


# MEXICO

## Improving the Quality of Public Expenditure through the Use of Performance Information in Mexico

Editors: Pedro Arizti and Manuel Fernando Castro with contributions from Ximena Fernández Ordoñez



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The individual notes compiled in this book are part of the series  
“Mexico: Quality of Public Expenditure”

([www.worldbank.org/lacpublicsector](http://www.worldbank.org/lacpublicsector)) commissioned by the World  
Bank and the Mexican *Secretaría de Hacienda y Crédito Público*  
(Ministry of Finance; SHCP).

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1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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Printed and Manufactured in Washington, DC  
First Edition, June 2010

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# ACRONYMS

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<b>ABC</b>	Activity Based Costing
<b>ABG</b>	Good Government Agenda (Agenda de Buen Gobierno)
<b>APF</b>	Federal Public Administration (Administración Pública Federal)
<b>ASF</b>	Mexican Superior Audit Body (Auditoría Superior de la Federación)
<b>BANOBRAS</b>	National Bank for Public Services and Works (Banco Nacional de Obras y Servicios Públicos)
<b>CBO</b>	Congressional Budget Office of the United States
<b>CEAG</b>	Guanajuato State Water Commission (Comisión Estatal del Agua de Guanajuato)
<b>CEFP</b>	Congressional Public Finance Study Center (Centro de Estudios de las Finanzas Públicas de la Cámara de Diputados)
<b>CONAC</b>	National Accounting Harmonization Council (Consejo Nacional de Armonización Contable)
<b>CONAGUA</b>	National Water Commission (Comisión Nacional del Agua)
<b>CONEVAL</b>	National Evaluation Council for Social Development Policy (Consejo Nacional de Evaluación de la Política de Desarrollo Social)
<b>CREAM</b>	Clear, Relevant, Economic, Adequate, Monitorable
<b>DBO</b>	Biochemical Oxygen Demand (Demanda Bioquímica de Oxígeno)
<b>ENSANUT</b>	National Survey on Health and Education (Encuesta Nacional de Salud y Nutrición)
<b>EXCALE</b>	Quality and Educational Achievement Exams (Exámenes de la Calidad y Logro Educativo)
<b>FAIS</b>	Social Infrastructure Fund for Municipalities (Fondo de Aportaciones para la Infraestructura Social Municipal)
<b>FAO</b>	Food and Agriculture Organization
<b>GDP</b>	Gross Domestic Product
<b>GFSM</b>	Government Finance Statistics Manual
<b>IEG</b>	Independent Evaluation Group
<b>IFMIS</b>	Integrated Financial Management Information Systems
<b>IMF</b>	International Monetary Fund
<b>IMSS</b>	Mexican Social Security Institute (Instituto Mexicano del Seguro Social)
<b>INEE</b>	National Institute for the Evaluation of Education (Instituto Nacional para la Evaluación de la Educación)
<b>INSP</b>	National Institute of Public Health (Instituto Nacional de Salud Pública)
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards
<b>INTOSAI</b>	International Organization of the Superior Audit Institutions
<b>ISSSTE</b>	Social Security and Services Institute for State Workers (Instituto de Seguridad y de Servicios Sociales de los Trabajadores del Estado)
<b>IWRM</b>	Integrated Water Resource Management
<b>LFPRH</b>	Federal Budget and Fiscal Responsibility Law (Ley Federal de Presupuesto y Responsabilidad Hacendaria)
<b>LGCG</b>	General Government Accounting Law (Ley General de Contabilidad Gubernamental)
<b>LGDS</b>	General Social Development Law (Ley General de Desarrollo Social)
<b>LICONSA</b>	Social Milk Provision Program (Programa para el Abasto Social de Leche)
<b>M&amp;E</b>	Monitoring and Evaluation
<b>OBA</b>	Output-Based Aid
<b>OBD</b>	Output-based Disbursement
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OMB</b>	Office of Management and Budget in the United States

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<b>PAHO</b>	Pan American Health Organization
<b>PAL</b>	Food Support Program (Programa de Apoyo Alimentario)
<b>PBB</b>	Performance-based Budgeting
<b>RBB</b>	Results-based Budgeting
<b>PISA</b>	Program for International Student Assessments
<b>PND</b>	National Development Plan (Plan Nacional de Desarrollo)
<b>Progresa</b>	Education, Health, and Nutrition Program (Programa de Educación, Salud y Alimentación)
<b>PROMAP</b>	Program for Modernization of the Public Administration (Programa para la Modernización de la Administración Pública)
<b>PSA</b>	Public Service Agreements
<b>SAI</b>	Supreme Audit Institutions
<b>SCN</b>	System of National Accounts (Sistema de Cuentas Nacionales)
<b>SED</b>	Performance Evaluation System (Sistema de Evaluación del Desempeño)
<b>SEDESOL</b>	Ministry of Social Development (Secretaría de Desarrollo Social)
<b>SEMS</b>	Under Secretary of Upper Secondary Education (Subsecretaría de Educación Media Superior)
<b>SEP</b>	Ministry of Public Education (Secretaría de Educación Pública)
<b>SESEQ</b>	Health Service of the State of Queretaro (Servicios de Salud del Estado de Querétaro)
<b>SFP</b>	Ministry of Public Administration (Secretaría de la Función Pública)
<b>SHCP</b>	Ministry of Finance (Secretaría de Hacienda y Crédito Público)
<b>SIIF</b>	Integrated Financial Information System (Sistema Integrado de Información Financiera)
<b>SMART</b>	Specific, Measurable, Achievable, Relevant, Time-bound
<b>SNB</b>	National Degree System (Sistema Nacional de Bachillerato)
<b>SPF</b>	Ministry of Planning and Finance of the State of Queretaro (Secretaría de Planeación y Finanzas)
<b>SSA</b>	Ministry of Health (Secretaría de Salud)
<b>TIMSS</b>	Trends in International Mathematics and Science Study
<b>WHO</b>	World Health Organization



## ACKNOWLEDGEMENTS

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The individual notes compiled in this book are part of the series "Mexico: Quality of Public Expenditure" ([www.worldbank.org/lacpublicsector](http://www.worldbank.org/lacpublicsector)) commissioned by the World Bank and the Mexican Secretaría de Hacienda y Crédito Público (Ministry of Finance; SHCP). Much of the work reflected in this notes is the product of the joint work of the World Bank and the Mexican Government during the last 5 years.

The series of notes were coordinated and edited by Pedro Arizti from the Public Sector and Governance unit in the Latin American Region at the World Bank. The edition and production of this book was jointly coordinated by Pedro Arizti and Manuel Fernando Castro from the Independent Evaluation Group (IEG), with the technical support of Ximena Fernandez Ordonez (IEG), and the general support of IEG, the World Bank Mexico Country Office and the SHCP. The editorial contributions of Patricia Rogers and Heather Dittbrenner are greatly acknowledged.

Special thanks to Roby Senderowitsch who helped launch the series of notes. We would also like to recognize the technical support of María Guadalupe Toscano Nicolás and Daniela Felcman as well as the administrative and logistical support of Erika Vargas, Karla Lopez, Arianne Wessal and Maria Gabriela Padrino.

The notes are credited individually to their original authors: Nick Manning, Pedro Arizti, Osvaldo Feinstein, Gonzalo Hernández Licona, Erik Bloom, Gladys Lopez-Acevedo, Gustavo Saltiel, Theo Thomas, Moisés Alcalde Virgen, Manuel Fernando Castro, Ricardo Miranda Burgos, Ricardo Mújica Rosales, Manuel Vargas, Emilio Pineda, María Guadalupe Toscano Nicolás, Enrique Abedrop Rodríguez, Gerardo Franco and Ximena Fernandez Ordoñez.

# FOREWORD

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Interest in the quality of public spending has increased in recent years – and there is a growing focus on the “results agenda” in discussions on development and good governance. Concerns about how the public sector is managed are increasingly driven by the empirical question “what is the public sector delivering?” This change can be seen prominently in the budget and public sector reforms implemented by member countries of the Organization for Economic Co-operation and Development (OECD).

In Latin America, Mexico has been at the forefront of this reform movement. Beginning in 1997, during the transition to democracy, a broad consensus emerged around the need for improved transparency, efficiency and accountability in public administration. Governments have subsequently managed to create an environment conducive to performance measurement and management within government. The result is a progressive and ongoing shift in public perceptions concerning government in Mexico – it must increasingly earn its legitimacy by the results that it produces, a counterweight to the traditional concerns about what it funds and who it employs.

This publication compiles a number of technical notes that summarize the story of performance-based management, budgeting reforms, and emerging practices at different levels of the Mexican government during the past 10 years. Each note was prepared as a self-standing document, yet, together, they tell a compelling tale of the country’s progress toward improved quality of spending. The story highlights the increasing ability of Mexican officials and public agencies to generate, gather, disseminate, and use information on the performance of public programs at the national, provincial, sectoral, and municipal levels. The lessons can be useful to many other countries working to improve the effectiveness of public expenditures.

The notes document the leadership of results-based management reforms by the Congress, the Presidency, the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance; SHCP), the *Secretaría de la Función Pública* (Ministry of Public Administration; SFP), and a number of line *Secretarías* (ministries). They capture the extent to which these agencies have paved the way for the institutionalization of a number of reforms, through legal regulations and the introduction of new practices in government management which are building an increasingly strong results orientation.

The compilation also demonstrates that, in many respects, the process is far from complete and highlights a number of important challenges that Mexico still faces.

There is considerable successful innovation in many of the experiences documented here; however there are still enormous opportunities for knowledge sharing between federal agencies, and between federal and sub-national governments. The successes so far, and the ongoing commitment of government officials at all levels, are a solid base on which Mexico can continue to build. At the World Bank we look forward to continuing to support Mexican efforts to improve the quality of public spending.

Nick Manning, Advisor and Former Sector Manager, Public Sector and Governance Unit, World Bank

# PREFACE

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This compilation, which I am honored to preface, is published with the detail that characterizes the World Bank's work. It reflects the efforts to institutionalize a performance-based culture in the Mexican public sector through the introduction of various reforms, including performance budgeting.

This book also addresses the achievements, challenges, and opportunities to improve the quality of public spending. Steps to make such changes have come through monitoring and evaluation approaches that can be replicated or expanded; sectoral efforts to improve the performance of priority programs; Congress's use of information on the results of public spending; the implementation of performance budgeting at subnational levels; and the harmonization of accounting between the three levels of the federal government. All these aspects are key elements of comprehensive reform. Currently, as the book states, accountability focuses on achieving results rather than on centering attention on mere compliance with rules and procedures. In this context, based on a new legal framework, the government of Mexico has decisively promoted results-based management and budgeting.

Since 2006, Mexico has launched far-reaching reforms. Some of them were raised to a Constitutional status to ensure that public resources at all levels were used based on criteria such as legality, honesty, efficiency, effectiveness, economy, rationality, austerity, transparency, control, and accountability. These reforms have complemented other elements of economic policy with the aim of addressing various structural challenges that face the national economy. These challenges include improving the rate of growth, identifying additional funding sources, improving the efficiency and effectiveness of public spending, and improving accountability and expenditure control.

Today, Mexico is in a stronger position to drive a public economy oriented toward the provision of public goods and good quality services. The country now has a strong tendency to reduce redundant administrative expenditures and a greater capacity to generate a larger impact from government action on the population's welfare. In addition to policy reforms, the process has required that the government strengthen the regulatory framework as an institutional channel to help establish a culture of performance evaluation in the *Administración Pública Federal* (Federal Public Administration; APF); to adapt the programmatic and budget framework to improve the allocation of public expenditures; to build a system to monitor and evaluate budgetary programs; and to develop training tools to create the human resources that a performance-based culture requires.

The *Ley Federal de Presupuesto y Responsabilidad Hacendaria* of 2006 (Federal Budget and Fiscal Responsibility Law; LFPRH) has helped strengthen the budgetary framework with balanced budget rules, reliable processes for structuring and approving the federal budget, procedures for ex ante evaluation of investment projects, establishment of the *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED), and the inclusion of performance indicators in the budget. These aspects, together with the introduction of specific evaluation guidelines, have vigorously promoted the culture of evaluating public spending, adding Mexico to the group of Organization for Economic Co-operation and Development (OECD) countries that have chosen performance evaluation of public expenditures as an element of development.

The 2007 tax reform has sought to improve tax collection and improve efficiency and effectiveness of public expenditure. The reform has also boosted fiscal federalism and raised evaluation and auditing of federal resources in states and municipalities. This is an essential element of good governance.

The SED serves as a public policy element that facilitates the links among planning, programming, budgeting, execution, monitoring, evaluation, and accountability. The system ensures that performance information is used in budget decision making. With the goal of achieving better linkages among these elements, government guidelines were issued; they set the tone for a new programmatic budget classification that strongly supports the implementation of results-based budgeting (RBB). The change in the programmatic structure to facilitate the alignment of federal programs with the strategic objectives of the agencies and entities of the APF, as well as with the objectives of the 2007–2012 National Development Plan, is undoubtedly one of the major improvements introduced in the budget process.

This publication renders an account of how Mexico has progressively incorporated the use of performance indicators in its budget. In 2007, there was a systematic process by which federal programs incorporated criteria for the definition of indicators and targets in a uniform manner. Meeting that goal has required major efforts in terms of intergovernmental coordination. This progress was made possible thanks to the participation of the agencies and entities of the APF and the support of Congress. Based on the new programmatic structure, federal



agencies have incorporated *Matrices de Indicadores para Resultados* (Results Indicator Matrix, MIRs) in their budget programs. This has helped focus the analysis and helped monitor and evaluate allocated funding.

The MIRs have been subjected to a gradual improvement process that makes use of indicators that actually represent expected outputs and outcomes of federal budget programs. This continuous improvement promotes a better budget allocation and reallocation in consistency with the National Development Plan.

The adopted reforms have given a common framework to evaluation. In March 2007, the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance; SHCP), the *Secretaría de la Función Pública* (Ministry of Public Administration; SFP), and the *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (National Evaluation Council for Social Development Policy; CONEVAL) issued general guidelines for the evaluation of federal programs. These guidelines introduced a common language in the APF, along with six different types of performance evaluations to measure the outcomes of policies, programs, and institutions. It should be noted that the reforms in public expenditure and taxation, which were also raised to the Constitutional level, have also had an impact at state and municipal levels.

The introduction of the RBB component of SED (RBB-SED) in the APF has prompted several states to institute reforms to the state's legal frameworks in budgeting, public expenditure, and accounting. Worth noticing in this regard is the progress made in Aguascalientes, Baja California, Campeche, Coahuila, Colima, Chiapas, Chihuahua, Distrito Federal, Guanajuato, Hidalgo, Querétaro, Michoacán, Tabasco, Tamaulipas, and Yucatan, among others.

A particularly outstanding case is the state of Querétaro, which—supported by the World Bank— implemented comprehensive and long-term reforms. These included the development of basic skills and incentives; institutional and regulatory arrangements in key areas for the state administration, particularly in strategic planning; the formulation of targets and indicators; and the evaluation of results.

The implementation of methodologies that will permit measuring the results of the distribution of public resources—based on strategic and management indicators at the local government level—will be strengthened during 2010 under the Government Accountability Act. This law will harmonize accounting among the three tiers of government and the measurement of physical-financial progress of federal public resources based on indicators. It will also promote accountability and increased oversight of federal funds and will introduce accrual accounting at all levels of government. State governments and municipalities will implement these changes by 2012.

With the public expenditure and taxation amendments to the Constitution, a framework was established to provide greater legal and economic certainty and transparency to the budget process as a whole. All these aspects lead us to affirm that Mexico is walking in the right direction toward the institutionalization of a performance culture in public spending. The relevance of these goals are expressed in the *Programa Nacional de Financiamiento del Desarrollo 2008–2012* (National Program for Development Financing). This program establishes improvement in the allocation of public expenditures through greater transparency and accountability and the evaluation of results as one of its main fiscal policy objectives.

In summary, recent reforms regarding budget and audit results lay the foundation for the efficient, effective, transparent, and honest management of public resources in all levels of government. Resources are allocated according to priorities and according to the results obtained in the various programs. There is also greater accountability toward citizens in the use of the resources they have contributed through their taxes.

Central to the implementation of RBB-SED has been the formation and training of public servants from various agencies and entities, which has been made possible through an ambitious training program for those charged with the responsibility, functions, and activities related to the coordination and operation of programs.

The SED was finally established in 2008 with the institution of the principles, concepts, methodologies, guidelines, procedures, and systems that support its operation. Its adoption as a common practice in the APF process will require a gradual, progressive, systematic learning and continuous improvement that should allow performance evaluation to take root in the APF. This calls for consolidating the RBB-SED in all agencies, expanding its use and improving the quality of the information that feeds it.

However, not just the APF benefit will from the implementation of the RBB-SED. As the publication suggests, the approach to an expenditure budget based on performance information offers Congress great opportunities to enhance its regulatory and supervisory functions. The improvement in the quality of MIRs, program evaluations, and their integration into the budgetary programming cycle also contributes to this purpose.

The reforms implemented will undoubtedly strengthen the democratic life of our country. They are changing the focus of the budget toward results and seek to ensure better oversight and accountability to citizens, promoting a responsible federalism in managing public resources. The ultimate goal is to benefit all Mexicans with programs and budgets that actually achieve the expected results. The focus is primarily on those programs that produce goods and provide public services; those that promote and encourage the social and economic sectors; those that regulate and supervise economic activities; and those that, plan, formulate, implement, follow up and evaluate public policies.

Dionisio Pérez Jácome Friscione, Deputy Minister of Expenditures, *Secretaría de Hacienda y Crédito Público* (Ministry of Finance; SHCP), Mexico.



# INSTITUTIONALIZING PERFORMANCE IN THE PUBLIC SECTOR:

## An Emerging Framework for Performance-Informed Budgeting

Nick Manning, Advisor and Former Sector Manager, Public Sector and Governance Unit, World Bank  
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*In recent years, budget reforms undertaken by public administrations have emphasized a sharper focus on results, and many countries have introduced performance-informed budgeting techniques. By using information on agency and program performance, performance-informed budgeting links performance information loosely to resource allocation. This note is an introduction to some of the main features of performance-informed budgeting, including its use by main actors and its technical foundations.*

### Performance Budgeting: A Significant Development

Public sector accountability is increasingly moving its focus away from complying with rules and procedures to achieve outcomes. Generating and using performance information in public administration is essential to increase accountability of actors and improve decision making in the use of public monies. It switches the focus from *how* things are being done to *what* actors have accomplished—a fundamental change that ultimately affects all aspects of the budget cycle.

Latin American countries—and Mexico is a good example—have traditionally been caught in a suboptimal state characterized by low levels of taxation, expenditure, and quality of 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.

Decision making in planning or management can be influenced by performance information in several ways. Decisions can be *tightly linked* to performance measurements: that is, the metrics lead to the decision in a direct way, and other sources of information play a negligible role. If decisions are *informed* by performance information, the link is loose: performance measurement is one source of information to be incorporated with others. Another dimension is the extent to which the use of performance information is formalized. It may be institutionalized—that is, based on rules and procedures and systematic and automatic—or it can be rather ad hoc, that is, opportunistic and not sustained.

**Table 1. Performance Budgeting Categories**

Degree of institutionalization	Linkage to decision making	
	Tight	Loose
Institutionalized	Direct/formula performance budgeting	Performance-informed budgeting
Ad hoc	—	Presentational use of performance information

### Types of Performance Budgeting

The matrix in Table 1 depicts the most common models of the use of performance information in Organisation for Economic Co-operation and Development (OECD) countries according to these two dimensions (the taxonomy is extracted from the OECD terminology<sup>1</sup>):

**Direct/formula performance budgeting** is used in rare situations when there is enough constant demand for a service to ensure that performance-related variations in budgetary allocations are unlikely to lead to a politically awkward need for closure. Performance budgeting rhetoric often aspires to this use, impelled by the notion

<sup>1</sup> For more information on the classification, and more generally, on performance budgeting, see Dooren, Wouter Van, Nick Manning, Jana Malinska, Dirk-Jan Kraan, Miekatrien Sterck, and Geert Bouckaert, Issues in Output Measurement for “Government at a Glance”: OECD GOV Technical Paper 2 ([http://www.oilis.oecd.org/oilis/2006doc.nsf/LinkTo/NT00003F02/\\$FILE/JT03215908.PDF](http://www.oilis.oecd.org/oilis/2006doc.nsf/LinkTo/NT00003F02/$FILE/JT03215908.PDF)), Paris, 2006; Ketelaar, Anne, Nick Manning, and Edouard Turkisch, Performance-Based

that targets for outputs can always steer the allocation of resources. In practice, this use is unlikely to succeed for several reasons: many government objectives (for example, foreign policy or defense) are not measurable in terms of outputs; the logic of reducing funding for poorly performing but politically important programs is perverse; and, to the extent that the measures directly affect real resources, strong incentives for gaming are created. Some examples of the use of direct/formula performance budgeting include Denmark's funding for technical schools and universities, Chile's voucher system for child care and per capita funding for local clinics, and Finland's university and occupational education.

In **presentational use of performance information**, performance information (targets, results) is presented as background information in budgeting documents for accountability. It serves as a tool for discussion by the government, the legislature, and citizens and has no implications for resource allocation. It tends to be found in settings that impose a high degree of social responsibility on actors. For example, in Denmark and Sweden, individual ministries can present performance information in budget negotiations, but there is no expectation of a formal link between the indicators and resource allocation.

**Performance-informed budgeting** is the most common use of performance information in all aspects of the budget process. Examples of budget preparation include most OECD countries, which require the presentation of performance targets and past performance information during budget preparation; although in a few cases it is the single predominant factor in preparing budgetary estimates. Examples of countries that use budget execution include Australia, Canada, and the United Kingdom, where performance information must be presented but is treated along with other sources of information in reviewing the effectiveness of budget execution. The remainder of this note discusses performance-informed budgeting in greater detail.

## Performance-Informed Budgeting

Performance-informed budgeting is the appropriate use of performance information by key actors at each stage of the budget cycle to inform decisions concerning resource allocation and to improve efficiency in resource use. The term *performance-informed* implies that the use of performance information is institutionalized and that

the connection with decision making is loose. The overall objective of performance-informed budgeting is to improve the quality of public expenditures, consistent with political and social goals, and improved efficiency in their use. The intermediate objective is to make performance information available to decision makers so that they can use it—along with such other sources of information as experience, qualitative information, and political priorities—in planning and managerial actions.

## Technical Foundations of Performance-Informed Budgeting

The development of *program budgeting* is generally a precursor to the effective use of performance information in a budget process. However, it is important to be realistic about introducing a program structure to the budget. In many cases, the program is essentially synonymous with the work of the ministry or department, which cannot be described meaningfully in terms of specific outputs (for example, foreign affairs). Introducing program budgeting entails (a) structuring administrative actions in terms of programs and designing a program structure for the budget (or parts of it), and (b) changing the nature of expenditure controls, with some increasing differentiation between policymakers and service-providing units, and some management autonomy to executing agents. This last point is normally addressed 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 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 (for example, wages and maintenance costs).

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*Arrangements for Senior Civil Servants – OECD Experiences* (OECD Governance Working Paper), Paris, 2007; Kraan, Dirk-Jan, *Programme Budgeting in OECD Countries*, OECD Journal on Budgeting (forthcoming); OECD, *Performance Budgeting in OECD Countries*, Paris, 2007; Marc Robinson and Jim Brumby, *Does Performance Budgeting Work? An Analytical Review of the Empirical Literature*, IMF Working Paper, WP/05/210, IMF Nov 2005.

Another critical foundation is the introduction of *integrated financial management information systems* (IFMIS), including in procurement, treasury, and *rendición de cuenta pública* (*public accountability*). An IFMIS is essential at all stages of the budget process to support performance-improved budgeting.

- **Budget formulation.** For planning purposes, quantifying the cost of producing results is essential. The previous year's costs of delivering specific program results are needed for planning, because central budget officers understand and negotiate the budget on a cost-result basis.
- **Budget execution.** During implementation, managers need to keep track of current program spending. When budgeting is not integrated with procurement and treasury, neither budget officers nor program managers have reliable expenditure figures to compare budget execution or, for example, physical results of the project.
- **Budget audit and evaluation.** Slow or late submission of the *cuenta pública* (*public accounting*) prevents timely expenditure evaluations.

A third important foundation is the role of the supreme audit institution (SAI). The SAI must be able to undertake performance audits; among other things, it must have an appropriate legal basis and capacity through investment in skilled human resources. Performance auditing requires skills and competencies that are more often associated with management consulting than traditional legal/accounting audits.

## Quality of Performance Information

Ultimately, the quality of performance information depends on the strength of the sectoral planning and information system in line ministries. However, some external checks are essential. Financial information systems, with their internal control systems and internal and external audit systems, combat misrepresentation. Similarly, quality management and quality assurance systems must be used for performance data; and audits of the quality of the data and the systems that generate them can help prevent loss of data quality. Such audits can be undertaken by statistical offices and audit bodies. In the United Kingdom, most public service agreement indicators are collected by the departments and agencies themselves. Statistics that are declared valid by the National Statistician and

### Box 1. Definition and Types of Performance

The term *performance* is used in two ways. It is generally used to convey that achievements matter as well as probity and economy in the use of resources, that there is a standard that managers or agencies are expected to achieve, and that management improvements will be directed toward that end. It is also used to refer to anything beyond inputs—outputs, outcomes, or even, in some circumstances, managerial arrangements and processes.

Typical *performance measures* include outputs (products and services delivered and their quality), efficiency (cost over output), productivity (output over input), and policy goals achieved, or outcomes. Outcome measures can be intermediate (direct consequences of the output) and final (significantly attributable to the output). Additional performance measures include effectiveness (contribution of the output to the desired outcome) and cost-effectiveness (cost over outcome). Outcome-based measures are valid metrics for performance only to the extent that there is a clear causal relationship between the individual or agency outputs and the measure.

the Statistics Commission receive a National Statistics label. The Australian National Audit Office does not issue opinions on the nonfinancial information in the annual report but audits the quality of performance measurement systems within its value-for-money audit mandate.

## Managing Change

The introduction of performance-informed budgeting is as much about the political economy of change as it is about a technically first-best option. Three key issues need to be addressed:

- First, there must be 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 is most often found in unitary, parliamentary countries.
- A second consideration is the degree to which the budget is shaped by earmarks that restrict flexibility in reprioritizing programs during budget preparation.
- Third, it is 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.

## The Mexican Context

In Mexico, the efforts of previous administrations to introduce results and performance information as part of the budget process have not fulfilled their promise. Mexico's public administration is still characterized by features that impede the use of relevant, timely, and quality performance information in managerial decision making. Federal departments and agencies are mainly driven by processes, with few agreed standards that allow agencies to benchmark their own performance and that of their programs and program performance. A proliferation of reports with fragmented and duplicated information has produced a perverse outcome: information is devalued for decision making. Public financial management systems have multiple information technology platforms and databases, and they lack real-time monitoring of public expenditure execution from commitment to payment; and international accounting and financial reporting practices are only partially applied. Finally, the budget process is still dominated by a strong formalism and is defined by rigidities that prevent policymakers from introducing substantial reallocations based on performance. In addition to these limitations in budget formulation, performance information is not used during budget execution, where it can have its greatest impact.

However, responding to strong internal and external demand, the Mexican government is now moving forward in introducing performance-based budgeting and results-based management in the public administration. The results-based budgeting initiative is anchored in a new legal framework that establishes the *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED) to provide data on the performance of publicly financed programs and organizations as inputs to the budget cycle. This legal framework reaches the different levels of government—federal, state and municipal—and has already made a dent in setting up the beginnings of a robust institutional structure needed to move toward a performance-based management culture.

The challenge for the public administration, and the country as a whole, is the implementation of a process that cannot be reversed. Even though most of what is envisioned in the legal framework remains to be implemented, a number of achievements point in the right direction, such as the institutionalization of the evaluation process and the creation of the *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (National Evaluation Council for Social Development Policy; CONEVAL). Also of importance is the creation of the Under-Secretary for Planning and Social Evaluation at the *Secretaría de Desarrollo Social* (Ministry of Social Development;

SEDESOL). The sum of these efforts and initiatives could constitute a national monitoring and evaluation system. Finally, the new initiative by the *Auditoría Superior de la Federación* (Mexican Superior Audit Body; ASF) in the elaboration of performance audits is very encouraging.

**INSTITUTIONALIZING PERFORMANCE IN THE PUBLIC SECTOR—AN EMERGING FRAMEWORK FOR PERFORMANCE-INFORMED BUDGETING**  
 Illustrative Use of Performance Information: Actors and Decisions Points in the Budget Cycle

User	Decision points/use of information				In audit and evaluation
	Type of performance information	During budget preparation	At budget approval	During budget execution	
<b>Presidency</b>	Whether implementation targets set for Secretaries/Ministers, agencies, and/or programs are being achieved. Degree to which the goals stated in the National Development Plan (or government plan) are being achieved	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 when there are “performance agreements” between the President and Secretaries/Line Ministers.	Performance information can be included in the cuenta publica annual submitted to the congress after the end of fiscal year. See During budget preparation column.
<b>Planning agency</b>	Whether targets set for programs, especially related to public investment, are being achieved. Degree to which the goals stated in the National Development Plan (or government plan) are being achieved.	Performance information on program outcomes can be used, loosely, in the negotiation between the planning agency and Secretaries/Line Ministers.	Demonstrable results are a key input used during negotiations to secure budget approval from congress	Limited use of performance information.	See budget preparation (this row in the table)
<b>Ministry of Finance</b>	Whether targets set for Secretaries/Line Ministers, agencies, and/or programs are being achieved. The degree to which centrally led management and control systems are being followed.	Performance information on program outcomes can be used, loosely, in the negotiation between the Ministry of Finance and Secretaries/Line Ministers.	Performance information on program outcomes can be used, loosely, in the negotiation between Ministry of Finance and budget committee of the congress.	Particularly strong use when there are “performance agreements” between the Finance Ministry and Secretaries/Line Ministers.	Performance information can be included in the cuenta publica annual submitted to the congress after the end of fiscal year. See budget preparation (this row in the table)
<b>Line ministries</b>	Whether targets set for programs or agencies are being achieved. Whether Secretaries/ministries are collecting data and reporting on performance per specifications.	Performance information can be used for sectoral policy development. In addition, sector ministries negotiate the budget with the Ministry of Finance/Planning. Those negotiations are increasingly based on/related to performance.	As sector ministries increasingly respond directly to congressional demands for information about their performance, those ministries can use performance information in lobbying with congress for budgetary support at the time of budget approval.	Used in the context of “performance agreements” between 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.	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.

(continued)

**INSTITUTIONALIZING PERFORMANCE IN THE PUBLIC SECTOR—AN EMERGING FRAMEWORK FOR PERFORMANCE-INFORMED BUDGETING** (continued)  
**Illustrative Use of Performance Information: Actors and Decisions Points in the Budget Cycle**

User	Decision points/use of information				In audit and evaluation
	Type of performance information	During budget preparation	At budget approval	During budget execution	
<b>Legislative</b>	Whether targets set for Line Ministers and for programs are being achieved.	In principle there is opportunity for using performance information in budget preparation.	Growing congressional demand for performance information at the time of budget approval.	Some emerging reporting of performance in budget execution to congress/parliament in many OECD countries.	Evaluation of the performance information included in the <i>cuenta pública</i> annual provided by the executive. See budget preparation (this row in the table).
<b>External audit</b>	Degree to which government programs achieved their objectives.	N/A	N/A	N/A	Some initial development of performance auditing—although there is no legal basis for qualifying accounts from a performance perspective. See budget preparation (this row in the table)
<b>Public (organized groups and individuals)</b>	Aggregate level: Degree to which government-wide targets are being achieved. Individual level: Compliance with service standards.	Performance information can be used by organized groups as part of their lobby for particular funds and programs. Although there are some developments at local and municipal levels, broader “participatory budgeting” techniques—which allow individual voices to be heard—using performance information are less common.	Performance information can, in principle, be used to analyze the impacts of budget modifications made by congress to the executive’s budget proposal.	Organized groups can use aggregate performance measures to push for better execution in policy areas that concern them. Individuals can use information concerning compliance with service standards to improve budget execution/seeking redress in relation to particular services.	See budget preparation (this row in the table)



# THE ROLE OF EVALUATION IN MEXICO:

## Achievements, Challenges, and Opportunities

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*Traditionally, evaluation of public expenditure has focused on the size and composition of public expenditure, rather than on its quality. However, evaluation can enhance the quality of public expenditure by identifying approaches that yield best results and can be replicated or scaled up. In the context of performance-informed budgeting, planning agencies, line ministries, and groups outside government, such as the congress and civil society, can use information on program outcomes generated by evaluations. This note summarizes Mexico's experience in institutionalizing and using evaluation as a tool for learning and accountability and in strengthening the role of evaluation in the framework of performance-informed budgeting.*

### Background

Mexico was a world pioneer in evaluation in the 1970s, using support from the World Bank to focus on evaluating integrated rural development projects.<sup>1</sup> These first-generation evaluations were antecedents of the evaluation of the *Progresa/Oportunidades* program that began in 1997—one of the most influential evaluations in the development world<sup>2</sup> (see Box 1).

**PROMAP.** In 1996 President Ernesto Zedillo instituted the *Programa para la Modernización de la Administración Pública* (Program for Modernization of the Public Administration; PROMAP) to promote accountability and improve the service culture, in part through indicators for performance evaluation.

The PROMAP discourse introduced the words “accountability” and “evaluation” to Mexican public administration. A subprogram, Evaluation and Measurement of Public Management, sought measurable outcomes for internal evaluation and performance indicators to guide the decision-making process, and the Ministry of Control and Administrative Modernization was created and given

responsibility for developing performance indicators, performance agreements, and defining budgets in relation to achievement of results. However, PROMAP achieved little and was not able to transform the decision-making process within ministry offices.

#### Box 1. An Influential Evaluation: Oportunidades

The *Oportunidades* Human Development Program is a Mexican government program aimed at improving the education, health, and dietary intake of Mexico's poorest people. In 1997 it started to operate in rural areas under the name *Progresa*. By 2001 it had been extended to operate in semi-urban areas, and it reached urban areas in 2002. Five million families currently benefit from this program. The continuation of this program in successive administrations was largely due to the results emerging from its evaluation, which was considered credible.

From the outset, an evaluation component was included to quantify the program's impact through rigorous methodologies, using both qualitative and quantitative approaches. The impact evaluation of *Oportunidades* was assigned to internationally and nationally prestigious academic and research institutions. The evaluation of *Oportunidades* has been a continuous process focused on (a) measuring the outcomes and impacts on a short-, medium-, and long-term scale; (b) identifying the outcomes and impacts attributable to the program and discerning effects associated with other factors on individuals, families, and communities; (c) analyzing indirect effects associated with the operation of the program; and (d) identifying ways to improve the program. The work done for this evaluation has yielded an important collection of information—databases, questionnaires, technical and methodological notes, household studies, and review documents—that is publicly available. Because of the systematic evaluation of the program, it has become a model for the design of other conditional cash transfer programs.

Source: SEDESOL, <http://evaluacion.oportunidades.gob.mx:8010/en/index.php>

<sup>1</sup> Some of this work is described in IEG, World Bank (1983): Mexico – Integrated Rural Development Project (PIDER I), Loan 1110-ME (available in [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1999/09/10/000178830\\_98101901051757/Rendered/INDEX/multi\\_page.txt](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1999/09/10/000178830_98101901051757/Rendered/INDEX/multi_page.txt))

<sup>2</sup> See Behrman, Jere R. and Skoufas, Emmanuel (2006): “Mitigating myths about policy effectiveness: Evaluation of Mexico's antipoverty and human resource investment program,” in *Annals, AAPSS*, 606, which includes several useful references to the vast literature generated by this evaluation.

**Transparency and Good Government Agenda.** During the presidency of Vicente Fox, the issues of administrative reform and responsive government were placed squarely on the public agenda with the National Program to Combat Corruption and Promote Transparency and Administrative Development and the *Agenda de Buen Gobierno* (Good Governance Agenda; ABG). These reforms sought to transform administrative structures and procedures, the technology used by government, and the behavior of public employees, to deliver more and better public services at a lower cost. Although this reform initiative did not fulfill its promise, it generated important lessons: the need to prioritize and sequence reform activities and an understanding that the particularities of the diverse bodies of government matter; they cannot be treated as homogenous entities with a “one-size-fits-all” approach.<sup>3</sup>

## Achievements

In 2000, to achieve greater transparency and accountability and to prevent political manipulation of public programs, the Mexican Congress passed a law requiring an annual evaluation of all the programs conducted by the Federal Executive Branch. In 2001 the post of Undersecretary for Planning and Social Evaluation—*Secretaría de Desarrollo Social* (Ministry of Social Development; SEDESOL)—was created, and in 2004 Congress approved a *Ley General de Desarrollo Social* (General Social Development Law; LGDS) that institutionalized the evaluation process and created a *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (National Evaluation Council for Social Development Policy; CONEVAL). In 2006 Congress approved the *Ley Federal de Presupuesto y Responsabilidad Hacendaria* (Federal Budget and Fiscal Responsibility Law; LFPRH), which created the *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED) and details the use of performance indicators.

These institutional changes promoted evaluation and performance indicators, but these initiatives and arrangements were not integrated into a single system; rather, they were considered a set of parallel systems. For this reason in March 2007 the General Guidelines for the Evaluation of Federal Programs were published by CONEVAL, the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance; SHCP), and the *Secretaría de la Función Pública* (Ministry of Public Administration; SFP). The main objective of the guidelines was to align the incentives of the previous evaluation and monitoring regulations.

The guidelines describe the basic components for the imple-

mentation of the monitoring and evaluation (M&E) system, including the importance of the linkage of strategic national social policy objectives to program indicators, the types of external evaluations applicable to federal programs (including impact evaluation, the design and consistency framework evaluation, process evaluation, etc.) plus the basic instruments for the improvement of program performance using evaluation results. The Guidelines, Along with SED, the guidelines represent an important achievement in promoting a new culture of results-based management and evaluation.

In March 2008 for the first time, Congress received 116 external evaluations—Consistency and Results Evaluations—coordinated jointly by CONEVAL, the Ministry of Finance, and the Ministry of Public Administration. These evaluations analyze the design, strategic planning results, coverage, and targeting as well as the satisfaction of beneficiaries of social programs. Thus, general recommendations can be drawn from these results. At the same time, at the beginning of 2008, almost 145 federal programs have elaborated their logical frameworks (*Matriz de Marco Lógico*) to improve planning and performance indicators.

Evaluations are also being carried out in other ministries. For instance, there is already evidence of the fruitful use of evaluation and performance information in the case of the *Sub-secretaría de Educación Media Superior* (Under Secretary of Upper Secondary Education; SEMS), which has been conducting impact evaluations for several basic education and higher education interventions, designing a new evaluation system and generating better data collection on scholarship recipients and survey instruments. The sector, along with the *Instituto Nacional para la Evaluación de la Educación* (Na-

### Box 2. A New Evaluation Institution: CONEVAL

Mistrust has prevailed in several public institutions in Mexico for many years. For this reason CONEVAL was created. CONEVAL is led jointly by its Executive Secretary and a panel of six academics; these academics must be members of the National System of Researchers and are elected by the National Commission of Social Development, which has national, state, municipality and Congress representatives.<sup>5</sup> The Council has two important tasks: the measurement of multidimensional poverty at the national, state, and municipal levels; and the evaluation of social policies and programs.

<sup>3</sup> See Mauricio I. Dussauge Laguna, “Paradojas de la reforma administrativa en México.” *Buen Gobierno*, 2 (2007): 28–42.

tional Institute for the Evaluation of Education; INEE),<sup>4</sup> has also been active in collaborating with the teachers' union for the dissemination of recent evaluations and tendencies in the education sector. In this way, evaluations are being developed and used in the context of budget preparation for policy development and potentially in the future for budget negotiation, as well as for budget execution.

An important contributor in terms of accountability is also Congress. Mexico's *Auditoría Superior de la Federación* (Mexican Superior Audit Body; ASF), with its division focused on performance audits,<sup>5</sup> applies the standards of the International Organization of Supreme Audit Institutions. ASF was created in 2001 and has been a relevant player in promoting a culture of evaluation and results.

**Strategic Plan.** The Strategic Plan 2001–2006 committed the government to “present a budget reform based on the modernization of the budget process to ensure more efficient and transparent public expenditures.” It highlighted the important link between management reform and public sector productivity: “Public sector productivity...requires strengthening the flexibility and autonomy needed by public officials for decision making. This in turn strengthens accountability mechanisms and performance evaluation.” The National Development Plan for 2007–2012 builds on the objectives of the Strategic Plan to focus on improving the “management, processes, and results” of the Federal Public Administration.

**Legal Framework.** The new legal framework for evaluation includes the following:

- The January 2004 LGDS, which created CONEVAL
- The March 2006 LFPRH, which details the requirements and use of performance indicators
- The 2007 fiscal reform, which details the SED framework and requires states and municipalities to adopt results-based management
- The 2007 General Guidelines for the Evaluation of Federal Programs

<sup>4</sup> See <http://www.inee.edu.mx/>

<sup>5</sup> See <http://www.coneval.gob.mx/> to have access to recent program evaluations and to poverty figures by State, Municipality and the recent evolution of National poverty.

<sup>6</sup> Mexican evaluation initiatives and institutional arrangements are well described and analyzed in a recent paper: Medina Giopp, Alejandro (2007) “El sistema nacional de monitoreo y evaluación de la gestión pública: México” (prepared for the CLAD), processed.

<sup>7</sup> See <http://www.asf.gob.mx/>

- The 2008 Agreement for the implementation of the SED, which requires the issuance of an annual evaluation program that includes the budgetary programs to be evaluated and the types of evaluation to be carried out and establishes disclosure of the information generated by the SED to the public.

## Challenges

The Mexican evaluation framework has two important gaps.

**Institutionalization Gap.** Although Mexico has a legal framework for evaluation and CONEVAL is an appropriate institution for the evaluation of social development programs and policies, public sector evaluation is not fully institutionalized at the central and sub-national government levels or in the sectors (except in social development and education). Thus, evaluation at those levels is institutionally homeless—so that economies of scale and of scope in evaluation activities cannot be developed and the country cannot benefit from the enhanced accountability and learning that would result from broader evaluation. Spain's experience of institutionalizing evaluation (see Box 3) provides an interesting reference model.

The agency's governing board, which is chaired by the Agency's president, includes representatives of the Ministry for Public Administration, the Ministry of Finance, the Ministry of the Presidency, the Ministry for Foreign Affairs and Cooperation, and the trade unions, as well as independent professionals of widely acknowledged

### Box 3. The Spanish Evaluation Agency

The Spanish National Agency for the Evaluation of Public Policies and Quality of Services was created on January 1, 2007. Its goals are to use evaluation to improve the quality of public services, enhance the public accountability of government bodies, and promote better use of public funds. Its creation was based on the recommendations of an expert panel of academics, distinguished professionals, and public managers that prepared a detailed analysis of evaluation in Spain with references to international experiences.

The agency is a public-law body with its own legal personality and property, endowed with management autonomy and flexibility. It is attached to the Ministry for Public Administration. The agency evaluates programs and policies selected each year by the Spanish cabinet, and submits an annual report to the Parliament on central government agencies' efforts to improve the quality of the services they provide to the public. A management contract governs the agency's activities and its relations with the government, which funds those activities.

reputation. Representatives of autonomous communities (regions) that sign cooperation agreements with the Agency may also sit on the Governing Board. In fact, one of the roles of the Agency is to promote the development of an evaluation culture at the level of the autonomous communities.

**Capacity Gap.** Although the government has improved its program evaluation capacity, most of this expertise is located in CONEVAL/SEDESOL and deals only with the evaluation of social programs and policies, which represent a minority of all public programs. There is only limited capacity to conduct or contract evaluations and monitoring of non-social programs. Meanwhile, the private market for providers of external evaluations remains extremely limited. Thus, though there are some highly competent evaluation experts in CONEVAL and SEDESOL, as well as in some universities and research centers, the central and sub-national levels of government lack the capacity to manage, conduct, and use evaluations. Three symptoms of this gap are the proliferation of indicators that are not used, problems in the quality of some evaluations, and the almost total lack of state-level evaluations. A three-pronged approach would help:

- **The supply side of the evaluations market should be strengthened to reduce transaction costs and increase the quality of evaluations.** Evaluations of federal social programs have been of variable quality and utility. High-quality providers of evaluation services are scarce, and demand, greatly increased by the Congressional mandate, has exceeded supply. It is essential to establish clear quality standards and mediation and arbitration mechanisms to resolve controversies that may arise.
- **Enhancing M&E systems is not just a supply-side issue or a “technical fix”: the demand side is important as well.** Even though supply-side issues such as the timeliness and quality of evaluations are important, M&E findings must have an important audience if the systems are to be sustainable. M&E information should be used by all stakeholders, including sector ministries and civil society. To increase the impact of evaluations, their key messages should be disseminated in user-friendly ways.
- **A mechanism should be established to ensure that evaluation findings are used in subsequent decision making or action plans.** In Mexico evaluators have not engaged often enough in discussions with project managers (partly because of a misunderstanding about what is required to maintain the independence of evaluators), and managers have rarely used evaluation findings to improve program performance. Recently, however, CONEVAL and SEDESOL’s external evaluations have involved

greater collaboration between program managers and program evaluators to produce objective reports that can be used for decision making. Another approach would be to submit evaluation findings to program managers, along with an official request for an action plan that addresses the issues raised by the evaluation. The goal is to link evaluations with decision making and to strengthen incentives for evaluators to offer realistic, meaningful recommendations. During 2008, CONEVAL, the SHCP and the SFP will produce guidelines for the use of evaluation findings.

## Opportunities

The Mexican government’s interest in improving the quality of public expenditure through evaluation is shown by the legal framework that it has developed in recent years and by the commitment of officials in key government institutions to design and implement a performance evaluation system combined with results-based budgeting. In the context of performance-informed budgeting, performance information from evaluations could be used for stronger program and policy management in line ministries. It could also be used for more robust negotiation between the planning agencies and line ministers during budget preparation. In this process, the use of performance information can inform “spending reviews”—a special form of policy evaluation that is used in a number of Organisation for Economic Co-operation and Development (OECD) countries to support the allocation function of the budget. Unlike line ministries’ policy evaluations, these reviews go beyond effectiveness and efficiency under current funding levels and focus on the consequences that alternative funding levels would have for outputs and outcomes.

The Mexican Congress is also showing increasing interest in evaluation. That interest confirms another key role of performance information—as an instrument for deepening the debate at all stages of the budget cycle among groups outside government. International organizations such as the World Bank, the OECD, and the Inter-American Development Bank are providing valuable support as Mexico develops a suitable evaluation system, taking international best practices into account and adapting them to the Mexican situation. There are significant opportunities to enhance and consolidate the Mexican evaluation system and transform it into a key instrument for accountability, learning, and good governance.

# HARNESSING EVALUATION TO IMPROVE UPPER SECONDARY EDUCATION

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*Although Mexico has made great strides in improving the coverage of education at all levels, it still has a major gap in enrollment at the upper secondary level: less than half of the youth population graduates. The education level of adults in Mexico is far behind that of other middle-income countries. In addition, the results from international learning assessments give rise to concerns about the quality and relevance of upper secondary education. The Subsecretaría de Educación Media Superior (Under Secretary of Upper Secondary Education; SEMS) is leading a major reform of the sector with the twin objectives of increasing coverage and quality within the framework of a more integrated system. Evaluation has been an important tool in designing, implementing, and monitoring the reform.*

## Upper Secondary Education in Mexico

In recent decades, Mexico has made substantial progress in education. At the primary education level, coverage has remained around 90 percent since 1970, and the system's efficiency has improved significantly. The coverage of lower secondary education has risen from 30 percent in 1970 to around 90 percent in 2006, and the coverage of upper secondary moved from 10 percent to 55 percent over the same period. However, compared to basic education, there are significant problems with efficiency. In essence, Mexico can get youth into the upper secondary system but cannot get them to graduate.

Measuring quality is difficult, but the international Program for International Student Assessments (PISA) learning assessment shows that Mexico is one of the lowest-performing countries in the Organisation for Economic Co-operation and Development (OECD).<sup>1</sup> Although its scores have improved, it is still behind other middle-income OECD countries. At the same time, the OECD report *Education at a Glance 2007* indicates that Mexico has made consistent increases in educational investment, not just in absolute terms, but also in terms of a rising share of gross domestic product being dedicated to education.

The SEMS is introducing a series of reforms intended both to increase coverage and to improve the quality and relevance of the education that students receive. As part of these reforms, SEMS is

supporting the establishment of a *Sistema Nacional de Bachillerato* (National Degree System; SNB), which will create a set of common standards for upper secondary education and allow transferability within the system. It is also introducing a universal student assessment to complement existing assessments in the basic education system.

## Role of Evaluation

Along with the rest of Mexico's public administration, SEMS is moving toward results-based management and performance-based budgeting approaches. A fundamental aspect of these approaches is emphasis on monitoring and evaluation of policies and programs—a challenge that involves a range of activities, from monitoring and assessing progress in the implementation of programs, to measuring

### Box 1. The Upper Secondary System in a Nutshell

Basic education in Mexico is provided by state governments, but upper secondary education is more complicated: it is provided by the federal government, autonomous public universities, state governments, and a large private sector. Nationwide, 28 percent of enrollment is in the federal system, 37 percent in the state system, 15 percent in the university system, and 21 percent in the private sector. The proportions vary greatly from state to state.

With the variety of different providers, it is estimated that 200–300 different subsystems are in operation, providing both technical and academic education. Upper secondary education depends heavily on contract and part-time teachers. Transfer among the different subsystems is difficult, and both learning and regulatory standards vary greatly.

<sup>1</sup> PISA is given every 3 years to 15-year-old youths in school in all OECD and many partner countries. It covers mathematics, science, and language.

<sup>2</sup> This approach is discussed in L. Crouch (2006) *Por una Educación de Calidad para el Perú*. Washington: World Bank, and E. Vegas and J. Partow (2008) *Incrementar el Aprendizaje estudiantil en América Latina*. Washington, World Bank.

changes in outcomes and evaluating the impact of specific interventions on those outcomes.

There is broad consensus that improving quality in education requires establishing transparent and well-known quantitative standards, accompanied by a strong assessment system to follow up on student learning and help guide follow-up action by the school systems.<sup>2</sup> With transparent standards and an assessment system, the education system can target resources where they are needed—for example, to teacher training, materials, or other interventions.

### *Expanding the Integrated Quality Assessment System*

SEMS is developing an integrated quality assessment that both builds on existing resources and introduces new tools. At the center of the quality assessment system is a new learning assessment (test) that is being given to all students at the end of 12th grade. This complements the *Exámenes de la Calidad y Logro Educativo* (Quality and Educational Achievement Exams; EXCALE) assessment that is currently administered in the basic education system to all students in 3rd, 5th, 7th, and 9th grades. The new assessment was first given at the upper secondary level during the 2007–08 school years. Although SEMS only has “authority” over federal school systems, it was able to persuade other school systems to participate; participation was universal.

With repeated results (probably after the assessment is administered twice), it will be possible to compare the efficiency of different types of upper secondary school systems. This is where the second element of the new quality assessment system plays an important role.

SEMS is using information from the Ministry of Public Education to update its databases and correct information on schools and education finance so that it can analyze what it is spent in upper secondary education and see what the results are. With the assessment information about the operation of the upper secondary system, SEMS will then be able to improve the allocation of resources.

### *Using Impact Evaluations*

Impact evaluation assesses the specific outcomes attributable to a particular intervention. It is a powerful instrument to determine what works and what does not work in designing development interventions. For example, impact evaluation can measure the increase in student learning that results from a change in the curriculum. This is done by using a counterfactual, which represents the hypothetical state the beneficiaries would have experienced without the intervention.

Over the past few years some significant improvements have made impact evaluations easier to implement systematically. First, information is more readily available because countries are collecting more microdata through household surveys. Second, specialists have developed a number of evaluation techniques to construct the counterfactual, ranging from randomized experiments to quasi-experimental techniques.

Mexico has been a leader in developing and applying impact evaluation techniques to policy making. The national transfer program, *Oportunidades*, started with a detailed impact evaluation of a pilot program that was brought to national scale. Building on that experience, Mexico has introduced impact evaluation techniques in different sectors to develop and improve new programs.

SEMS has been a pioneer in using impact evaluation as part of its overall reform program. On introducing new programs to improve the coverage and quality of the upper secondary education, SEMS prepared a series of impact evaluations to measure the impact of these programs. At the center of SEMS’ impact evaluation strategy was the creation of an international impact evaluation consultative group. This consultative group comprises a number of experts in impact evaluation who have published widely on impact evaluation and education, and most of them have worked extensively in Mexico.

Working with the consultative group, SEMS is carrying out impact evaluations on the new upper secondary education scholarship program, the use of computers in upper secondary training programs, and the selection of school principals. Data from these evaluations will help improve the design of these programs. Future impact evaluations are planned for other SEMS programs.

## Introduction of Performance-Based Budgeting

The Mexican public administration is moving forward in adopting results-based management and performance-based budgeting through the new *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED). This framework will promote the generation and use of performance information throughout the budget cycle, and the line ministries (*Secretarías*) will play a critical role in implementing it. SEMS’s development of rigorous evaluations and quantitative standards is an example of relevant performance information that will feed into the system.

The federal government finances the upper secondary system through several mechanisms. First, it provides direct financing to its

own schools, whether decentralized or autonomous; most of the decentralized school systems are operated by SEMS. Second, it provides financing to the state systems, and it often plays a significant role in the management of these state systems. Third, it provides a significant part of the budget directly to federal – and state-level autonomous universities, which allocate their resources freely to their own secondary education system. (State governments also contribute to the budgets of their own autonomous universities.) In many ways, the upper secondary education system is more flexible than other areas of the education system. It relies heavily on contract teachers and has been quite open to experimenting with new approaches and new systems.

The overall evaluation system that SEMS is establishing will allow more comparisons among the different systems. Some systems are more efficient than others, and some have a bigger equity impact. The combination of statistical analysis and impact evaluation will help the federal government target additional resources to the best-performing systems. As the evaluation system goes beyond the systems that the federal government influences directly, other school systems may make similar use of the available information.

Given the increasing attention that the Ministry of Education is giving to results and outcomes, the establishment of performance

budgeting in Mexico can benefit from this experience and support this already positive development.

## Challenges

In Mexico the education sector is the single largest recipient of public resources and one of the largest employers. It plays a key role in the economy, particularly because, as a middle-income country, Mexico is increasingly dependent on the services produced by educated workers. The upper secondary education system is growing quickly and will continue to grow in the coming years.

To meet the challenges of the growing and very diverse upper secondary system, the federal government will need additional information to track decisions and make key decisions. It will need to share this information with states and autonomous universities to help them make better decisions, as well. The newly introduced evaluation system will help both the state and federal governments meet the growing demand for upper secondary education.

### Box 2. Use of Education Evaluation in OECD Countries

Objective assessments are playing a growing role in education sectors throughout the OECD. This includes both international assessments, which provide international benchmarks, and national assessments.

In the United States, secondary students' performances on the PISA and on the Trends in International Mathematics and Science Study have raised concerns about the state of science and mathematics education and led to greater emphasis on math and science education. The federal government has required states to introduce their own assessment systems and minimum standards. Schools that have low performance receive additional support to help students meet state standards. However, if a school continues to "fail," the state can take control of the school or shut it down. This approach does not reward well-performing schools but ensures a minimum standard for all schools.

In Germany, PISA results have given rise to intense debate on ways the country can improve students' performance. Policymakers used the PISA results to support their efforts to introduce new initiatives to improve quality. Germany does not have a strong testing tradition, and PISA forced the public to see the significant weaknesses in the education system. As a result of reforms and targeted investment, Germany saw increases in its PISA scores. Thus, in Germany, PISA served as a analytic database, a benchmarking instrument, and advocacy tool.

# THE EFFECTIVENESS OF POVERTY REDUCTION: The State Dimension

Gladys Lopez-Acevedo, Senior Economist, Poverty Reduction and Economic Management Unit, World Bank

*Since the late 1990s, Mexico has substantially increased the resources it devotes to reducing poverty. Some of this progress was due to a change from providing general inefficient subsidies to effectively targeting social programs such as Oportunidades, whose strong design and robust evaluation has been well documented. Oportunidades is centrally managed, which has allowed an even execution of the program. As states get more resources for poverty reduction and play a greater role in co-financing major social and poverty programs, it becomes critical for them to enhance their capacity to plan programs and apply resources effectively. This note discusses the challenges related to financing, transparency, and accountability that face state-executed funds for poverty reduction and centers the discussion on how to increase the quality of public expenditures in a decentralized context.*

## Introduction

Over the last dozen years, Mexico has reorganized many of its government programs by decentralizing them to states and municipalities. Simultaneously, the country has achieved major expansion in its coverage of these social programs, especially for poor people. The biggest challenge now is to improve program quality and accountability, which remain low by the standards of the Organization for Economic Co-operation and Development (OECD) and about average for Latin America.

The elements of the government's strategy considered here—basic education, health care for those who do not have social security coverage, local social infrastructure, and local rural development—all aim to reduce poverty. Both social and economic services shape the opportunities of poor people. Social services contribute to human capital formation and risk management, whereas economic services shape access to markets.

## Decentralization and Performance<sup>1</sup>

In all sectors, coverage, equity, and targeting of services have improved, especially for poor people. Although quality generally remains low by OECD standards and remains roughly on par with Latin America, there is evidence of quality improvements in some cases. Service performance varies widely across the country, even after accounting for state per capita income. This variance indicates that other important factors also influence performance. However, the paucity of state – and municipal-level information on the performance of the programs analyzed here makes it difficult to establish

a link with decentralization.

In education, the gap in primary education coverage between the poor and the rich states has narrowed since decentralization. Equity has improved, perhaps because of the cumulative effects of compensatory programs.<sup>2</sup> However, efforts to increase lower-secondary schooling for poor people face significant challenges. The quality of education is low by international standards, even after controlling for Mexico's income level. The rapid expansion of the *telesecundaria* system is worrisome; although it has helped improve rural poor people's access to school and accounts for 20 percent of total lower-secondary enrollment (and a much higher share in rural areas), students in the *telesecundaria* have recorded low levels of achievement.

Despite important institutional limitations in the decentralization process, local innovations have helped both rich and less wealthy states improve their basic education systems. For example, the states of Aguascalientes, Colima,<sup>3</sup> Nuevo León, and

<sup>1</sup> Note: This note is based on the 2007 World Bank report Decentralization and Poverty in Mexico. To analyze how service delivery institutions may affect quality and efficiency, the report principally uses the institutional conceptual framework developed in the 2004 World Development Report, adapted to the institutional context prevalent in the different sectors and in the decentralized institutional setting of service provision in Mexico

<sup>2</sup> The Ministry of Education's compensatory education interventions target schools in disadvantaged rural areas and increase resource allocations for those schools to give students more equal opportunities. Compensatory education programs tend to decrease dispersion in scores. Perhaps the cumulative impact of compensatory education from basic education is carried over to lower-secondary schools and explains, in part, the high degree of equity observed in PISA results.



Quintana Roo are working to improve learning achievement on several fronts, implementing initiatives such as improving pedagogy practices, evaluation, and the hiring of teachers. In addition, some federal educational programs are stimulating discussion about how to improve school management and learning achievement.

In the area of *health*, performance in outcome indicators such as life expectancy and infant mortality have improved in the last decade, partly because of the success of centralized programs, such as the vaccination program. However, maternal mortality has remained very high according to international standards. The Millennium Development Goal on maternal health proposed to reduce maternal mortality by two-thirds from 1990 to 2015. However, with a reduction of only 30 percent in the last 15 years, it is unlikely that Mexico will be able to achieve this target. There are a lot of data about the overall population, but the existence of several different public systems of provision (IMSS – *Instituto Mexicano del Seguro Social*, SSA – *Secretaría de Salud*, ISSSTE – *Instituto de Seguridad y de Servicios Sociales de los Trabajadores del Estado*), IMSS-*Oportunidades*, and state health systems) makes it difficult to establish a relationship between systems and outcomes.

The following results are from a health analysis based on a sample of six states. First, across states, there seem to be important differences in health outcomes and indicators, and the differentiation is not necessarily between the poor and the rich states. Second, in high – to medium-income states such as Baja California Sur, Jalisco, and Tabasco, the evolution of health performance has been neither even nor significantly better than in the rest of the country. Third, the states that seem to be far advanced in the decentralization process are investing considerable resources in their health systems and have been able to reallocate resources relatively effectively (preventive versus curative expenditures).

More data and analysis are necessary to assess the progress of decentralization and its effects in these states and in others. A new federal program—*Seguro Popular*—distributes funds to states according to the location of patients who choose to affiliate and is helping to expand coverage among the population without social security coverage and to reduce catastrophic health expenditures.

Coverage of *social infrastructure* has improved, although it continues to be low for poor people. The *Fondo de Aportaciones para la Infraestructura Social Municipal* (Social Infrastructure Fund; FAIS) is an important source of financing for local social infrastructure investment in the poorest municipalities, and it is, in general, well targeted according to the level of poverty or marginality. However, the significance of FAIS in the overall availability of municipal finan-

cial resources varies by sector and size of municipality. The sectoral allocation of the FAIS investment (water versus roads versus housing upgrading and so forth) is not generally correlated with lack of coverage in that sector, although this finding varies by state and sector. A potential explanation is that municipalities have several sources of funds for investment in social infrastructure in addition to FAIS; another is that FAIS institutional arrangements vary from state to state.

In production-oriented programs in rural areas, investment is high but not notably effective. This is because of the proliferation of segmented federal programs with no coordination; the lack of clear political accountability for rural development because responsibilities are diffused among various federal *Secretarías (Ministries)* and state governments; and a host of problems in program design and implementation. Additionally, the affect of these programs on poverty and on rural development is difficult to assess because much of it is indirect.

There is evidence for Mexico, as for other Latin American and Caribbean countries that agricultural growth has a strong effect in reducing rural poverty, and there is also evidence that the rural poor in Mexico derive a large part of their income from nonfarm sources. Therefore, programs oriented to increasing employment and income opportunities in the farm and rural nonfarm sectors are, in principle, pro-rural poor, but the targeting of these programs may be problematic. Thus, a problem with *Alianza's* Rural Development Program is that it concentrates on small farmers—that is, on producers who already have access to at least some productive assets and thus are wealthier than the poorest people in rural Mexico. As a consequence, even if the targeting of the program is good in terms of “farmers” (80 percent of beneficiaries belong to the two smallest categories of the five types of farmers considered by the Food and Agriculture Organization), it is not designed to reach the poorest rural families.

## Challenges

Decentralization in Mexico has been haphazard. Fiscal decentralization of transfers and spending has gone quickly, for political reasons, while taxation has remained centralized. Although local governments write the check, they have insufficient authority to

<sup>3</sup> Colima is the best performer but ranks only 14th in GDP per capita compared to other Mexican States.

manage the sectors for results. However, a promising approach to foster improved performance is Mexico's new *Sistema de Evaluación al Desempeño* (Performance Evaluation System; SED), which expects and demands the adoption of results-based management and performance-based budgeting. This framework could potentially improve the contract between the Federal Government and the states through clearer rules for the allocation of transfers. In education and health, most of the money goes to workers whose contracts are set at the national level.

In rural development, complex national rules constrain local programming; and in both municipal infrastructure and rural development, the much larger direct federal programs often overshadow any results produced by the local programs. For these and other reasons, institutions and incentives for accountability have remained weak in all the program areas examined here. True accountability is not possible without adequate authority.

Decentralization has worked better in those services, states, and municipalities where there was effective (efficient, pro-poor)

filling of the gaps in the federal programs. This implies a need both for systemic shifts to a more rational decentralization process and for a process of learning from successes and failures, in particular whether successes are products of good design or local context. Some well-developed states such as Aguascalientes do well in all services, but other states with comparable income levels do well in only a few sectors. The differences in their reactions to the decentralization challenge provide scope for learning from good and bad experiences.

Although the variety of circumstances and results precludes a uniform conclusion about decentralization, part of the way forward toward improved service delivery seems to entail loosening the regulations about what the local governments do and giving the federal government a stronger role in setting outcome standards (for example, core curricula, engineering standards), undertaking monitoring and evaluation, and requiring that the local governments disclose to their citizens the financial arrangements and outcomes of the sectors and programs they manage. Looser regulation means less earmarking and direction within each sector, but international

Table 1. summarizes performance in these four sectors.

<b>Table 1. Summary—Performance of the Sectors</b>			
<b>Sector/ program</b>	<b>Dimension of performance analysis</b>		
	<b>Coverage / targeting</b>	<b>Quality</b>	<b>Allocation of resources</b>
<b>Basic education</b>	Coverage is almost universal in primary. Coverage in lower secondary is still low for poor people.	Quality of education is low by international standards, even controlling for income level.	The bulk of spending is distributed inertially:  Increase in spending per student reflects increases in wages. Test results are not correlated with spending per student.
<b>Health for the population without social security coverage</b>	Much of the population, especially poor people, remains without access to social security coverage and faces high out-of-pocket expenditures.	Important differences in outcomes and indicators, not necessarily between the poor and the rich states; also uneven through time.	The bulk of spending is mainly distributed inertially. However, spending per capita for the population without social security coverage has doubled in the last decade.
<b>FAIS—social infrastructure</b>	FAIS is well targeted according to the level of marginality.	No data to assess quality of the projects funded by FAIS, although several World Bank reports, such as IPER (2005), document the low quality of infrastructure services.	Basic social infrastructure spending per capita has increased in real terms. Controlling for needs, resources are being allocated to the coverage of basic social services.
<b>Desarrollo rural of Alianza para el Campo</b>	The program is not well targeted to poor people.	Some perceived effects on outcomes, such as productivity and wages. However, there are no clear standards for output and thus no concrete indicators of quality.	Resources are allocated to states according to a highly complicated formula that includes, among other variables, agricultural GDP, harvested land, irrigated land, number of production units, and state contribution.

experience in Canada and Europe shows that sectoral earmarking can be loosened (without leading to underfunding) as the citizens develop clear expectations for local governments to provide service. This phenomenon is starting to happen in Mexico, most clearly with FAIS, which never had tight earmarking. It also has occurred in the education and health sectors, as when people complain to their governor about a rise in maternal mortality or a problem with schools.

Whatever the benefits of the individual programs discussed in this note, it is important also to consider the context of overall public spending and the pattern of earmarking so many resources for particular uses by subnational governments. As these commitments become politically, if not legally, inflexible, few resources are left for any government to use in implementing a broad economic development plan. The social programs that directly benefit poor people will work best to reduce poverty when they are in the context of overall strong economic growth.

Any wholesale reversal of decentralization in Mexico seems unlikely. The increased democracy at state and municipal levels has contributed to the decentralization and seems likely to sustain it politically. So trusting more in local democracy may help improve the performance of decentralized service delivery. Ideas for reasserting central control run up against the evident failure of this strategy in rural development, where detailed rules for decentralized federal programs have made local implementation administratively difficult. Moreover, the federal authorities lack the information and political mandate to positively influence the substance of what the local governments are doing. Further improvements in decentralization in Mexico seem to be about increasing the transparency of both resource allocation and intergovernmental division of responsibilities, along with the overall task of deepening democracy and strengthening government-society links.

Important areas for future research include (a) analysis of compliance with the law or with programs' detailed regulations; (b) systematic comparisons of state interventions in the sectors; (c) analysis of the implications of requirements to implement per capita funding in health and education, and freedom to choose providers; and (d) systematic compilation of state – and municipal-level information on the programs' performance.

# PERFORMANCE-BASED BUDGETING IN THE WATER SECTOR: The Case of Guanajuato

Gustavo Saltiel, Sector Leader for Mexico, Sustainable Development Department, World Bank

*Under a new output-based disbursement scheme, the government of the state of Guanajuato is focusing on achieving performance standards in the water sector: funding for the service providers is linked to increases in the number of people connected to safe and reliable water service, increases in efficiency, and improvements in wastewater treatment. This scheme requires the state government to develop a clear strategy and a results measurement system. In Guanajuato the scheme has proven to be an effective mechanism for improving results, ensuring that municipal utilities are fully accountable, and enabling medium – to long-term planning for improved water and environmental management.*

## Output-Based Disbursement Schemes and Performance-Based Budgeting

Output-based disbursement (OBD) is the use of performance-based subsidies to complement or replace user fees. Under OBD, basic service provision is contracted out to the private sector, nongovernmental organizations, community-based organizations, or a public service provider; payment is linked to the delivery of prearranged outputs.<sup>1</sup>

OBD payments are linked to the delivery of specific outputs—that is, specified services—by a provider, and in some cases the scheme transfers the performance risk to the service provider: the service is largely self-funded by the provider, who is reimbursed after verification of successful delivery. This differs from other traditional approaches, in which generally inputs are prepaid and the payer bears most of the performance risk.

OBD is not a synonym for performance-based budgeting (PBB). In fact, OBD is related to only one type of performance budgeting, which the Organization for Economic Co-operation and Development (OECD) terms “direct/formula performance budgeting.”<sup>2</sup> This type of PBB is used when there is a sufficiently constant demand for a service to ensure that performance-related variations in budgetary allocations are unlikely to lead to a politically awkward need for closure. Across OECD countries, the “direct formula” is not used as a government-wide budgeting system because targets for outputs cannot always steer the allocation of resources; for example, many government objectives are not directly measurable in terms of outputs.

However, during budget execution, many OECD countries use OBD mechanisms under purchaser-provider types of arrangement that can be well suited as *sectoral funding systems* for fairly

standardized large-volume services/products and where consumers can make well-informed choices.<sup>3</sup> What PBB and OBD mechanisms have in common is that they can contribute to increased accountability (transfer of performance risk to the service provider and clear delineation of outputs), more transparency (explicit recognition and identification of subsidy flows can reduce the scope for corruption), and increased value (competitive award of funds together with the transfer of performance risk).

## The Water Sector in Guanajuato

In Mexico, access to water and sanitation has increased steadily over recent decades, reaching levels significantly above the average for Latin America and other developing countries: approximately 90 percent of the population now has access to sanitation and a water connection either in the house or nearby.<sup>4</sup> However, there are still sharp differences in coverage between urban and rural areas. In the state of Guanajuato (population 4.9 million), overall coverage

<sup>1</sup> For more information on OBD, see OBA Working Paper Series, Paper No. 4, March 2005, Output-based Aid: Supporting Infrastructure Delivery through Explicit and Performance-based Subsidies, The Global Partnership on Output-Based Aid, World Bank.

<sup>2</sup> OECD, Performance Budgeting in OECD Countries, Paris, 2007.

<sup>3</sup> Robinson, Marc, Performance Budgeting, Linking Funding and Results, IMF, 2007.

<sup>4</sup> Improved water supply includes four categories: households with a piped supply in the house; households with a piped supply on the plot, but outside the house; public standpipes; and households that bring water from another house with a piped supply. Improved sanitation includes connections to a sewer system, septic tanks, and sanitary latrines.

is 92 percent for water and 75 percent for sanitation, but only 77 percent and 60 percent, respectively, in rural areas, where a third of the population lives.

Mexico's water sector faces many challenges. The share of municipal wastewater that receives some degree of treatment is more than double the Latin American average (30 percent versus 14 percent),<sup>5</sup> but it remains far below levels in OECD countries, and many treatment plants do not comply with basic standards for effluent discharge. Of households connected to the water distribution network, 55 percent experience interruptions to supply, a problem that is most acute in smaller municipalities and for poor people.<sup>6</sup> Both operating and collection efficiency levels in Mexico are well below the average of developed countries. This inefficiency is compounded by the lack of a clear national policy framework for water and wastewater tariffs, subsidies, and cost recovery. Also, the focus has traditionally been on the development of important infrastructure works, rather than on the efficiency and quality of service improvement or the extension of services to poor people.

In developing a water sector strategy, the state of Guanajuato took a comprehensive approach. The strategy, implemented either directly or indirectly (through municipalities or municipal utilities) by the *Comisión Estatal del Agua de Guanajuato* (Guanajuato State Water Commission; CEAG), consists of three pillars: policy focus, integrated water resources management, and increased service coverage.

- **Policy focus.** Even when CEAG does not have direct responsibilities for service operation, it serves as a policy maker, process facilitator, and implementing agency, as well as a provider of technical assistance for municipal water utilities. Its responsibilities include streamlining tariff structures and improving managerial practices. The Commission has recently updated the state water plan to renew the focus on gender, sustainability, equity, participation, and reversal of environmental degradation. By explicitly including an OBD feature, CEAG has created a "culture of information." The result is that the information provided by water utilities and generated at the interior of the Commission is no longer seen as a reporting requirement but rather as a management tool. The data analysis and interpretation have permitted the Commission to streamline its planning process. Using data to make important sector decisions provides a powerful incentive to ensure that data collection and standardization mechanisms are appropriate.
- **Integrated water resources management (IWRM).** CEAG's

comprehensive approach to the water sector has resulted in a well-integrated program that connects diverse disciplines in the sector. For example, CEAG has supported the creation of water and sanitation committees that have an important say in water management issues. In addition, the Commission is fostering the construction of wastewater treatment plants to improve the quality of the water resources in the state, positioning Guanajuato among Mexico's top states in wastewater treatment coverage.

- **Increased service coverage.** To address rural communities' water and sanitation needs in a sustainable manner, CEAG has supported the creation of rural water boards<sup>7</sup> and prioritized investments in rural communities.

## Outputs, Indicators, and Incentives

The adoption of this output-based mechanism was promoted by the state's Ministry of Finance in collaboration with *Banco Nacional de Obras y Servicios Públicos S.N.C.* (National Bank for Public Services and Works; BANOBRAS<sup>8</sup>) and the World Bank with the aim of improving the state ministries' performance. As it currently stands, this mechanism introduced by a World Bank operation rewards the State with loan disbursements for the achievements of well performing municipalities and water utilities under the presumption that state policies and assistance are crucial for improvement in performance.

After extensive consultation between the government of Guanajuato and the stakeholders, three key outputs were chosen as indicators of improved service: *overall efficiency, wastewater treatment level, and access to service.* The government of Guanajuato considered that overall efficiency would be a good measure of progress in policy implementation and that wastewater treatment level would reflect proper implementation of the IWRM. In addition, unit costs were established for each output (see Table 1). Even though two of the indicators (efficiency and wastewater treatment)

<sup>5</sup> CNA, 2004a, "Situación del Sub-Sector," p. A-76 for México. For the Latin American average, see PAHO/WHO (2001:24, 81).

<sup>6</sup> World Bank, Mexico Infrastructure Public Expenditure Review, 2005.

<sup>7</sup> The rural water boards, community organizations in charge of the system, have been formed with the technical and social support of the State Water Commission.

<sup>8</sup> Banco Nacional de Obras y Servicios Públicos S.N.C. For more information see [www.banobras.gob.mx](http://www.banobras.gob.mx).

are of a performance-based nature, they were all generically called "output-based" indicators, following terminology the World Bank uses in operations that support the use of disbursements against outputs and results, versus the more traditional use of inputs.

The *overall efficiency* indicator was designed to reward municipal utilities for increased revenues and reduction in water use and, ultimately, to enhance their financial standing. To generate an incentive to reduce production volumes, the output indicator was defined as actual revenues compared to the volume of water produced. On the basis of historic improvements in efficiency and the associated costs, a unit value of US\$160,000 was established for utilities that demonstrate an efficiency increase of 10 percent or more.

Given the low levels of wastewater treatment in Guanajuato, ensuring that wastewater connections and treatment were on the municipal utilities' agenda was a priority. On the basis of projected costs and treatment plant efficiencies, the value of US\$60,000 per 150 kg of biochemical oxygen demand removed was established for the *wastewater treatment levels* indicator.

For the access to service indicator, the aim was to ensure that each municipality targeted both urban and rural populations. Guanajuato's municipalities have a mix of urban and rural inhabitants, and it was agreed that a single value of US\$250 would be provided for each connected inhabitant. Even if this amount is higher than the national average connection cost, it would provide a clear incentive for expanding the services, especially to the benefit of poor people.

Under this framework, it is up to each municipality to contract the physical works needed to make new connections and upgrade wastewater treatment facilities or construct new facilities. This same principle of flexible management is applied to efficiency

improvements: some utilities may decide to improve their customer register/cadastre; some aggressively pursue bad payers and outstanding debt; and others focus on reducing collection times, increasing tariffs, or reducing production costs. Additionally, by using competition in the contracting process, the municipalities are able to realize significant savings.

The initiative has already shown results. As of April 2008, the target of 90,640 inhabitants with full access to service has been met, and more than 60 municipal utilities have shown at least a 10 percent increase in overall efficiency. Progress on wastewater treatment has also been substantial.

## Conclusions

CEAG has played a crucial part in the success of the introduction of this new performance scheme. Although CEAG is a state agency, it can act as an arbiter between the state and municipalities if disputes arise; there is no conflict of interest because (unlike other water commissions in Mexico) it has no mandate to develop and construct projects. The Commission is also an essential part of the payment mechanism, providing independent verification of the outputs each municipality achieves.

The measurement and use of performance information has fostered internal accountability, transparency, and better resource

Output type	Disbursement unit value (US\$)	Unit	Target	Total (US\$ 000)
Access to service	\$250 per inhabitant	Rural and urban people	90,640 inhabitants	\$22,666
Efficiency	\$160,000 per utility that increases efficiency by 10%	Revenues/volume of water produced Measured during start-up period	64 increases of 10% efficiency	\$10,240
Wastewater treatment	\$60,000 per 150 kg BOD <sup>a</sup> removed		12,750 kg BOD	\$5,100
<b>Total</b>				<b>\$38,000</b>

<sup>a</sup> BOD = biochemical oxygen demand.

allocation. It has required building into the design of sector programs systems that are able to report on the programs' efficacy and efficiency in achieving measurable outcomes in access, efficiency, and sustainability of service.

The Guanajuato experience constitutes an interesting case of improved, more transparent institutional arrangements, with increased coordination and planning and greater accountability, yielding better quality, access, and efficiency in water and sanitation services. It is hoped that the World Bank-supported initiative will be a catalyst for the adoption and institutionalization of systems that provide such valuable information on the performance of the sector. OBD mechanisms and performance information could also be used in the design of future programs and facilitate budgetary discussions that increasingly focus on performance and effectiveness.

# THE PERFORMANCE EVALUATION FRAMEWORK AS A TOOL FOR THE MEXICAN CONGRESS

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*The introduction of performance information and management systems in the budget process presents both opportunities and challenges for Mexico's Congress. Using information about the results being achieved by government spending can help strengthen oversight and accountability. However, the provision of additional, often complex, performance information may be overwhelming or may fail to meet legislators' needs unless legislators collaborate closely with the rest of government and strengthen the tools they have to selectively incorporate performance information to bolster their role in the budget process.*

## Introduction

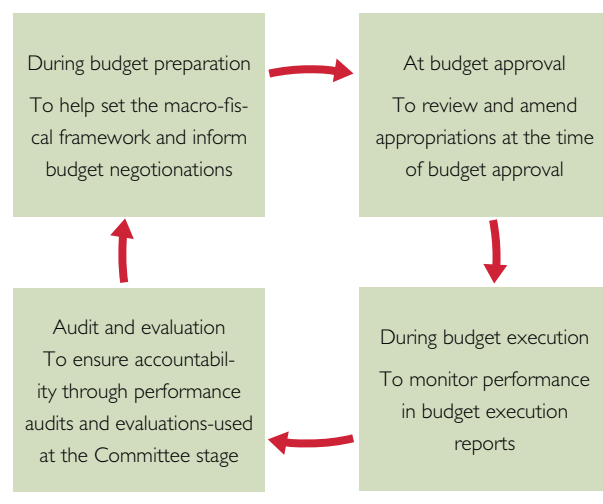
Legislatures interact with the Executive branch of government and participate in the budget process to significantly varying degrees.<sup>1</sup> Within Mexico's presidential system, the Congress exercises considerable authority over public policy formulation and budgeting. This contrasts with most parliamentary systems, where the incentives for the legislature to check the budgetary authority of the Executive (that is, the cabinet) are often weaker.

Mexico's Congress has played a central role in the move toward performance-informed budgeting. This culminated in the approval of the *Ley Federal de Presupuesto y Responsabilidad Hacendaria* (Federal Budget and Fiscal Responsibility Law; LFPRH) in 2006, which enables the creation of a *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED) and details the use of performance indicators throughout the budget cycle. These reforms, among others, are creating opportunities for Congress to exercise, and in some areas expand, its role in overseeing executive powers and in establishing the overarching fiscal framework.<sup>2</sup> Figure 1 summarizes some of the potential uses of performance information in the budget cycle by Congress.

## During Budget Preparation

The Mexican Congress, like a growing number of legislatures, has expanded its role in setting the macrofiscal framework. In a third of Organisation for Economic Co-operation and Development (OECD) countries surveyed in 2007, the legislature voted to approve expenditure aggregates before voting on individual appropria-

**Figure 1. Potential Uses of Performance Information in the Budget Cycle by Congress**



tions.<sup>3</sup> These frameworks are often linked to performance measures or rules to promote macro stability and fiscal sustainability. Mexico's LFPRH (2006) targets a balanced medium-term fiscal position and requires Congress to approve the annual federal revenue estimates

<sup>1</sup> See Lienert, "Who Controls the Budget: The Legislature or the Executive?" IMF Working Paper No. 05/115, International Monetary Fund, Washington DC., 2005

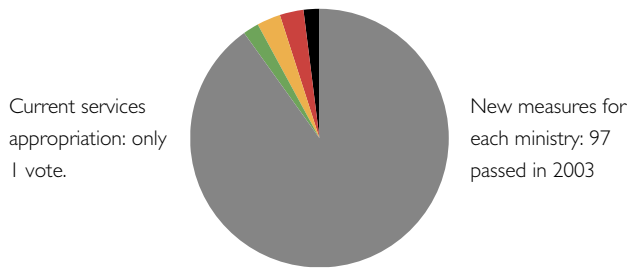
<sup>2</sup> This is consistent with the trend that Posner and Park (2007) observed in OECD countries. See Role of the Legislature in the Budget Process: Recent Trends and Innovations, OECD Journal on Budgeting, Volume 7 – No.3, OECD.

<sup>3</sup> OECD Budget Practices and Procedures Database: [www.oecd.org/gov/budget/database](http://www.oecd.org/gov/budget/database).



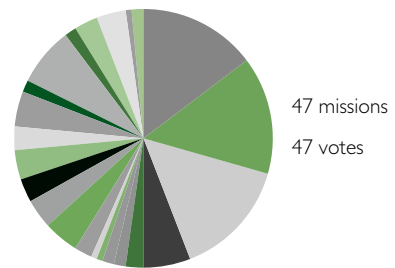
**Box 1. Parliamentary involvement in Budget appropriations: The case of France**

**Upto 2005**



94% of appropriations are renewed virtually automatically from one year to the next (current services appropriation) without being brought into question. The debates focus essentially on only 6% of the general budget.

**From January 2006**



100% of the appropriations are debated in Parliament, for each Mission.

Source: [www.lolf.minef.gouv.fr](http://www.lolf.minef.gouv.fr).

before discussing expenditure appropriations. These measures have enhanced Congress's role in safeguarding macroeconomic stability.

In Mexico, as in most Latin American countries, the overarching inter-sectoral priorities are predetermined by the President's multiyear National Development Plan. The President also submits the annual budget to Congress. However, given the wide-ranging powers and willingness of the Congress to amend the budget (see below), its development involves a complex negotiation process to trade off differing political, social, economic, and institutional priorities for new and ongoing programs. The budget now requires consideration of performance targets and past performance information, but this is not the sole, or in many cases even the predominant, factor in formulating budgets.<sup>4</sup>

### At Budget Approval

The Congress in Mexico makes relatively significant amendments to the budget and now has additional performance information available to help justify such changes. Legislative amendments to the President's budget have constituted a quarter of the total in recent budgets, despite the Budget and Fiscal Responsibility Law's requirement that any amendments for additional expenditure must be compensated by new revenue or offsetting spending cuts.<sup>5</sup> Although the budget does have a political nature, it is anticipated that the Congress will be able to make use of the additional performance information produced in budget documents and by SED to justify such large adjustments.

Reforms that have restructured the budget classification should help to improve transparency and enhance the engagement of the

legislature around the budget's performance. Initially the New Programmatic Structure was created in the 1990s to enable the costing of public activities according to their function. Subsequently, spending appropriations have been increasingly linked to program outputs, with performance targets specified to show what the government intends to achieve with the funds and with SED providing information on the results. Box 1 indicates how reforms in France, which can serve as a successful model, have helped to expand parliamentary debate over budget appropriations.

### During Budget Execution

Most OECD countries now regularly report performance information in budget execution reports. Although such performance information can be highly illuminating, in most OECD settings, failure to meet output/outcome targets generally forms the basis for a discussion, both within government and, if selected, within the responsible legislative committee, rather than for automatic sanctions.<sup>6</sup>

When SED becomes fully operational in Mexico, the perfor-

<sup>4</sup> Around 50 percent of OECD countries include non financial performance targets for programs and/or agencies in budget documents (OECD Budget Practices and Procedures Database: [www.oecd.org/gov/budget/database](http://www.oecd.org/gov/budget/database)). See also World Bank, 2008, Performance-Informed Budgeting in Latin America: Experiences and Opportunities, Paper presented at the International Conference on Performance Budgeting in Mexico, June 2008.

<sup>5</sup> Posner and Park (2007). This contrast with most parliamentary systems that tend to discourage substantial budget amendments by the legislature, which are often seen as a vote of no confidence in the government.

<sup>6</sup> World Bank, 2008, operational situation.

mance information it gathers will add to the extensive information already regularly reported to Congress and its various committees during the year. Performance information is currently reported to Congress, largely on an ad hoc basis and for particular social programs, but the Executive must inform Congress at regular intervals during the fiscal year about certain activities: transfers to states and the evolution of public debt every month; the evolution of public finances, including information on revenue, expenditure, and debt every quarter; and other information as required by Congress. So the limited capacity of the Congress is not overwhelmed, procedures must be established for being selective about what performance information is requested and reviewed—for example, by focusing most on high-risk and high-profile programs (see Box 2 for a review of the limited parliamentary scrutiny of Public Service Agreements in the United Kingdom).

## In Audit and Evaluation

Supreme Audit Institutions (SAI) traditionally ensure external financial control by examining and analyzing the General Ledger of the state. In countries like France, Spain, and Portugal, the court of auditors operates in a quasi-judicial role, whereas in Westminster systems (the United States and Canada), the SAI operates as an auxiliary institution to the legislature. In the OECD, the scope of SAIs now commonly includes an examination of value-for-money and the quality of the performance indicators and/or systems. Specific oversight committees within the legislature are usually tasked with reviewing

and issuing recommendations on SAI reports and other evaluations/ investigations, often drawing on additional expertise, and executive agencies are required to monitor and report on how they have addressed the recommendations of SAIs and/or legislative committees.

Interest groups and the media may also become more active consumers (and lobbyists) of performance information produced by the SAI or legislative committees. Enhancing public debate and engagement in this way can help bolster transparency and the oversight of executive actions.

In Mexico, the *Auditoría Superior de la Federación* (Mexican Superior Audit Body; ASF) has an autonomous status and reports to Congress. In addition to traditional financial audits, in 1997 the ASF started to conduct performance audits (*auditorías de desempeño*), although coverage is not comprehensive.

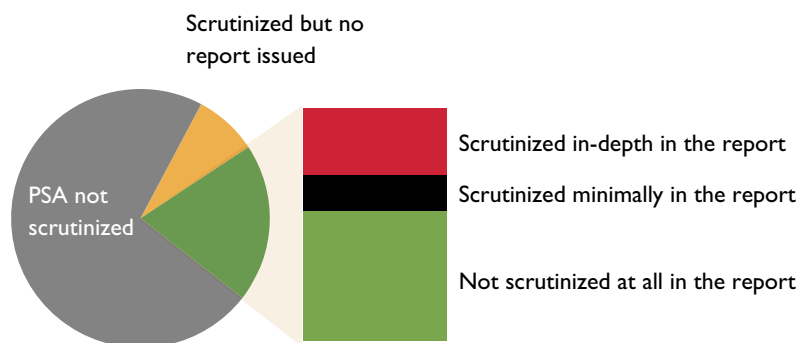
## Strengthening the Tools Available to Congress

For Congress to exercise its oversight role effectively, it must have access to the right information at the right time and must be able to use it. The experience in many OECD countries has been mixed, suggesting the need for Mexico's Congress to continue to strengthen and align its main tools for active engagement with performance information in the budget process:

- The committee structure is at the heart of legislative influence, but often the time for debate and the technical capacity is limited.

### Box 2: Parliamentary Scrutiny of Public Service Agreements (PSAs) in the UK

The centerpiece of performance management in the UK are Public Service Agreements (PSAs). Their aim is to focus resources on improving outcomes and strengthening accountability. PSAs specify departments' aims, supporting objectives, and performance targets. Despite recommendations to parliamentary committees that they should regularly scrutinize PSAs, a recent survey shows "overall the picture is one of scrutiny lite".



Source: Information from 344 Public Service Agreements identified in FY 03, 04, 05 and 06. UK Parliamentary Scrutiny of Public Service Agreements: A challenge too far? Carole Johnson and Colin Talbot, forthcoming.

The government will always have significantly more information and technical capacity than Congress. Nonetheless, adapting and building Congress's capacity to selectively incorporate performance information in committee operations, to be able to hold the executive accountable, is essential, including mechanisms to ensure that recommendations are implemented.

- Congress can use the information produced by the ASF (performance audits as well as financial audits) and eventually by the SED to strengthen its executive oversight and ensure accountability, as long as the information is received on a timely basis and in a format that meets the needs of legislators. For example, one of the concerns currently leveled at the ASF's financial audit reports is that they are produced too late to influence subsequent budget debates, and Mexico recently created the *Centro de Estudios de las Finanzas Públicas de la Cámara de Diputados* (Congressional Public Finance Study Center; CEFP), to help analyze the budget within Congress.<sup>7</sup> The PFSC is developing analytic capacity that is independent of the Executive, although it is only beginning to incorporate the wide range of performance information.

## Challenges

The move toward performance-informed budgeting raises significant opportunities for the Congress in terms of enhancing its policy-making and oversight roles. However, significant challenges still need to be overcome for the main objectives to be realized:

- Defining appropriate indicators for different users. The usefulness of, and interest in, particular performance measures depends on whether they meet users' needs. The technical decisions facing program managers are often different from the political decisions faced by Congress or from the interests of the public. Aligning these differing needs without overwhelming legislators or creating overly costly information systems will be a major challenge requiring close cooperation between the legislature and executive. One option would be for Congress to work with the Executive and its own agencies to ensure that they receive a (few) key output/outcome measures associated with each agency or program appropriation.<sup>8</sup>
- The need to ensure the timeliness, independence, and robustness of the performance information. The information and analysis produced by SED, the ASF, and PFSC will be critical in this process. However, it will take time, and most likely

the active engagement of Congress, to develop the capacity to produce robust performance information systems (often an iterative process) and to build the credibility necessary to instill confidence in the users.

- Developing a performance evaluation culture within the three levels of government. This will take time. Based on the experience at the federal level, Mexico plans to create similar systems within local governments and legislatures, while acknowledging the differences between states.
- The move to performance-informed budgeting may also change the nature of legislative oversight. With budget approval based on outcome targets, there is greater scope for delegating detailed spending decisions to program managers. However, politicians may feel that this reduces their authority over how programs are implemented and managers are held accountable for the complex links between inputs and outputs/outcomes. High-level performance information may also obscure underlying trends or marginal information; that is, how much extra will be achieved with additional funding? Unless these issues are addressed, legislators' interest in such information is likely to wane.<sup>9</sup> Nonetheless, in many countries the legislature has accepted this trade-off between detailed controls and the expectation of enhanced management efficiency that comes from greater accountability for performance.

Overall, the creation of a performance evaluation framework and culture throughout government is a long-term and evolutionary process. It is important to temper the expectations of users, including Congress, so that users are enthused enough to actively support the development of the systems and processes, but realistic enough so as not to erode support over the long term.

<sup>7</sup> Around a third of OECD countries have created institutions to aid legislative oversight and monitoring; for example, the US Congressional Budget Office. See OECD Budget Practices and Procedures Database: [www.oecd.org/gov/budget/database](http://www.oecd.org/gov/budget/database).

<sup>8</sup> This could mirror the "scorecard" approach of some OECD governments; for example, the US Office of the Management and Budget uses a simple performance assessment rating tool to monitor programs, see: [www.whitehouse.gov/results/agenda/scorecard.html](http://www.whitehouse.gov/results/agenda/scorecard.html).

<sup>9</sup> Sterck and Bouckaert, 2006, The impact of performance budgeting on the role of parliament: a four country study, Public Management Institute, Belgium, Workshop Paper presented at the second Transatlantic Dialogue, Leuven June, 2006.

# DEFINING AND USING INDICATORS AND TARGETS FOR PERFORMANCE-INFORMED BUDGETING

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This note discusses some of the technical and institutional issues related to setting and using indicators and targets for performance-informed budgeting at the national level. It highlights Mexico's recent achievements and some of the challenges of institutionalizing this practice as part of its broader efforts for evaluating public policies and programs and improving the quality of public spending.

## Technical Aspects of Performance Indicators

Performance budgeting is an essential part of a broader process often referred to as *performance-based management* or *managing for results*—a process whose objective is to improve efficiency, effectiveness, and accountability in government. This process involves the use of performance indicators to assess the degree to which intended results are being achieved and to provide performance information to support the improvement of budget decisions and program design and management.

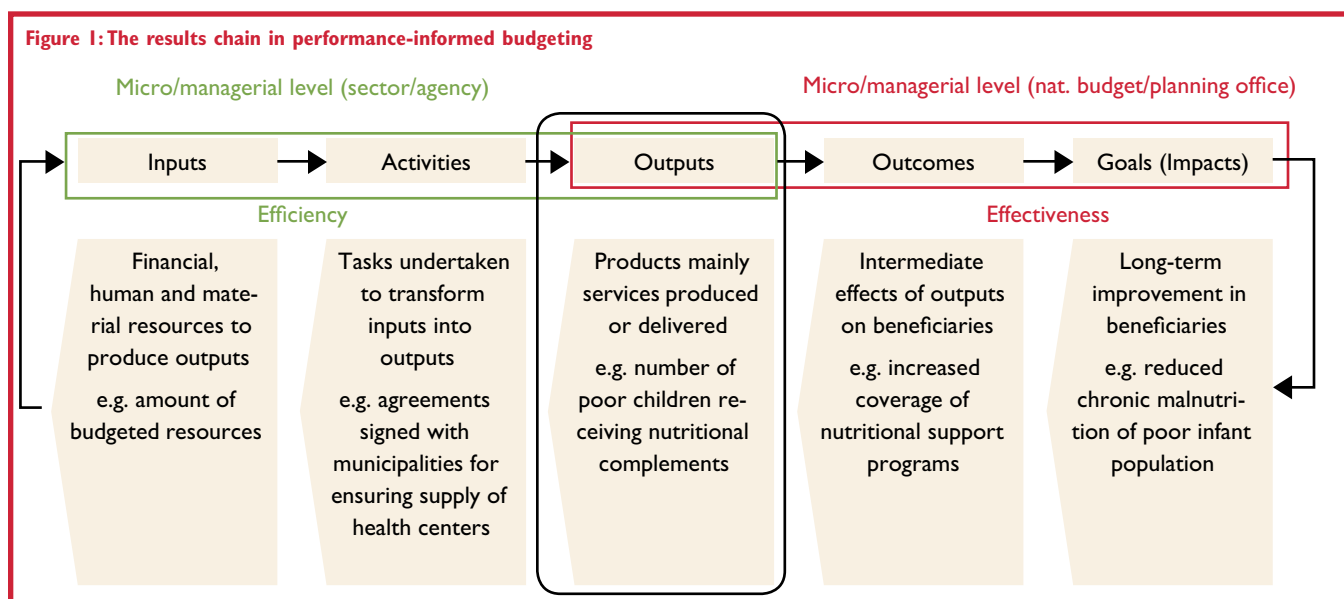
### Goals, outcomes, and outputs

At the national level, the task of setting performance budgeting indicators must differentiate between high (macro) and operational

(micro) levels of results in the government's implementation chain.

- The high level refers to the external influence of all programs and includes impacts, outcomes, and outputs planned—compared with those effectively achieved. This level is primarily of interest to national budget officers.
- The operational level alludes to the internal management of the programs and involves outputs, activities, and inputs, which are mostly of concern to the sector and agency budget and program officials.
- Both sides of the results chain are crucial for performance-informed budgeting—and outputs, serve to “bridge” the top and the bottom sides of the government's implementation chain (see Figure 1).

At the agency level, establishing a sequenced results chain for all programs starts with identifying each program objectives and align-



ing them with the government/agency's strategic goals, or high-level outcomes. Such outcomes are medium to long term in nature (4–15 years)—for example, reducing infant mortality. To identify what agencies expect to achieve with their budgets and to measure their performance with indicators, budget officers must therefore have a fair knowledge of what such agencies' fundamental business lines are and what their objectives are at the national, sectoral, and regional levels. Then they can identify outcomes and outputs that are linked with the agency goals. This will allow such officers to know what successful spending looks like while providing clear statements of what each program and agency aims to do with budgeted resources.

### *Defining targets and setting performance indicators*

From their goals, agencies can derive shorter-range targets (1–4 years) that define the expected effects from budget allocations. In essence, targets are quantifiable orders of a given variable for a specific period of time. High-level targets, which help to improve effectiveness, and operational-level targets, which address efficiency, are interrelated and complement each other. One technique for defining targets is translating outcomes and outputs into positive results-oriented statements that, starting from a baseline level, identify a path and the destination (for example, increase coverage of nutritional support programs from 35 to 40 percent of poor people between 2008 and 2010). Targets must capture improvements for a single output or outcome, assuming a finite number of required inputs and activities (see Figure 1).

Defining a few relevant targets requires technical criteria for identifying credible baseline data, realistic consideration of the resources and capacities needed to achieve them, and extensive knowledge of the policies and programs in point. Internal stakeholders and budget officials should participate in a coordinated manner in defining relevant and realistic targets. Defining targets for all the variables involved in resource allocations can be complex and time consuming, but it is important: it is through targets that governments are held accountable and external pressure is exerted over ministries', agencies' and public officials' performance. If targets are to be relevant and credible, agencies must not be able to modify them at will; and once a target has been achieved, agencies should not only maintain that standard but also seek to achieve better results.

Performance indicators are quantitative or qualitative tools for measuring results or products of a certain program or policy. Performance indicators reflect changes in variables connected to an intervention, and they should facilitate measuring and monitoring results in a timely, standardized, and cost-effective way. They should

also allow managers and program and budget officials to identify progress in pursuing their targets all the way down the causal results chain (from impacts at the top to inputs at the operational level).

The results literature contains various acronyms to help staff set good indicators through a set of technical criteria (see Box 1 for examples).

In practice, methodological considerations may apply differently to particular contexts. For instance, in the early stages of implementing performance budgeting, it might be necessary to allow for a trade-off between the budget officers' need for performance information and a slightly uneven quality and larger number of indicators. Such a trade-off may imply a process of "improving by measuring," allowing suboptimal measures while the process progressively improves.

Deciding what level of trade-off is acceptable requires good technical judgment. There are no "perfect" indicators. In many cases it is necessary to use indirect or proxy indicators—for example, when data are not available or cannot be collected at regular intervals, or when information gathering is too costly. Understanding the likely cost of gathering and analyzing data is crucial to sustainable performance budgeting efforts. Agencies tend to select indicators according to readily available information, regardless of how important and cost-effective it would be to collect new data for measuring performance on a long-term basis.

### *Linking funding to performance indicators*

The robustness of performance budgeting depends on the strength of the links among development planning, decisions about funding allocations, and results. One way to establish those links is to *standardize costs for outputs provided on a per unit basis* (for example, patients treated in health centers, or students enrolled in secondary education). Another is to *identify broader quantitative connections* between the level of outcome achieved and certain annual or multiannual budget allocations (for example, increases in coverage of water and sanitation).<sup>1</sup> Establishing such links demands an enormous amount of technical judgment and significant operational work, as it has to be done for each budget item or program, individually.<sup>2</sup>

The differing characteristics of government outputs and

<sup>1</sup> For example, in the British Public Service Agreements, outcome targets are linked to the multiyear budgeting process; see Robinson (2007).

<sup>2</sup> This is especially the case when the exercise is first carried out. However, the burden can be significantly reduced with experience, particularly if technology is used to make the process automatic.

### Box 1: The quality of performance indicators

Performance indicators should be:

<b>SMART*</b>	or	<b>CREAM**</b>
<b>S</b> pecific (precise and unambiguous)		<b>C</b> lear
<b>M</b> easurable (appropriate to the subject)		<b>R</b> elevant
<b>A</b> chievable (of a reasonable cost)		<b>E</b> conomic
<b>R</b> elevant (serve to assess performance)		<b>A</b> dequate
<b>T</b> rackable (easy to validate or verify)		<b>M</b> onitorable

\* SMART was outlined first by Peter Drucker in 1954.

\*\* CREAM was introduced by Schiavo-Campo (1999).

outcomes can make it complicated to link some allocations to performance (for example, when per unit costs of a service vary considerably). A key technical step for linking funding to results is establishing a program classification of the budget to allow the budget to be read in terms of the results it expects to achieve. In practice, such a classification needs to be a by-product of the whole process of defining budget outcomes, outputs, targets, and indicators for each program and agency—preferably by national budget and program officials working together.

The traditional financial classification, based primarily on global appropriations for inputs (for example, wages and salaries) or organizational units (for example, ministries or agencies), can say little about whether resources have achieved their targets or could produce higher benefits. A program classification helps establish a logical sequence between the program outcomes and outputs and the aggregated agency, sector, or policy results. With such a classification, the budget process can be seen more as a choice among different priorities than as a list of budgetary items. The technical challenge is to ensure that program categories capture the various allocative choices that governments face. When successfully implemented, this exercise can serve the purposes of both accountability (as ex post information) and budget preparation and execution (as ex ante information). But if it is to be effective, the whole budget process needs to be in a program format (for example, ministries' requests, legal appropriations, or evaluation of allocations), at least as a complement to the traditional financial one.

*Program costing*, the other essential technique for linking funding to results, provides information that traditional financial and accounting systems simply cannot offer. However, costing, too, can be difficult. On one hand, government outcomes and outputs are not necessarily expressed in standard units; outcomes, in particular, are often affected by external factors (for example, crime, unemployment, and poverty).

On the other hand, even outputs can be contingent on many services (for example, military or free service). Sophisticated methods such as activity-based costing reflect some of these complexities. In addition, it is often necessary to use complementary solutions to inform the budget—for example, for performance evaluations.

## Consultation on and Validation of Indicators

Low or inadequate use of performance information in the budget process often means problems not only of availability and quality, but also of political buy-in.

If performance measures are to inform ministry budgets, both line ministers and central budget officials need to be closely involved. High-level officials need to agree on both goals and indicators, especially because the budget is fundamentally a political process. Ultimately, budget decisions are made between competing uses that reflect not only policy but also governments' political commitments. Besides defining targets and indicators, programs, and their links with results, governments must also standardize procedures to ensure broad ownership and validation of their targets. Consultation procedures help both central budget and line ministries by limiting discretion and reducing incentives for setting targets and indicators of low relevance.

## Performance Information

Measuring the results of budget allocations presents its own set of information challenges.

- First, collecting information on performance indicators is not easy. For example, output indicators are mainly based on administrative records (day-to-day data produced by programs on their own), which can be very weak in many developing countries. Outcomes often rely more on statistics (periodic observations obtained through surveys or estimations), which in many countries are not collected regularly enough to inform budget decisions.
- Second, performance information needs analysis. Even if good data exist, they cannot be considered performance information until they are processed and organized in a structured, accessible, and timely manner.

- Third, quality in data collection, managing, and reporting requires sound performance information systems. Clearly, most budget systems collect financial data (for example, commitments and payments) for control purposes. However, performance budgeting requires integrating results and financial information, so the interaction among national statistics systems, program and agency monitoring systems, and financial management information systems is vital.
- Fourth, performance information is different from financial information. Therefore, performance budgeting is possible only if the Ministry of Finance has competence in policy analysis and assessment of the information to be reported from line ministries and evaluation bodies.

## Mexico: Recent Developments and Challenges

Mexico has been working to use performance indicators in the government-wide budget since 1997. In the context of important institutional transformations recently reflected in the National Development Plan 2007–2012—the reform of the whole-of-government budget framework to increase its focus on results; the creation of the *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (National Evaluation Council for Social Development Policy; CONEVAL) as a technically independent evaluation body; the adoption of a new harmonization framework; and the introduction of the *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED)—the country has undertaken the enormous task of defining and using indicators and targets in federal programs.

Since March 2007, logical frameworks (Matrices de marco lógico) with a strong focus on impact, outcome, and output indicators have been defined for budget programs (77 percent of the total). Homogeneous criteria for setting indicators have been set; logical frameworks have been incorporated in 398 programs; 265 budget indicators—corresponding to 217 budget programs and executed by 27 federal entities and dependencies—have been included; and a gender perspective has been incorporated in 216 indicators of 64 budget programs.

All of this entailed an enormous coordination effort and a technically complex process, successfully carried out by the federal entities and dependencies, in close coordination with the Chamber of Deputies. Even though the figures cited here give an idea of the dimensions of the process, the medium – and long-term effects in

the results focus of the Mexican administration will be even more important. That, however, will not be an easy or linear process. A series of challenges remains for the many actors involved.

Continuity and sustained political endorsement will be a requirement for further institutionalization of performance-informed budgeting. Time and much more operational work will be needed to change the mindset and practices of many government officials and external stakeholders, especially at the executive and legislative levels, and at the control, auditing, and transparency stages. Improving indicators; setting a proper monitoring function (as a complement to the evaluation function already in place); embedding widespread communication and accountability practices in the language of results; achieving greater homogeneity among indicator matrixes; and improving the quality, availability, and use of performance information are all issues that remain to be addressed. Other challenges include harmonizing budget program categories and introducing outputs and outcomes classifications, establishing mechanisms for consulting on and validating goals and indicators at higher levels of government, formulating and adopting a broader performance information strategy, and setting a strategy for developing performance management and evaluation capacities in officials at all levels.

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# IMPROVING BUDGET PERFORMANCE:

## Evidence-Based Public Nutrition Policies<sup>1</sup>

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Substantial progress has been made in recent years in the nutritional status of the Mexican population. However, despite a decline in inequality, chronic malnutrition remains a public policy challenge. The most recent set of programs is characterized by a design based on current scientific evidence. This note (a) presents an analysis of the effectiveness and efficiency of the key nutrition programs; (b) underscores the importance of a solid design and the use of quality evaluations in the programs, which facilitate better resource allocation; and (c) highlights a number of the priorities for improvement of these programs in the coming years.

### Recent Trends

The information culled from the 1988 and 1999 National Nutrition Surveys and the 2006 National Health and Nutrition Survey shows that over the last 20 years in Mexico, substantial progress has been made in the population's nutritional status. Malnutrition among children under five fell significantly, and the long-standing inequality gap in the nutritional status of various population groups narrowed. Since the end of the 1990s, acute malnutrition (low weight for height) has ceased to be a widespread public health problem. Moreover, between 1988 and 2006, the prevalence of stunting (chronic malnutrition) among children under five was almost halved, falling from 22.8 to 12.7 percent.

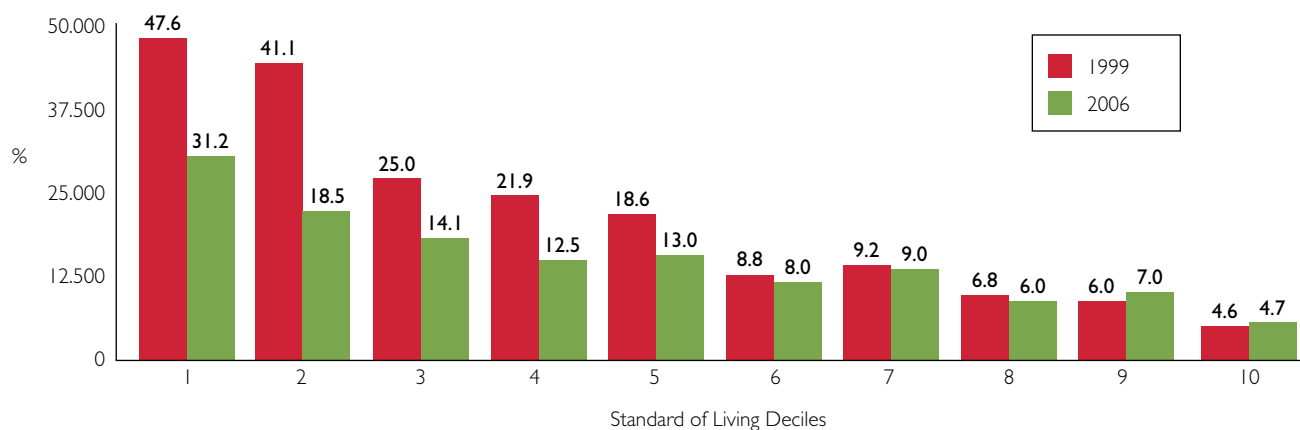
The most significant reductions in the prevalence of chronic malnutrition have been observed in the bottom two standard of

living deciles,<sup>2</sup> followed by the three middle deciles. No substantial reduction in chronic malnutrition has been noted over the last seven years in the top five deciles. Despite a reduction in inequality in comparison to 1999, chronic malnutrition remains a public policy challenge, particularly in light of the heterogeneity of its distribution both geographically and among social groups. In absolute terms, the highest prevalence rates persist among the indigenous population (33.2 percent, compared with 10.6 percent of the non-indigenous

<sup>1</sup> This note is a translation from the executive summary of the World Bank – SEDESOL – INSP publication González de Cossio et al., "Nutrición y pobreza, Política Pública basada en Evidencia", World Bank, 2008., [www.bancomundial.org.mx](http://www.bancomundial.org.mx)

<sup>2</sup> To classify Mexican households, the 2006 National Health and Nutrition Survey used a standard of living index that was measured with variables related to socioeconomic and health variables.

**Figure 1: Prevalence of Chronic Malnutrition by Standard of Living Decile, in 1999 and 2006**



Source: 2006 National Health and Nutrition Survey



**Figure 2: Overweight (BMI of 25-29.9) and Obesity among Women (BMI>30) between the Ages of 20 and 49 in 1988, 1999, and 2006.**



Source: 1999 National Nutrition Survey and 2006 National Health and Nutrition Survey

population) and in rural areas (19.9 percent, compared with 10.1 percent in urban areas).

In addition, there is a high rate of anemia and micronutrient deficiency, and efforts to reduce that rate have met with relatively modest success. The prevalence of anemia among children aged one to four years fell from 28.1 to 23.7 percent between 1999 and 2006. Although anemia is a widespread problem affecting the entire population, the highest prevalence rates are more pronounced in the 40 percent of households with lower standards of living.

The aforementioned problem coexists with an overweight and obesity epidemic. At present, approximately two in three women between the ages of 20 and 49 are either overweight or obese. Obesity among adults is distributed in a relatively homogenous manner among regions and standard of living levels. However, it is a major problem among children in urban areas, in the north of the country, and in Mexico City, as well as among higher-income groups.

## The Development of Nutrition Policies

Over the last 40 years, two distinct food and nutrition policy phases are discernible in Mexico. Between the 1960s and up to the mid-1990s, the policy was characterized by the use of substantial resources for widespread subsidies. The main objective was the provision of basic foods and was aimed at guaranteeing the country's food security. The most recent set of programs—marked by the launch of the *Progresa/Oportunidades* program in 1997—is

based primarily on a conceptual framework that identifies the biological and behavioral mechanisms through which the proposed interventions could have an effect on malnutrition, based on current scientific evidence. These programs are also characterized by their targeting, as they seek to provide efficient care for the most impoverished. In short, this type of program places emphasis on a solid design with a suitable conceptual approach for achieving specific objectives, as well as on the use of quality evaluations that allow for improved management of the programs, thus enhancing their efficiency and effectiveness, and providing the opportunity for better allocation of public resources.

## The Ministry of Social Development's Key Programs with a Nutrition Component

Until 2008, the Ministry of Social Development had three<sup>3</sup> social programs with a nutrition component: *Oportunidades*, *Programa de Abasto Social de Leche* (Social Milk Provision Program; *LICONSA*)<sup>4</sup> and the *Programa de Apoyo Alimentario* (Food Support Program; *PAL*). These programs provide support to close to 8 million families.

## Main Results of the Evaluations The Progresa/Oportunidades Program: Impact on Rural Communities

The implementation of the *Programa de Educación, Salud y Alimentación* (Education, Health, and Nutrition Program; *Progresa*), currently known as the Human Development Program (*Oportunidades*), began in rural areas in 1997. This program was designed to increase investment in the health, nutrition, and education of children from households in extreme poverty. The program provides conditional cash transfers for food support and academic

<sup>3</sup> A fourth program, entitled "Food Support Program in Marginalized Areas" (*Programa de Apoyo Alimentario en Zonas Marginadas*), was launched in 2008. However, because the objectives are similar to those of *DICONSA*'s Food Support Program (*Programa de Apoyo Alimentario*), both programs will be merged into *PAL* in 2009.

<sup>4</sup> *LICONSA* is responsible for the Community Milk Supply Program (*Programa de Abasto Social de Leche*), whereas *DICONSA* has responsibility for the Food Support Program (*Programa de Apoyo Alimentario*); both entities fall under *SEDESOL*.

Program	Oportunidades	PAL	LICONSA
<b>Target Population</b>	Families living in extreme poverty in urban and rural areas	Families under the food-poverty line living in rural areas*	Asset-poor families, primarily in urban areas**
<b>Beneficiaries (2007)</b>	5 million families	143,000 families	2.8 million families
<b>Nutritional support</b>	Support in education, health, and nutrition, which includes health education seminars; nutritional monitoring; and nutritional supplements for children and pregnant and lactating women.	In-kind (basic food basket) or cash (Mex\$175 per month) support	Up to four liters of fortified milk provided each week at a preferential price, for each member of the household belonging to the target population***
<b>Joint responsibility</b>	Regular school attendance and regular preventative checkups; health and nutrition training.	Attendance at health, food, and nutrition seminars.	None

\* SEDESOL uses three poverty lines: the food poverty line refers to the necessary income to buy a food basket that satisfies minimum nutrition requirements; the capabilities poverty line which includes the necessary income to satisfy food, education and health needs; the assets poverty line which includes the necessary income to satisfy food, education, health, housing, clothing and transportation needs. \*\* Approximately 85 percent of the beneficiaries live in urban areas. In order to be eligible for support, at least one member of the household must belong to one of the following population groups: children and adolescents between the ages of six months and twelve years, the elderly, pregnant or lactating women, and chronic patients and/or persons with disabilities. \*\*\* Liconsa milk is fortified with iron, zinc, folic acid, and Vitamins A, B2, B12, C, and D, and is sold at a cost of Mex\$4 (approximately 40 percent of the market price).

scholarships. It also distributes nutritional supplements to pregnant or lactating women and to children up to 48 months old.<sup>5</sup>

The evaluations show improvements in growth among children of between 0.67 and 1.1 centimeters, depending on the length of exposure and the age subgroup. The program's positive effects on household consumption were also documented, and increased spending on food; a more diversified diet; and increased consumption of fruits, vegetables, and animal products were observed. However, there was only a minor impact on the prevalence of anemia among children and women, due primarily to the low absorption of iron used in the original supplements and their irregular consumption. An increase in the consumption of unhealthy foods such as carbonated soft drinks was also documented.

In view of the findings of the evaluations, the nutrition component was redesigned and improved. The type of iron added to food supplements was modified to improve its bioavailability, and the educational strategy was redesigned to promote appropriate use. One limitation of the evaluation's design is that it did not allow for identification of the individual contribution of the various program activities to the nutritional effect observed.

<sup>5</sup> The supplement is provided to all children aged 6–23-months, as well as to children up to the age of 5 years when signs of malnutrition are detected.

## The Oportunidades Program: Impact on Urban Communities

In urban communities, the impact was greater on children who were younger than six months at the time of the baseline survey, where they grew an average of 1.5 centimeters more and weighed 0.5 kilograms more than children from similar households that did not participate in the program (control group). The magnitude of the impact on the height of urban children younger than 24 months was greater in poorer households. The impact of the program on the prevalence of anemia among children and women was not statistically significant.

The results of the evaluations in urban and rural areas are similar in many respects and pose two major challenges for the *Oportunidades* program. First, despite the significant impact on nutritional status, the magnitude of the impact must be increased through better intra-household targeting and the use of fortified foods and an alternative supplement. The second challenge for the *Oportunidades* program, and in general for the public policies formulated to improve nutrition, is to avoid an increase, and even achieve a reduction in the prevalence of overweight and obesity. However, there is still a dearth of information and experience on the effectiveness of potential interventions in Mexico.

## The LICONSA Community Milk Supply Program

LICONSA was introduced in the 1940s to address the shortage of milk in Mexico City. Since 2002, the program's objectives have been reoriented toward the achievement of improved nutrition by fortifying milk with micronutrients.<sup>6</sup> Under the program, liquid or powdered milk is sold at a preferential price to poor families.

The program's effectiveness and efficacy were evaluated with a view to verifying fulfillment of the objectives of the milk fortification strategy. The prevalence of anemia among children who consumed fortified milk was up to 40 percent less at six months than children who drank unfortified milk. Positive results were also achieved with respect to the prevalence of low height-for-age and increased muscle mass of beneficiary children.

The major prevailing challenge for the program is its targeting: it is estimated that close to two in every five beneficiaries belong to the four least poor population deciles<sup>7</sup> and that 50 percent of the program's benefits are concentrated in or around the Mexico City Metropolitan area, home to a mere 21 percent of poor children under five suffering from anemia.

## Food Support Program

The PAL was created in 2004 and was designed to meet the minimum food requirements of the poor not covered by the *Oportunidades* program.<sup>8</sup> Using the infrastructure of the *Distribuidora Conasupo* (DICONSA) network of stores, the program distributes cash or in-kind support every two months to families located in the most remote areas of the country.

The impact evaluation used information culled between 2003 and 2005. The results show that the provision of in-kind support with and without guidance, as well as cash, is increasing total expenditure and expenditure by food groups. Total consumption in households benefiting from the PAL was between 14 and 16 percent higher than that of non-beneficiary households. Children between the ages of three and four years whose families received cash support grew on average 0.54 centimeters more. The evidence suggests that a combination of cash and food, or highly nutritious supplements for household members with high nutritional vulnerability, could be the intervention strategy with the greatest potential.

## Work Agenda

The design of high-quality, evidence-based programs and evaluations facilitates the generation and use of performance-related information with tangible results and direct effects on the allocation of public budget resources. In this case, the evaluations conducted produced a specific work agenda to be developed in the coming years. This agenda highlights the following priority themes for the improvement of public nutrition policy:

- Heterogeneity of the nutritional status. Chronic malnutrition is no longer considered to be a widespread public health problem in three states in the Mexican Republic: Nuevo León, Tamaulipas, and Colima. However, prevalence rates exceeding 20 percent persist in southern states such as Chiapas, Guerrero, Oaxaca, and Yucatán. It would be advisable to develop a nutritional status map that would facilitate consideration of regional variations for the implementation of nutritional interventions within the programs targeting the poor.
- Overweight and obesity. Mexicans have experienced a worrying increase in the prevalence of overweight, and particularly of obesity, which is homogeneously distributed among adults from various social groups, but is significantly higher among the lowest standard of living quintile.

Although few proven effective actions exist, a number of actions for consideration are as follows: reduction in the fat content of LICONSA milk; reduction in the energy level of the supplements under the *Oportunidades* program for women; training of the population benefiting from the programs in the purchase of nutritious foods, as well as the discouragement of the purchase of foods that are known to increase the risk of obesity.

- Feedback on the evaluations. Important lessons can be drawn from all the impact evaluations. A number of interventions proved more effective than others; therefore, taking into account operating and budgetary constraints, these interventions

<sup>6</sup> This decision was made on the basis of the results of the 1999 National Nutrition Survey, in which deficiencies in micronutrients such as iron and zinc in the diet of preschoolers were identified.

<sup>7</sup> Measured using a welfare index generated through the 2006 National Health and Nutrition Survey.

<sup>8</sup> The *Oportunidades* Program requires joint responsibility with respect to school attendance and medical appointments. As a result, localities that do not have medical centers and/or schools cannot be included in this program.

should be accorded priority. There are opportunities to improve targeting of a number of the programs. The evaluation of the programs has also revealed the shortcomings of the educational components (in the area of health and nutrition); it is therefore advisable to implement a process of improving on a continuing basis activities designed to promote the adoption of healthy behaviors. Greater institutional coordination between the key nutrition programs and other housing and infrastructure programs that improve sanitary conditions, as well as with the health and education sectors, is essential to promote the synergy of the organized social response and meet the challenges pertaining to nutrition. It is equally important to seek complementarity of infrastructure interventions (for example, access to drinking water and appropriate sanitary conditions in dwellings, such as sturdy floors), which have had significant effects on variables for the improvement of nutrition.

# ACCOUNTING HARMONIZATION

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*Public sector financial reporting is necessary to maintain fiscal discipline, take resource allocation decisions, optimize operational efficiency, and increase transparency in the spending of public funds. For financial reporting to be useful in improving the quality and efficiency of public expenditure, the information must be understandable, comparable, timely, complete, and reliable. The accounting harmonization reform in Mexico, understood as the modernization and uniformity of standards and methods for recording and presenting public sector budget and accounting data, is pursuing those attributes. Likewise, a robust financial information system is considered a prerequisite for adopting results-based budgeting. Hence, the reform is expected to produce substantial benefits. However, the major challenges and risks that come with implementing it should not be downplayed.*

## Introduction

Government financial reporting systems provide decision makers and public officials with tools to (a) control aggregate spending and the fiscal balance; (b) strategically allocate public expenditure to policies, programs, and projects; and (c) make better use of budgeted resources with economy and efficiency.<sup>1</sup> Such reporting systems also enable governments to discharge their core responsibility of accountability to oversight agencies and to the citizenry for the use of public funds. Government financial reporting clearly is a means to those ends; its achievement will depend on the capacity in the various public management tiers to use that information for government program management and on external report users' capability to analyze the information to scrutinize government performance.

The usefulness of public sector financial information depends on a number of features:

- **Understandability:** Financial information should be presented in a format in which it can be readily understood by reasonably informed users, who then can use the information for their specific purposes.
- **Comparability:** Bases of recording and financial reporting formats should be such as to make the information comparable across entities and through time.
- **Timeliness:** Information needs to be made available within a reasonable time after the reporting date, for effective decision making and oversight.
- **Completeness:** Financial information should provide a complete overview of public sector operations, with no material omissions.
- **Reliability:** Financial information should be free from material error and bias.

Government financial information can be classified generally into budget information and accounting information. The fundamental difference between the two is that budget reporting information is governed by the legal substance of the government budget, whereas financial accounting is concerned mostly with economic substance in recording and presentation of events. Government finance statistics can also be identified as a distinct component of public sector financial information, though these usually are drawn from existing elements of budget and accounting information systems.

## International Standards

Some initiatives have been undertaken to standardize key public sector financial reporting concepts and methods. Two that are especially relevant to this note are the Government Finance Statistics Manual (GFSM) and the International Public Sector Accounting Standards (IPSASs).

The GFSM, produced by the International Monetary Fund (IMF), provides a comprehensive conceptual and compilation framework for analyzing and evaluating fiscal policy.<sup>2</sup> It focuses on the definitions, classifications, and guidelines for presenting government finance statistics. Some notable harmonization focuses of the GFSM are (a) harmonization with concepts and principles of other internationally recognized macroeconomic statistics systems,

<sup>1</sup> See World Bank, "Public Expenditure Management Handbook", 1998.

<sup>2</sup> See "Government Finance Statistics Manual" International Monetary Fund, 2001.

particularly the *Sistema de Cuentas Nacionales* (1993) (System of National Accounts; SNA) and (b) the possibility of performing inter-country comparative analyses of government fiscal operations.

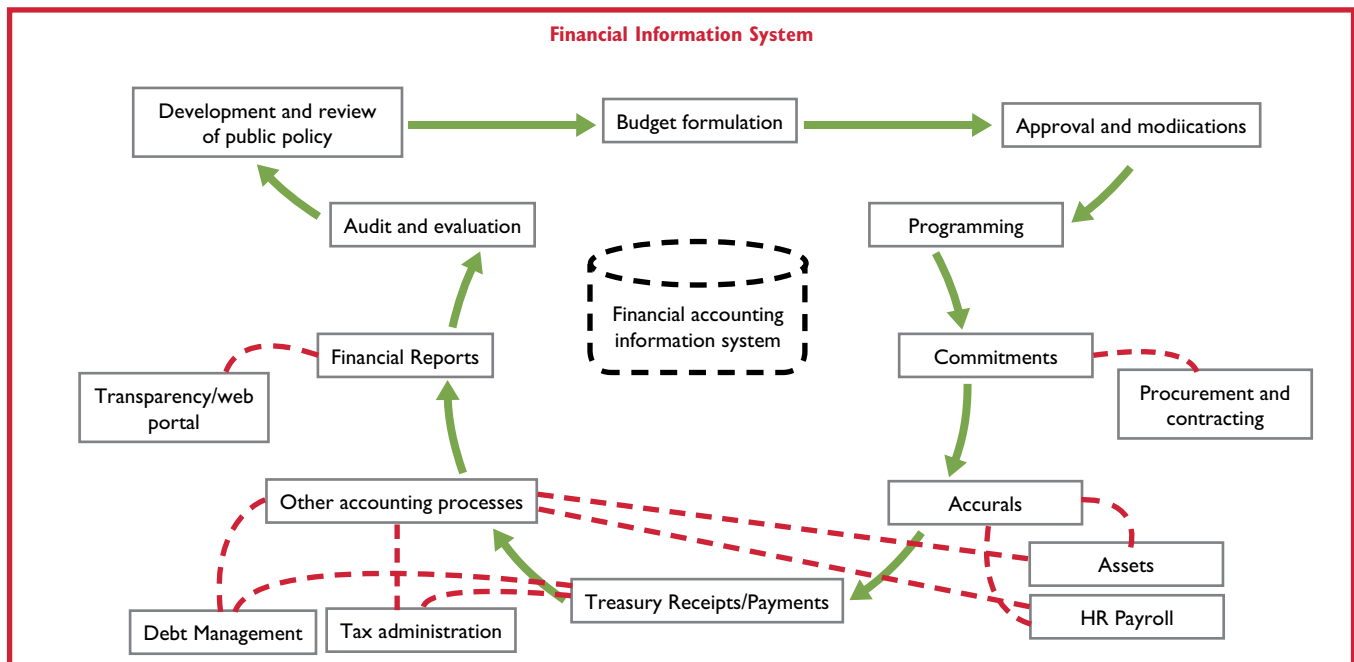
In addition to the measurements of fiscal position, the GFSM establishes a set of classifications for government sectors, their revenues and expenditures. For the latter, the manual propounds economic and functional classifications.<sup>3</sup> Although the GFSM's prime objective is the production of public finance statistics, it represents an international benchmark for the main budget information classifiers, which in turn are essential to make government financial information understandable and useful for strategic allocation of resources and to track and scrutinize public spending.

The IPSASs, issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, set out recognition, measurement, presentation, and disclosure requirements of transactions and events in government financial statements.<sup>4</sup> One key IPSAS harmonization element is their convergence with International Financial Reporting Standards (IFRSs) applicable to the private sector, but adaptable to a public sector context where appropriate. The international adoption of IPSASs presents more difficulties than the IFRSs because of governmental sovereignty issues, but this aspect does not make them less important: countries have a recognized right to dictate their own accounting rules and guidelines for financial reporting, and the IPSASs constitute a helpful parameter for the development of new rules and standards or the revision of existing ones.

One IPSAS deals with the preparation of financial statements using the cash basis of accounting, in which transactions and other events are recognized only when cash is received or paid. Under that accounting method, the main objects of measurement in financial statements are the cash balance and the changes to the cash balance. However, the bulk of the IPSASs deal with the accrual basis of accounting, in which transactions and other events are recognized when they occur (not only when cash is received or paid). The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses. As a whole, the IPSASs are the international reference for preparation of government financial statements, which in turn are essential for the transparent and coherent presentation of public sector transactions, assets, and liabilities.

<sup>3</sup> The GFSM adopts the Organisation for Economic Co-operation and Development (OECD) Classification of Functions of Government (COFOG).

<sup>4</sup> See "*Handbook of International Public Sector Pronouncements*", International Federation of Accountants, 2009.



## Integrated Financial Management Information Systems (IFMIS)

Usually, to produce public sector financial information, a vast and far-flung network of offices has to process large numbers of transactions in short periods of time. Consequently, the development of computerized financial information systems has been a major focus of governments for the last two decades. Generally these systems integrate transaction processing with recording and classification, facilitate automation of controls and procedures, and enable government offices to quickly compile data and put out reports. Some typical features of integrated systems are: their modular design, with integrated core modules (essential for system operation and which define the standards for data exchange) and linked auxiliary modules; structuring along functional, rather than organizational, lines to enable integration of a common database; and use of information and communication technological platforms that enable such integration.<sup>5</sup>

The following simplified diagram shows how core modules of financial information systems are integrated along the budget cycle and how connections to auxiliary modules of other key public financial management functions can be established.

## Robust IFMIS Systems as a Prerequisite for Results-Based Budgeting

A robust integrated financial management information system (IFMIS) is critical at each step in the budget process to promote coherent fiscal management generally, and to support performance-based budget systems in particular.

- Budget preparation. The IFMIS is essential to plan and quantify the cost of delivering results. Accordingly, it is important that the system produce timely, reliable information on the cost of implementing a particular program in prior years.
- Budget execution. During budget implementation, government managers need current information to track program spending. When budget execution is not integrated to accounting, procurement, and cash management, there is a risk that managers will not have reliable figures to compare budget expenditures against tangible project outputs or outcomes, for instance.
- Audits and budget evaluations. Late or incomplete public account reporting affects timely expenditure evaluations and

limits accountability.

The IFMISs in use in Organisation for Economic Co-operation and Development countries may not be perfect, but they are relatively robust and sophisticated, and the bulk of the performance data used and disseminated to key performance-based budgeting actors and users are of a financial nature and support program costing. In Latin America, financial management systems are increasingly delivering information used for ex post monitoring and evaluation activities.

## Public Sector Financial Reporting and Accounting Harmonization in Mexico

Though Mexico has seen important progress in public sector financial reporting, the absence of comparability—and probably of accuracy—of the information available remains a serious constraint for public finance analysis at the three levels of government. Governments produce financial information in conformity with locally dictated laws, policies, and principles. The array of government accounting systems and rules makes it difficult if not impossible to perform comparative data analysis, which in turn can lead to unreliable conclusions or inhibit effective monitoring and evaluation of fiscal management. In that particular, Mexico trails other large federal governments, such as the United States, Brazil, and India, where the comprehensiveness of government finance information may still be an issue, but at least there are no such serious problems of comparability of that information.

The absence of accounting harmonization at different levels of government is evidenced in differences in accounting systems in use (cash basis, accrual basis); in budget classifiers; in the extent of incorporation of para-statal sector transactions; in asset recording (especially nonfinancial assets); in recognition of liabilities; and in the structure, content, and timeliness of financial statements, their notes, and the public accounts in general. Not surprisingly, such differences usually go hand in hand with different levels of sophistication and integration of the related information technologies in use.

<sup>5</sup> See A. Hashim and B. Allan, "Information Systems for Government Fiscal Management", 2007.

## Government Accounting Reform

The need for accounting harmonization has been a topic of discussion for some years, as evidenced in a number of working groups set up since 1998 and in the National Public Finance Convention of 2004. That convention agreed, among other items, on harmonization and modernization of accounting information systems for the three tiers of government. However, little concrete progress was made until the 2007 passage of the fiscal reform law and ensuing 2008 constitutional reform that empowered the Congress to legislate on government accounting and ensure its harmonization nationwide. The result that same year was the enactment of the *Ley General de Contabilidad Gubernamental* (General Government Accounting Law; LGCG), which took effect on January 1, 2009.

The LGCG marked a qualitative leap for Mexican public sector financial reporting legislation, particularly by virtue of its provisions to phase in the following elements:

- Comprehensive coverage of the LGCG, both vertical (three levels of government) and horizontal (ministries, agencies, and entities of a particular level of government), with a simplified set of rules for small municipalities.
- A formal process for issuance of standards, including creation of a standard-setting body, the *Consejo Nacional de Armonización Contable* (National Accounting Harmonization Council; CONAC), and a formal advisory body, the Advisory Committee. There is provision in both these bodies for participation of departments, agencies, and relevant organizations.
- The requirement and harmonization of budget classifications: administrative, economic/object of expenditure, and functional/programmatic.
- The requirement and harmonization of budget recording stages: approval, modification, commitment, accrual, execution, and payment.
- Automated interconnection of single recording of budget and accounting operations.
- Accounting control of property, plant, equipment, and other assets.
- Harmonization of basic financial statements and budget reports.
- Quarterly release of financial information through electronic means.
- The requirement of instruments (accounting manuals, charts, catalogs) to be harmonized with CONAC general guidelines.

## Expected Benefits and Challenges

On balance, different facets of the LGCG, if properly implemented, will significantly enhance the usefulness of public sector financial reporting. The anticipated improvements are, in brief:

- **Understandability and comparability:** Harmonization of basis and methods of recording, budget classifiers, accounting charts, and financial statements.
- **Timeliness:** Required real-time recording of transactions and release of quarterly financial information within 30 days after each quarter's end.
- **Completeness:** LGCG reporting requirements apply to the federal government, states, and municipalities and, within each level of government, to the executive, legislative, and judicial branches, the para-statal public administration, and autonomous agencies.
- **Reliability:** The reliability of financial information can be improved indirectly by means of its dissemination, breadth, and uniformity. However, the LGCG does not regulate internal control or audit or external auditing, which are critical mechanisms to safeguard the reliability of information. International experience shows that instituting an accrual basis government accounting system is a long-term exercise that needs to be pursued in carefully sequenced phases to ensure its success.<sup>6</sup> That being so, full implementation of the LGCG by December 31, 2012, does carry some element of risk, along with major challenges:
- The new legislation's broad coverage—a positive element, as noted earlier—also will create formidable training and change management needs for thousands of public entities and public employees.
- The costs of designing, implementing, and supervising information systems development and/or tailoring to take in all the different budget recording stages and classifications and to meet accrual basis accounting requirements, will be considerable.

<sup>6</sup> What is more, even when it is accepted that accrual based accounting provides more information than budget execution and cash flows, there is no firm international consensus as to the benefits of accrual government accounting relative to its implementation cost.



- Good-quality internal control and audit systems and external auditing are essential to make government accounting reliable and thereby deliver its objective of safeguarding the public treasury. Hence, accounting harmonization and modernization should be accompanied by similar advancements in the functioning of internal comptroller offices and supreme audit institutions. Some complex technical elements will require very careful design and implementation. One such item is the above-mentioned difference (and requisite reconciliations) between budget and accounting recording. Others include asset inventory, recording, and valuation; recording of liabilities and accounting treatment of securitization and PPP vehicles; contingent liability identification and disclosure; recognition of accrued revenues; recording treatment of trust fund transactions; and consolidation of information from para-statal and autonomous agencies.

# THE STATE OF QUERÉTARO'S EXPERIENCE IMPLEMENTING RESULTS-BASED BUDGETING

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*The fiscal reforms introduced in recent years in Mexico to improve public management, transparency, and accountability have imposed a number of requirements on the subnational governments. These include strengthening local auditing, harmonizing government accounts, establishing performance indicators for programs with federal transfers, and introducing the evaluation function in state and municipal administrations. In the face of these challenges, the state of Querétaro has led the way with the formal and gradual adoption of results-based budgeting. The Secretaría de Planeación y Finanzas (Ministry of Planning and Finance; SPF), which has direct responsibilities in budget programming, has served as moderator for the reform process and performed specific actions. These include developing a diagnostic of its capacities, formulating an action plan, and establishing an Interagency Coordination Group, as well as issuing the decree to create an independent evaluation unit in the state. Based on these activities, firm steps have been taken toward implementing results-based budgeting and better management of the state's public resources.*

## Context

Over the past decade, the country has made substantial progress in public management reforms that seek to create a more efficient, effective, and professional public administration system that meets the needs of the Mexican people. The government has followed a comprehensive strategy in public sector reform to contend with its structural fiscal problems, as well as to improve efficiency, efficacy, and accountability in public expenditure, which has been key during the recent global economic crisis.

As part of these reforms, in September 2007 a comprehensive fiscal reform package was enacted that represents a crucial step in strengthening the country's fiscal accounts. One of the fundamental pillars of this reform is its orientation toward a results-based approach, which is meant to improve expenditure and permanent accountability. With this step, the government has made a commitment to improve spending and deliver better goods and services to its citizens.

The 2008 constitutional reform expanded the scope of the 2007 fiscal reform by establishing, for the three levels of government (a) harmonization of public sector accounting; (b) results-based budgeting; (c) evaluations of expenditure performance and the use of performance information in the budget; and (d) a multiyear budget for investment projects.

Strengthening the quality of public expenditure through improve-

ments in the allocation and efficient use of public resources, consistent with political and social objectives, is a government initiative that Mexico has assumed and that will undoubtedly require broader public sector reforms, especially administrative reforms.

The federal government has made real strides in introducing these reforms. An ambitious schedule has been set for their implementation, and significant coordination between the various levels of government will be required.

The states have initiated the process for establishing the corresponding legal framework for the budget, expenditures, and accounting. Some have already approved the decree for the creation of evaluation units that will measure the results of the application of public resources and have moved forward in formulating strategic as well as management performance indicators. State initiatives will be strengthened in 2010, particularly because of certain specific requirements of the *Ley General de Contabilidad Gubernamental* (General Government Accounting Law; LGCG), enacted in December 2008, which will allow for accounting harmonization among the three levels of government.

## The State of Querétaro: Committed to Reform

The state of Querétaro, committed to the constitutional reform of expenditure, has been among the states that have led the way in

adopting a management and budget model that emphasizes results in expenditure.

Over the past five years, the state has made considerable progress in improving public financial administration, especially in terms of strengthening revenue management and expenditure control, and has also moved rapidly toward a more efficient and transparent budget process. However, at the same time, its achievements have revealed other weaknesses as well as a number of opportunities for improvement that the state has used to take the first steps in implementing a results-based budgeting (RBB) model.

Knowing that the successful implementation of this type of reform requires an in-depth diagnostic of institutional capacities and the possibilities for reform, as well as preparation of an implementation plan and strategy based on a solid technical foundation, Querétaro established this path in its reform process.

## Diagnostic of institutional capacities<sup>1</sup>

The diagnostic is divided into six sections: (a) budget management; (b) public financial management; (c) execution of programs and projects; (d) strategic planning; (e) monitoring and evaluation of results; and (f) information management. The analysis derived from the diagnostic found various aspects that offer opportunities for improvement and identified a number of specific short – and medium-term actions within a framework of strategic objectives for introducing RBB and improving public expenditure management. The principal findings of this analysis are described in the notes in Table 1.

## Plan and strategy for implementation of the reform

The work of planning the reform in Querétaro was based on the knowledge that implementation of RBB would necessarily affect to some degree all stages of the budget process, from planning and programming to execution and evaluation of results. The administration not only recognized the need to make changes in the practices of budget officials and in the presentation of the budget, but also identified the need for some modifications in the institutional structure of the administration, in the legal framework, and in the human resources profile of a good number of agencies.

As a result, the strategy clearly states the objectives, the

orientation of the reform, the basic institutional adjustments, the components of implementation and the responsible parties, and the sequencing and speed required, as well as the minimum support activities. The realistic identification of these elements, the consideration of the technical requirements, and the planning of the strategy have been important characteristics of the model that Querétaro is adopting.

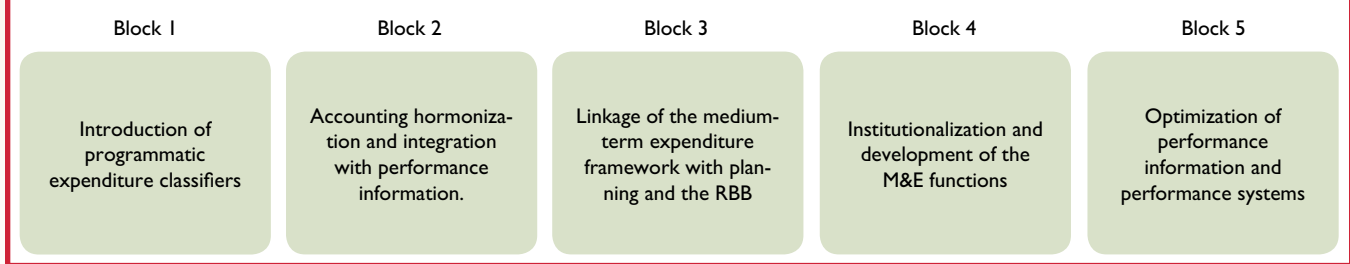
Some key considerations in developing the state's strategy include (a) promoting basic conditions in the expenditure administration system, such as a programmatic structure for expenditure, ex ante evaluation and project ranking mechanisms, and a system of budget performance indicators; (b) establishing a solid financial administration foundation; (c) incorporating the institutional and legal adjustments that will facilitate fulfillment of the reform objectives; and (d) developing adequate competency levels in the institutions and officials responsible for budgeting, planning, and evaluating expenditure, as well as in the program executing agencies.

Another aspect to point out is that, based on the diagnostic of the initial situation, an immediate work plan was developed to produce results in the short term and establish certain foundational elements for the reform. These included an implementation plan<sup>2</sup> that was intended to provide the responsible officials with a general manual and clear identification of the main components and steps involved in implementing a sustainable development strategy for results-based budgeting. Considering the immediate context of the change in administration, another purpose of the plan was to facilitate the continuity of progress made and establish a frame of reference to continue to exchange experiences and maintain an ongoing dialogue with the federal administration on budget reform.

The implementation plan has four sections: (a) general considerations that are suggested to take into account prior to introducing RBB; (b) a summary of the diagnostic and activities conducted by the Querétaro administration with support from the World Bank; (c) a suggested implementation strategy that identifies the objectives, sequence, institutional arrangements, support actions, parties responsible for execution, and implementation blocks or components; and (d) an action plan for implementation of the strategy.

The action plan has five specific blocks: (a) introduction of programmatic classification of expenditure; (b) accounting harmonization and integration with performance information; (c) linkage of the medium-term expenditure framework with planning and the RBB; (d) institutionalization and development of the monitoring and evaluation (M&E) functions; and (e) optimization of performance information and performance systems.

**Figure 1. Components of the Reform Implementation Plan in Querétaro**



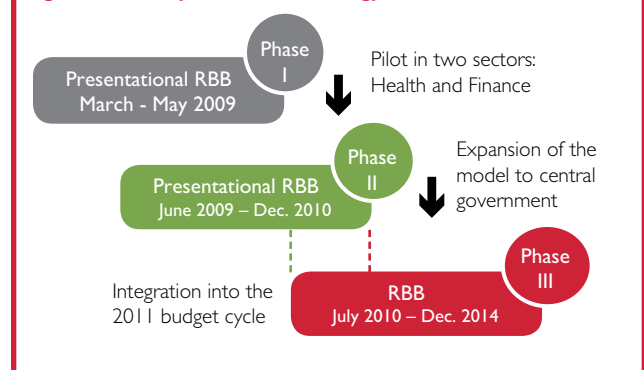
- Block 1: Introduction of programmatic classification of expenditure
- Block 2: Accounting harmonization and integration with performance information
- Block 3: Linkage of the medium-term expenditure framework with planning and the RBB
- Block 4: Institutionalization and development of the M&E functions
- Block 5: Optimization of performance information and performance systems

## The Querétaro approach

Taking into account the conditions of the budget and financial administration system, as well as the status of the functions of planning, execution, and evaluation of expenditure—that is, the analysis of institutional capacities—the RBB implementation strategy in Querétaro opts for a “gradual” approach in three phases: Phase I. Implementation of selective presentational<sup>3</sup> RBB in two pilot sectors *Servicios de Salud del Estado de Querétaro* (Health Services of the State of Querétaro; SESEQ), and SPF; Phase II. Scaling up presentational RBB in the two sectors to the entire central government of the state; and Phase III. Full-scale implementation of RBB.<sup>4</sup> The strategy is illustrated in Figure 2.

- Phase I Presentational RBB; Pilot in two sectors: Health and Finance March – May 2009
- Phase II Presentational RBB; Expansion of the model to central government June 2009 – Dec. 2010
- Phase III RBB; Integration into the 2011 budget cycle July 2010 – Dec. 2014

**Figure 2. RBB Implementation Strategy in Querétaro**



## Relevant aspects for implementation

A central aspect of implementation of the reform is the identification of responsible parties and clear roles. In this case, given the cross-cutting nature of the reform vis-à-vis the state administration and the fact that multiple actors and competency levels are involved, a moderator for the reform process was established (in this case, the Budget Office in the Secretariat of Finance as the lead budget agency in the state). In addition, sector and program-level responsibilities were defined, as was the linkage of the state’s statistical areas and the comptroller’s office in terms of accounting harmonization and information management respectively.

Another important aspect of implementing RBB in Querétaro is that, because the reform seeks to produce permanent changes in the way resources are budgeted and programs administered, its introduction necessitated parallel institutional changes, particularly in the organizational structure and the legal framework for budgeting and expenditure planning. In Mexico, some states have taken important steps to introduce reforms in the state legal framework in connection with budget, expenditure, and accountability. Querétaro is one of these pioneering states, and in the area of budgeting, within the framework of the reform implementation plan, it issued

Area	Diagnostic	Progress
<b>Budget management</b>	Lack of programmatic structure in expenditure No rigorous ex ante evaluation and project ranking mechanisms No system of budget performance indicators	Pilot test in SPF and SESEQ Classifier model in alignment with federal government Proposal for institutional budget strengthening Identification of a set of performance indicators
<b>Public financial management</b>	Lack of harmonization in classification, integration, and record moments Room for improvement in the quality and quantity of financial reports Lack of systematic risk analysis and performance audits	Gap analysis to June Work program agreed on with the World Bank to move forward on gaps
<b>Execution of programs</b>	Lack of identification of results targets Limited supervision capacity Scarce use of budget control, evaluation, and statistical tools	Training for SESEQ and SPF staff in performance information methodologies, logical frameworks, indicators, and reports Uploading of indicator matrixes on information technology tool
<b>Strategic planning</b>	Lack of strategic planning of expenditure No integration between plan and budget Lack of planning and RBB guidelines and methodologies Weak planning function in the SPF	Logical framework matrixes for 25 SESEQ programs and 9 SPF programs Initial set of strategic indicators Conceptual model for integration of plan and budget Proposal for institutional strengthening of the SPF
<b>Monitoring and evaluation</b>	No legal framework Limited capacities for performing the function Concept of “evaluation” limited to monitoring or fulfillment of targets	Decree and draft regulations for the Results Evaluation Unit Training for key personnel on the SPF and SESEQ Proposal for institutional strengthening of the SPF
<b>Information management</b>	Low level of interaction between users and producers No state statistical plan No performance information management tools	Information platform for loading matrixes and indicators supports link between users and producers Development of software (dashboard)

a decree creating the State Results Evaluation Unit.

Improving the quality of public expenditure and instilling a performance-based management culture require efforts to promote the permanent development of planning, expenditure management, and monitoring and evaluation capacities at all levels of the administration. There is a major opportunity in this regard in the different levels of government. The federal government has developed a comprehensive strategy to significantly address this aspect, which also encompasses the states. In the case of Querétaro, existing capacities are limited, although progress has been made in the form of training. However, ongoing specialized training is needed in the development of indicators, expenditure planning, results measurement, including M&E techniques, and in other areas.

The state’s implementation plan incorporates promoting a results-based management culture in Querétaro and building planning, expenditure management, and M&E capacities in the programs and sectors.

In the different phases of implementation, it is important to maintain the alignment achieved in this first phase with the RBB work done at the federal level. Basic elements that make up the technical foundation for RBB, such as accounting harmonization, the programmatic classification, and evaluation methods, will require dialogue and ongoing interaction with key actors at that level.

## Recommendations and achievements in Querétaro

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Table I shows the achievements made by the state of Querétaro on completion of Phase I of implementing the RBB, considering the baseline situation when the reform was launched.

## Conclusions

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Although it is still early to identify with precision Querétaro's achievements in results-based management, given that this is a long-term reform process, *tangible progress in some specific areas* in this first stage of implementation has been observed, *as well as a number of lessons*. Some of these aspects are presented here.

As it has been conceived, results-based budgeting in Querétaro is strictly tied to a broader initiative to modernize public management. Such management will require public managers to effectively use the performance information that is generated to inform the administration of their programs and entities. It is not an instrument for the exclusive use of budget offices.

Involvement of the sectors is key to the sustainability of these efforts. This is demonstrated in Querétaro by the high level of commitment of the areas and staff that have participated in implementation of the reform; this was led by the Coordination Group, which consists of officials from SPF and SESEQ.

The implementation experience revealed the importance of having a clear diagnostic of institutional capacities and an implementation plan that outlines the strategy for running the reform. It showed that implementation sequencing should be in line with the development level of the existing budget and financial administration systems, as well as the type of reforms already implemented.

The gradual approach that was adopted has made it possible to create basic capacities and build on a solid foundation. However, a much greater investment of efforts and resources will be needed to develop the competencies of key entities and officials in the administration in areas such as strategic planning, target and indicator development, M&E of results, and so forth. Naturally, this will require strong, sustained political and institutional leadership throughout implementation.

Last, it was found that institutional and regulatory incentives and arrangements are key to ensuring use of the information on results and the sustainability of the model. Accordingly, these elements should be addressed during the initial stages and should

guide the process through to its conclusion.

Assuming that the administration's interest in and political support for the reform are maintained, the ensuing phases in the implementation of RBB in Querétaro are expected to be successful because they will build on a solid foundation. The efforts and achievements made in the first phase, particularly in terms of the human and institutional capacities created, attest to that.

# TOWARD A RESULTS-BASED MONITORING AND EVALUATION SYSTEM IN THE MINISTRY FOR SOCIAL DEVELOPMENT<sup>1</sup>

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At the end of the 1990s, the Ministry de Desarrollo Social (Ministry for Social Development; SEDESOL), won international recognition for its Progreso/Oportunidades program.<sup>2</sup> However, less attention has been paid to the Ministry's efforts to strengthen its monitoring and evaluation (M&E) capacities and tools. The Ministry has designed a sectoral system to focus social development policy on the achievement of results. This note summarizes past developments and progress made in designing this M&E system and identifies some of the main opportunities for improving its implementation.

There were two distinct phases in the development of the SEDESOL's M&E system. The initial phase—analysis, design, and implementation—covers the period from 1999 to 2006. The second phase—reform and expansion—started in 2007.

## First stage: Initial steps toward a results-based M&E system (1999–2006)

In the late 1990s, a new openness in the Mexican political system was accompanied by a wave of reforms that were conducive to evaluation of government programs at the federal level. Three closely related factors are important to an understanding of the nature of the M&E reforms in SEDESOL:

Area	Analysis
Planning	Insufficient linkage between strategic and operational planning Poor definition of objectives, indicators, and goals (mainly to goods and services)
Evaluation	Ad hoc arrangements based on Oportunidades experience
Monitoring	Weak human resource capacity and lack of standards
Institutional architecture	Little ownership of M&E functions at the political level Lack of arrangements for coordination of M&E functions; unclear roles and responsibilities Lack of incentives to measure results
Information management	Multiple information systems (a total of 33) with no comprehensive approach and no rules on their interaction Nonstrategic production of performance data, high volume, poor quality, low usage

- The considerable influence of the impact evaluation of the Progreso/Oportunidades Program, especially among technocrats and in Congress; this influence was mainly due to its careful methodology.
- The creation in 1999 of a legal mandate requiring annual evaluation of all federal programs with rules of operation<sup>3</sup> and the reporting of quarterly indicators
- The promulgation of the 2003 *Ley de Desarrollo Social* (Social Development Law), which established the *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (National Evaluation Council for Social Development Policy; CONEVAL).

SEDESOL was one of the first secretaries to realize that evaluation should play a leading role in the modernization of social policy, and this paved the way for the introduction of its M&E system.

In 2001, the Ministry had already established a special unit staffed by a team of professionals with extensive technical skills in the area of evaluation. This gave the evaluation function a formal and permanent character.

Starting in 2004, SEDESOL commissioned a series of studies regarding its M&E capacity. On the basis of the analysis, it began to design and implement its first system. The main issues are described in Table 1.

In light of this situation, SEDESOL tried to build an evaluation

<sup>1</sup> This note is based in the "Mexico: Expansion and Strengthening of Information, Monitoring and Evaluation in SEDESOL", World Bank, Report No.: 47925-MX, 2009 and several presentations and documents of the General Directorate for Evaluation and Monitoring of SEDESOL Social Programs..

<sup>2</sup> The program is now called Oportunidades and reaches 5 million households.

<sup>3</sup> Starting in 1999, the budget of Mexico requires annual external evaluations of all programs with rules of operation (subsidies).

component that included the careful measurement of program impacts. It also sought to develop a pilot results-based monitoring mechanism based on four programs (*Opciones Productivas* – Productive Options, *Habitat*, *Coinversión Social* – Social Joint Ventures and *Apoyo Alimentario* – Food Aid) as part of a gradual implementation strategy.

In addition, annual external evaluations of all social programs were conducted – for example, the *Abasto Social de Leche* (Milk Social Supply Program; LICONSA), the *Abasto Rural* (Rural Supply Program, DICONSA), *Opciones Productivas* (Production Options), the *Instituto Nacional de Desarrollo Social* (National Social Development Institute; INDESOL), the *Fondo Nacional para el Fomento de las Artesanías* (National Fund for the Promotion of Handicrafts; FONART), *Microregiones* (Microregions). Although little use was made of the findings in decision-making processes within the Ministry, the practice had a significant influence on other ministries and on the federal authorities. Together with M&E activities, several other initiatives had begun to be conducted in administrative units to improve program planning and information systems.

One of the limitations of this phase was that it emphasized evaluation and the individual management of programs and was not concerned with the system at the broader, sectoral level. In addition, problems of internal coordination and harmonization between the planning and budgeting exercises remained unsolved during this

period. However, although limited, the progress achieved led the Ministry to adopt systematic M&E practices.

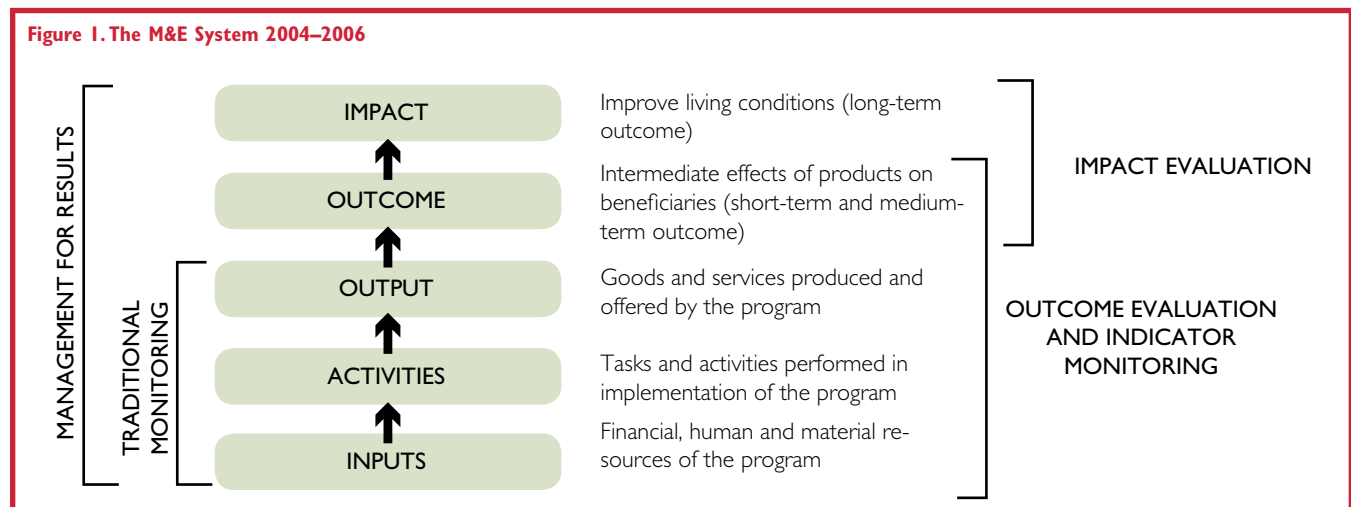
### Initial Version of the Results-Based Monitoring and Evaluation System

The initial system had three components: annual outcome evaluations, impact evaluations,<sup>1</sup> and a system of monitoring indicators (Figure 1). Incorporating the three components in a single system shifted the emphasis from traditional input-based management to achievement of results.

**Annual outcome evaluation.** This evaluation focused on accountability, with an emphasis on physical and financial goals. Implementation of the resulting recommendations was promoted by a follow-up system.

**Impact evaluation.** The aim was to quantify the causal relationships between actions under the programs and changes in the well-being of the beneficiaries. The evaluation also provided reliable evidence of the effectiveness of various measures. Because these evaluations were more costly and time consuming and required considerable specialization, they were conducted selectively for strategic programs and activities.

**Indicator monitoring.** The pilot phase included the conceptual



Source: Adapted by Gonzalo Hernandez-Licona from Kusek and Risk (2004)<sup>a</sup>

<sup>a</sup> J. Kusek and R. Rist “Ten Steps to a Results-Based Monitoring and Evaluation System”, World Bank, 2001.



design of the system, development of a platform, and creation of logical framework matrices. The matrices were developed at participatory workshops involving the people responsible for program design, execution, and evaluation, resulting in the incorporation of a common results-oriented language.

## Second phase: Consolidation and expansion of the Monitoring and Evaluation System (2007–Present)

The Ministry has now embarked on a second phase, using a new and more far-reaching model for the system. The changes were made in response to the need to reflect a new and favorable institutional context. It oriented programs and public spending toward the achievement of objectives and goals and tried to measure results objectively by using indicators of efficiency, economy, effectiveness, and quality.

This context was strongly influenced by the reforms of government budgeting adopted in the *Ley Federal de Presupuesto y Responsabilidad Hacendaria* of 2006 (Federal Budget and Finscal Responsibility Law). This law promoted federal initiatives that are currently being developed, such as the *Sistema de Evaluación del Desempeño* (Performance Evaluation System; SED)<sup>4</sup> and results-based budgeting (RBB). The redesign of the system was also greatly influenced by the *Lineamientos Generales para la Evaluación de los Programas Federales de la Administración Pública Federal* of 2007 (General Guidelines for the Evaluation of Federal Programs of the Federal Public Administration), which were issued by the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance; SHCP), la *Secretaría de la Función Pública* (Ministry of Public Administration; SFP) and the *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (National Evaluation Council for Social Development Policy; CONEVAL), Ministry of Finance and Public Credit, the Civil Service Ministry, and CONEVAL. The goal of the guidelines was to regulate the M&E of federal programs. These reforms traced a clear new path toward linking (national and sectoral) planning, budgeting and execution of federal programs, using M&E tools.

These reforms demonstrated the need for a broader reference framework for management, incorporating the strategic objectives of the country and of the sectors, as well as alignment and dovetailing between them. They involved the challenge of transitioning from a model essentially based on program execution to a broader

approach that focused on the aggregate performance of the social development sector.

The objective of the redesign of the system, then, was to put these initiatives into effect in the Ministry. The new design also sought to consolidate the progress made in the previous phase, to take advantage of the experience acquired in the implementation of pilots, and to correct the problems encountered. Another goal was to increase the coverage of the system by incorporating other areas of management evaluation, including the budget.

### *Second Version of the Results-based monitoring Monitoring and Evaluation System*

The new system was conceived as a public management tool designed to (i) provide comprehensive follow-up to the physical and financial progress of programs; (ii) establish a unified framework, based on priority criteria, for annual and impact evaluations, with the goal of verifying whether programs actually improved beneficiaries' quality of life; (iii) to provide feedback on decision making with respect to program execution, funding, and design; and (iv) to facilitate and stimulate management of the Ministry's sectoral and national planning.

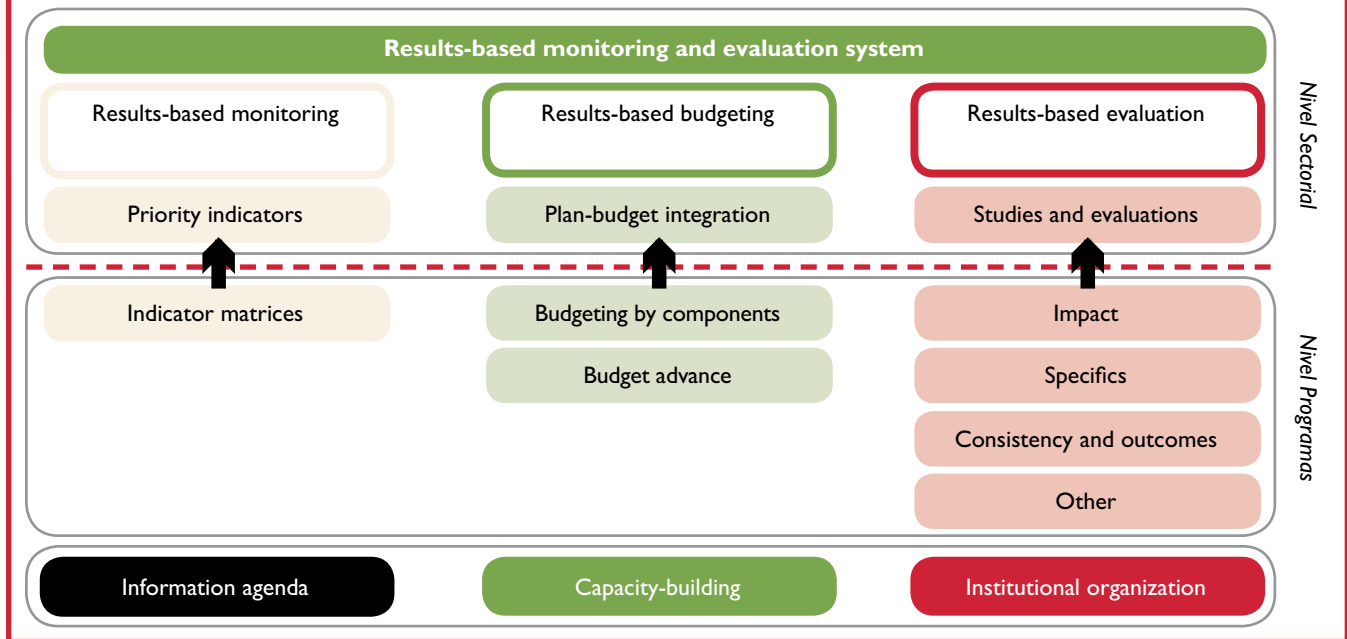
The repositioning of the system had three main pillars: results-based monitoring, results-based evaluation, and RBB (Figure 2). As part of the lessons learned during the first phase, the need for action in cross-cutting areas was also identified: information agenda, institutional organization, and institutional capacity building.

**Results-based monitoring:** A set of strategic indicators were selected to measure the achievements of the Ministry, with various levels of information (monthly, quarterly, annual, five-yearly) and objectives (results, components and budget). The main user of the indicator report at this level is the Office of the President, and the principal consumer of the monitoring information is the SHCP.

**Results-based evaluation.** The Ministry bases its evaluations on criteria such as the amount of public resources used for the program or policy, its importance for the sector, the characteristics of the target population, its innovative character, and the potential for the lessons to be applied and replicated. The types of evaluation

<sup>4</sup> The Performance Evaluation System is a set of methodological elements allowing an objective evaluation of program performance using principles of verification of the extent to which goals and objectives are met, based on strategic and management indicators.

Figure 2. The M&E System 2008-Present



conducted are described in the General Guidelines for the Evaluation of Federal Programs. They are evaluations of consistency and outcome or design; specific performance evaluations; impact evaluations for strategic programs; process evaluations; and additional evaluations of relevant issues.

**RBB.** Mechanisms are adopted to ensure appropriate planning and feedback into budget decisions, with performance information obtained from the monitoring and evaluations. The goal is to identify where SEDESOL funds are going and, on the basis of the M&E, to ascertain whether the desired results are being obtained with the budget. The system is seen as a tool that supports decision making but does not determine decisions, as the budget-outcome relationship is not direct or automatic<sup>5</sup>.

The purpose of the development, strengthening, and integration of these three components is to achieve a better balance in performance information generation processes and to facilitate the use of the information in decision-making processes.

**Information agenda.** The information agenda should cover normative bases and standards for the generation, compilation, and processing of performance data, as well as mechanisms for monitoring their quality. Parameters of interoperability of existing technological tools and connectivity of offices, agencies, and delegations also need to be defined.

**Institutional organization.** The goals are improved integration of planning and budgeting processes and adoption of mechanisms to coordinate the execution of institutional monitoring tasks. One of the main objectives of this structure is to ensure that information on performance outcome feeds into decision-making processes and ensures that such efforts are sustainable in the long term.

**Institutional capacity-building.** This is aimed at disseminating the concepts, instruments, and tools of the system and providing ongoing training to public servants on managing for results and M&E methodologies.

As far as specific progress in this second phase is concerned, the Ministry began in 2007 to move toward the definition and use of logical framework matrices (or result indicator matrices, as they are called in Mexico). This represented another step forward in the improvement and standardization of indicator and goal formulation and in the establishment of more solid bases for measuring program outcomes.

These matrices have also been used as a tool for strategic planning of budget programs. The matrix indicators for all programs with rules of operation have been linked to the federal budget, and an information platform was used to centralize all the matrix indicators,

<sup>5</sup> RBB is initially defined in the form of a presentation.

In 2009, the Ministry had:

- Logical framework matrices in 21 programs with rules of operation
- 500 indicators
  - 112 linked to results
  - 170 referring to the quantity, efficiency, and quality of goods and services delivered by programs
  - The remaining indicators referred to activities needed to produce them
  - 40 of these indicators were selected as priority indicators for the preparation of the proposed 2010 expenditure budget and budget monitoring

from level of execution to levels of impact,<sup>6</sup> and link them to the strategic objectives of the units and the National Development Plan.

These objectives were monitored regularly to verify achievement of related goals. For the purpose of strategic management of information, the SHCP, in coordination with each unit, selected a subset of the key indicators within each matrix for monitoring. The Office of the President also monitors the indicators and goals of sectoral programs.

## Conclusions

SEDESOL was one of the first ministries to recognize the importance of evaluation and to establish an M&E system. It thus set an example for other ministries in Mexico, particularly in the context of the SED.

Confirming international trends, the experience of SEDESOL shows that the construction of a results-based management system is a lengthy work in progress. The Ministry built its system incrementally and, although the existing system is not finished, it includes key elements that have enabled it successfully to enhance its results focus and to promote the system's sustainability.

The aim of the development, enhancement, and integration of the system components was to provide a better balance in perfor-

mance information generation processes and to facilitate its use in decision-making processes. The RBB "pillar" allows budgeting to be linked to appropriate planning of sectoral goals and observed results; monitoring is designed to be an ongoing function to strengthen execution, and evaluation is seen as a selective activity based on policy priority criteria and identification of areas for improvement.

In addition, establishing solid institutional foundations and encouraging coordination mechanisms promoted effective integration of the activities of planning, budgeting, execution, and evaluation.

Another noteworthy aspect of the Ministry's experience is the combination and balance between technical and political elements. The general political context, the political will of key stakeholders and the specific mandates relating to the evaluation of social policies, created an essential incentive for evaluation activities. However, the creation of a directorate specializing in evaluation and the capacity building that it promoted were also crucial in enabling the Ministry to provide good-quality technical responses when necessary.

Now the main challenge for SEDESOL is to fully institutionalize the system and make it operational. This will require a more detailed agenda to ensure efficient production of, and broad, timely, and good-quality access to information. Above all, the Ministry needs to make greater use of the system in its decision-making processes.

<sup>6</sup> The matrix of indicators includes four levels of program monitoring: activities, components, purpose, and aim. The first levels refer to operational activities and the goods and services generated by the program. The higher levels measure program outcome and impacts and the program's contribution to sectoral objectives.

