I  ■  Using performance information in the budgetary process
Macroeconomic indicators
User - Supplier relationship and use of performance information in budgeting
Budgeting decision-making
Value for Money (VfM)
Improvements in the structure of the budget
Next step in budgeting policy: A VfM-Index

II  ■  Generating performance information
Creating a Monitoring and Evaluation System (M&E)
Performance Monitoring and evaluation
The Comprehensive Model of Performance Information (MSD)
Budgetary transparency: transparency tools
Future challenges
Using performance information in the budgetary process
Macroeconomic indicators*

- Gross Domestic Product (GDP)
  - GDP - current prices (billion US dollars): 1,095
  - GDP - real growth rate 2011 (%): 4.0
- Unemployment
  - Unemployment rate (%): 4.8
- Inflation
  - Inflation rate 2011 (%): 3.82
- Average exchange rate
  - Mexican pesos (MXN) per US dollar: 13.97
- Average interest rate
  - Treasury bonds 28 days (CETES) (%): 4.35
- Public sector balance
  - Total deficit of the public sector (percentage of GDP): 2.5
  - Total deficit of the public sector excluding investment by PEMEX (percentage of GDP): 0.6

*December 2011.

Sources:
- Bank of Mexico.
The Evaluation and Transparency Unit (UED) and the Budgeting Policy and Control Unit (UPCP) are part of the Undersecretariat of Expenditure at the Ministry of Finance.
From an institutional perspective, the Budgeting Policy and Control Unit (UPCP) and the Evaluation and Transparency (UED) have a user-supplier relationship, where the UED produce/generate performance information that UPCP uses in the budgeting decision-making process.

Budgeting decisions are made by the UPCP, The Office of President, the Line Ministries, as well as other actors within the Ministry of Finance and within the Undersecretariat of Expenditure.

In particular, the UPCP takes under consideration criteria such as macroeconomic indicators, main policy priorities of the Administration, contingencies, among others, and performance information, to decide if resources are well allocated in the budget.

Although budgeting decisions consider various criteria, performance information is becoming the most relevant.

A close and adequate user-supplier relationship between both Units is making it possible to use performance information in the budgeting decisions, making a better Budget.
The Budgeting Policy and Control Unit determines the budgeting policy

Budgeting policy mainly derives from the National System of Democratic Planning (Sistema Nacional de Planeación Democrática)

It is the base of the six-years National Development Plan (Plan Nacional de Desarrollo) that every new Administration formulates when taking office.

The link between the National Development Plan and budgeting policy are the Budgetary Programs.

The annual budget includes several obligations stated by law that the Federal Government has to comply

Some of those budgetary obligations are: by-law transfers and grants to sub-national levels and multi-annual investment projects. In these cases budget allocation using performance information is difficult, but such information is vital to the discussion of law reforms and amendments.

Programs that grant subsidies to the population and that produce goods and services are better suited to incorporate performance information in the budgeting process.
However, performance budgeting is not about giving more pesos to well-evaluated programs and less to poor-evaluated programs. It is about using the scarce resources that comprise the budget in the best possible manner. In other words, it is about getting more value for every budgetary peso spend.

Budgeting decisions should intend to maximise the cost-effectiveness of the budget, maximising the marginal value of each peso allocated in the budget. This is: to spend less (economy), to spend well (efficiency) and to spend wisely (effectiveness).

Thus, a Value for Money Index (ranking), generated with the use of performance information, could be a useful tool in budgeting decision-making.
Measuring the Value for Money of the budget requires additional assessments.

- **We have been working in that direction introducing changes in the budget-program structure**

  For the last 5 years, we have been improving the structure of the budget through changes to the *budgetary key*, so that all information corresponding to every program can be easily added.

  The *budgetary key* also allows us to track which resources are granted as social subsidies, and where; as well as which ones are used in investment projects.

- **These improvements in the structure of the budget are necessary to have a comprehensive cost of public policies, and in such a way that comparisons between programs can easily be made.**

- **This information could produce a VfM-Index, that would be very helpful in budgeting decision-making**

  A VfM-Index may reduce/avoid difficult decisions based more on politics than policy, giving some performance-based rationale to budgeting policy.

  Moreover, it could provide arguments to defend/explain budgetary cuts or increases in some programs.
II Generating performance information
For budgeting decisions
Creating a Monitoring and Evaluation System (M&E)

Mexico was able to change from limited and isolated efforts of evaluation, concentrated in specific areas of the public administration (e.g. education, agricultural policy), to a wider use of institutionalized, law binding, whole-of-government single evaluation system that benefitted from international experience, but also developing domestic methodologies, and with progressive influence in government decision making.

Mexico’s path to a results-oriented system can be divided into three periods:

- 1970’s to 1990’s: Isolated efforts; sector evaluations
- Late 1990’s: Opening of the political system; evaluation of social policy
- Ongoing: Institutionalization of M&E across government

The landmark 2006 Federal Budget and Fiscal Responsibility Law and the 2007 Integral Fiscal Reform

- Creation of the Performance Evaluation System (SED)
- Legal framework for performance budgeting at Sub-national levels
- Accounting and financial harmonization across all levels of government: Federal, Sub-national and Local
Monitoring and Evaluation

**Monitoring**

- Logical framework methodology (Performance Indicator Matrix [PIM])
- Permanent revision and improvement of the PIM’s
- Widening coverage of budgetary programs with PIM
- 47.8% of budgetary expenditure with PIM
- 63.7% of all budgetary programs with PIM

**Evaluation**

- All evaluations are external and independent
- 697 evaluations carried since 2007 of 1033 scheduled, of a universe of approximately 1000 budgetary programs
- Annual Evaluation Program (PAE)
**What is the purpose of the MSD?**

That the agencies of the federal public administration:

→ Have elements for budget allocation decision making based on program results. Justify any proposed increases or decreases in budget allocations

→ Use the information to improve the goals, indicators, targets and issues arising from external evaluations

→ Identify positive externalities and potential duplications in order to strengthen budgetary programs

→ Present information in a clear and simple language that allows citizens to know and understand programs performance

**What is the overall assessment?**

To obtain the overall performance rating of each budget program a value range from 1 to 5 is established, with 5 representing the highest performance.
What elements of evaluation does the MSD consider?

1. **Budgetary efficiency (2008-2011)**
   - The efficiency in budget spending for each budget program for the past 4 years
   - The difference between the authorized and spent budget in order to determine the degree of under-spending or over-spending

2. **Government priorities**
   - Takes into account government priorities according to what is established by law

3. **Results from the analysis of the Indicators for Results Matrix (MIR) 2009-2011, taking into account three criteria:**
   - Quality of the MIR according to an external evaluation
   - Ratio between the achievement of goals and the budget increase
   - Achievement of determined goals

4. **External Evaluations**
   - It includes the assessment of external evaluators, taking also into consideration the lack of evaluations as an incentive for contracting evaluations

5. **Recommendations of external evaluations (ASM)**
   - The degree of progress in implementing the recommendations of external evaluations is taken into account.
How is the overall assessment done?

For each budget program a score is recorded for each one of the items considered and a final performance rating is obtained.

To standardise the information and to ensure that it is comparable scatter plots are used, which allows to determine the variation of the data in order to establish the range of skills. Moving averages were used to smooth the variation of the information.

<table>
<thead>
<tr>
<th>Budget (over/under spending)</th>
<th>Government Priorities</th>
<th>MIR</th>
<th>External Evaluations</th>
<th>Recommendations of external evaluations</th>
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<td>10%</td>
<td>15%</td>
<td>25%</td>
<td>25%</td>
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Outstanding outcomes

The Ministry of Finance convenes meetings with program managers in order to analyze performance results. Information is analyzed by both parties in order to improve the budgetary cycle and agreements are reached. From these meeting the next results have been achieved:

- Improvement of the MIR
- Proposals for new external evaluation
- Elimination of duplicated programs
- Improvement of budgetary structure
- Compaction of programs
- Improvement of programmed goals
- Improvement of performance information
- Review of on going external evaluation recommendations
- Compliance with budgetary allocations
- Resource re-allocation
- Increased performance transparency
Main contents:

- General budget and expenditure information since 2000
- Citizen language and graphic display, video, etc.
- Financial statistics: Debt, transfers to state and local governments, budget assigned to each program and each branch of government, etc.
- Citizen budget
- All the evaluations of budgetary programs since 2007 (SED)
- All 596 PIM's
Future challenges

1. **Government in transition 2012**
   - Presidential elections in July; government transition in December

2. **Managing Change**
   - Overcoming resistance
   - Communication program
   - Pacing reform
   - Leadership

3. **Capacity building**
   - In government
   - Among stakeholders (Congress, civil society, media)

4. **Involve stakeholders: Congress and civil society**
   - Use of performance information by Congress
   - Involvement of civil organization in the development an evolution of the M&E System
Use of performance budgeting information in Mexico