countries in the region have already been making progress towards performance-informed budgeting by approving laws (i.e. Mexico, Chile), reforming their Constitutions (Colombia and Mexico) and investing a significant amount of resources in the administrative and technical foundations (Chile, Mexico).

However, there are common risks and challenges faced by governments in implementing performance-informed budgeting. These include: developing adequately robust and easily-understood performance measures; finding ways to integrate this information into the often overly rigid budget processes, alongside traditional financial information; providing decision-makers with the right amount and type of information in a timely manner; and creating the incentives to use this information in budgetary decision-making and sustain the reforms. For example, legislatures in a number of countries have complained of ‘information overload’, with the government initially providing too many indicators that actually hinder analysis and prioritization. Performance indicators can be too technical and confusing for the public. In some cases performance indicators have created unintended consequences with agencies ‘gaming’ the system leading to adverse results (though this is not unique to performance budgeting). The collection of performance information can also be costly and this should be considered against the likely benefits.

There may be additional challenges in Latin America. Several reforms have failed. Institutional arrangements tend to be complex and budgets are relatively rigid, shaped by earmarks that restrict flexibility in reprioritizing programs during budget preparation. Expectations and demands also differ based on the institutional context and degree of development of the technical foundations. On the one hand, actors sometimes demand more performance information (i.e. Presidents in Chile and Colombia), while on the other, governments have too many indicators and performance information that have not been strategically selected and that lack the quality needed for this kind of use.

The introduction of performance-informed budgeting is as much about the political economy of change as it is about a technically first-best option. In many cases there is an agency that has the authority and capacity to oversee developments that affect the key actors as they make decisions across the budget cycle—such a situation may be more often found in unitary, parliamentary countries, although a strong president or Ministry of Finance might also be effective. It is also difficult to introduce performance-informed budgeting where political and other rigidities determine how financial inputs can be used, restricting the ability to provide incentives for performance in budget execution or

management. Nonetheless, the journey, including identification of problems to address and the role of key actors in the process, can itself be of benefit.

The current agenda in Latin America is about creating the conditions and developing the basic foundations to make systems responsive to different actors. A parallel step is providing credibility through strengthening institutions and providing the conditions that promote broader system-wide performance improvements (for example, through some kind of relational contracts for managers).

Despite the challenges, the potential benefits from the use of performance information in the budget process appear significant. The focus on results encourages greater emphasis on the transparent setting of objectives in the planning process, and provides information on what is working and what is not. Congresses and the public are also likely to continue to demand results (and information to assess it) in exchange for their taxes.

Perhaps the most important step is the decision to begin a process to move away from a complete reliance on input budgeting, towards an approach that at least requires an examination of performance. In this regard, countries need to understand that use of performance information is a continuing process or journey, not a destination. The expectations of users need to adjust to understand that there is no “right” system or set of measures/indicators, as PIB will evolve as circumstances change. Nonetheless, despite all the challenges involved in introducing PIB, no country has ever gone back to input budgeting.

## 7. REFERENCES

Brumby, Jim, Peter Edmonds and Kim Honeyfield. 1996. "Effects of Public Financial Management Reform in New Zealand." Paper Presented to Australasian Evaluation Society Conference, Wellington, New Zealand, August 1996.

Curristine, T. 2005. "Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire." *OECD Journal on Budgeting* 5 (2).

Dooren, Wouter Van, Nick Manning, Jana Malinska, Dirk-Jan Kraan, Miekatrien Sterck and Geert Bouckaert. 2006. "Issues in Output Measurement for 'Government at a Glance'": OECD GOV Technical Paper 2. [http://www.oilis.oecd.org/olis/2006doc.nsf/LinkTo/NT00003F02/\\$FILE/JT03215908.PDF](http://www.oilis.oecd.org/olis/2006doc.nsf/LinkTo/NT00003F02/$FILE/JT03215908.PDF), Paris: OECD.

Van Dooren, W. and S. Van De Walle. 2008. "Performance Information in the Public Sector: How it is used." Governance and Public Management Series, Palgrave/MacMillan.

Echebarría, Koldo and Juan Carlos Cortázar. 2007. "Public Administration and Public Employment Reform in Latin America". In *The State of State Reform in Latin America*, ed. E. Lora. Washington DC: Inter American Development Bank and Stanford University Press.

Ketelaar, Anne, Nick Manning and Edouard Turkisch. 2007. "Performance Based Arrangements for Senior Civil Servants—OECD Experiences". OECD Governance Working Paper 2007/5, Paris.

Kim, J, ed. 2007. *From Line-item to Program Budgeting: Global lessons and the Korean Case*. Korean Institute of Public Finance (KDI) and the World Bank.

Kraan, Dirk-Jan. 2008. "Programme Budgeting in OECD Countries". *OECD Journal on Budgeting*. Volume 7 No. 4. Paris: OECD.

ILPES (Instituto Latinoamericano y del Caribe de Planificación Económica y Social). May 2008. *Review of Performance-Informed Budgeting in Latin America; Case Studies of Brazil, Chile, Colombia and Mexico*. Study funded by the World Bank.

OECD. 2007. *Performance Budgeting in OECD Countries*. Paris: OECD.

OECD. 2008. *Latin American Outlook*. Paris: OECD Development Centre.

Robinson, M. and J. Brumby. November 2005. "Does Performance Budgeting Work? An Analytical Review of the Empirical Literature". IMF Working Paper WP/05/210, IMF.

Robinson, ed. 2007. *Performance Budgeting: Linking Funding and Results*. Palgrave and IMF, Washington D.C..

Schick, A. 1998. "Why Most Developing Countries Should Not Try New Zealand's Reforms". *The World Bank Research Observer* 13 (1).

Sarraf, 2005. *Integration of Recurrent and Capital "Development" Budgets: Issues, Problems, Country Experiences, and the Way Forward*. Washington DC: World Bank. <http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/CapitalRecurrentIntegration.pdf>

Tanzi, Vito. 2008. *The Role of the State and Public Finance in the Next Generation*. Washington DC: Inter-American Development Bank.

Williamson, O. 1999. "Public and Private Bureaucracies: A Transaction Cost Economic Perspective". *Journal of Law, Economics and Organization* 15 (1).

World Bank. 2008. "Evaluation and the Quality of Public Expenditure: Achievements, Challenges, and Opportunities". *Mexico, Quality of Public Expenditure*, Note No. 2, May 2008.

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/MEXICOEXTN/0,,contentMDK:21810164~pagePK:141137~piPK:141127~theSitePK:338397,00.html>

---

1 Over two-thirds of OECD countries reported including non-financial performance information in  
their budget documents (Curristine, 2005).

2 “Institution” is used in a broad context, covering both formal and informal norms—or ‘rules of the  
game’—and not simply the organizational units.

3 Suppose a health service spends money on procedures which evidence-based medicine suggests  
are useless or worse than useless—for example most tonsillectomies. Health statuses may well be  
rising, for completely independent reasons. However, we would not want to conclude that  
expenditures on these procedures were cost effective: quite the reverse.

4 Many government objectives are not measurable in terms of outputs (foreign policy, defense, etc.).  
5 For a full description of the links between funding and performance information, and cases where  
formulae funding maybe appropriate, *see* Chapter 1 in Robinson, 2007.

6 In the late 1960s and early 1970s, program budgeting swept the globe, following the US’s move to  
a Planning Programming and Budgeting System (PPBS). However, the impact is generally  
considered to have been limited, even being reversed in some countries, including those in Latin  
America. However, the logic of the approach remains strong and Kim (2007) considers some of  
the lessons of those experiences and the renewed emphasis on program budgeting in recent years.

7 Tanzi (2008) notes that this may have first led to “the use of bad taxes to attempt to raise more  
revenues; second, to rely on less efficient goals than public spending to pursue social goals”. This  
does not necessarily imply a need to expand the role of government, but may illustrate the  
potential role performance information may be able to play in building trust and improving  
efficiency.

8 OECD, 2008.

9 This is also the case for many other Latin American countries where, unlike OECD countries,  
officials tend to consider planning as an activity (or a *ritual*) of great significance, even though the  
process can be extremely centralized where the President holds considerable power.

10 These methodologies tend to have a restricted circulation.

11 Some of the common consequences of dual budgeting are outlined briefly in Sarraf, 2005.

12 There is no strong tradition of explicit “performance agreements” or “results agreements” in Latin  
America. When attempted, they have more often failed. Chile’s systems may be seen as an  
isolated case. Countries appear to be willing to move in the direction of more explicit agreements,  
but there are significant challenges involved, primarily because of the problem of allowing the  
service providing unit managerial autonomy in the context of generally solid centralized control  
mechanisms and strong political involvement.

Whether used in a formal results agreement or otherwise, it is important to keep in mind that  
performance measures provide little or no basis for automatic budgetary rewards or sanctions.  
Performance measures inform management decisions, but these generally must take into account  
other unmeasurable or unpredictable factors, such as policy changes, changes of government etc.

13 The use of performance information can inform what can be generically referred to as “spending  
reviews”. A number of OECD countries have used or have recently introduced “spending  
reviews”—or special forms of policy evaluation in the context of the budget process under names  
such as “strategic policy reviews” (Australia), “strategic program reviews” (Canada),  
“interdepartmental policy reviews” (the Netherlands), “spending reviews” (UK) and the “program  
assessment rating tool” (US). These procedures are seen as a tool that can particularly support the  
allocation (priority setting) function of the budget. There are three main differences with the  
policy evaluations conducted by line ministries: (i) spending reviews do not only look at the  
effectiveness and efficiency of programs under current funding levels, but also at the  
consequences for outputs and outcomes of alternative funding levels; (ii) the Ministry of Finance  
or Planning holds final responsibility for the spending review procedure; and (iii) the follow up of  
spending reviews is decided in the budget process (Kraan, 2008).

Such “spending reviews” are less common in Latin America as inter-sectoral priorities are  
primarily determined by the presidential program.

14 *Función Pública*, for example, has also a horizontal role and usually has control over many regulations related to processes which affect the work of the line ministries and also sets performance targets related to internal processes. Although the Ministry of Finance tends to dominate the central agencies, the functions carried out by *Función Pública* or similar agencies are also relevant in environments with strict regulations' control such as the one that exists in Latin America. If LAC countries were to provide higher autonomy for line ministries the regulation of internal processes would decrease in importance, naturally strengthening the Ministry of Finance against other central agencies such as *Función Pública*.

15 See footnote 13.

16 See footnote 12.

17 This is the primary purpose of most Monitoring and Evaluation systems.

18 Even if most of the budget transfers are sometimes automatic, subnational governments also use performance information during budget negotiations with the central administration. The states/provinces use this information to lobby at the Ministry of Finance and the Congress to increase the budget allocation for programs with presence in their jurisdictions.

19 See footnote 12.

20 However, although Congress involvement in budget preparation differs from country to country, in general, it is limited to proposing programs, stamping approval of government's budget proposal and some monitoring of quality of expenditure. Reporting of performance in budget execution to Congress/Parliament in many OECD countries faces the timing issue, however, since by the time the year's performance information is to hand, the next year is already well underway.

21 However, there are big issues about how and whether performance information should be presented to Congress in the budget for approval. OECD countries vary on this—with some arguing that inclusion of performance information in the budget documentation can encourage gaming/manipulation.

22 Ministers make plans for their ministries partly in terms of outputs, and can be held accountable for them in Congress. It is important to note, however, that in most OECD settings, failure to deliver output targets generally forms the basis for a discussion, not an automatic sanction. This is also the case in more advanced countries in LAC, which can be useful in consideration of supplementary budgets in particular, where these are part of the system.

23 In Latin America there is generally some ex-post performance evaluation discussed at the time of the submission of the *cuenta pública*.

24 External auditors of countries like Mexico, Colombia, Peru and Chile appear to be willing to develop performance auditing. There is an active discussion on the tradeoffs between the time/resources available for compliance auditing and performance auditing.

The two types of audit (performance and financial) are carried out in parallel. Usually, the Supreme Audit Institution (SAI) establishes (either autonomously or with the approval of Parliament) its work program, which will include the annual audit of the financial statements/budget execution, and a series of audits (including performance audits) determined according to the importance of the program and the level of risk. While the financial audit opinion of the financial statements may have a direct impact on the executive (even legal sanction, in the case of Courts of Accounts), the institutional strength/reputation of the SAI will determine the impact of the performance audit recommendations. The French *Cours des Comptes*, for example, offers numerous reports on the performance and financial efficiency of the health system.

There are three models of SAIs—only the Courts of Accounts allows for legal sanctions to the government:

- Westminster model or Audit Office: No legal sanction. The SAI is closely linked to the Parliament; it submits the audit reports to the Parliament (usually to the Public Account Committee). The PAC issues reports and recommendations to the government. This type of SAI does not legally sanction officials from the government.
- Napoleonic model or Court of Accounts: legal sanction. The SAI is an integral part of the judicial system operating independently of the executive and legislative branches. Relevant government officials are normally held personally liable for the sums involved in an unauthorized or illegal payment: the SAI is a court and its members are judges who can impose penalties or corrections on audited officials. The SAI's judicial role is usually

---

complemented by a high level parliamentary accountability mechanism for public expenditures: on the basis of the court's report, the Parliament grants a 'discharge' of responsibility to the government for the year. Examples include: Brazil, Colombia, Uruguay, and Argentina sub-national SAIs.

- Collegiate or board model: no legal sanction. This last model is closer to the Westminster system (especially in its relation with the Parliament), but it is led by a college instead of an auditor general. This model presents a higher risk of political influence depending on the arrangements for appointing and removing college members.

25 The use of performance measures in the relationship between government and the organized public is most readily associated with "naming and shaming" through "league tables", "citizen charters" and the like. Examples include information on waiting lists of hospitals or exam scores for schools.

26 *Función Pública*, for example, also has a horizontal role and usually has control over many regulations related to processes which affect the work of the line ministries. Furthermore, it sets performance targets related to internal processes. Although the Ministry of Finance tends to dominate the central agencies, the functions carried out by *Función Pública* or similar agencies are also relevant in environments with strict regulations' control, such as the one that exists in Latin America. If LAC countries were to provide higher autonomy for line ministries, the regulation of internal processes would decrease in importance, naturally strengthening the Ministry of Finance against other central agencies such as *Función Pública*.

27 Standard tools include the PEFA assessment tool that aims to support integrated and harmonized approaches to assessment and reform in public expenditure, procurement and financial accountability <http://www.pefa.org/>

28 However, it is important to maintain realism concerning a program structure to the budget. Kim (2007) provides some practical guidance on program design and classification, including on the process of introducing program budgets. In many cases, the program is essentially synonymous with the work of the ministry or department, given the need for clarity and managerial accountability. It also reflects that, realistically, government activities can not all be described meaningfully in terms of specific outputs (foreign affairs for example).

29 See Chapter 2 in Kim (2007) for a discussion of some of the lessons in the introduction and design of program budgeting, which draws on the experience of countries like Mexico and Brazil.

30 Different systems have varying rules about the carry-over of funds between years, although in most systems the actual appropriation of spending remains on an annual basis. A contingency reserve is usually incorporated to cover unforeseen and unavoidable expenditures and forecast errors. These are typically small and increase for the outer years. Brazil, Spain, and the UK cap contingency reserves at two percent of spending. Australia's is only 0.7 percent.

31 Spending reviews are also conducted in other OECD countries, such as Australia. France is currently introducing a similar process.

32 It is worth noting cost-efficiency studies may be conducted as separate exercises and then integrated into reform programs e.g. in the UK a separate review process helped to develop specific annual efficiency targets for ministries as part of the 2004–07 Spending Review (See Gershon Report).

33 This is not seen as replacing the role of the Court of Auditors, which has a separate formal oversight function.

34 World Bank, 2008.

35 The international association of Supreme Audit Institutions (INTOSAI) has published principles for performance auditing in its implementation guidelines.

36 The international association of Supreme Audit Institutions (INTOSAI) has published principles for performance auditing in its implementation guidelines. In the United States, the standard for government performance audits is set by the federal Government Accountability Office (GAO). In France, Spain and the UK, SAIs have also produced guidance on the design of performance information, although this raises important issues about the independence of subsequent evaluations.

37 See Robinson, 2007 for a fuller discussion.

---

38 The legal basis for performance auditing is the *Ley de Fiscalización Superior de la Federación* (Dec 2000), *Ley Federal de Presupuesto y Responsabilidad Hacendaria* (Mar 2006/Oct 2007) and a modification to the Constitution.

39 See *El Sistema Nacional de Monitorio y Evaluacion de la Gestion Publica en Mexico*, Consejo Latinoamericano de Desarrollo Social (CLAD), May 2007.

40 This section draws heavily on the OECD study Ketelaar *et al.*, 2007.

41 Ketelaar *et al.*, 2007.

42 Ketelaar *et al.*, 2007.

43 The 2001 *Loi Organique relative aux Lois des Finance* (LOLF) requires government departments to set performance objectives on which those in charge will be appraised.

44 Incentives often include a portion of performance pay or consideration for promotion, with sanctions being the withholding of such or the non-renewal of contracts.

45 Even in countries like New Zealand, where there is extensive use of formal contracts to manage the public sector, such contracts are, in practice, often interpreted rather flexibly (Schick, 1998). Informal or relational arrangements are more common, and indeed they can help in overcoming the significant costs required for defining workable contracts (i.e. recognizing that contracts tend to be incomplete), and may be a better fit with existing public service incentives/cultures (*see* Williamson, 1999).

46 The term is used to denote situations where explicit expectations arise between users that recognize performance information as the basis for a continuing dialogue around budgetary or management actions.

47 In Chile, a “program” is defined pragmatically. The coverage is not comprehensive although programs are identified separately in the budget, but distinct from funding to institutions. Latterly there has been some movement toward multi-sector programs.