CHILE: TOWARDS RESULTS-ORIENTED BUDGETING

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Background – Chile in the late ‘90s

Chile successfully completed the first generation of reforms during the 1980’s and 1990’s. Privatization, deregulation, trade liberalization, and sound fiscal and monetary policies were pursued over several administrations. Public finances improved principally as a result of major structural reforms, particularly in the reduction of the state and in the reform of the pension system, but also due to tight controls on spending and extensive reforms in revenue policy and administration. Significant innovations also were made in the areas of health and education service delivery, pensions and social security, and e-Government.

One of the pillars of Chile’s state reform program has been the accelerated modernization of public expenditure management. This has facilitated the implementation of Chile’s sound and consistently applied fiscal policies, which have been successful in producing fiscal surpluses and ensuring macroeconomic stability as demonstrated by the record budget surpluses in 12 of the last 15 years. The system is markedly “hierarchical” – the Ministry of Finance takes precedence over the sectorial ministries and agencies in the formulation of the budget; and the executive branch and the legislature have developed effective checks and balances in the budget approval process. The executive branch has the exclusive prerogative to request annual budget expenditures. Budget execution, however, has been quite flexible, given Chile’s long reliance on decentralized “national services” (autonomous agencies under the coordination and normative direction of ministries).

Despite its successes, by the first half of the 1990’s the financial management systems in place were seen as undermining the allocation and efficiency goals of modern budgeting. The system retained a focus on controlling expenditures, not promoting the efficient and effective use of those resources, assessing the results of spending, or fully accounting for the economic costs incurred.

During the 1990’s, the government initiated a series of reform measures, including the development of performance indicators, results evaluations, and performance-based pay schemes. Based on these efforts, and a concern that a more coherent and aggressive commitment to modernization were required, the authorities designed a comprehensive program to improve the trade-offs between tight fiscal control and effective program execution. It involved a three-tiered approach based on: (i) increased flexibility to spending agencies in their access to and uses of budget funds; (ii) greater predictability in the operating environment of spending agencies; and (iii) increased pressure on agencies to pursue improvements in program results.

It was expected that the focus on results and involvement of stakeholders (line agencies and Congress) through the formulation and discussion of medium-term plans would promote transparency and more participatory decision-making.

The World Bank’s Response – The SIGFE Project

The Integrated State Financial Management System (SIGFE, for its acronym in Spanish) project was designed to support the Chilean government’s efforts to address the following issues:
Nascent methodology for results-oriented budgeting. Chile initiated several programs to increase the focus on budget results, like the Evaluation Program of Governmental Projects within the National Evaluation Program since 1997, and the systematic and permanent revision of the budget programs, in order to apply coherent and transparent standards prior to their incorporation into the budget proposal in 2001. As a result of these initiatives, some 275 indicators were included in the 2001 budget, covering 72 public services.

However, further efforts were required to make performance evaluation a generalized practice in order to develop a results-oriented budget. Agency budgets, in many cases, continued to be vague as to specific goals, without clear performance indicators for intermediate or final results. Allocations continued to be based on expenditure categories, and not on outcomes sought or achieved, ignoring the need for value for money, and rewarding activities that were not duly justified in light of government policy or that had become obsolete based on changing social needs. The effort to focus on evaluation and results was more a concern of the Finance Ministry than of the agencies or their financial units, and thus the efforts to evaluate performance frequently were seen as an imposed requirement with limited impact on daily resource management and administration at the institutional level.

Deficient public sector financial management information system. Chile did not have a fully modern, integrated financial management system, in terms of its policies, procedures, and information technology. The Government as a whole had some 117 different financial management information “systems”, with 16 entities with semi-manual systems. The systems themselves were rigid (financial transactions had to be reported to agency headquarters to be entered into the system, rather than having a single entry at the source of the operation); inadequately integrated and interconnected (within the agencies, and even less so with the Ministry of Finance and Comptroller General’s Office-CGO), and lacked real time information or sufficient performance monitoring data. Consequently, there were delays of up to seven weeks or more in reporting some financial transactions to the Finance Ministry. Information was provided in different formats, inhibiting financial and economic analysis. Transaction and maintenance costs were high, given the various software and hardware systems and need for multiple data entry. There also was inadequate control over the budget commitment process, as the diffusion of government bank accounts was costly to administer and undermined cash and debt management. Not only that, the systems were not linked to other information systems in public investment, debt, procurement, and human resources, and the existing cash control systems lacked flexibility and responsiveness.

In light of these challenges, the Government of Chile and the SIGFE project seek to improve the effectiveness, efficiency, and transparency of Chile’s public administration by establishing a modern and integrated financial management and resource allocation system, complemented by ongoing or pending reforms in e-government, decentralization, civil service reform, etc. The strategy includes:

Development of a new integrated financial management system. It includes core sub-systems of budget, accounting, and treasury. The public credit, public investment, procurement, and public assets sub-systems would be developed and incorporated subsequently into the broader system.

Strengthening of national norms and standards. Its goal is to increase accountability to senior government officials and the public and improve budget decision-making and execution.

Integration of the new system with broader institutional reform initiatives. Chile’s integrated financial management and resource allocation system has been complemented with other initiatives, including monitoring and evaluation, procurement, e-government, decentralization, civil service reform, etc.

Utilization of a selective pilot implementation approach. This reflects a careful concern to learn and apply lessons, and first target the reforms in agencies with proven leadership and commitment. By piloting organizational reforms in the Budget Directorate of the Ministry of Finance (DIPRES, for its acronym in Spanish) and the Comptroller General’s Office (CGO), and the rector organizations, these agencies would lead by example.

Development of methodologies for incorporation of agencies with special needs. In the case of the Armed Forces, for example, which had a robust financial management system, the project would support the development of methodologies to synchronize the existing system with the SIGFE network.

Create and maintain a positive technical dialogue during implementation. The Bank provides qualified technical assistance to openly discuss vertical and horizontal integration alternatives, aggregation levels, reporting requirements, and strategic choices to be made down the road.
Results on the Ground

To date, the project has been successful in achieving its goals. It has advanced in both the development and the implementation of the new system according as planned. The Bank’s team has been flexible enough to understand the client’s urgent need to design and deploy a basic financial management system to allow for the registration of transactions. The main results obtained or in progress to date are:

- The stabilization of SIGFE and its ample coverage of the basic systems of budget, commitment, treasury and accounting.
- The consolidation of information at the central level, which is nearing completion, to provide reports to support the decision-making processes for the different levels of government, such as the Ministry of Finance, sectoral ministries and agencies.
- The implementation of SIGFE in 297 of the 391 organizations of the Central Government. It is important to emphasize that it has been implemented in the entire health sector (182 hospitals and the central agencies), and that 6,850 agents have been trained through a comprehensive training program.
- The close collaboration with selected agencies, including the Army, Navy and Air Force, to adjust the synchronization process of its systems in order to facilitate its integration into the SIGFE network.
- The support to the Evaluation Division within DIPRES with regards to the improvement of the monitoring of performance indicators and procedures.
- The design of the Human Resources Management System (SIAPER, for its acronym in Spanish), which is expected to be piloted in 2006.
- The advances in the coordination among the different agencies involved, especially between DIPRES and the Comptroller General’s Office, maximizing the impact of the initiatives. For example, the Comptroller General’s Office performed an overall evaluation of the SIGFE, facilitating the identification of the problems and proposals among users.

When the project team visited Region VIII in April 2005, the general response of users was highly satisfactory highlighting: (i) the simplification and standardization of the administrative processes among the different agencies; (ii) the equipment and training provided with the system as representing an important contribution to the administrative units; and (iii) the permanent support from, and increased dialogue with, DIPRES. The users also mentioned some problems like poor connectivity that has a direct impact on the performance of SIGFE’s web-interface; the burden of double entry of data in other systems, like procurement and inventory management; the lack of clear coordination and standardization of the central level requirements (i.e. - DIPRES and the Ministry of Health); and the need for faster response to the requests of specific and standardized reports.

Lessons Learned

The SIGFE Project provides a series of lessons that could guide the design of new projects or reshape existing ones:

**Leadership, clear strategic direction, and commitment are critical for success.** DIPRES has led the project from the beginning. Through the passage of the annual budget laws, the project’s recommendations have been incorporated. For example, the budget and accounting indicators were simplified and improved in accordance with the International Monetary Fund (IMF) and international standards to better integrate accounting information.

**Balanced project design and adequate team supervision is critical to achieve agreed intermediate indicators and final goals.** As the project’s implementation progressed, it was imperative to understand the country’s particularities in order to adapt the fully-integrated financial management model, generally advocated by the Bank in Latin America and the Caribbean, into a more custom-made model where full integration is not an end but a result of institutional efforts. The aggregation of information is now understood as a result of the coordination among agencies to achieve better results and effective use of scarce public sector resources rather than an obligation of management control.

**Context matters.** The project has benefited from a very stable environment, and it has proven an ideal context for institutional reforms. The SIGFE project was instrumental in supporting these reforms, leading to an evolution as opposed to a revolution.

**Governance can be strengthened and public efficiency is possible.** Chile has been a good example for many nations. It has decided to take longer, but critical steps. By doing so, transparency and governance indicators compared with international benchmarks have been stable and even facilitated the increase of foreign investment and economic growth. The efficient allocation of resources and timely reporting have promoted and benefited from efficiency gains.

**Technology facilitates internal communications and the simplification of bureaucratic processes.** Au-
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