

MEXICO

Quality of Public Expenditure

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The Performance Evaluation Framework as a Tool for the Mexican Congress

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

Introduction

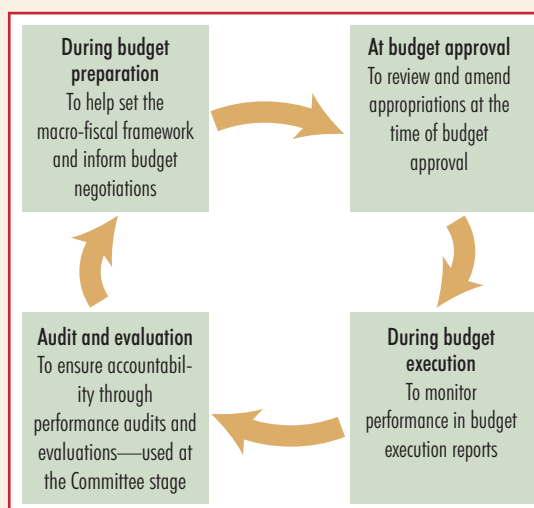
Legislatures interact with the Executive and participate in the budget process to significantly varying degrees.¹ Within Mexico's presidential system the Congress exercises considerable authority over public policy formulation and budgeting. This contrasts with most parliamentary systems where the incentives for the legislature to check the budgetary authority of the Executive (i.e. 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* in 2006, which enables the creation of a Performance Evaluation System (*Sistema de Evaluación del Desempeño*—SED) and details the use of performance indicators throughout the budget cycle. These reforms, amongst others, are creating opportunities for Congress to exercise, and in some areas expand, its roles in overseeing executive powers and in establishing the overarching fiscal framework.² 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 macro-fiscal framework. In a third of OECD countries surveyed in 2007, the legislature votes to approve expenditure aggregates before voting on individual appropriations.³ These frameworks are often linked

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



to performance measures or rules to promote macro stability and fiscal sustainability. In Mexico the Budget and Fiscal Responsibility Law (2006) targets a balanced medium-term fiscal position and requires Congress to approve the annual federal revenue estimates before discussing expenditure appropriations. These measures have enhanced Congress's role in safeguarding macroeconomic stability.

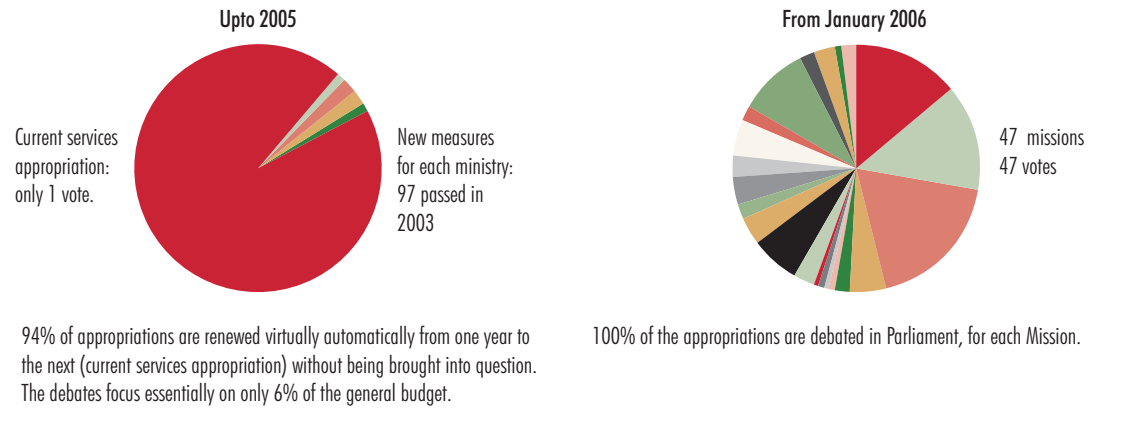
In Mexico, as in most Latin American countries, the overarching inter-sectoral priorities are predetermined

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

² 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.

³ OECD Budget Practices and Procedures Database: www.oecd.org/gov/budget/database

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



Source: www.lolf.minefi.gouv.fr

by the President's multi-year 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.⁴

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 ensures that any amendments for additional expenditure must be compensated by new revenue or offsetting spending cuts.⁵ While recognizing the political nature of the budget, 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 have helped to expand parliamentary debate over budget appropriations.

During Budget Execution

Most OECD countries now regularly report performance information in budget execution reports. While such performance information can be highly illuminating, in most OECD settings, failure to deliver 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.⁶

When SED becomes fully operational in Mexico, the performance information it gathers will add to the extensive information already regularly reported to Congress and its various committees during the year. While performance information is currently reported to Congress, largely on an ad hoc basis and for particular social programs, the executive must already inform Congress at regular intervals during the fiscal year about certain activities: transfers to states and the

⁴ 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). 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.

⁵ Posner and Park (2007). This contrasts 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.

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 as not to overwhelm the limited capacity of the Congress it will be necessary to establish procedures 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 PSAs in the UK).

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, while in Westminster systems, the US 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 to bolster transparency and the oversight of executive actions.

In Mexico, the Auditoria Superior de la Federación (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

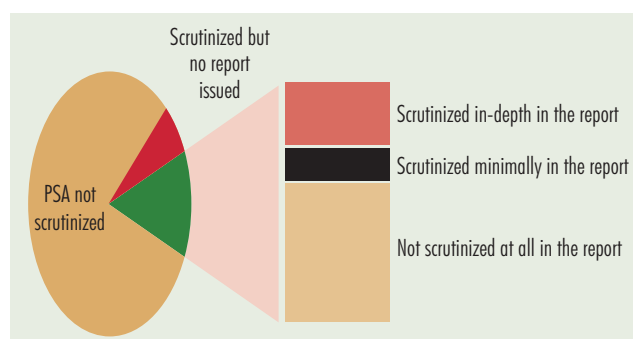
For Congress to exercise its oversight role effectively it must have access to the right information at the right time and be able to use it. The experience in many OECD countries has been mixed and suggests the need for Mexico's Congress to continue to strengthen and align its main tools for active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

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

⁶ World Bank, 2008, opsit.

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.

- Mexico recently created the *Congressional Public Finance Study Center* (PFSC), to help analyze the budget within Congress.⁷ 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. These challenges include:

- Defining appropriate indicators for different users. The usefulness of, and interest in, particular performance measures depends on whether they meet the users' needs. The technical decisions facing program managers are often different from the political decisions faced by Congress or 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.⁸
- 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 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, i.e. how much extra will be achieved with additional funding? Unless these issues are addressed, legislators' interest in such information is likely to wane.⁹ 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 they are enthused enough to engage actively in supporting the development of the systems and processes, but realistic enough so as not to erode support over the long term.

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

⁸ This could mirror the 'scorecard' approach of some OECD governments, e.g. the US Office of the Management of the Budget (OMB) uses a simple Performance Assessment Rating Tool to monitor programs, see: www.whitehouse.gov/results/agenda/scorecard.html

⁹ 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.

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