# Building Effective Governments

## Achievements and Challenges for Results-Based Public Administration in Latin America and the Caribbean


EDITORS

Jorge Kaufmann, Mario Sanginés, and Mauricio García Moreno



IDB

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*Editors*

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# Foreword

There is consensus among government officials and the public at large regarding the urgency of improving the efficiency (doing more with less), effectiveness (doing what is promised), and openness (being transparent and accountable) of public management.

As the authors of this book maintain, the capacity of public institutions to implement results-based public management has grown stronger in recent years. The study finds a widespread trend toward improvement, but with significant differences among countries and among public management systems. The index that measures the public sector's capacity for results-oriented management rose by 20 percent between 2007 and 2013. Of the 24 countries studied, 9 substantially increased their institutional management capabilities, while the rest implemented measures in some of the areas addressed by this study but showed only moderate progress.

The actions undertaken have included broad-based reforms, such as the strengthening of national planning systems in the Dominican Republic and the implementation of results-based budgeting in Mexico and Peru. Other more narrowly focused, but equally important, interventions have been carried out, such as optimization of public procurement systems by introducing lowest-price or reverse auctions in Paraguay, and reinforcing integrated financial management systems in Honduras. In addition, it is clear that the reforms have been undertaken not only by the countries that have traditionally led initiatives to improve public management, but also by others, regardless of the size of their economies and degree of development.

These topics are not only of interest to public managers or administrators. They will also resonate with legislative branches, academic institutions, the media, and civil society organizations because they are geared to increasing government capacity to create public value and satisfy citizen demands.

This book is another contribution of the Institutional Capacity of the State (ICS) Division to promoting more effective, efficient, and transparent governments. It is the outgrowth of insights of IDB specialists and other renowned experts in the region. I have no doubt that it will enrich the discussions about the challenges faced by the region's governments in implementing public management systems that can provide their citizens with greater well-being and a better quality of life.

**Ana María Rodríguez-Ortiz**
*Manager, Institutions for Development Sector*
*Inter-American Development Bank*

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# Executive Summary

Improving public services, using State resources efficiently, and managing State agencies effectively have been ongoing concerns of Latin American and Caribbean (LAC) governments since the beginning of this century. Government officials are now paying closer attention to the results obtained by their administrations. Citizens are now demanding not only universality but also quality in the services that the State provides (e.g., education, healthcare, and legal services). To meet this growing demand for public sector effectiveness, governments have formulated new laws, created or modified institutions, and implemented innovative management methodologies and instruments.

To analyze countries' institutional capabilities to implement effective, efficient, and transparent public administration, the Inter-American Development Bank (IDB) designed the PRODEV Evaluation Tool (PET) as an instrument for the analysis of management for results in the public sector. Through a focus on managing for development results (MfDR), this instrument analyzes the five pillars of the public policy management cycle:

- Planning
- Budgeting
- Public financial management
- Program and project management
- Monitoring and evaluation

These pillars examine the elements that public sector institutions should implement for their efforts to yield the results that governments offer the citizens. Comparing data obtained from the PET in 2007 and 2013, this

publication analyzes the progress made and the current status of implementation of these five pillars by the public sector in 24 LAC countries.[1]

The study shows a positive evolution of institutional capacities to implement MfDR. All of the countries analyzed improved their scores, although to varying degrees. The governments with the lowest scores on the MfDR index in 2007—Belize, Guyana, Jamaica, Nicaragua, Paraguay, and Trinidad and Tobago—have taken significant steps to improve their national public administration systems. Likewise, in recent years, some of the countries with intermediate scores, especially the Dominican Republic, Ecuador, and Peru, have undertaken major reforms and are advancing rapidly. The group of countries with the highest scores—Brazil, Chile, Colombia, and Mexico—have a substantial lead over the rest, display more harmonious development in the five pillars of MfDR, and show sounder know-how in the areas of results-based budgeting and monitoring and evaluation, which tend to be the weakest aspects for most countries in the region.

Governments have undertaken major efforts to improve medium- and long-term national planning capacity, medium-term budgeting, program

**TABLE 1 | LAC Countries with the Best Performance in the PET Pillars, 2007–2013**

| Pillars | Countries that led in the pillar in 2013 (sorted alphabetically) | Countries that made more progress between 2007 and 2013 (sorted alphabetically) |
|---|---|---|
| Results-oriented planning | Brazil, Colombia, Ecuador, Mexico | Belize, Dominican Republic, Nicaragua, Paraguay, |
| Results-based budgeting | Brazil, Chile, Mexico, Peru | Dominican Republic, Honduras, Mexico, Uruguay |
| Public financial management | Brazil, Chile, Colombia, Mexico | Dominican Republic, Ecuador, Guyana, Trinidad and Tobago |
| Program and project management | Brazil, Chile, Colombia, Mexico | Argentina, Ecuador, Mexico, Paraguay |
| Monitoring and evaluation | Brazil, Chile, Colombia, Mexico | Jamaica, Mexico, Peru, Uruguay |

[1] The countries included in this study are: Argentina, Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Mexico, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay.

budgeting, and several financial management instruments. These efforts reflect a desire to gain greater control over public spending and to focus on strategic objectives. Governments have made less progress, however, in the areas of evaluation of spending effectiveness, incentives for achieving institutional objectives, and evaluation systems. If these elements continue to lag behind, they may jeopardize progress in the other areas because they are directly tied to producing and using information on performance to inform decision making—key factors in results-oriented management. In other words, governments are better able to identify the desired results and the resources needed to achieve them, but the effectiveness of the strategies implemented is not known.

An analysis of PET information from the standpoint of efficiency, effectiveness, and transparency in the public sector shows that, in general, countries in the LAC region have made progress in all three of these areas, although more so on optimizing the inputs used to obtain an output (efficiency) than on ensuring that interventions achieve their expected results (effectiveness). Transparency has improved as a result of greater dissemination of information by both the ministries that oversee the sectors and those in charge of cross-sector functions, such as planning and budgeting. Currently, citizens and opinion leaders have access to more information about State actions. The main conclusions of this publication regarding achievements and remaining challenges in the

## Results-oriented Planning

The purpose of the MfDR planning system is to define the results that governments hope to achieve. To that end, the methodology proposes that three elements are necessary: (1) institutionalized strategic planning exercises, (2) instruments that make it possible to translate the strategy into annual programming of activities and resources, and (3) mechanisms that incorporate the opinions of the legislative branch and civil society organizations (CSOs) into the strategic plans.

Strategic planning exercises are being consolidated throughout the region. There is a trend toward creating specific regulations to institutionalize the agencies in charge of this function. An increasing number of countries (7 in 2007 and 11 in 2013) are creating joint documents that present national objectives and strategies for the long term (20 years or more), with the aim of establishing an agenda of public policy priorities that will transcend individual governments.

The operational phase of planning—in which annual resources are allocated, activities are identified, and the people responsible for implementing them are determined—has improved as a result of the incorporation of goals, programs, outcomes, and indicators into medium-term plans. Nonetheless, much remains to be done in terms of coordinating sectoral, territorial, and investment planning with medium-term national planning.

The involvement of political players and CSOs in defining plans is the weakest aspect of this pillar, and no significant progress has been seen over the last five years. In only 7 of the 24 countries studied did the legislative branch of government review the medium-term plan, and its approval was required by law in only 4. Although CSO consultations have become more frequent in recent years and are more prevalent than participation by the legislative body, the procedures to conduct them are rarely institutionalized.

## Results-Based Budgeting

Results-based budgeting (also known as budgeting for results, or BfR) is a set of processes and instruments that make it possible to systematically use information about the performance (results) of policies, programs, and projects in the budget cycle, with the aim of maximizing their impact on economic and social development. To implement BfR, the methodology proposes that it is necessary to incorporate five components: a budget structured by programs, projection of medium-term income and expenses, a system for monitoring and evaluating the performance of public spending, incentives for improving effective management, and dissemination of information about the budget and expenditures.

Of these elements, the one that showed the greatest progress was public dissemination of budget-related information. Of the 24 countries studied, 21 currently make budget information available to the public via the Internet, although very few post summaries and documents that would facilitate the public's ability to understand and analyze these technical documents. Another element that has seen considerable progress in recent years is the projection and/or programming of income and expenses in the medium term. Currently, 18 of the 24 countries have an instrument of this kind, but the degree of consolidation varies. The construction of budget schedules, which enables the budget to be formulated on the basis of policies rather than automatic increases as a function of anticipated resources, has also expanded.

Spending effectiveness is assessed through the monitoring and evaluation system. This system is key to the functioning of BfR because it provides

the performance information required to maximize the impact of public policy. This component saw little growth during the period under analysis. Very few countries are able to use a mature instrument to analyze the effectiveness and quality of public spending. Likewise, very few countries have implemented mechanisms to provide incentives for institutions and individuals to optimize management and achieve institutional outcomes.

## Public Financial Management

Public financial management is the set of administrative instruments of public sector organizations that enable them to generate and deliver resources for the purpose of realizing the government's objectives. This pillar of the methodology encompasses the following areas: (1) budgeting and financial management, (2) the procurement and contract system, and (3) internal and external auditing. Of the five pillars that comprise MfDR, this one obtained the highest score in 2007 and also topped the list in 2013.

With respect to budgeting and financial management, the greatest progress was seen in activities to analyze and mitigate fiscal risk. These activities involve not only direct obligations but also contingent liabilities. There was also substantial progress in implementing integrated financial management systems (IFMSs): the number of countries that now have mature, consolidated systems rose from 8 in 2007 to 12 in 2013.

As for public sector procurement and contracts, the greatest progress is associated with improving the legal and institutional frameworks and increasing the availability of statistical information about the processes carried out. However, the capacity to conduct electronic transactions has seen very little progress, with only seven countries offering electronic systems with this feature.

With respect to public auditing, the main trends observed are an increasing the presence of internal oversight units in central government agencies and responding more effectively to observations made in external audits. Management and performance audits are advancing slowly.

## Program and Project Management

Through program and project management, government agencies crystallize the production of goods and services for citizens and in this way create public value, which is the main objective of MfDR. This publication analyzes several key aspects of the process of program and project management: (1) ex

ante project evaluation, (2) sectoral planning capacity, (3) management of the quality of services, and (4) information systems. The analysis focuses on the education, health, infrastructure, and social development sectors.

Ex ante evaluations of investment projects are widespread. However, their coverage is not always the adequate, and their use as a criterion for allocating resources is not always ensured. Likewise, reviews of the relevance of projects to the objectives and strategies of medium-term national plans are infrequent.

Sectoral planning is the most consolidated aspect, and preparation of medium-term plans is the area that has seen the most progress in recent years. However, the indicators for management of the quality of goods and services and for sectoral information systems obtained low scores in all countries. This indicates that the capacity to set short- and medium-term goals and objectives has grown, but not the subsequent capacity to execute the plans, meet the objectives, achieve the goals, and obtain the information needed to monitor implementation.

The education and health sectors showed greater progress than infrastructure and social development due to the fact that long-term planning exercises have now been undertaken for several decades, and there tend to be better information systems based on administrative records. Moreover, these sectors have participated the most in efforts to meet the Millennium Development Goals (MDGs), which adopted the results-based management approach.

## Monitoring and Evaluation

Monitoring and evaluation functions are equally essential to results-based management because they provide information about the extent to which results have been achieved and about the impacts that public programs and projects are having on the population at large. This pillar examines closely connected and overlapping systems: (1) statistics, (2) monitoring, and (3) evaluation.

Statistics is the most consolidated and homogeneous system among the countries because its regulatory and institutional frameworks are sounder, and there are international standards for many of its technical processes. Fundamental progress can be seen in terms of the timeliness with which data are now published and the microdata from statistical census and survey operations are made known. These are key inputs for the functioning of monitoring and evaluation systems.

Monitoring systems are more widespread than evaluation systems, but their development is still incipient in most LAC countries. Only 4 of the 24 countries studied have mature institutional performance monitoring systems, and another four have achieved an intermediate level in recent years. The good news is that in some countries a positive trend can be seen toward the creation of institutional units in charge of monitoring systems. These units work under the budget or planning offices, or within the central government offices involved in managing top-priority goals.

Evaluation systems have advanced less than monitoring systems. In 2007, only four LAC countries had evaluation systems, and in 2013 the situation had not changed substantially, although two more countries had undertaken actions to systematically conduct evaluations.

## Recommendations

This publication makes the following recommendations with the aim of further strengthening the focus on results in the public policy management cycle in LAC countries:

- Align laws and regulations with the concepts of results-oriented management, quality of service, and good performance.
- Promote the effective integration of the planning and budgeting systems.
- Establish procedures to incorporate information on performance into the budgeting process.
- Reinforce coherence between strategic planning at the national and sectoral levels and investment planning.
- Strengthen the analysis and management of fiscal risk.
- Promote external oversight agencies' capacity to evaluate results.
- Expand and reinforce strategies for continuous improvement of the quality of services.
- Develop monitoring systems based on performance indicators.
- Build institutional capacity to evaluate policies, programs, and projects through a multi-annual assessment plan.
- Establish procedures to use the performance information produced by monitoring and evaluation systems.

# Introduction

*Mario Sanginés*

Following the recovery from the 1980s crisis, countries in the Latin American and Caribbean (LAC) region have made determined efforts to modernize and transform themselves, with a focus on deepening democracy and promoting the well-being of society as the central aims of public policy.

Public institutions, which had been seriously damaged by the crisis, embarked on a reconstruction process that initially laid the groundwork for reasonably efficient and transparent management. Priority was granted to fiscal policy instruments to reestablish macroeconomic stability as an anchor of sustainable growth. The next challenge that much of the continent is facing is building and strengthening the institutions necessary for an effective and efficient State that will respond to the demands of the public and produce results.

The shift toward results-based management of public policy comes mainly from initiatives of the governments themselves, frequently inspired by experiences in the developed world but reinforced by the demands of an increasingly better-informed public, endowed with sophisticated participatory instruments, for whom high-quality services are a right. Advances in technology and communication are opening up unprecedented opportunities for society to organize and demand results from those in power.

Almost a decade ago, the Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness (PRODEV) of the Inter-American Development Bank (IDB), with support from the Latin American Centre for Development Administration (CLAD), devised a conceptual model of results-oriented management that has demonstrated its relevancy over time and remains a key reference point for many national and local government reform processes.

Based on that model, in 2007 the IDB designed an institutional capacity assessment instrument that examines the public management cycle,

considering five pillars: (i) results-oriented planning, (ii) results-based budgeting, (iii) financial management (which includes procurement and internal and external oversight), (iv) program and project management, and (v) monitoring and evaluation (M&E). The PRODEV Evaluation Tool (PET) is a practical and comprehensive instrument that facilitates the identification of institutional strengths and weaknesses and supports the design of institution-building plans. It is important to note that the PET focuses on measuring the framework and institutional capacities for results-based management as objectively as possible–that is, it attempts to establish the extent to which management systems are geared toward achieving results. It does not intend to provide a framework for evaluating the results and the quality of the public services provided by the State. Thus, it focuses on evaluating results-based management, not management results, which should be the subject of specific assessment studies. However, the instrument does provide elements to correlate results-based management with management results.

The findings of the first application of this instrument in 25 LAC countries between 2007 and 2009 were published in 2010, in the book *Managing for Development Results: Progress and Challenges in Latin America and the Caribbean (*García López and García Moreno, 2010). The publication made a fundamental contribution to the regional debate and also led to some Latin American countries' use of the PET as a diagnostic instrument for national development plans and public administration reform programs.

The IDB decided to apply the PET a second time at the national level (the instrument has also been applied at lower levels of government) to quantitatively measure progress and shed light on the critical areas where progress has not occurred as expected. The purpose of this second application is to measure the progress of results-based management in the region's development and the evolution of profiles and trajectories of change in the countries. As the following chapters will show, the progress is encouraging, but significant deficits remain; these mean that it is not possible, for example, to consolidate public management genuinely based on evidence of the effectiveness of policies, programs, and projects. This book presents the findings of the second application of the PET.

The study discussed in this book is part of the knowledge agenda of the IDB's Institutional Capacity of the State Division and complements a series of studies on government modernization and public management reform. The agenda seeks to bolster the strategic management of the State, centers of government, and budget implementation and oversight. It also contributes to the analysis of the State's management capacity and to the evaluation of

the progress of the reforms that the region has been carrying out over the past decade, and it has been complemented by a study on the quality of civil service.[1]

The strength of results-based management systems and the quality of human resources in the public sector are two determining factors in the State's capacity to implement public policies in an effective, efficient, and transparent way. Therefore, this book lays the groundwork for future research on modernization of the State's strategic management efforts, such as evaluating relationships among professionalization of the civil service, consolidation of results-based management systems, and quality of public services.

This book contains seven chapters. The first describes the conceptual and methodological framework, the open results-based management model, and the design of the PET as a diagnostic instrument. The second chapter compares the main findings with those of the first application of the PET; highlights the most notable advances; analyzes the aspects of efficiency, effectiveness, and transparency; and ends with an analysis of implementation challenges and some recommendations. The ensuing chapters are devoted to analyzing the five pillars of the model, using experiences from around the world as a frame of reference, and indicating advances and challenges observed on the basis of the PET. The book, its appendices, and other information related to the study can be found online at: www.iadb.org/gobiernosefectivos. While this study centers on national governments, it can also be applied to lower levels of government (states and provinces) and local governments (municipalities).

We hope that this publication will make a contribution to the professional debate about government management and that it will complement the assessment instruments that already exist in specific areas by presenting a comprehensive picture of the status of the public policy cycle based on a

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[1] Among the studies done by the IDB's Institutional Capacity of the State Division regarding public management reform, the following should be highlighted:

Cortazar, J. C., M. Lasource, and M. Sanginés (eds.). 2014. *Citizen Services: A Decade of Civil Service Reforms in Latin America (2004–13)*. Washington, DC: IDB.

Lafuente, M., M. Alessandro, and C. Santiso. 2014. *Governing to Deliver: Reinventing the Center of Government in Latin America and the Caribbean*. Washington, DC: IDB.

Marcel, M., M. Sanginés, and M. Guzmán. 2014. *Presupuestos para el desarrollo en América Latina*. Washington, DC: IDB.

Santiso, C., J. von Horoch, and J. Vieyra. 2014. *Improving Lives through Better Government: Promoting Effective, Efficient, and Open Governments in Latin America and the Caribbean*. Washington, DC: IDB.

rigorous methodology that is widely accepted in the region. We also hope that this book will contribute to a more deeply rooted agenda of institutional modernization and state reform in the region, specifically to a better understanding of the challenges that still hamper countries' efforts to achieve more and better development results for society.

CHAPTER 1

# Conceptual and Methodological Aspects

*Mauricio García Moreno and Roberto García López*

## Introduction

New Public Management (NPM) is a trend that began in developed countries in the 1970s to promote the incorporation of a managerial perspective into public administration. NPM proposes to replace the traditional model of organization and supply of public services, based on the principles of bureaucratic hierarchy, planning, centralization, and direct oversight by a public administration founded on economic rationality that seeks efficiency and effectiveness. In other words, it promotes the idea of moving from public administration to public management. The pioneering countries in the introduction of these concepts were Australia, New Zealand, and the United Kingdom.

The multiple instruments and approaches generated by NPM to strengthen state capabilities include results-based management, whose function is to facilitate public organizations' effective and integrated direction of their process of creating *public value* in order to optimize it, ensuring maximum performance effectiveness and efficiency, the achievement of government objectives, and the continuous improvement of their institutions (IDB and CLAD, 2007). Since results-based management seeks to facilitate public sector management so that the countries can achieve development, this approach is also known as managing for development results (MfDR).

Although inspired by company transformations, the MfDR approach recognizes that public sector administration should pay attention to the elements inherent in government direction, among which the following should

be noted: democratic decision-making procedures, accountability to the public, separation of powers, and the public interest as management's focal point.

At the core of the MfDR concept is the notion of public value, which refers to social change that can be observed and measured and that the State creates in response to social needs or demands. These are identified through a process of democratic legitimation and therefore make sense to the public. The changes are the results that the public sector seeks to achieve. Hence, the ultimate objective of MfDR is to equip public organizations with the means to achieve the results laid out in the government's program objectives by managing the creation of public value.

From this perspective, a *result* of the management of a public institution is associated with the social change that takes place, and not only with the activities or products that contribute to that change—even though the latter aspects have often been taken as the only parameters for evaluating government action. For example, the result of the management of a ministry of education should not only be measured by the number of schools built, the number of teachers trained, or even the number of students promoted to the next grade, but also by the learning that has actually taken place and, in the long run, the quality of the jobs that the students manage to get thanks to the education they received. Ultimately, these last indicators are the ones that demonstrate the effectiveness of the actions of public institutions in responding to the public's educational demands.

It is necessary to note that social changes do not only include those that are the subject of social policy, such as health and education, but also those related to all public policies, such as citizen security, agriculture, employment, administration of justice, market regulation, and the exercise of citizens' rights. All of these aspects create public value and generate changes in society, and are therefore subjects of MfDR.

Meanwhile, the responsibility for implementing MfDR rests not only with the ministries that manage goods or services (e.g., the ministries of education, health, and transportation), public enterprises, and autonomous organizations, but also with the central ministries of planning and finance, because these are the entities that develop the regulations, procedures, and instruments that guide the different stages of the public management cycle.

One of the most important requirements for implementing results-based management is having clearly defined government outcomes. This calls for constructing a planning system able to prioritize government objectives; rigorously formulating concerted strategies, identifying the actions and actors

needed to implement them; calculating the resources that would be required to implement them, taking into account the fiscal situation; and planning the implementation of short- and medium-term activities.

Likewise, MfDR needs to be able to rely on continuous and reliable information about the effects of government action on society and on the achievement of expected outcomes. This calls for implementing M&E systems that can capture and process information on the performance of policies, institutions, and programs, that is, systems that can determine the extent to which these operate in keeping with specific criteria, guidelines, and regulations and obtain the expected results. Just as important as, and perhaps even more important than, the implementation of those systems is the utilization of the information that they generate. Applying an MfDR approach means, more than anything else, analyzing information on the performance of institutions, policies, programs, and projects, and considering it when making decisions, whether during the different stages of the budgeting process or when making necessary adjustments for the implementation of government policies and programs. Evidence-based decision making generated by the M&E system is one of the key characteristics of MfDR.

Among other elements, MfDR can rely on two powerful instruments to make the action of government agencies revolve around obtaining results: incentive mechanisms and alignment of institutions and systems. Incentive mechanisms seek to devise rules of the game that are well suited to the structure of the public sector, to encourage organizations and officials to focus their efforts on achieving results and not solely on performing functions. With respect to institutional alignment, MfDR perceives the public sector in a comprehensive, integrated way because it takes into account the entire management cycle and the interaction of the different elements that contribute to generating public value. Consequently, it views with particular interest the way in which the group of national public management systems converge and are articulated to achieve the goals that the government has set for itself, avoiding isolated, biased approaches. It seeks coordinated, complementary conceptual frameworks, processes, and instruments, especially for planning, budgeting, and M&E. This makes it possible to create an institutional environment propitious for achieving results.

Implementing MfDR involves transforming the prevailing institutional culture by complying with procedures and creating a new culture oriented to the achievement of results. Making the achievement of results the core of institutional culture in turn requires those results to become the center of a public debate, the authorities to be judged on the changes they have

promoted in society, and incentives for public officials to perform their work efficiently.

Even though MfDR is mainly a management strategy and, as such, those charged with implementing it are primarily public authorities and directors, institutional results cannot be obtained without the support of those actually in charge of providing public services, whether physicians, teachers, receptionists, or workers. That is why in the area of service delivery, MfDR promotes a bottom-up approach in which the consideration of user and customer demand prevails. Therefore, MfDR is a strategy of institutional change that connects administrators to users, that is, those responsible for making decisions to those who will be affected by them.

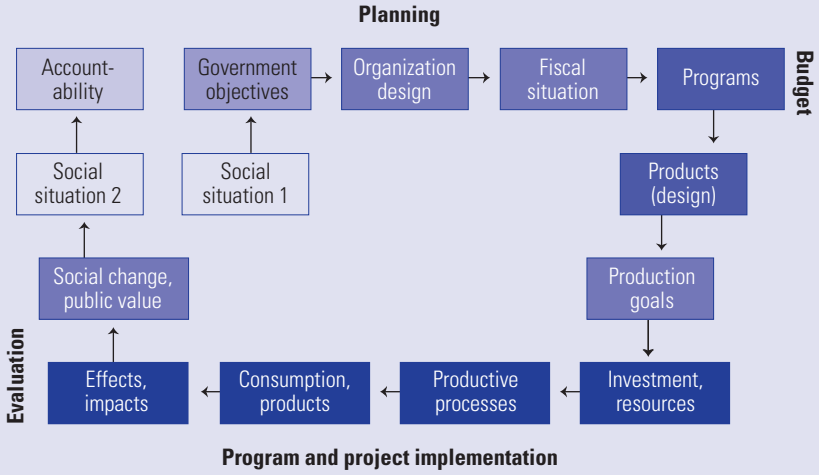
As seen previously, MfDR implementation calls for substantial innovations in public sector management, which supposes a medium- and long-term effort that normally transcends several government administrations. These innovations may require, among other actions, modification in the legal and institutional framework of the National Public Management Systems (NPMS); search for consensus in performing state functions; ongoing training of public officials; alignment of the different components of the management cycle; and new organizational structures that foster coordination and joint efforts, rather than competition and working in isolation. All of this entails complex processes of trial and error in which various players intervene: national police authorities, public administrators, Congress, political opposition, oversight agencies, civil society organizations (CSOs), local governments, and the private sector. For this reason, MfDR implementation should include the design of a well-structured plan that identifies the political leaders that will promote it and the technical leaders that will move it forward, that allocates the necessary medium-term resources, and that is the result of a consensus among the different political players.

## Methodology Used in the Analysis

The approach adopted here starts with the idea that a results-oriented public management cycle should be composed of a set of steps and elements that range from an assessment of the social situation that will be the subject of public intervention, to evidence-based accountability for the changes occurring in that situation, as can be seen in Figure 1.1 (IDB and CLAD, 2007).

All of the elements in the system should be coherently linked so that each one will facilitate the implementation of the next. Thus, for example, planning and budgeting should be viewed as continuous and complementary

**FIGURE 1.1 | Elements of the Management Cycle**




*Source*: Adapted from IDB and CLAD (2007).

processes, because planning cannot take place without knowing what resources will be available, and budgeting cannot take place without planning as a reference. Likewise, M&E feed into both the planning process and the production of goods and services: defining performance indicators is an important part of planning, and in most cases the data to construct those indicators are recorded in the offices for public services. Nonetheless, in practice it is common to find, for example, that regulations and the oversight agencies that regulate planning and budgeting are not based on the same principles and do not share the same methodology. Table 1.1 defines each of the elements that comprise the management cycle and are associated with the links of the results chain. Thus, the way in which each of those elements contributes to yielding public management results is evident synthetically and schematically.

Each of these elements is associated with one or more of the instruments that help to formulate them. For example, a medium-term strategic plan is used to establish a country's objectives and strategies during a term of government; management contracts are used during the processes of production of goods and services to accurately determine what the authorities expect from public administrators; performance indicators constitute the means of monitoring the government plan. Table 1.2 lists the instruments and mechanisms used most frequently. Many of them are used in

**TABLE 1.1 | Elements of the Management Cycle and their Relationship to the Results Chain**

| Elements of the management cycle | Definition | Results chain | |
|---|---|---|---|
| Socioeconomic situation | Analysis of the country's socioeconomic reality, to justify the plan's priorities and strategies | **Analysis of the current situation and the desired situation** | |
| Government goals and objectives | Government plan that establishes the country's consensus medium- and long-term goals and objectives | | |
| Organizational structure | Organizational structure (ministries and entities) aligned with the objectives of the government's plan | | |
| Fiscal situation | Analysis of the country's income and expense prospects in the medium term | | |
| Programs | Strategies by which the objectives of the government's plan are achieved | | |
| Products | Goods and services that are offered by programs and that contribute to achieving the objectives of the plan | | |
| Production goals | Volume of goods and services to be provided in a given period | | |
| Resources | Allocation of resources to programs | **Inputs** | |
| Production processes | Processes for producing the goods and services provided to the public | **Activities** | |
| Product consumption | Distribution, consumption, and use of goods and services by the population | **Products** | **Results** |
| Consequences for beneficiaries | Short- and medium-term changes in the behavior or conditions of the beneficiaries after receiving goods or services | **Effects** | |
| Social change | Medium- and long-term impact or change in the living conditions of the target population | **Impact** | |
| Accountability | Reports by the authorities to the public on the results obtained | | |

*Source*: Authors' compilation.

**TABLE 1.2 | Basic Instruments of MfDR**

| Instrument | Definitions related to MfDR |
|---|---|
| Medium-term strategic plan | Analysis of the country's situation and definition of top-priority medium-term objectives with the corresponding programs, goals, and indicators. The programs should have a framework for results, i.e., a logic that will explain how the development objectives, which include causal relationships and underlying assumptions, are to be achieved. |
| Results-based budgeting | A budgeting process (planning, approval, implementation, and accountability) that incorporates the analysis of the results obtained from public sector actions and whose projection of expenses is classified in keeping with the programs established in the medium-term strategic plan. The analysis of results is based on performance indicators and evaluations. |
| Medium-term fiscal framework | An instrument geared to extending the fiscal policy horizon beyond the annual budget calendar by projecting income and expenses for a three-year period or longer, updated annually. In the first year, the projections of the fiscal framework will strictly correspond to the budget. |
| Financial and comprehensive risk management | An integrated information system with the following areas of state administration: accounting, budget implementation (including fiscal risk), tax administration, public credit, and national treasury. |
| Public procurement system | An institutional and regulatory framework that promotes competition and transparency in public procurement and that operates via a transnational electronic system on the Internet. |
| Management contracts | Agreements among institutions that establish the commitment to achieve results, the areas of implementation jurisdiction, the conditions of compliance, and the resources allocated. |
| Incentives | A set of management guidelines whose purpose is to encourage the achievement of goals and objectives by institutions, teams, and individuals, through special compensation. |
| Quality standards | Basic attributes that the goods and services provided with public sector funds should have. |
| Performance indicators | Information system with variables that make it possible to verify development intervention results or that compare results to plans. |
| Evaluations | Studies that enable the systematic, objective assessment of an ongoing or completed project, its design, implementation, and results. The objective is to determine the relevance and the fulfillment of the objectives, as well as development efficiency, effectiveness, impact, and sustainability. |
| Accountability reports | Periodic evidence-based reports from authorities on the results obtained with respect to what was planned, through the system of performance indicators and evaluations. Reviews of internal and external audits are included. This information should be publicly available on the Internet. |

*Source*: Authors' compilation.
*Note*: Some concepts have been taken from the OECD (2002).

combination and in more than one pillar of the management cycle. Although this is by no means an exhaustive list, it contains the most widespread practices in the region.

Each of the aforementioned instruments can be seen as a gear that enables the results chain to function properly. However, the mere existence of the instruments does not guarantee effective and efficient management. For instance, the preparation of strategic plans is a common practice, but few countries link planning with budgeting and with an M&E system. This limits the plan's ability to guide public management. Therefore, as mentioned previously, one of the major MfDR challenges is aligning all of the instruments so that they will act in a coordinated, complementary manner and can thus contribute to achieving results.

In addition to the systems mentioned thus far, there is another one that, given its nature, runs throughout the management cycle: the human resource system. In an MfDR framework, public officials and employees should consistently be apprised of expected performance requirements and results, and of the consequences if these performance requirements and results are seen or not seen. For personnel management to function efficiently, it is necessary to clearly establish the results chain and to have a monitoring system that will indicate whether the goals are being met. Without these requirements, human resource management geared to achieving results cannot be fostered because there would be no sound basis for evaluating the performance of government officials.[1]

### *The PRODEV Evaluation Tool (PET)*

Assessment of institutional capacities is a key step in determining strengths and weaknesses and in designing and implementing an action plan that will make it possible to move toward the consolidation of MfDR. Therefore, based on the aforementioned conceptual model, the PRODEV Evaluation Tool (PET) was designed as an instrument that analyzes a country's institutional capacities to implement results-based public management.

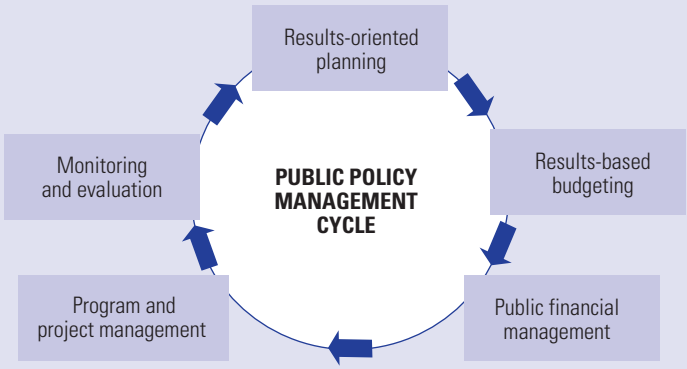
The PET divides the management cycle for public policies into five pillars: (i) results-oriented planning, (ii) results-based budgeting, (iii) financial management, auditing, and procurement, (iv) program and project management, and (v) M&E. These pillars examine the elements that are indispensable for

[1] Cortázar, Lasource, and Sanginés (2014) provide a recent study on the civil service in the LAC region.

the process of creating public value to be geared to achieving results, as can be seen in Figure 1.2.

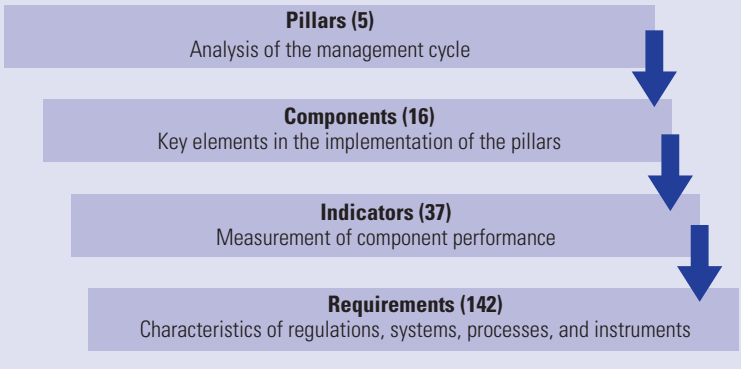
Each pillar is composed of a set of components that evaluate the maturity of institutional systems and their capacity to gear management toward the achievement of results. In turn, the components include indicators on specific aspects of management systems subdivided into minimum requirements, which are the basic units of information gathering (Figure 1.3). These requirements are rated on a scale of 0 to 5, in which 5 is the optimal situation. The indicators, components, and pillars are also rated using the same scale

**FIGURE 1.2 | Pillars of the Management Cycle**




*Source*: Authors' compilation.

**FIGURE 1.3 | Levels of PET Analysis**




*Source*: Authors' compilation.

and correspond to weighted averages of the requirements. The PET has 16 components, 37 indicators, and 142 minimum requirements. To simplify the analysis, an average is also calculated for the five pillars, to yield a "general" MfDR index that shows a country's capacity for MfDR.

Because a review of the management cycle calls for gathering information on a broad array of topics, the PET only focuses on those aspects that are directly related to MfDR or that are indicators of MfDR capacity. Therefore, this instrument does not analyze each pillar in the depth and detail in which instruments specializing in a single topic are analyzed, as is the case of assessments of public financial management.[2] Furthermore, it should be noted that the instrument analyzes only the management cycle in the sphere of the national central administration; it does not inquire into autonomous entities, public enterprises, or lower levels of government.

## Conceptualization of the Five Pillars of the PET

The main concepts that guided the development of each of the five pillars of the PET are presented below.

### *Results-oriented Planning*

Planning is the instrument that a government uses to define a country's navigational chart, that is, its direction and its targeted destination. For this, a country must answer three basic questions: "Where are we? Where do we want to go? How can we get there?" To answer the first question, the country's social and economic situation is analyzed using reliable statistical information. The answer to the second question is related to the objectives of the government in power, endorsed by the legislative branch and CSOs. Answering the third question involves analyzing different options for achieving objectives and choosing those that prove to be the most pertinent and efficient.

Decisions about which direction to go in and how to do it should be made taking into consideration the majority opinion of the actors in the country, because this is the only way to ensure the ownership and the credibility of a government plan. Results cannot be achieved if most of those involved in obtaining them are not explicitly in agreement. The higher the degree of

[2] This refers to the Frame of Reference for Measuring Performance in the Area of Public Finance Management (PEFA).

participation of the relevant actors in society, the greater the likelihood that the plan will be carried out and that it achievements will be sustainable over time. Hence, the participation of the congress ensures a pluralistic discussion of the policies contained in the plan, and the participation of CSOs and the private sector lends social legitimacy.[3]

Meanwhile, planning should be operational and should respond to the question "How can we get there?" by designing products and processes and calculating the inputs that will be needed to achieve the objectives proposed in the strategic exercise. In addition, it is necessary to have and allocate the economic resources necessary to implement the proposals and coordinate the actions of the institutions and entities involved. This process entails the use of methodologies that will ensure that operational planning is based on logical reasoning, and that take advantage of the knowledge acquired by society regarding socioeconomic development. The use of the methodology of a logical framework or a results chain makes it possible to adequately calculate the causal relationships that should exist among a strategic objective, the program to be carried out to achieve it, the products that the institutions must develop to implement it, and the processes and inputs that will be required. It is also necessary to establish the responsibilities of public and private actors in terms of what to do and how to do it, so as to correctly assign tasks and resources and be able to expect accountability.

In summary, results-oriented planning has to be strategic, operational, and participatory. The results of a planning process should be incorporated into a medium-term national plan with its respective objectives, programs, goals, and indicators. This plan should be integrated into the budget and should be made available to the public through the Internet.

### *Results- or Performance-based Budgeting*

In the Latin American and Caribbean (LAC) region, the pursuit of greater efficiency and effectiveness in the allocation of public resources motivated interest in results-based budgeting, or performance-based budgeting (RbB

[3] Civil society participation in MfDR is essential not only during the stage of defining the direction of the government, but also in other stages of the management cycle, such as budget formulation, management of goods and services, monitoring and evaluation of programs and projects and, of course, accountability. For that reason it is very important that State institutions make all of the relevant information about government management results available to the public and establish clear channels and procedures for the participation of CSOs and the private sector.

or PBD).[4] RbB fulfills that purpose because it is a set of processes and instruments capable of systematically integrating the analysis of public management results with the resource allocation process.

RbB implementation requires the following elements (Marcel, 2007): (i) comprehensive information on the results of the actions funded with the budget, through an M&E system; (ii) duly formalized, explicit procedures for how the information will be analyzed and considered in the process of budget formulation; (iii) a complementary incentive structure for the budgeting system, to motivate public institutions to achieve better results; and (iv) financial management regulations that will provide the necessary flexibility so that the offices will use their resources efficiently to achieve results.

Information on the results obtained in the implementation of the budget should come from the performance indicators prepared to monitor the programs. These indicators should consider not only the products (goods and services) that the programs generate, but also their effects on the population. The analysis derived from the evaluations of policies, programs, and projects also constitutes an essential input for the budgeting process, because it supplements the data from the monitoring system by contributing criteria related to the effects and the impacts of government action.

Results-based budgeting calls for incorporating information on results in the process of decision making about resource allocation, to avoid having to do it through traditional mechanisms that do not take into account the effectiveness and efficiency of public spending. Among these mechanisms, special mention should be made of clientele-based resource allocation and incrementalist practices, which consist of increasing the resources allocated to each executor by the same proportion year after year. Incorporating information on outcomes and effects in the resource allocation process is a particularly difficult challenge in LAC, since most budgeting systems only consider data related to financial implementation and the inputs used.

Incentives are a key element of RbB because they enable the creation of synergies between the interests of individuals and institutions and those of the country, as expressed in the government's strategic objectives. Incentives applied in the public sector may be monetary or non-monetary and may include: (i) accreditation of the quality of an institution, which involves social recognition and stimulates officials' sense of institutional belonging, (ii) individual or institutional awards for excellence granted by public authorities or

[4] Marcel, Sanginés, and Guzmán (2014) provide a recent analysis on results-based budget implementation in LAC.

non-governmental organizations (NGOs), (iii) empowerment or transfer of higher-level responsibilities to lower levels, (iv) dissemination of institutional management results, and (v) individual financial (differential salaries or annual bonuses) or institutional (based on competitions) recognition (Marcel, 2007).

To implement results-based budgeting, certain prior conditions in the budget management process are necessary. These conditions are the following:

1. *Prepare the budget on the basis of policies*: The budgeting process should consider the results that have been established by the government through strategic planning exercises and that appear in an official document such as a national or sectoral plan. Thus, one of the main challenges in implementing RbB consists of linking planning with budgeting because in most LAC countries different institutions handle these processes with little coordination between them.
2. *Have a medium-term budget perspective*: RbB works better if there is a fiscal policy horizon that extends beyond annual budgets, with projections of income and expenses for a three-year period or longer. For that, a medium-term fiscal framework (MTFF) is used, to enable the annual budget to be prepared with a more strategic medium-term vision.
3. *Have rules that foster fiscal stability*: Fiscal stability rules are another element that contributes to laying the groundwork for the implementation of RbB because they impose limits, expressed quantitatively or qualitatively, on certain variables that are not to be exceeded, such as indebtedness, fiscal deficit, and public spending. In general, these rules are set forth in special laws known as fiscal responsibility laws. Fiscal stability is an important condition for the implementation of RbB because it makes resources and expenditures predictable.

RbB implementation also requires an institutional culture that fosters the transparent use of public resources, as well as a sound budgeting process.

Among these conditions, the following deserve particular consideration (Schick, 2008):

- There must be a credible and realistic budget implemented without significant deviations from the authorized amounts.
- Public funds should be spent only for authorized purposes.
- There must be correspondence between reported expenses and actual expenses.

- There must be certainty about the funds that the organizations that are implementing programs will have available during the fiscal year.
- A high level of transparency in public financial management must be guaranteed.
- The level of corruption in public administration must be low.
- A management culture that promotes the observance of formal rules should be fostered.
- There should be a professional civil service.

A study conducted by the Organisation for Economic Co-operation and Development (OECD, 2007) regarding the budgeting practices of its member countries divided RbB into three functions, according to the role that performance information plays in the process of budget formulation. The three functions are: (i) to report on performance for the purpose of accountability and establishing dialogue with the legislative branch and the public, (ii) to base resource-allocation decisions on performance information and other variables, and (iii) to allocate funds solely on the basis of performance information and through pre-established formulas.

### *Public Financial Management, Auditing, and Procurement*

This pillar comprises three interrelated components: public financial management (PFM), auditing, and procurement. PFM is the group of administrative elements of public organizations that make it possible to capture resources and apply them to the achievement of public sector goals and objectives. It is composed of the principles, regulations, organizations, resources, systems, and procedures involved in the operations of programming, management, and oversight needed for capturing and spending resources (Makón, 2000).

#### Public Financial Management

PFM is composed of the following subsystems: (i) budget administration, (ii) accounting, (iii) debt administration (public credit), (iv) cash management (national treasury), and (v) tax administration. In order to be effective, these components should be integrated, which presupposes two conditions: (i) they must act in an interrelated way, under the direction of a coordinating agency with jurisdiction to regulate them; and (ii) their principles, regulations, and procedures should be internally consistent and linked automatically by electronic means. The problems caused by lack of integration in financial management include fragmented, duplicated information, difficulty in using data

in planning and budget administration processes, and hidden fiscal transactions. All of this reduces the transparency of the processes and encourages corruption. Hence, the integration of financial management systems is a key requirement for MfDR.

In addition to these components that form the core of financial management, it is advisable to have integrated financial management systems (IFMSs) connected with other related subsystems, such as public investment, acquisitions, human resources, and public property. It is also important for other management cycle systems, such as planning, oversight, and M&E, to be integrated (Seco, 2010). This ensures the integration of regulations and information among all of the components that comprise MfDR.

Finally, it should be noted that the accounting subsystem is an essential component of PFM, because it provides useful, timely, and reliable information to the other subsystems. Accounting makes it possible to prepare financial reports and to calculate the costs of the products that the programs produce, both of which are key inputs for RbB. Another requirement is that accounting classifications must mirror the budget's programming classifications, so that the taxonomy in planning, budgeting, and accounting will be uniform.

### Audits: Internal and External Oversight

From the perspective of MfDR, internal and external oversight is highly important for institutional management and constitutes a key instrument in ensuring public sector transparency and accountability. Internal monitoring should be conducted by public entities' administrators and staff, to provide reasonable security that the organization: (i) abides by laws, regulations, and administrative guidelines; (ii) promotes the economy, efficiency, and effectiveness of operations and the achievement of expected results: (iii) safeguards resources against fraud, waste, abuse, and misuse, (iv) provides quality products and services consistent with its mission; and (v) develops and maintains reliable financial data and administrative information and presents them in a timely fashion (INTOSAI, 2004).

External oversight is a regulatory mechanism meant to identify deviations from regulations and guidelines and violations of the principles of legality, profitability, utility, and rationality of financial operations in a timely fashion, to adopt the corrective measures that are advisable in each case. An external oversight agency does not belong to the structure of the institution to be supervised. Instead, a supreme audit institution (SAI) should be set up and should enjoy financial and administrative independence to fully comply with its purpose.

Oversight can be ex ante or ex post. Ex ante oversight is based on a system of review and approval of expenses by an outside agency before resources are committed. Ex post oversight is based on a system in which the organization's management makes decisions about the allocation of financial and non-financial resources, the results of which are later reviewed by an external agency.

Traditionally, priority has been granted to ex ante external oversight, which—despite its negligible effectiveness—is relatively certain because it ensures that resources are used in keeping with the procedures established before the investments were made but without seeing the results obtained from them. The emphasis on this type of oversight comes from a public management model that attempts to examine in detail the decisions made by the bureaucracy with the aim of avoiding corruption and administrative inefficiency. However, experience has shown that the more regulation is created, the better the informal power's oversight over the public sector, and the more irrational the system operation becomes (CLAD, 1998).

The current trend in developed countries is to implement a model according to which the responsibility for ex ante oversight falls to the organization itself (internal oversight), and to bolster external ex post oversight, which consists of examining the quality of the information on institutional performance and analyzing the strategic management process (OECD, 2007).

The guiding premise of the ex post oversight of results is limited confidence in—not total distrust of—the performance of public officials. This forces an organization to define its objectives clearly and to examine the substantive aspects, not the administrative processes. Thus, public management is mainly evaluated through the analysis of its ability or failure to achieve goals, and not on the basis of respect for rules that are often simply interagency bureaucratic requirements held over from past eras (CLAD, 1998).

### Public Procurement

A government's procurement system consists of the principles, regulations, organizations, resources, and procedures whose operation enables the State to purchase the goods, public works, and services needed to manage organizations, quality, suitable timing, and better market conditions (Makón, 2000). An appropriate and agile procurement system will allow the institutions that implement programs to provide high-quality goods and services on time and at a reasonable cost. All of this translates into more effective management.

Contracts and acquisitions are present in innumerable activities related to the complex process of creating public value, and they involve a considerable

amount of public resources since the State is one of the largest buyers in the countries of the region. If these resources, which are always scarce, are used in poorly conceived and managed contracts, the public will pay the price. Furthermore, because public procurement processes tend to lend themselves to corruption, the public constantly scrutinizes them. The use of modern electronic systems subject to an appropriate regulatory framework makes these processes transparent, reduces corruption, and stimulates competition.

The incorporation of good practices in public procurement is a key element in ensuring effective, efficient, and transparent use of State resources. Open competition in the awarding of contracts has proven to be the best way to achieve efficiency in the acquisition of inputs and reasonable prices for the delivery of services and the implementation of public programs.

### *Management of Programs and Projects*

The management of programs, projects, and services is at the center of creating public value and, therefore, of MfDR, because it is the means by which the State produces the goods and services that make it possible to achieve the objectives established in the government plan. Thus, it is possible to improve children's quality of life by delivering health services and providing suitable education and access to legal or administrative mechanisms that protect their rights when they are violated. Without hospital care, educational services, administration of justice, or citizen security, society could not function and the State could not justify its existence. Most state resources are allocated to these areas, and the processes of planning, budgeting and financial management, procurement, auditing, and M&E result in the delivery of the goods and services produced by institutions, programs, and projects.

From the perspective of MfDR, it is important that the ministries in charge of managing programs and projects have a medium-term sectoral plan, aligned with the objectives and strategies of the national plan, to guide their institutional efforts and resources. Likewise, the plans must set multiannual and annual goals for the supply of goods and services and stipulate the officials and offices responsible for meeting them.

Because many goods and services are produced through specific programs and projects with a given duration, before funding them it is indispensable to analyze their relevance and potential benefits. The public sector has an appropriate instrument for that purpose: ex ante project evaluation. In addition to considering the social, economic, and environmental feasibility of the proposals, this review should establish whether they would contribute

to achieving the objectives established in the government plan and whether they are congruent with the strategies proposed therein. Only those projects with a positive evaluation should be granted funding for their implementation.

Meanwhile, the production of sectoral ministries should be framed within management and performance contracts agreed upon between the head of the ministry or secretariat in question and public administrators, to explicitly stipulate the amounts, conditions, and quality of the goods and services that will be produced annually. This calls for establishing a portfolio of goods and services in each institution, with clearly specified objectives, rules, and requirements for access, costs, and standards of quality, all of which are poorly developed aspects in the public sector. Furthermore, the organizations should have a strategy for continuous improvement of goods and services, based on the needs of users or customers. At the same time, human resource management should use performance assessment mechanisms to provide incentives to the personnel to achieve personal and institutional outcomes.

User satisfaction is also a crucial aspect in achieving sound management. Thus, public administrators should periodically gather users' opinions and use them to identify the elements that require correction or improvement. At a more general level, there should be CSO consultation mechanisms, to incorporate the views of the public when designing or adjusting management strategies and outcomes.

Finally, sound management of the production of goods and services depends on information systems that take into account the quantity, quality, and cost of what is produced. This instrument allows directors and public officials to make decisions based on information about institutional performance. In addition, the data generated by these systems should be the main source of information for the M&E system.

### *Monitoring and Evaluation of Public Management*

Within the framework of MfDR, the monitoring system is an instrument that contributes to public sector management through a set of indicators that make it possible to verify compliance with government and sectoral objectives and their quantitative expressions: the goals. A traditional system of implementation monitoring is different from one based on results in that the latter incorporates indicators that measure the results obtained by programs and projects, whereas the former contains indicators that report on financial implementation (inputs) and sometimes on physical implementation

(activities and products), but without focusing on whether the proposed objectives (results) are achieved. Monitoring seeks to learn about advances made toward achieving the government's goals and objectives, which in most cases are laid out in a national plan implemented with public budget resources. The monitoring function is therefore closely tied to planning and budgeting.

The monitoring system should take into account the performance of institutions, policies, programs, or projects. In the public policy sphere, performance is defined as the measure of the action of development intervention or an entity involved in promoting development according to specific criteria, regulations, and guidelines and obtains results in line with the goals or plans established (OECD, 2002). Therefore, the indicators to measure performance should take into account two key aspects of development interventions: (i) the results established in planning (products, effects, and impacts), and (ii) the criteria, regulations, and guidelines that guide the interventions.

Monitoring is a crosscutting function of the management cycle, because each of the pillars plays a role in their implementation. Thus, for example, the planning pillar establishes management objectives, the RbB participates in setting goals, and the PFM provides information. For its part, the monitoring system provides information on the performance of the different areas of public management: services, programs, institutions, and policies. The characteristics of transversality and comprehensiveness pose very demanding challenges for the construction of the monitoring system, which can only be addressed through continuous improvement efforts that necessarily extend across several government administrations.

Evaluation is "the assessment, as systematic and objective as possible, of an ongoing or completed project, program, or policy, including its design, implementation, and results. The aim is to determine the relevance and fulfillment of development objectives, efficiency, effectiveness, impact, and sustainability. Evaluation is intended to provide credible, useful information that will enable the lessons learned from practical experience to be incorporated (...) into decision-making processes" (OECD, 2002: 21).

The fundamental difference between monitoring and evaluation is that monitoring offers information on the situation with respect to the achievement of objectives and the effects of a policy, program or project, while evaluation explains why those objectives or effects are being achieved (or have been achieved) or not, and presents the changes that have occurred among beneficiaries and in society. Through a systematic process of collecting and analyzing relevant information, the evaluation expresses opinions on

the causes for the results, examines unsought results, studies the process used to obtain them, and provides recommendations for future actions.

The data that feed into the M&E system come largely from the institutional information systems of the sectoral ministries. As noted in the corresponding section, ex post oversight is fed information from those systems and also takes advantage of M&E data.

## Applications of the PET

The PET was first applied between 2007 and 2009, in 25 LAC countries: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay. The findings of the studies conducted in these countries were published in García López and García Moreno (2010).

The second application of the PET was carried out mainly during the first and second halves of 2013 in all of the countries in which the first round had taken place, with the exception of Bolivia. Thus, the number of countries dropped to 24. Since the comparative analysis undertaken in this book is based on data gathered from those countries, the readers will find some differences between the averages published herein and the ones recorded in 2010.

The cutoff date for information in the first round was not uniform in all of the countries, because, as indicated previously, the instrument application period lasted three years. However, the cutoff date for the second round reports is the same for all cases: December 31, 2012. The length of the study period thus varies from country to country and from four to six years.

During the two rounds of application of the PET, the assessments were conducted in four sequential stages. In the first round, the legal and institutional framework that supports operations and the interrelationships among the pillars were analyzed, and existing assessments and other secondary sources were reviewed. In the second stage, government officials were interviewed in the main areas of management to complete information about the pillars. In the third stage, values were assigned to variables based on the information and the documentation obtained, and a report was drafted and submitted for peer review. Finally, in the fourth stage, the reports were validated with the authorities from the respective countries.

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CHAPTER 2

# Trends in Results-based Development Management in Latin America and the Caribbean

*Jorge Kaufmann, Mario Sanginés, and Carlos Santiso*

## Introduction

This chapter presents three key aspects for understanding the progress made in results-based development management (also known as managing for development results, or MfDR) in the Latin American and Caribbean (LAC) region and its current status. First, it describes the general findings of the most recent application of the PRODEV Evaluation Tool (PET) and the progress made since the first measurement. Second, it uses PET indicators to construct indices related to three key aspects of public management. Finally, it discusses some basic implementation considerations.

The PET's general findings make it possible to understand quite accurately the progress made on the five pillars of the MfDR model: (i) results-oriented planning, (ii) results-based budgeting, (iii) public financial management, (iv) program and project management, and (v) monitoring and evaluation. The findings show a general trend toward improvement in the five pillars, although there has been less relative development in some of the pillars. The main advances are also presented by country. In this case, it is clear that some countries have made significant progress, even when they started from an already advanced point of departure or baseline.

Three desirable attributes of public management, which are also the backbone of the institutional modernization work promoted by the Inter-American

Development Bank (IDB), are: effectiveness, efficiency, and transparency. This chapter uses the PET, for the first time ever, to generate indices related to these three aspects. The PET's versatility leaves the door open for constructing a variety of other indices for analyzing specific aspects of public management. This chapter shows how data from the PET make it possible to understand the progress in these three aspects.

Finally, this chapter lays out a number of considerations related to the implementation of MfDR-related reforms. These are divided into two sections: the first addresses the elements of constructing a reform agenda with a particular focus on political economy and institutional relations; the second offers 10 key recommendations that the authors deem relevant in light of the progress seen in recent years.

## Evolution of MfDR in Latin America and the Caribbean

### *Evolution of the General Index and Its Pillars*

This study presents the results of the second application of the MfDR index at the national level, following the same methodology used with the first application approximately five years earlier on a sample of 24 countries.[1] Specifically, it analyzes the trends and trajectories of the reforms promoted by the countries of the region to strengthen public management systems.

Although five years is not enough time for the reforms to translate into substantial institutional changes, an overall trend of improvement in these systems can be seen, albeit with important differences between countries and between aspects. Figure 2.1 and Table 2.1 show general improvement in the region, both in the management cycle and in each pillar.

Significant changes and overall improvement have in fact occurred. The aggregate index showed an increase of 0.4 on a 2007 baseline of 2.0 points. This corresponds to a 20 percent increase.

For the LAC region as a whole, there is also a clear trend toward improvement in each pillar. In general, a positive trend was recorded in strengthening institutional capabilities for MfDR implementation.

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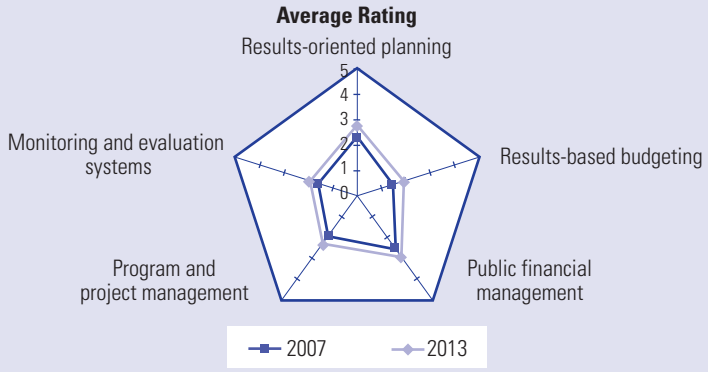
[1] The countries considered are: Argentina, Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay. The 2007–09 application also included Bolivia.

**FIGURE 2.1 | Evolution of MfDR Pillars between 2007 and 2013**




One unexpected finding is the similarity of the increases in each of the pillars, since three of the five pillars rose by 0.4 points. However, these variations are not so similar if analyzed from the perspective of the points of departure, or baselines. For example, the increase of 0.4 over 1.5 in results-based budgeting represents an improvement of more than 25 percent, but the same increase over 2.5 in public financial management is only 15 percent.

Nevertheless, the relative degree of development in the pillars remains similar. The public financial management (PFM) pillar continues to be the most highly developed, followed by results-oriented planning, and then program

**TABLE 2.1 | Evolution of MfDR Pillars between 2007 and 2013**

| MfDR Pillar | 2007 | 2013 | Variation |
|---|---|---|---|
| Results-oriented planning | 2.3 | 2.8 | 0.5 |
| Results-based budgeting | 1.5 | 1.9 | 0.4 |
| Public financial management | 2.5 | 2.9 | 0.4 |
| Program and project management | 1.9 | 2.3 | 0.4 |
| Monitoring and evaluation | 1.6 | 1.9 | 0.3 |
| **General MfDR Index** | **2.0** | **2.4** | **0.4** |

*Notes*: To facilitate the reading, figures are rounded off to tenths. The general index presents a simple average for the five pillars. So that the samples for the two periods will be comparable, Bolivia has been removed from the 2007 data because it did not participate in the 2013 application. The original MfDR general index was 1.9 in 2007.

and project management. The results-based budgeting (RbB)[2] and monitoring and evaluation (M&E) pillars are still the weakest. The only change observed is that the greater marginal development that M&E previously had compared to RbB has now disappeared, thanks to greater progress in the latter. Thus, because of the relative position and lower dynamism of M&E, one of the main challenges for MfDR in the region is strengthening M&E systems. The evolution of each pillar will be analyzed in detail in the following chapters.

### *Evolution of the General Index by Country*

There are also important differences in MfDR evolution among the countries of the region. In particular, it is interesting to analyze whether there has been convergence or divergence in the countries' results, whether there are similar patterns in their trajectories, and how much they have evolved. For this purpose, the countries have been classified in three groups: (i) those with a high degree of development of MfDR implementation capabilities, corresponding to a general index (aggregate) value equal to or greater than 3; (ii) those with values lower than 3 but equal to or greater than 1.5; and (iii) those with values lower than 1.5.

Tables 2.2 and 2.3 indicate positive evolution and convergence among the countries. All of the countries analyzed in this study show increases in their indices, with none exhibiting a null or negative change (Table 2.3). Convergence in the improvement trajectory for institutional capabilities can be seen in the fact that the MfDR systems in several countries have moved out of the low level of institutional development and into the intermediate level, which now contains 18 countries as opposed to 14 (Table 2.2).

It was to be expected that the countries with the highest degree of development (Brazil, Chile, Colombia, and Mexico) in 2007–09 would have made less absolute progress, both because there was less room for improvement and because the areas to be strengthened could be more complex. Mexico, however, is a notable exception because it undertook important reforms to modernize its MfDR, and these are being pursued with renewed energy (see especially the chapters referring to RbB and M&E).

Another aspect that should be noted is that those countries classified as having achieved substantial progress (Belize, Dominican Republic, Ecuador, Guyana, Mexico, Nicaragua, Paraguay, Peru, and Uruguay), that is, that have experienced an increase in the general index of the PET equal to or higher

[2] For a more detailed analysis of results-based budgeting in the LAC region, see Marcel, Guzmán, and Sanginés (2014).

**TABLE 2.2 | Classification of Countries by MfDR Indices in 2007 and 2013**

| Rating obtained | 2007 | 2013 |
|---|---|---|
| High level rating ≥ 3.0 | *(4 countries)* | *(4 countries)* |
| | Brazil | Brazil |
| | Chile | Chile |
| | Colombia | Colombia |
| | Mexico | Mexico |
| Intermediate level rating < 3.0 ≥ 1.5 | *(14 countries)* | *(18 countries)* |
| | Argentina | Argentina |
| | Barbados | Barbados |
| | Costa Rica | Costa Rica |
| | Dominican Republic | Dominican Republic |
| | Ecuador | Ecuador |
| | El Salvador | El Salvador |
| | Guatemala | Guatemala |
| | Honduras | Guyana |
| | Jamaica | Haiti |
| | Nicaragua | Honduras |
| | Panama | Jamaica |
| | Peru | Nicaragua |
| | Trinidad and Tobago | Panama |
| | Uruguay | Paraguay |
| | | Peru |
| | | Suriname |
| | | Trinidad y Tobago |
| | | Uruguay |
| Low level rating < 1.5 | *(6 countries)* | *(2 countries)* |
| | Bahamas | Bahamas |
| | Belize | Belize |
| | Guyana | |
| | Haiti | |
| | Paraguay | |
| | Suriname | |

**TABLE 2.3 | Classification of Countries by Degree of Progress on the MfDR Index between 2007 and 2013**

| Classification | Country | |
|---|---|---|
| Substantial progress<br>Change in rating ≥ 0.5 | *(9 countries)* | |
| | Belize | Paraguay |
| | Ecuador | Peru |
| | Guyana | Dominican Republic |
| | Mexico | Uruguay |
| | Nicaragua | |
| Fair progress<br>Change in rating < 0.5 > 0.0 | *(15 countries)* | |
| | Argentina | Guatemala |
| | Bahamas | Haiti |
| | Barbados | Honduras |
| | Brazil | Jamaica |
| | Chile | Panama |
| | Colombia | Suriname |
| | Costa Rica | Trinidad and Tobago |
| | El Salvador | |
| Null or negative change<br>Change in rating ≤ 0.0 | *(0 countries)* | |

than 0.5, come from all of the LAC subregions and have a variety of income levels. This is encouraging for the continuous promotion of MfDR strengthening initiatives regardless of geographic location or relative development. Meanwhile, several countries with low and intermediate levels of MfDR development are taking significant steps to improve their national public management systems. This is the case, for example, of some Caribbean countries.

### *Evolution of the General Index by Degree of MfDR Development*

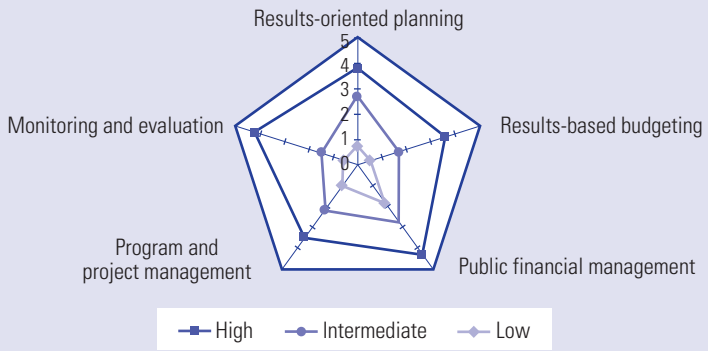
Another key aspect is the existence of a correlation between the institutional robustness of MfDR systems at the aggregate level and the degree of development of their individual aspects. Table 2.4 and Figure 2.2 indicate the average values for the pillars for each of these three groups of countries (according to the classification in Table 2.2).

In the group of countries with highly developed public management systems, progress on the MfDR pillars is more harmonious. This can also be seen in the more regular shape of the outermost pentagon in Figure 2.2—in contrast with the irregular shape of the inner pentagons—and in the statistical measurements presented in Table 2.4. Thus, in the countries with a high degree of development, both the standard deviation and the range between the most advanced and the least advanced pillar are substantially lower than

**TABLE 2.4 | Management Cycle Pillars by Degree of MfDR Development, 2013**

| | Degree of MfDR development | | | | |
|---|---|---|---|---|---|
| **MfDR pillar** | **All countries** | **High (4 countries)** | **Intermediate (18)** | **Low (2 countries)** | **High/ intermeditate quotient** |
| Results-oriented planning | 2.8 | 3.8 | 2.7 | 0.8 | 1.4 |
| Results-based budgeting | 1.9 | 3.6 | 1.7 | 0.5 | 2.1 |
| Public financial management | 2.9 | 4.3 | 2.7 | 1.8 | 1.6 |
| Program and project management | 2.3 | 3.5 | 2.1 | 1.0 | 1.7 |
| Monitoring and evaluation | 1.9 | 4.2 | 1.6 | 0.6 | 2.7 |
| **MfDR index** | **2.4** | **3.9** | **2.2** | **0.9** | **1.8** |
| Range for pillars | 1.0 | 0.7 | 1.2 | 1.2 | |
| Standard deviation | 0.47 | 0.34 | 0.56 | 0.49 | |

**FIGURE 2.2 | MfDR Index Pillars by Degree of MfDR Development, 2013**



the scatter values found in the countries with intermediate and low levels. In the countries with higher MfDR indices, the different aspects of the management cycle evolve more homogeneously.

Likewise, there is a trait that differentiates the countries with the most advanced management system development from those that are in earlier stages of formation of their institutional capabilities for implementing MfDR. Even though there are significant differences between groups of countries in terms of the way in which, for example, they implement results-oriented planning and public financial management (PFM), the greatest contrasts can be seen in the area of RbB, and especially in M&E systems. This is clearly evident in the far-right column of Table 2.4, which indicates the ratio (or quotient) between the values obtained for each of the pillars in the countries with high degrees of development, divided by the corresponding values for the countries with intermediate degrees of development. The strategic planning quotient is 1.4, and the PFM quotient is 1.6. The RbB and M&E quotients, however, are substantially higher: 2.1 and a 2.7, respectively.

## MfDR in the Service of Efficient, Effective, and Open Government

The best way to measure the quality of public management and a government's capabilities is a complex matter that is still not fully resolved (Fukuyama, 2013; Holt and Manning, 2014). Specific aspects of public management, such as fiscal, budgetary, and fiduciary systems, are measured using different instruments, mostly developed by international organizations.

In this context, the PET's value added lies in its ability to measure a broad group of aspects in an integrated way, throughout the management cycle and through the prism of the cycle's capacity for achieving development results. Beyond the quality of financial management systems and budgeting institutions, the PET integrates elements related to the State's strategic capacity (such as strategic planning, statistical capacity, and RbB), as well as its capacity to deliver services (such as monitoring of goals, performance evaluation, and sectoral management). Their respective components can in turn be used individually to analyze management under different conceptual models.

A simple and intuitive way to analyze the quality of public management considers three desirable characteristics: effectiveness, efficiency, and transparency. This section indicates how MfDR contributes to achieving good government and how the elements of the PET lend themselves to analyzing these three characteristics and make it possible to measure progress in a government's effectiveness, efficiency, and openness.

### *Effectiveness in Public Management*

Effectiveness (or efficacy) is the capacity to achieve a desired objective. If this definition is applied to the context of a government and of modern public management, the following capacities that lead to effectiveness can be identified:

- Understanding the development problems and challenges facing the country, the State, or a given province or municipality.
- Planning evidence-based policies, programs, and projects that are conducive to overcoming obstacles to development.
- Generating legitimacy and consensus about results-oriented planning by promoting civil society participation.
- Converting policies, programs, and projects into operational plans and budgets.
- Monitoring the implementation of plans.
- Providing feedback on decisions based on evidence (statistics and evaluations).

Based on the PET indicators related to these points, it is possible to construct an effectiveness index using the average rating for all of the countries in the study (see Table 2.5).

An analysis of the results indicates widespread strengthening of all of the key aspects of effectiveness in public management between 2007 and 2013.

The strengthening of results-oriented planning is particularly noteworthy, with greater short- and medium-term linkages, coordination of sectoral planning with national strategic planning, and integration of the multiannual process with annual programs and budgets. The strengthening of public investment systems with the expansion of ex ante evaluation regulations and institutions is also significant.

However, the data underscore an important gap between public policy planning (ex ante) and evaluation (ex post), which is reflected in a performance gap between upstream and downstream management systems in the State's strategic management cycle.[3] The relative weakness and slower

[3] "The public sector can be envisaged mechanically as comprising two broad parts. The *upstream* core ministries and central agencies, including the Ministry of Finance and the offices that support the head of government in the center of government; and *downstream* sector agencies, such as education, agriculture, transport or health providers which deliver, fund, and regulate services." (World Bank, 2012:1).

**TABLE 2.5 | Public Management Effectiveness Index**

| No. | Description | Weight | 2007 rating | 2013 rating | Variation |
|---|---|---|---|---|---|
| PE1 | Existence of a government plan | 1 | 2.8 | 3.4 | 0.6 |
| PE2 | Consistency of the government program | 0.75 | 2.6 | 3.1 | 0.5 |
| PE3 | Plan/programs/budget integration | 1 | 2.4 | 2.8 | 0.4 |
| PE4 | Short- and medium-term articulation | 0.75 | 1.8 | 2.3 | 0.5 |
| PE5 | Legislative participation | 0.75 | 1.1 | 1.3 | 0.2 |
| PE6 | Civil society participation | 1 | 2.2 | 2.5 | 0.3 |
| PP1 | Budget structure by programs | 0.75 | 2.3 | 2.9 | 0.6 |
| PP4 | Evaluation of spending effectiveness | 1 | 0.9 | 1.3 | 0.4 |
| PP5 | Incentives for spending effectiveness | 1 | 0.6 | 1.0 | 0.4 |
| G1 | Regulations and institutions for ex ante evaluations of public investment | 0.75 | 2.7 | 3.1 | 0.4 |
| G2 | Coverage of ex ante evaluations | 1 | 1.9 | 2.0 | 0.1 |
| G3 | Use and dissemination of evaluation information | 1 | 1.7 | 2.1 | 0.4 |
| G4 | Medium-term sectoral vision | 1 | 3.0 | 3.2 | 0.2 |
| ME1 | Monitoring agencies | 0.75 | 2.1 | 2.5 | 0.4 |
| ME2 | Scope of program and project monitoring | 1 | 1.5 | 2.0 | 0.5 |
| ME3 | Use and dissemination of monitoring information monitoring | 1 | 1.2 | 1.6 | 0.4 |
| ME4 | Statistical information systems | 1 | 2.7 | 3.1 | 0.3 |
| ME5 | Legal and institutional framework for evaluation | 0.75 | 1.5 | 1.8 | 0.3 |
| ME6 | Scope and articulation of the evaluation system | 1 | 0.6 | 0.9 | 0.2 |
| ME7 | Actions derived from failure to meet goals | 1 | 0.8 | 1.0 | 0.2 |
| **Public Management Effectiveness Index** | | | **1.8** | **2.2** | **0.4** |

*Source*: Authors' compilation.
*Notes*: To facilitate the reading, figures have been rounded off to tenths. The effectiveness index is a weighted average for the 20 relevant indicators in keeping with the following conventions: a value equal to 1 has been assigned to indicators considered primary in determining management effectiveness, and a value equal to 0.75 or less to those considered secondary.

progress in M&E systems are particularly notable. For example, the incentives to achieve greater effectiveness in public spending and evaluation of budget management performance have not developed sufficiently to generate timely, quality evidence that would make it possible to improve fiscal management results and to inform public policy adjustments. Likewise, the structural weakness of goal monitoring systems and evaluation of results is particularly notable. It can be seen in the scant coverage of ex ante evaluations, the limited scope of performance evaluation systems, the slight use and scant dissemination of information from evaluations, and the minor consequences when goals are not met.

### *Efficiency in Public Management*

A second desirable characteristic of government management is the optimal use of public resources to achieve a higher cost-benefit ratio in the implementation of policies, programs, and projects. Efficiency is intimately tied to financial management and procurement systems, although other factors, such as information management and the medium-term fiscal review, are also relevant. The following are some desirable public management attributes and capacities from the standpoint of efficiency:

- Clear fiscal rules /regulations that promote stability.
- Forecasts for the main fiscal aggregates and ex ante evaluations of the fiscal costs of public policies.
- Budget resource allocation in line with entity requirements.
- An integrated financial management system, including active national treasury processes that minimize the opportunity costs of resources and ensure timely payments to creditors.
- A procurement and contracts system that provides agile access to quality inputs and minimizes costs.
- Human resource management policies and procedures that can ensure that the job descriptions, competencies, and numbers of public officials are aligned with institutional objectives.

Other diagnostic instruments place greater emphasis on financial and fiduciary aspects. Among these are the Public Expenditure and Financial Accountability (PEFA) Program and the Open Budget Index (OBI) for public financial management; and the Global Integrity Index (GII) and the Methodology for Assessing Procurement Systems (MAPS) for public procurement and

**TABLE 2.6 | Public Management Efficiency Index**

| No. | Description | Weight | 2007 rating | 2013 rating | Variation |
|---|---|---|---|---|---|
| PP1 | Budget structure by programs | 0.75 | 2.3 | 2.9 | 0.6 |
| PP2 | Medium-term fiscal framework | 0.75 | 2.3 | 2.9 | 0.6 |
| PP3 | Fiscal responsibility law | 0.75 | 1.7 | 2.2 | 0.5 |
| F1 | Relationship between budgeting and actual implementation | 1 | 2.7 | 3.2 | 0.5 |
| F2 | Analysis of fiscal risk | 0.75 | 1.5 | 2.2 | 0.7 |
| F4 | Classification of budget expenses | 0.75 | 3.3 | 3.7 | 0.5 |
| F6 | Accounting | 0.75 | 3.4 | 3.8 | 0.3 |
| F7 | Integrated financial management system | 1 | 2.0 | 2.7 | 0.6 |
| F8 | Legal and institutional framework of the procurement system | 1 | 2.7 | 3.5 | 0.7 |
| F9 | Electronic procurement system | 1 | 1.2 | 1.3 | 0.1 |
| G5 | MfDR in the production of goods and services | 1 | 1.5 | 2.0 | 0.4 |
| G6 | Sectorial information systems | 0.75 | 1.5 | 1.8 | 0.3 |
| **Public Management Efficiency Index** | | | **2.2** | **2.7** | **0.5** |

*Source*: Authors' compilation.
*Notes*: To facilitate the reading, figures have been rounded off to tenths.
Primary criterion weight = 1; secondary criterion = 0.75.

contract systems. However, the PET has the advantage of including these and other efficiency-related aspects within a single diagnostic instrument, enabling—just as for effectiveness—the construction of a secondary index with a focus on this specific attribute.[4]

Table 2.6 presents details of the efficiency index based on the PET indicators. The aggregate index shows widespread improvement in efficiency in public management in the region, with higher baselines and stronger progress in these sub-indices than in those for effectiveness. This trend reflects an improvement in management systems for the implementation of public policies, particularly through closer ties between budgeting and implementation, and the strengthening of budget management, accounting, and financial systems (including procurement systems). The evolution of this index

[4] One attribute of efficiency that is not covered by the PET is human resource management.

reflects a strengthening of the governments' capacities for implementing public policies, which should help close the still-significant gap between the public policies adopted and their effective implementation. Nonetheless, significant challenges remain, especially in the area of efficiency in public management at the sectoral level.

### *Transparency in Public Management*

The MfDR model supported by the PET places considerable emphasis on the critical role played by public information management in the generation of timely, quality information, access to public information, and citizen participation in decision-making processes, as well as public institutions' effective use of information to improve their management. The hypothesis is that the more and better the available information and the more formal and informal mechanisms of civil society involvement there are, the greater the likelihood that the results of policies, programs, and projects will be satisfactory. This is even more evident in the current digital era, when the technology available to the public calls for a new standard of transparency for those in power. Many governments are developing accountability mechanisms through social networks or interactive portals and even the application of geo-referenced information and multimedia systems such as *Mapa-Inversión*, promoted by the government of Colombia.[5]

Some of MfDR's desirable transparency-related attributes are listed below:

- Participatory planning and budgeting processes
- Regulations and agile procedures for accessing information
- Budget transparency regulations and systems
- A reliable system of statistics
- An evaluation system for policies, programs, and projects, the findings of which are made public
- Sound internal and external oversight institutions
- A regulatory and institutional framework for procurement to promote transparency
- Social auditing mechanisms

[5] This is an M&E system for public investment projects developed by Colombia's National Planning Department (Departamento Nacional de Planificación, or DNP) .

Even though the PET model does not cover all of the attributes described above, it is possible to construct an MfDR transparency index based on the indicators shown in Table 2.7.

In general, the evolution of transparency in public management also shows progress, although with a certain degree of stagnation at intermediate levels, with an average rating of 2.7 for the region in 2013. Here, as in the case of management efficiency indicators, there is a relatively greater strengthening of the State's national fiduciary management systems, with relatively high levels of budget transparency and notable strengthening of procurement systems. It is also interesting to note the greater degree of development of internal compared to external auditing systems and, more generally, the effective use of the information generated by the monitoring, oversight, and evaluation institutions. The latter phenomenon replicates some of the trends in public management effectiveness systems.

**TABLE 2.7 | Public Management Transparency Index**

| No. | Description | Weight | 2007 rating | 2013 rating | Variation |
|---|---|---|---|---|---|
| PE5 | Legislative participation in planning | 1 | 1.1 | 1.3 | 0.2 |
| PE6 | Civil society participation in planning | 1 | 2.2 | 2.5 | 0.3 |
| PP3 | Dissemination of information | 1 | 2.7 | 3.0 | 0.4 |
| F3 | Transparency in budgeting | 1 | 4.3 | 4.5 | 0.2 |
| F5 | Budget approval by the legislature | 0.75 | 4.3 | 4.2 | –0.1 |
| F8 | Legal and institutional framework for procurement | 0.75 | 2.7 | 3.5 | 0.7 |
| F10 | Internal auditing | 0.75 | 3.6 | 3.9 | 0.3 |
| F11 | Legal and institutional framework for external auditing | 1 | 2.6 | 2.9 | 0.2 |
| G3 | Use and dissemination of ex ante evaluations of public investments | 1 | 1.7 | 2.1 | 0.4 |
| ME3 | Use and dissemination of monitoring information | 1 | 1.2 | 1.6 | 0.4 |
| ME4 | Statistical information systems | 0.75 | 2.7 | 3.1 | 0.3 |
| ME8 | Dissemination of evaluation findings | 1 | 1.2 | 1.4 | 0.2 |
| **Public Management Transparency Index** | | | **2.5** | **2.7** | **0.3** |

*Source*: Authors' compilation.
*Notes*: To facilitate the reading, figures have been rounded off to tenths.
Primary criterion weight = 1; secondary criterion = 0.75.

## Considerations for the Implementation of Results-based Development Management

Some considerations related to two important areas in the implementation of MfDR are presented below. These areas are: (i) the elements that should be taken into account for managing institutional reforms, and (ii) technical recommendations for aligning the public management cycle with a focus on results.

### *Elements Needed to Guide the Implementation of MfDR*

One task of government—usually through the office of the president or the ministries or secretariats of planning, finance, and/or public administration—is implementing reform projects or programs conducive to implementing MfDR. These initiatives include legal, institutional, procedural, methodological, and other modifications in one or more public management subsystems. Five strategic actions that could help governments analyze, design, and implement results-oriented management initiatives are presented below.

#### 1. Perform a comprehensive diagnostic study of the institutional capacity for implementing MfDR.

Determining institutions' existing capacities for implementing MfDR is a first key step in evaluating the profile and trajectory of the strengths and weaknesses of public management systems as well as the political economy of modernization and reform. As a diagnostic instrument, the PET is well suited for this purpose, because it performs a comprehensive analysis of the five pillars involved in the public management cycle and the linkages among them: results-oriented planning, results-based budgeting, public financial management, program and project management, and monitoring and evaluation.

#### 2. Prepare an action plan for implementing management reforms.

Based on the assessment, an action plan must be prepared for implementing the necessary reforms, which includes the following aspects:

- Objectives and strategies
- Risk analyses and mitigation measures
- Medium-term planning
- Financing
- Appropriate monitoring indicators
- Responsible officials in each institution

It is advisable for the plan to consider implementing reforms gradually and to intervene first in the best-performing sectors and systems, to achieve quick results. In particular, it should define simple goals for measuring progress and evaluating the results of the reforms.

For the reform process to be implemented effectively, it is necessary to be able to rely on political will. Thus, it is important for the plan to be approved at the most pertinent political level. Furthermore, since it will take longer than one government term to institutionalize the reforms, it is essential to involve the congress so that a broad spectrum of political forces and opinion leaders will support the initiative.

### 3. Establish a plan implementation team with technical and political leadership.

Forming a team to lead the implementation of the plan is a key element for the success of this undertaking. Four points merit attention in this regard:

- A flagship institution should be chosen for the reform, to provide technical and political leadership. The choice of the institution will depend on the type of reform strategy adopted. Thus, if the strategy focuses on implementation of results-based budgeting, the institution in charge should be a ministry of finance or secretariat of the treasury. If the reforms are geared to improving capacities for implementing a government plan, due to the nature of their functions, the office of the president, of the prime minister, or of the minister of planning should be in charge.
- It is important that the official in charge of the flagship institution be committed to the reform and convinced of its usefulness. The implementation of changes would most likely encounter numerous obstacles that only such an official would be able to overcome.
- It is recommended that a small high-level technical team be formed to implement the reform process full-time. This team may be composed of technical experts from the ministries and expert consultants. It is advisable for this team to be stable, not modified with changes in government administration, and that it be able to rely on the explicit endorsement of the highest-level political authorities.
- It is also advisable to form a monitoring and reform coordination committee that will be directed by the top official of the flagship institution and officials from the other institutions involved. This committee would have access to the monitoring reports, make the

corresponding decisions, and address the institutional disarticulation that will undoubtedly be present.

### 4. Provide for strategic implementation of the plan, generating capabilities, tapping experiences and lessons learned, and using an adequate communication strategy.

When implementing the plan, in addition to the usual sound project management practices, the following aspects must be taken into account:

- A comprehensive training strategy aimed at generating the capability necessary for implementing the reforms should be put in place, granting priority to training and support for public administrators. It is also recommended that virtual training courses be offered so that most officials will be apprised of the objectives, rationale, and mechanisms for the changes.
- A reform communication strategy to report on expected benefits, the agenda, the implementation timetable, and results as they occur. The audience for this strategy will be officials from the ministries and secretariats involved in the reform process.
- Other countries' experiences in implementing similar reforms, incorporating lessons learned and adapting any useful instruments they have yielded. Cooperation among countries makes it possible to accelerate processes and maintain motivation for change.

### 5. Continuously monitor reform implementation and perform periodic evaluations.

Monitoring and evaluation of the reform process is a key element in achieving the proposed objectives. To ensure that these elements will contribute appropriately, it is suggested that:

- Periodic (for example, every four months) monitoring reports be prepared on the reform process, in which the implementation of activities and the plan's expected products are reviewed. These reports should be used by the flagship institution and by the committee that coordinates the implementation of necessary corrective measures.
- Periodic (bi-annual) independent evaluations of the reform implementation process should be conducted, with special emphasis on the analysis of effects, whether desired or not, that the changes

have had. The evaluations will provide very useful information for guiding the implementation of the changes.

- Preferably, both the monitoring and the evaluation reports should incorporate information on the officials' opinions and attitudes regarding the changes. This information should be used to modify training and communication strategies as needed.

## Ten Technical Recommendations for Aligning the Public Management Cycle with a Results-based Approach

The analysis herein considers international experience and the recent evolution of MfDR practices in LAC, including numerous case studies. A set of recommendations for MfDR implementation in the region can be developed on the basis of this analysis. For operational purposes, these have been prioritized and summarized in 10 main, top-priority tasks.

### 1. Adjust the administrative regulations for the public sector to align them with results-oriented management concepts, quality service, and good performance.

In the region, it is clear that most administrative regulations and management instruments have not incorporated the concepts on which results-oriented management is based. Therefore, national public administrations should prepare MfDR framework documents to establish concepts and definitions and to serve as a methodological guide for the entities in charge of execution and oversight. It should also be verified that legal and regulatory provisions and the administrative regulations are in line with the framework documents and, if necessary, include results-oriented management concepts.

### 2. Establish procedures for using performance information produced by monitoring and evaluation systems in policy design and management.

It is key for the information produced by the monitoring and evaluation systems to be used effectively to guide the design and implementation of public policies. Monitoring and evaluation systems will only fully meet their goal of achieving management improvements when they transcend a merely informative role, regardless of how transparent, timely, and broad it may be. Monitoring and evaluation systems and performance audits play a crucial role in generating changes in the implementation of policies, programs, and projects and in designing new initiatives or improving or replacing existing ones. This

feedback process should be considered in detail, planning the levels at which it will take place, the governance of decision making in that area and other elements.

### 3. Promote effective integration between strategic planning and the public budget.

The region has made substantial progress in planning. Currently, documents are being prepared to present plans for one term of government, and citizen participation in the consultation processes is growing. Likewise, longer-term development plans are being incorporated. However, there is a risk that these medium-term plans, which reflect popular will, will be only partially implemented if they are not adequately linked to the national budget, which often has only an annual focus. Harmonious and continuous work by the institutions responsible for planning (ministries or secretariats of planning) and budgeting (ministries or secretariats of treasury, finance, and budgeting) is key. The application of traditional or innovative management instruments, such as programming harmonization, annual operating plans that incorporate development plan goals, and medium-term fiscal frameworks, offers ways to achieve integration between planning and budgeting.

### 4. Reformulate procedures so that the different stages of the budgeting process will incorporate information on past and expected performance.

It will be very difficult to abandon the traditional practice of preparing an "inertial" budget, with slight changes in the proportion assigned to each ministry and government office, without programming in advance the application of instruments that measure institutional and program performance, and establishing procedures for using that information in the budgeting process. Performance indicators and evaluations are tools that have demonstrated their effectiveness in the preparation of the executive branch's annual budget proposal, as well as in its discussion in the legislature. Thus, they provide useful information for decision-making by all of the actors in the budgeting process. "Open budgets" and independent budget analyses by specialized agencies of civil society have also proven particularly useful in this regard.

### 5. Ensure effective management of fiscal risk, paying attention to both debt and other direct obligations, such as contingent liabilities.

Innumerable events can occur during the year and affect budget management. Therefore, it is necessary to project funding for such events, which

can significantly compromise the results of budget programming. Meanwhile, it is also necessary to be aware of the fact that fiscal risk is not only influenced by changes in certain parameters that impact the servicing of the public debt and other direct obligations; it is also sensitive to catastrophic events and to what happens with the group of indirect or contingent liabilities, which—given the complexity of today's world—are increasingly more relevant. Public administrators should not only be concerned about studies or reports (even when these are periodic) but also about adapting pertinent mechanisms for mitigating these risks. Instruments for risk mitigation have expanded over time, and the LAC region offers some good examples of these mechanisms.

### 6. Promote the creation of external oversight agencies whose actions are designed to ensure accountability for the results of public management, and establish stronger vehicles for communication and dissemination of information to the public.

For greater development effectiveness, States need to establish a new logic between oversight agencies, or supreme audit institutions (SAIs), and public administration, with a cultural transformation that leaves aside the logic of auditor vs. audited party and opens up a relationship of collaboration and cooperation, with the shared goal of building efficient, effective, and transparent governments. This can become a reality through more ex post oversight and performance audits, among other mechanisms. Likewise, the way in which information is provided to citizens and to the media should change, as is already occurring in some countries, to make information more "user-friendly" for citizens.

### 7. Reinforce results-oriented sectoral planning and integrate it fully into national planning and investment planning.

There are more than a few cases in which the education, health, or another important sector within the public administration prepares sound plans, but those plans are in large part not connected to national planning. One contribution to correcting this deficiency consists of harmonizing the work of preparing national plans and sectoral plans, both in terms of their sequence and their structural aspects (periods, indicators, etc.). It is also necessary for each country to tie the national public investment system more closely to national and sectoral planning, since the investment plan and the programming and implementation of investment projects in each sector should be a fundamental part of achieving the government's goals.

### 8. Implement strategies for improving quality in the delivery of services.

One fundamental measure of a government's effectiveness is the quality of the public services it provides. Among the elements that would make it possible to improve the quality of these services, strategies and instruments focusing on customer service and satisfaction are needed. For this purpose, the sectoral institutions in charge of supplying goods and services to the public (education, health, protection, infrastructure, security, justice, etc.) should establish standards of quality for their goods and services, design institutional procedures for using information about the quality of decision making and corrective actions, and take the opinions of users and beneficiaries into account. The use of results-based management practices in these sectors should therefore be expanded and consolidated to contribute to improving quality in the delivery of public services.

### 9. Develop monitoring systems based on a small set of relevant and prioritized indicators.

Two basic aspects of the planning process, with which monitoring systems should also be concerned, are the careful selection and prioritization of the elements to be measured. Presidential goals reflect these priorities at the highest level of government leadership, but selectivity and a focus on what is most important should be reflected in each area and at every level of government (ministries, departments, divisions, and units) and in every program and project. Thus, without foregoing comprehensive measurement, each monitoring system should focus on measuring what is a priority and what is the most relevant. This selectivity and prioritization should facilitate the ultimate aim of monitoring systems, that is, that the information measured, collected, and organized can be used in public-sector decision making.

### 10. Build institutional capabilities in evaluation, with a multiannual plan for policy, program, and project evaluations.

Institutionalization of a government's evaluation system is vital for consolidating its evaluating function. To do so, certain requirements must be met. Among these, having suitable institutional, technical, and financial autonomy are noteworthy. Several countries in the region have introduced important innovations in this regard, but the evaluation function continues to be incipient. Likewise, the generation of evaluations should be duly planned and reported, for which there should be, among other elements, multi-annual programming, a process to select independent evaluators, and a protocol for using and disseminating evaluations.

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CHAPTER 3

# Results-oriented Planning

*Marianela Armijo and Mario Sanginés*

## Introduction

The first pillar of the results-based development management model (MfDR) addressed by this study is results-oriented planning. This concept incorporates three aspects of planning: strategic, operational, and participatory. Strategic planning first appeared as a management tool for major private companies in the 1960s, with a view to bolstering competitive interaction in their markets. It was later introduced in public organizations, driven by new organizational and management developments (Marcel, Guzmán, and Sanginés, 2014). The foundation of strategic planning is the capacity for prospective analysis, on the basis of which medium- and long-term goals and targets are established and, ideally, the basic mechanisms for achieving them, including the identification of the entities responsible, indicators to measure progress, and the estimated amount of resources that will be required.

Today, strategic planning has a negative connotation stemming from the major national development plans of the 1960s and 1970s, when state capitalism, promoted in many cases by military dictatorships, produced development visions focused on a macro role for public sector entities. These included the now extinct public development corporations, national development banks, and state-owned enterprises. Strategic planning also tends to call up the grand utopian visions of the Soviet regimes, where plans were, or were intended to be, mandatory frameworks that would minutely regulate actions.

It is important to get beyond these stereotypes and understand modern strategic planning as a first, essential step in results-based management that defines in detail the results that the various elements of public management aim to achieve. Without a system that articulates a coherent vision of medium-term goals, objectives, and results, management has no roadmap. It is also important to understand that modern strategic planning is based on sound and reliable information. Evaluation systems for policies, programs, and projects should provide feedback to guide strategic decisions.

However, results-oriented planning does not end with the strategy. There must also be mechanisms that help translate it into annual operational planning associated with specific output goals and that facilitate the allocation of budgetary resources. This aspect of results-oriented planning is closely tied to budget management, since program structures are a key element in making planning operational. Some countries use a logical framework as an instrument to relate strategic, operational, and budgetary levels to various degrees of success.

The processes of democratic consolidation have created a civil society that is very involved and interested in public management. The results-oriented planning model accords a great deal of importance to creating mechanisms for public and legislative participation.

This chapter reviews international trends in results-oriented planning. It includes examples from Organisation for Economic Co-operation and Development (OECD) countries. It then analyzes the findings for this pillar from the PRODEV Evaluation Tool (PET) and the indicators related to sectoral planning in the program and project management pillar. In general, it is clear that planning in Latin America and the Caribbean has had a notable resurgence in recent years, and that more and more countries have shown an interest in developing prospective analysis and relating it to specific implementation, monitoring, and evaluation instruments.

## Global Trends and Best Practices in MfDR Related to Results-oriented Planning

Internationally, there is consensus that strategic planning is key to ensuring public policy coherence, consistency, and good governance. Despite the region's progress over the last two decades in restoring democracy, overcoming global economic crises, and reducing poverty, challenges remain that require a more strategic approach. These include social inequality, reduced competitiveness, the risk of natural disasters caused by climate change, and citizen security.

### *Trends in the Definition of Long-term Visions*

Finland is one of the most frequently mentioned cases of a country with a history of long-term planning and capacity to achieve its objectives. The most recent example is the definition of its Vision 2015, developed in 2005 by of the Finnish Funding Agency for Innovation (TEKES) and the Academy of Finland. The primary aim of this exercise was to identify future capabilities that will be needed in the fields of science and technology, business, and industry. This national vision was elaborated through a broad national consultation with the participation of the National Foresight Network. Several ministries also participated in this process, representing their respective areas of responsibility. Such "futures perspective" exercises were later used in strategic planning and decision making (Apaza, 2011).

In South Korea, prospective analysis and medium-term strategic planning functions are performed by the offices that make decisions about public spending. The Ministry of Finance and Strategy is responsible for this process and for guiding public policy decisions and orienting medium-term strategic plans to link them to Vision 2030.

To implement the Vision, a set of institutional reforms were put in place. Strategic government planning was strengthened (a strategic planning office was created), a long-term national plan was developed with a 25-year time horizon, and a group of fiscal reforms were enacted to provide greater reliability to Vision 2030 and to a new budgeting system (Bae, 2008). Among the lessons learned in this case were the focus on defining strategic priorities as a vehicle to connect medium-term plans to a long-term vision; the top-down budget approach, emphasizing the pursuit of effectiveness and results tied to development and strong leadership supported by the main political groups, with the aim of providing continuity to the support over time.

Singapore is another country with a long tradition of strategic government planning and with a recognized foresight capacity (Ho, 2010). The Prime Minister's Office created the Centre for Strategic Futures with the vision of building "a strategically agile public service ready to manage a complex and fast-changing environment," and the mission "to position the Singapore government to navigate emerging strategic challenges and harness potential opportunities."[1]

[1] See the portal http://www.csf.sg/.

**BOX 3.1 | Participants in the Definition of the Finnish Vision**

A group of organizations advises the government of Finland on a program to implement the national vision and strategy. The government receives advice from the Research and Innovation Council (CII, formerly known as the Science and Technology Policy Council, or STPC). The CII is chaired by the Prime Minister and is responsible for preparing the national development strategy and coordinating policy for science and technology, as well as policy for the overall innovation system. The members of the CII are the minister of education and science, the minister of the economy, the minister of finance, and other ministers appointed by the State Council. The CII has 10 other members who are well trained on Council issues. They are representatives from the Academy of Finland, the Finnish Funding Agency for Innovation, academia, industry, business, and workers. The government appoints the non-ministerial members for the same term for which the Parliament is elected. Since 1987, the STPC has published seven reports on the national development strategy, which include indicative figures for resource allocation.

*Source*: Apaza (2011).

In general, the construction of a long-term vision will be in keeping with the following global trends:

- Constructing future scenarios is a strategic planning task of the government, and various institutional arrangements have been created to address this challenge (Barroso, 2014).
- The country's vision is developed through foresight exercises[2] with the participation of a variety of players, including national strategy committees, sectoral ministries, Parliament, and other stakeholders. Best practices are subjected to exercises with the participation of the public and private sectors, especially in the economic-productive and technological sectors, and others.
- Coordinating commissions are in charge of the commitments made, and specific representatives of the institutions are held accountable for their implementation.
- Development visions and plans involve a high degree of political commitment. That is, they are part of the discourse of the country's highest authority, and they establish priorities for public expenditure policy.

[2] *Prospective (foresight) analysis* contributes useful theories, methods, and tools for making the desired future a reality. It calls for mobilizing social capabilities (technical, cognitive, institutional) to build shared visions of the future and identifying key success factors, as well as possible elements and factors of rupture and continuity. In summary, it requires mechanisms to organize and implement the actions needed to achieve them. See http://biblioguias.cepal.org/c.php?g=159537.

- The issues addressed must tackle structural weaknesses that will affect long-term development and well-being, such as the use of clean energy, extra funding for social security funding to cover the increase in longevity, nutrition, and educational quality to meet the new challenges of international competitiveness.

### *Medium-term Strategic Planning in OECD Countries*

In the area of medium-term strategic planning, the experiences reviewed in some OECD countries are mainly associated with budget reforms focused on results or performance. Most planning functions (policy design, coordination, and evaluation) fall within the purview of ministries of finance.

Strategic planning is integrated into budget formulation and is at the core of the projections in the medium-term expenditure framework. In most cases, sectoral strategic objectives are set for a three-year time frame and have a negotiated spending ceiling, which can become more flexible inside each ministry. In addition, budget programs are aligned with the ministries' strategic objectives, and program structures facilitate budget allocation by activity and contribute to the results chain.

In countries with good practices in linking planning and budgeting, institutional strategic planning (ISP) processes have proven to be fundamental tools in defining the framework of medium-term institutional priorities (strategic objectives). Expected intermediate and final results are determined based on these objectives.

Establishing government priorities and assigning them to sectors and departments is part of the process of formulating a budget proposal. The strategic nature of budget planning and programming establishes a norming procedure with a methodology oriented to developing indicators for the entire production process, with emphasis on determining impacts. The aim of the process of planning, monitoring, and evaluation is mainly to define indicators that can measure final outcomes or impacts. However, the methodology clearly establishes the possibility of using indicators for intermediate results and measuring them as a proxy of final outcome or impact. Likewise, in most cases, contractual arrangements are entered into that require agencies to produce a given number of outputs, and they specify how these outputs are linked to expected institutional results. These contractual arrangements also contain budgetary allocations.

The main features of these agreements are: multi-annual spending frameworks tied to sectoral policy objectives, the assignment of the necessary

### BOX 3.2 | Linking Planning with Budgeting in Canada

In Canada, the overall structure of government priorities is aligned with the spending plans of departments, agencies, and programs, as well as with operational spending efficiency (a major component of the strategic plan in agencies and programs). The main instrument for aligning government priorities with the budget is the Program Activity Architecture (PAA).[a] Based on the PAA, programs and activities are grouped according to strategic outcomes.

This arrangement provides a framework to support management, planning, and decision making and produces financial and performance information. Strategic outcomes are aggregated objectives for end results, and they are aimed at solving the public's problems. Responsibility for meeting the goals associated with these strategic objectives falls to the vice-minister of each department. A system to rate compliance with strategic results is established by the departments, and failure to reach goals has repercussions for the remuneration of the vice-minister. Information about the PAA and levels of achievement are recorded in departmental performance reports.

Institutional strategic planning reports are part of budget reporting and accountability. The following types of documents are presented:

- Plan and Priorities Report: This is a department planning document for a three-year period. It presents a detailed plan of spending, priorities, and expected results. This document communicates program activities and strategic outcomes, explaining how the ministry intends to achieve what is proposed in the strategic plan. It includes an analysis of the context (risks, challenges, and lessons learned), which explains how the plan and the priorities relate to the government's priorities.
- Department Performance Report: This is an annual report on performance in the implementation of one or more of the proposed plans and program activities, focusing on priorities and results achieved.

[a] Visit the link www.tbs-sct.gc.ca/index-eng.asp. For more information regarding the methodology, consult http://www.tbs-sct.gc.ca/rpp/2012-2013/inst/shc/shc01-eng.asp#s1.3, which presents the case of the Department of Health.

authority to ministerial agencies for management within their respective areas, and the establishment of contracts related to accountability, assignment of responsibilities, and government oversight.

In most OECD countries, medium-term fiscal frameworks and medium-term budget frameworks play a central role in making the government's strategic objectives viable. In fact, these tools make it possible to calculate public sector income and expenses and to strategically plan and evaluate alternative policy actions. These instruments can be useful in reducing budget rigidity, since they enable inter-sectoral shifts with minor effects on policies' projected results. It is considered that a multi-annual budget based on economic and functional classifications is a powerful programming instrument and it is a financial expression of the development plan and ultimately illustrates the democratic system's governance capacity. Meanwhile, the medium-term

expenditure framework (MTEF) is a budgeting instrument that makes policy design and implementation more realistic, for a period of between three and five years, the first year of which is actually budgeted and the following years of which are spending projections (Bonnefoy and Martner, 2008).

## Progress and Challenges in Results-oriented Planning in LAC

The index for the results-oriented planning pillar rose by an average of 0.5 points between 2007 and 2013, from 2.3 to 2.8 points. The components evaluated in results-oriented planning are: strategic planning capacity, operational planning (linkage between plan, programs, and budget and between the short and medium terms), and the participatory nature of planning (participation of the legislative branch and civil society).

Figure 3.2 indicates the degree of progress and the variation in scores by country for the results-oriented planning pillar in the period under consideration.

The findings show differences among the countries of the region. For the analysis, they have been classified into three groups, according to their scores on the results-oriented planning pillar. The first group (high level) is composed of the countries that obtained scores of 3 or higher; the second (intermediate level) contains the countries that obtained scores between 1–5 and 3; and the third (low level) contains those countries whose scores were lower than 1.5.

Widespread progress can be seen. In 2007, only four countries were in the high group, whereas by 2013 there were 10. The countries that showed

**FIGURE 3.1 | Scores on the Components of the Results-oriented Planning Pillar**

**TABLE 3.1 | Scores on the Components of the Results-oriented Planning Pillar, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| I. Strategic planning | 2.3 | 2.8 | 0.5 |
| Strategic planning capacity | 2.7 | 3.3 | 0.6 |
| Operational planning | 2.2 | 2.7 | 0.4 |
| Participatory nature of planning | 1.7 | 1.9 | 0.2 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

**FIGURE 3.2 | Index for the Results-oriented Planning Pillar by Country in 2013 and Changes Occurring since 2007**

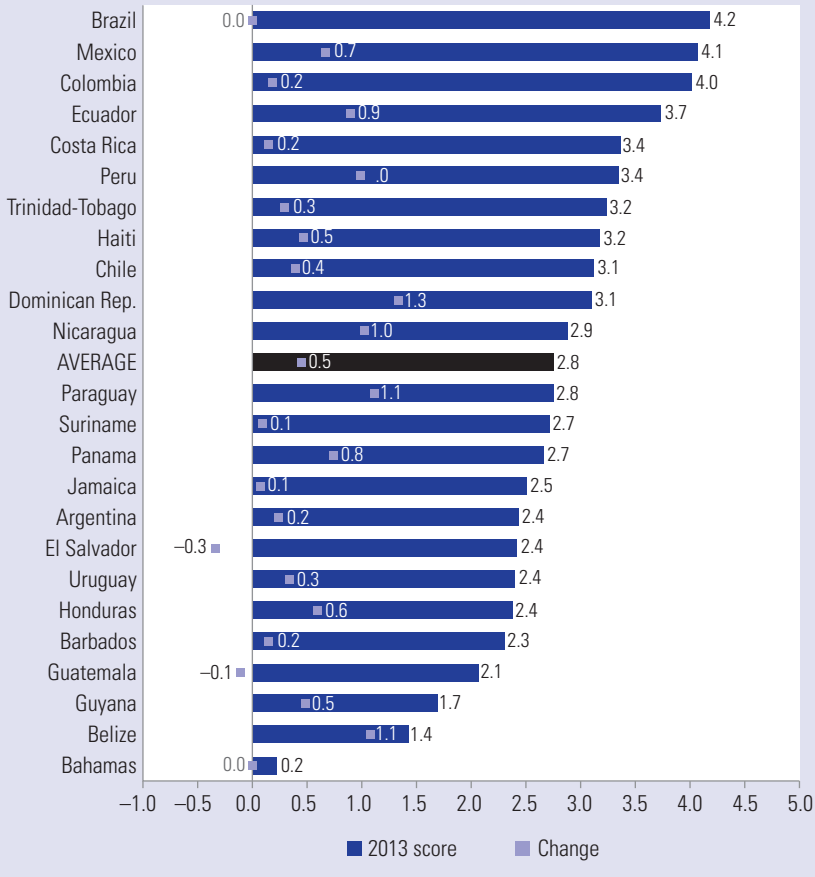

**TABLE 3.2 | Country Classification by Scores Obtained on the Results-oriented Planning Pillar**

| Pillar score | 2007 | 2013 |
|---|---|---|
| High<br>scores<br>≥ 3 | *(4 countries)*<br>Brazil, Colombia, Costa Rica, Mexico | *(10 countries)*<br>Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Haiti, Mexico, Peru, Trinitdad and Tobago |
| Intermediate<br>scores<br>< 3<br>≥ 1.5 | *(17 countries)*<br>Argentina, Barbados, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay | *(12 countries)*<br>Argentina, Barbados, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Uruguay |
| Low<br>scores<br>< 1.5 | *(3 countries)*<br>Bahamas, Belize, Guyana | *(2 countries)*<br>Bahamas, Belize |

the greatest progress in results-oriented planning, ordered from highest to lowest, are: the Dominican Republic, Belize, Paraguay, Nicaragua, Peru, and Ecuador. In general, progress can be seen in defining programs in the medium-term plan, as well as in presenting indicators and goals. However, participation of the legislative branch and of civil society continues to be a weak aspect in most countries.

The changes in the scores for the results-oriented planning pillar during the period under study were also analyzed, and the countries were again

**TABLE 3.3 | Country Classification by Degree of Progress on the Results-oriented Planning Pillar**

| | |
|---|---|
| Substantial progress<br>Change in score<br>≥ 0.5 | *(11 countries)*<br>Belize, Dominican Republic, Ecuador, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru |
| Fair progress<br>Change in score<br>< 0.5<br>> 0.0 | *(9 countries)*<br>Argentina, Barbados, Chile, Colombia, Costa Rica, Jamaica, Suriname, Trinidad and Tobago, Uruguay |
| Null or negative change<br>Change in score<br>≤ 0.0 | *(4 countries)*<br>Bahamas, Brazil, El Salvador, Guatemala |

classified into three groups. The first group (substantial progress) contains the countries that experienced a positive change of 0.5 or higher in their score; the second (fair progress) includes those countries that showed changes of between 0 and 0.5; and the third (null or negative change) comprises the countries that obtained changes equal to or lower than 0.

The degree of progress and the challenges for the components of the results-oriented planning pillar are analyzed in detail below.

### *Strategic Planning Capacity: Government Plans and Consistency*

Strategic planning capacity is measured primarily on the basis of the following attributes: (i) the existence of a current government plan (long-term vision and medium-term national strategic plan); (ii) the specification of objectives in sectoral plans, goals, and indicators; (iii) the institutionalization that supports the definition of plans (existence of a law and an office in charge), and iv) accountability through plans posted on Internet.

**TABLE 3.4 | Scores on the Indicators for the Strategic Planning Capacity Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Strategic planning capacity | 2.7 | 3.3 | 0.6 |
| Existence of a government plan | 2.8 | 3.4 | 0.6 |
| 1. The country has a long-term vision. | 1.3 | 2.0 | 0.7 |
| 2. The government has a medium-term national strategic plan. | 2.6 | 3.4 | 0.8 |
| 3. The government has sectoral plans. | 2.7 | 3.3 | 0.6 |
| 4. Government objectives incorporate the targets of the Millennium Development Goals. | 3.9 | 4.0 | 0.2 |
| 5. There is a central government office in charge of the strategic plan or of articulating sectoral plans. | 3.7 | 4.0 | 0.3 |
| 6.There is a law that calls for strategic planning for government management. | 2.2 | 2.6 | 0.4 |
| 7. The complete national plan is on the Internet. | 2.5 | 3.8 | 1.3 |
| Consistency of the government program | 2.6 | 3.1 | 0.5 |
| 1. Government objectives establish goals to be met during the government term. | 2.8 | 3.4 | 0.6 |
| 2. There are indicators to verify achievement of goals and targets. | 2.5 | 2.8 | 0.3 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

## Long-term Visions

There has been significant progress on establishing long-term visions. In 2013, 11 of the 24 countries studied had defined, implemented, or consolidated a long-term vision, whereas in 2007 only seven countries had done so.

Long-term visions establish development objectives, which constitute priorities that will take longer than a single government term to achieve. They are meant to forge links between the long-term vision—the desired future conditions for the country—and the national development plans developed by specific government administrations. Despite a great deal of heterogeneity in vision objectives and structures, these instruments are mostly projected for 20 years and are linked to priority areas of development, such as reduction of inequality; improvement of social well-being, health, education and citizen security; and promotion of economic development, in some cases they also include goals on improving state efficiency.

Most of these visions cannot rely on institutional arrangements that will facilitate continuity from one government term to the next, nor do they have explicit mechanisms to fund priorities beyond a single government term or accountability mechanisms that make meeting goals enforceable by the legislative branch or another oversight body.[3]

Several of the countries studied (Costa Rica, the Dominican Republic, El Salvador, Honduras,[4] Haiti, Mexico, Paraguay, and Peru[5]) include such instruments as part of their planning systems. However, these experiences are still incipient, and the long-term visions are far from being useful for guiding the definition of medium-term plans and thus facilitating the achievement of the objectives sought.

The largest increases in scores in this area, from the highest to the lowest, occurred in Peru, Costa Rica, Honduras, the Dominican Republic, Belize, and Ecuador. In the first case, based on appropriate changes in its planning system,[6] Peru promoted its Bicentennial Plan 2021, considered a strategic plan with objectives and goals, structured according to six core priorities for

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[3] This point is discussed again in the section on trends.

[4] Honduras strengthened the institutionalization of its planning as of 2009, through Decree 286–2009, which instituted medium- and long-term planning processes and instruments and at the same time created the entity in charge of managing the system: the Technical Secretariat of Planning and External Cooperation (PETLAN) (Article 20).

[5] The Strategic Center for National Planning (CEPLAN) was created in Peru.

[6] In 2009, CEPLAN began operating as the coordinating office for the planning system to comply with the provisions of Law 1.088 (Law on the National Strategic Planning System), enacted in 2008.

### BOX 3.3 | Trends in Development Visions

The experiences of six countries[a] that have advanced planning systems and/or have strengthened their results-oriented planning mechanisms in recent years were systematically studied to analyze trends in the design and implementation of national visions and development plans in greater depth. The features of the development visions were analyzed, along with their duration, subject areas, creation mechanisms, and relationship to medium-term plans. From information gleaned from the PET, the following trends should be highlighted:

- In almost all cases, both the development visions and plans are institutionalized in the countries' constitutions, and their creation is established as a point of reference for medium-term plans with a view to making development objectives sustainable since, by nature, their implementation requires more than one term of government. However, in practice the objectives defined in the vision are rarely actually expressed in the medium-term plans. The trend studied with respect to the role of these instruments appears to be confirmed. "There is a disconnect between short- and long-term analyses, government offices do not usually have a long-term perspective, and strategic studies do not contribute much to those who must solve immediate problems. Meanwhile, the few sectoral studies that have been done with 10- or 20-year perspectives, in the areas of energy, agriculture and the environment, are not subject to a coordinating office that could provide the coherence needed to shape a strategy" (Bitar, 2013: 11).
- Although the planning systems in the countries studied have a long trajectory and/or have grown stronger in recent years thanks to the creation of innovative laws (Ecuador, Dominican Republic), the development of visions is an incipient process in national planning. Among the experiences reviewed, Colombia, Mexico, and the Dominican Republic have an instrument that provides a point of reference for medium-term planning, defines goals and indicators linked to the national development plan (NDP), and establishes monitoring systems.[b] Given how recent the experiences of the Dominican Republic and Mexico are, there is no background information that would make it possible to identify the role of these visions in medium-term planning.
- The methodologies for generating visions are poorly developed. Despite the use of prospective studies and macroeconomic trend analyses, there are no explicit methodologies supported by international best practices. They are prepared with support from multilateral organizations and ad hoc commissions, with the participation of the government, civil society, and the parliament.

[a] PET reports for Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, and Mexico.
[b] Even though in the framework of the study the "Visión Colombia 2019" is mentioned, there has been no intermediate review of its goals, and its linkage to the NDP is weak.

the country for the next 10 years. This Plan attempts to articulate Multiannual Sectoral Strategic Plans (PESEMs) with long-term guidelines.

In 2009, Costa Rica created the Foresight Unit of the Ministry of National Planning and Economic Policy (Mideplan) to comply with the provisions of Article 4 of Law 5.525 (Law on National Planning, published in the official record, Gazette 93, of May 18, 1974). In October 2013, the program "Costa Rica 2030: National Development Objectives" was implemented. It was

prepared with the aim of seeking a tool that would contribute to the country's development through a long-term vision (Mideplan, n.d.).

Since 2010, Honduras has had a Country Vision 2010–2038, which contains principles, national objectives, and priority national goals for the 2010–2038 period, as well as the National Plan 2010–2022. The Government Plan is in effect for a four-year period and represents the point of reference for formulating medium-term sectoral, regional, institutional, and operational planning. The Government Plan 2010–2014 was formulated in keeping with the structure that defines the Country Vision, taking into consideration the four national objectives and relating each one to the different areas of institutional intervention. In 2007, planning was based on sectoral plans and the poverty reduction strategy (PRS).

### Medium-term National Development Plans

The preparation of medium-term strategic government plans shows a higher than average increase for the component. The average for countries that specify their objectives in a medium-term strategic plan increased by 0.8 points, and the average for those that established explicit objectives in sectoral plans increased by 0.6. The countries that have an office in charge showed a 0.3 point increase, having risen from 3.7 to 4, while those that have a planning law increased by 0.4, from 2.2 to 2.6. Thus, this is the aspect that has seen the most development in the institutional sphere. Those countries that do not have legal frameworks for strategic government planning coordinate the setting of objectives and monitoring of goals through the authority of their secretariats, decrees, and regulations. The identification of indicators in government plans shows a value of 2.8, which represents only a 0.3 point improvement. This trend should be taken into account among the challenges.

Countries that have incorporated indicators into their national development plans include Honduras and Uruguay. Honduras presents goals and indicators in all areas of the Government Plan 2010–2014 (previously it only had indicators to measure the National Poverty Reduction Strategy). As for Uruguay, even though it does not have a medium-term plan, it improved since 2007 because it introduced the concept of program areas and expanded the definition of objectives and goals in the five-year budget.

The vast majority of the countries take the Millennium Development Goals into account in defining their national development objectives. This is one of the indicators present in countries with high, intermediate, and low levels of development, reaching an average of 4. The "millennium goals" became a tool used by most countries to define government priorities.

## BOX 3.4 | Characteristics of Medium-term National Plans and Their Complementary Instruments

With respect to national development plans, in the last five years there have been important changes in institutional aspects and implementation mechanisms for planning and budgeting laws, which facilitate the results-based orientation. Several bodies of law explicitly state the intention to "manage for results" or "plan and/or budget for results." For these purposes, institutional coordination initiatives have been designed, and methodologies have been used to link programs with targets. It is interesting to note that in several cases planning is strengthened in a coordinated way with the office in charge of public finance. Various reforms and innovations in recent years have sought to improve the quality of public spending through results-based management.

In order to analyze trends in the design and implementation of national visions and development plans in greater depth, the characteristics of the plans of six countries[a] were reviewed (legal framework, responsible institutions, goals, accountability mechanisms or consequences for the failure to meet goals). Alongside this review, the existence of complementary instruments, such as multiannual investment plans or budgets tied to goals, was ascertained. Finally, the monitoring and evaluation systems used to follow up on national development plan goals were analyzed.

The aforementioned plans have a consolidated trajectory in Brazil, Colombia, and Costa Rica, whose legal frameworks for strategic planning date back to the 1990s. In recent years, significant progress has been made in the Dominican Republic, Ecuador, and Mexico.

In the countries reviewed, the methodologies used (Mexico, Ecuador)[b] include a logical framework as a mechanism for relating national objectives to institutional (ministerial), sectoral, and program objectives. In several methodologies for defining goals, objectives, and indicators, the results chain is applied. Each country has different modalities for integrating this chain into program structures. In most cases, however, linking the budget to outputs and results is difficult.

It is evident that, together with the definition of national plans (objectives, goals, and indicators), some countries generate complementary instruments that enable them to project investment spending. These countries are Colombia, the Dominican Republic, and Ecuador. Furthermore, some countries establish inter-sectoral coordination mechanisms for achieving targets, although they do not institute implementation mechanisms.

Despite these advances, identifying programs and defining corresponding targets remain a challenge. For example, in the Dominican Republic the requirement that "programs establish annual production targets for the entire government term" is only met by 5 percent. This is because program disaggregation does not enable full identification of the offices responsible.

In Costa Rica, despite consolidation in the area of medium-term planning, important challenges remain with respect to linkage with the budget. The programs in the plan are different from the budget programs; the same occurs with the indicators used to measure spending effectiveness and the achievement of NDP goals. Although in January 2012, through Executive Decree 36901-PLAN-H, the Commission for Inter-institutional Technical Coordination of Planning, Programming, and Evaluation of Institutional and Sectoral Management of the Executive Branch was created with the aim of coordinating and facilitating uniformity in the guidelines and instruments that enable planning, programming, and evaluation of budget implementation management, at various levels (strategic, sectoral and institutional), the government is only now taking the first steps toward that end.

Mexico has made progress in the last five years. Based on the Federal Law on Budget and Treasury Responsibility (LFRPH), Mexico introduced results-based budgeting, directly linking the pro-

*(continued on the next page)*

**BOX 3.4 | Characteristics of Medium-term National Plans and Their Complementary Instruments** *(continued)*

grams of the National Development Plan to the budget through indicators and goals. The most important aspect of this experience is that it has specified key operational changes in budget programs to facilitate linkage between the objectives of the plan and the budget.

The Dominican Republic also made progress in planning and operational effectiveness. First, the planning instrument Multi-annual National Public Sector Plan (PNPSP) was prepared for the medium term (four years) and is reviewed annually. This plan contains the priority programs and projects to be implemented by offices in the non-financial public sector and the respective resource requirements, including projections of public production and expected medium-term results. The PNPSP structure does not present programs, but all of its objectives are specified in the programs of the institutions that develop them, within their investment plans. The PNPSP contains the institutional production of the public sector, grouped as a function of the core ideas of the National Development Strategy (END), and all of the outputs contained in the PNPSP correspond to a program carried out by each institution.

One aspect common to all countries is the low score for accountability for the degree of achievement of the objectives. Even in the most mature systems of results-oriented planning, such as those of Brazil and Colombia, no offices are held responsible for meeting the targets of the plans. In addition to hampering certain aspects of accountability, this situation provides little incentive to set challenging targets.

[a] IPET reports for Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, and Mexico.
[b] Chile, Paraguay, and Peru also use these methodologies.

Finally, significant progress has been made in the area of information dissemination. The posting of national development plans on the Internet increased from 2.5 in 2007 to 3.8 in 2013.

### *Operational Planning: Plan–Programs–Budget Linkage and Linking Medium- and Short-Term Plans*

In recent years, operational planning (measured by the degree of linkage of the plan with programs and the linkage of medium-term to short-term planning) improved by 0.4 points. The aspects that showed the most progress were that the national plan or the sectoral plans identify the outputs (goods or services) that they generate (0.6), identification of the institutional offices responsible for national or sectoral plans (0.5), and the percentage of programs that have funding in the budget (0.4), reflecting greater linkage between planning, programming, and budgeting. There was a slight increase (from 2.8 to 3 points) in the establishment of programs in national and sectoral plans to achieve the objectives.

**TABLE 3.5 | Scores on the Operational Planning Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Operational planning | 2.2 | 2.7 | 0.4 |
| Plan-programs-budget linkage | 2.4 | 2.8 | 0.4 |
| 1. National plan or sectoral plans establish programs for achieving objectives. | 2.8 | 3.0 | 0.2 |
| 2. National plan or sectoral plans identify outputs (goods and services). | 1.9 | 2.5 | 0.6 |
| 3. National plan or sectoral plans identify the responsible offices. | 2.5 | 2.9 | 0.5 |
| 4. The programs have funding in the budget. | 2.5 | 2.8 | 0.4 |
| Linkage between medium and short term | 1.8 | 2.3 | 0.5 |
| 1. Medium-term goals established in the plan are broken down into annual goals. | 1.8 | 2.3 | 0.5 |

*Note*: To facilitate the reading, the numbers are rounded off to tenths.

In several of the countries that scored high on the requirement related to the presentation of programs in national medium-term plans, those programs appear to be investment plan projects (Colombia, the Dominican Republic, and Ecuador). Progress can also be seen in the average score of countries that identify institutions responsible for meeting goals, with a 0.5 point improvement over the 2007 baseline. However, as will be seen further on in the characteristics of sectoral planning, this does not translate into consequences for the performance level attained.

### *Participation of the Legislative Branch and Civil Society*

This component saw scant progress (1.9) within the overall parameters measured in results-oriented planning. It experienced a slight growth of 0.2 points compared to the 2007 figure, and it remained the least consolidated component of the planning pillar in the five-year period studied. Two aspects were measured: participation of the legislative branch and participation of civil society. Both indicators evaluate the existence of a law on the participation of these actors in the discussion of the national plan, its implementation mechanisms, and the use of this or other participatory mechanisms. Despite a slight increase over 2007, participation of the legislative branch is meager. There was more progress on initiatives to involve civil society.

### BOX 3.5 | Definition of Government Objectives in Countries without National Plans: The Cases of Chile and Uruguay

Among the cases studied are countries with less regulated planning systems but with innovative alternatives to manifest the plans in the budget. Uruguay is one such case. Although it does not have a national development plan, in recent years the Planning and Budget Office (OPP) has formulated and submitted to public discussion a national development Strategy with a medium- and long-term vision called "Horizon 2030," which contains visions and strategic guidelines on three fronts: sectoral, national, and regional-territorial. Furthermore, the Uruguay Strategy for the Third Century (Estrategia Uruguay III Siglo) project was implemented with the aim of developing scenarios for how the country might function in 2030, what its possible production structure and its potential for growth might be, and what a strategic agenda for achieving that potential might look like.

In the area of integration of planning and budgeting integration through spending program areas, an effort is made to link government objectives to the strategic objectives of the ministries and to budget allocations. The five-year budget is organized around programmatic areas and programs. The 2010–2014 National Budget is organized by programmatic areas (PAs) representing the State's functions, which can extend beyond a single government term. These PAs are the ultimate aim of spending. They make it possible to determine the general objectives of government policies, show the nature of the services that public institutions deliver to the community, and measure their social functions, thus providing additional elements to conduct a more in-depth analysis of the budget and of public spending policy in general.

Chile does not have a national development plan, but it has established a set of instruments that make it possible to enhance the budget allocation process. The Compliance Management Unit was implemented as an office of what is known as the "Center of Government" (Dumas, Lafuente, and Parrado, 2013). This initiative was modeled on the experience of the United Kingdom's Delivery Unit. It establishes a set of ministerial goals tied to government priorities. These goals are monitored using annual indicators. They are not always tangible and measurable; even when an office is assigned responsibility, there are no consequences for meeting or failing to meet goals. This initiative's main objective was to serve as an input for the presidential administration and a support for accountability.

Similar trends can be seen in the degree of participation in planning in countries with advanced, intermediate, and low levels of development. Scant regulation of the participation of both the legislature and civil society in development planning appears to be a common feature. In fact, of the 24 countries analyzed in 2013, only five have a law on the legislative branch's participation in the discussion of the national plan.

Seven of the 24 countries analyzed exhibited no progress on the participatory nature of planning component, and three of them saw a decline in their scores. This indicates that the execution of existing mechanisms depends on the intentionality of each government and is not an aspect that was consolidated in the period under study.

**TABLE 3.6 | Scores on the Indicators for the Participatory Planning Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Participatory nature of planning | 1.7 | 1.9 | 0.2 |
| Participation of the legislative branch | 1.1 | 1.3 | 0.2 |
| 1. Law on participation of the legislative branch is in the discussion of the national plan. | 0.9 | 1.0 | 0.1 |
| 2. The law has implementation mechanisms. | 0.7 | 0.8 | 0.1 |
| 3. The law is obeyed or there are other participatory mechanisms. | 1.4 | 1.6 | 0.3 |
| Participation of civil society | 2.2 | 2.5 | 0.3 |
| 1. Law on civil society participation is in the discussion of the national plan. | 2.0 | 2.3 | 0.3 |
| 2. The law has implementation mechanisms. | 1.7 | 1.9 | 0.3 |
| 3. The law is obeyed or there are other participatory mechanisms. | 2.5 | 2.8 | 0.3 |

*Note*: To facilitate the reading, the numbers are rounded off to tenths.

### *Progress in Sectoral Planning*

The program and project management pillar measures sectoral planning performance. This pillar analyzes progress in investment systems and the situation in the ministries of health, education, social development, and infrastructure. Even though several of the elements of this pillar are related to planning processes, which will be analyzed in this section, it is in the medium-term sectoral visions where the existence of a medium-term plan for the sector, the participation of civil society, and a substantial aspect of analyzing the consistency and coherence of planning appear when the sectoral plan and the government plan's goals and targets are in alignment with each other. The region's progress in this group of elements was modest: from a baseline score of 3 points, the average score rose to 3.2 in the most recent measurement.

It is interesting to note that this increase in the regional average was leveraged almost exclusively by the education sector and marginally by the social development sector. There was a slight decline in the health and infrastructure sectors during the five-year period under study.

Another aspect worth mentioning is the null average progress on consistency between sectoral plans and the government's goals and targets. The

**BOX 3.6 | Participation of the Legislative Branch and Civil Society in National Planning**

Practices in Brazil and Colombia regarding the institutionalization of social participation in defining public policies began in past decades and are widely known. Among the experiences of recent years, the cases of Honduras, Panama, Dominican Republic and El Salvador are reviewed below.

In Honduras, the participation of the legislative branch and of civil society is stipulated in the provisions of the Organic Law on the Development Plan, which establishes that the Congress of the Republic is the supreme authority for planning, together with the National Planning Council. The National Planning Council is entrusted with organizing and coordinating a broad national discussion of the proposed National Development Plan. Thus, there is a legal obligation for the plan to be the result of concertation among the executive branch, the legislative branch, and civil society organizations (CSOs). The National Planning Council was formed in 2012 by Decree 286-2009. One of its objectives is to formulate the two long-term planning instruments: the Country Vision and the National Plan. That same year, civil society participation was channeled through the Consultative Council for the Poverty Reduction Strategy (PRS). Meanwhile, the Government Plan 2010–2012 relied on three citizen consultation processes (i) the Change Now! (Cambio Ya!) agenda, (ii) the PRS, and (iii) the National Dialogue.

In Panama, the participatory nature of planning expanded thanks to National Concertation for Development (Concertación Nacional para el Desarrollo, or CNPD), a participatory body comprising three national players. Likewise, the Law on Fiscal Social Responsibility stipulated the incorporation of CNPD agreements into the Government's Strategic Plan. However, the definition of those responsible for the Plan is limited, and no law calls for the participation of the National Assembly in its discussion to include the opinions of minorities and the political opposition. In addition, the Law on Citizen Participation does not define specific participation mechanisms for formulating and monitoring the Plan.

The Dominican Republic undertook a broad process of consultation and consensus building among all sectors of society during the preparation of the National Development Strategy. The Strategy was also amply discussed and approved by the National Congress. The role of civil society in the process of monitoring the Strategy is established by law.

Some countries discuss plans with different civil society stakeholders but do not have legal frameworks to regulate that participation. For example, in El Salvador the process of preparing the 2010–2014 Five-Year Plan involved consultations with the Economic and Social Council and many other CSOs. Although opportunities for participation have started to open up, this has been more the result of expressions of government willingness to have such participation. No legal framework has been created to regulate participation and institutionalize the public consultation process for government plans.

relatively low consistency between sectoral and national plans affects confidence in a government's ability to fulfill the commitments made when the instruments (sectoral plans) that would make them operational do not fully reflect those commitments. In the cases of health and infrastructure, a decline can be seen over the five-year period. There are several possible explanations for this, such as the shift in national plan priorities due to changes in government administration or the fact that the sectoral definitions established did not agree with the orientations defined in the government objectives. Either of

**TABLE 3.7 | Scores on Indicators for Medium-term Sectoral Vision, 2013**

| | Education | | Health | | Social Dev. | | Infrastruc. | | Average | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | Var. | 2013 | Var. | 2013 | Var. | 2013 | Var. | 2013 | Var. |
| Medium-term sectoral vision | 3.7 | 0.5 | 3.4 | –0.1 | 3.0 | 0.1 | 2.6 | –0.1 | 3.2 | 0.2 |
| 1. There is a medium-term sectoral plan. | 3.9 | 0.6 | 3.7 | 0.0 | 3.5 | 0.1 | 2.9 | –0.1 | 3.5 | 0.2 |
| 2. The plan was prepared with civil society participation. | 3.1 | 0.4 | 2.7 | –0.1 | 1.8 | 0.0 | 1.9 | 0.2 | 2.4 | 0.1 |
| 3. The sectoral plan and the government's goals and targets are aligned. | 3.7 | 0.3 | 3.2 | –0.2 | 2.9 | 0.0 | 2.5 | –0.2 | 3.1 | 0.0 |

*Note*: To facilitate the reading, the figures are rounded off to tenths.

these explanations would represent a challenge to be taken into consideration to ensure consistency between national medium-term planning and the planning of vital sectors for development such as those analyzed above.

There has been more progress in the education sector than in others. This can be explained by the degree of institutional consolidation in this sector's planning. This consolidation can be seen in the experiences of a number of countries that have managed to prepare medium-term plans for the education sector. A detailed analysis of the medium-term sectoral planning component indicates that 16 of the 24 countries studied have sectoral plans with scores ranging between 4 and 5, which demonstrates that clear objectives, goals, and target populations have been defined. Among the factors that may have influenced this positive outcome are this sector's earlier institutionalization of plans, more advanced experiences in the management of the sector's goods and services, and greater consolidation of information systems, which are the basis for monitoring and evaluation.[7]

The performance of the sectoral planning component in the health sector is quite similar to its performance in the education sector, and it shows more progress than social development and infrastructure. According to information from the PET, the health sector usually has medium-term plans with some degree of alignment with government plans and a lower score with respect to civil society participation in its plan. Compared to education (even when the difference is negligible), the health sector has a lower average

[7] See Chapter 6 on program and project management.

**BOX 3.7 | Mexico: Relationship between the Objectives of the National Development Plan and the Health Sector Program (Prosesa), 2007–2012**

The framework for the Health Sector Program 2007–2012 (Prosesa) is the National Development Plan 2007–2012 (NDP), prepared by the Federal Executive Branch for the purpose of establishing national objectives, strategies, and priorities that will chart the course of government action during the current administration. Furthermore, from its inception, Prosesa has been linked to the guiding principle of the NDP, "sustainable human development," as a transformational vision for Mexico in the future and, simultaneously, as a right of all Mexicans. Sustainable human development in turn calls for assuring Mexico's population of today that its basic needs (including health care) will be satisfied and that opportunities will be expanded.

Prosesa is fully aligned with the 10 national objectives of the NDP. These ties are direct in the case of some objectives (numbers 4, 5, 6, 7 and 8 of the NDP's third core aim or overarching strategy, "equal opportunity." However, there is an indirect relationship with other NDP objectives (see page 2 of the program at the link *http://www.salud.gob.mx/unities/ cdi/nom/compi/pro170108.pdf).*

The design of sectoral programs is subject to the fact that these programs must be in line with the NDP; likewise, budget formulation is subject to the fact that proposed spending through a sectoral program must comply with NDP objectives.

Details of expected outputs, results, and impacts are mainly recorded in the results indicators matrix. To see the indicators of the Mexican Secretariat of Health's budget schedules, visit the following page: *http://portal.salud.gob.mx/conteni- dos/ptrc/indicators_programs_presupuestarios.html.*

score. Two aspects to be considered here are the scant progress regarding civil society participation in the plan and the sectoral plan's consistency with government objectives (areas in which there were even slight declines).

In the 2013 PET application, 13 of the 24 countries studied have sectoral plans with scores ranging between 4 and 5. That is, the practice of preparing strategic plans has been implemented or consolidated. Among the factors that may have had an influence at this level of development are—just as in the education sector—earlier institutionalization and more mature experiences in the sectoral management of goods and services. Ministerial offices have been formulating medium-term plans to achieve results for several years, focusing on health promotion, disease prevention, epidemiological surveillance, universal vaccines, the fight against HIV/AIDS, and others.[8] Among the countries that have a medium-term plan consistent with the government plan and built with civil society participation, Brazil, Colombia, Costa Rica, Honduras and Mexico deserve special mention.

[8] See the second part of Chapter 6.

**BOX 3.8 | Chile: Participation of Civil Society in Infrastructure Sector Planning**

The Ministry of Public Works (Ministerio de Obras Públicas, or MOP) has strategic guidelines for civil society participation in the design of its sectoral plans, as can be seen in the *Guide for the Preparation of MOP Plans 2011*. This document establishes that among the relevant players there are public-sector players (MOP services, regional governments, other ministries, and public services), private-sector players (groups of private-sector companies and entrepreneurs), politicians (members of Parliament, mayors, and municipal and regional council members), and community representatives (citizen organizations, non-governmental organizations [NGOs], foundations, corporations, universities, study and research centers, and private firms).

Additionally, in 2008 the *MOP Manual for Citizen Participation* was prepared based on the legal and institutional framework associated with government and MOP guidelines in the area of citizen participation in decision making about infrastructure services. Its aim is to organize and guide mechanisms and procedures for citizen participation and the management of conflicts associated with the life cycle of MOP initiatives, including policies, plans, programs and projects related to the provision of infrastructure and administrative services for water resources. In 2012, the first MOP public consultation mechanism was used, as contemplated in Article 73 of Law 18.575 on General Bases for State Administration. Through that activity, which lasted 28 days, more than 42,000 people had the opportunity to choose the five projects whose implementation they considered the most important for the region, from among 1000 initiatives.

Progress on the medium-term planning component of the social development sector is null compared to 2007. With respect to the existence of a medium-term sectoral plan, despite the slight (0.1) increase in the score, fewer countries had a plan for the sector (down from 11 countries in 2007 to 10 countries in 2013). No increase was seen in the score on linkage of the sectoral plan with the goals and targets of the government plan, or in the number of countries whose plans had had civil society participation. The countries that experienced the most progress include Chile, Ecuador, and Panama. The countries with the highest scores on the medium-term sectoral vision component in 2013 were Chile, Colombia, Mexico, Trinidad and Tobago, and Uruguay.

The infrastructure sector shows intermediate development in the medium-term planning component. Two of the three indicators show a slight decrease. The score for the existence of a medium-term sectoral plan decreased from 3.0 to 2.9 points; civil society participation in designing the plan rose from 1.7 to 1.9 points, and correspondence between the plan sectoral and national government goals fell from 2.7 to 2.5 in the period under analysis. The countries with the highest scores on the medium-term sectoral planning component are Brazil, Chile, El Salvador, Jamaica, and Mexico. This is due to the existence of appropriate medium-term sectoral plans, the

**BOX 3.9 | Systems for Monitoring and Evaluating National Development Goals**

Several of the countries analyzed have systems for monitoring national development goals. The most mature include Mexico's Goal Monitoring System (SISMER), which is part of the Performance Evaluation System, and Colombia's System for Monitoring the Government's Goals (SISMEG), which is tied to the National Performance Evaluation System (SINERGIA).

The Dominican Republic is taking its first steps to develop a system of monitoring indicators for the National Development Plan. There is an Inter-institutional Committee (National Office of Statistics and MEPYD) on the Indicators of the Multi-annual National Public Sector Plan (PNPSP), which monitors 112 indicators. The PNPSP is keeping an indicator log, which, together with the Dominican Republic's Social Indicators System (SISDOM), will complement the PNPSP' s Performance Indicators System.

The indicators presented in development plans differ substantially among countries. There is no uniformity with respect to the types of indicators that should be incorporated into national development plans. In Mexico, the Performance Evaluation System establishes orientations that stipulate that the indicators used to monitor the objectives of the Plan (regarding the aim and purpose of the logical framework matrix of the programs) should be for final outcomes and intermediate results (SHCP, n.d.). However, several of the program matrices present product or process indicators for monitoring National Development Plan goals.

In Brazil, the government's main objectives, expressed as macro challenges, do not have quantitative goals or indicators. Specific program areas, however, do have goals and targets. In any case, in the Ministry of Planning there is no central monitoring system with performance indicators.

In Costa Rica, the Plan is measured through indicators for each programmatic action tied to a goal of that plan. However, the indicators are not prepared under the logic of performance measurement. Some of them expressly refer to a goal or outputs that they intend to measure, but in no case are indicators of effect or impact measured.

The National Development Plan of Ecuador mostly includes indicators of intermediate and final results. In the targets related to the education, health, and infrastructure sectors, State efficiency includes objectives of coverage and/or processes. However, even though there are three systems with performance indicators to measure compliance with the goals and targets of the National Plan for Living Well (PNBV), two of them do not cover the totality of the Plan's goals or objectives because they are limited almost exclusively to monitoring investment projects (Senplades, 2012).

Most of the systems that monitor the government targets of the countries reviewed do not clearly visualize how annual targets measured through indicators of intermediate results and/or outputs are tied to final outcome indicators associated with government objectives. In general, the contribution of program performance to government objectives is not always clear.

alignment of sectoral plans with government plans, and civil society participation in preparing the plan.

## Conclusions and Challenges for the Future

Progress on results-oriented planning is similar with respect to the strategic and operational capacity to plan, but there has been less progress on

participation of civil society and the legislative branch. This aspect is not in line with the best practices presented at the beginning of this chapter. In the latter component, most countries show incipient progress, and a major gap can be seen in the countries considered to have low levels of development in results-oriented planning.

The possibility that the government commitments established in the plans can be discussed and reviewed by civil society and by bodies of social and political oversight gives medium- and long-term goals greater legitimacy and reliability. Therefore, one future agenda item is to move toward plans that are capable of executing government programs in a way that the public can understand, with strategic goals and indicators. This calls for rethinking the methodologies used in formulating the plans and programs and including players who are subject to the policies at the various levels of the government's strategic planning. This will allow plans to be more than formal, deterministic instruments and to become mechanisms for supporting effective social and political accountability.

In the area of strategic planning capacity, there is a trend toward generating long-term planning frameworks consistent with national development visions. Even though more than half of the countries have these instruments, there are still a number of challenges in this regard.

First, and considering the best practices discussed in the first chapter, it is important to strengthen the process of preparing the visions, incorporating prospective analysis into the construction of different scenarios and reviewing international trends and the opinions of public- and private-sector players so that planning will not be merely a government exercise.

Second, and also marking a difference with more advanced practices, the experiences in the region show that effective linkage of long-term with medium-term planning has not been achieved. The following problems have been identified:

- Government priorities are not very focused.
- The construction of visions suffers from poor specification of the problems that countries will face in the future.
- Intermediate reviews of goals, objectives, and strategies are rarely performed for the purpose of verifying that national development plans are derived from, and linked to, the long- term vision.
- Sectoral plans do not incorporate the priorities set forth in national plans.
- With some exceptions, objectives do not result in actions and resources allocated for the medium term, and therefore do not result in budget commitments.

Therefore, a second challenge, and another future agenda item, is to focus these instruments more sharply. It is necessary to ensure that the objectives of sectoral plans are incorporated, that inter-institutional coordination mechanisms are established to implement the objectives, and that funding arrangements are identified to ensure continuity from one administration to the next.

With respect to the weak capacity to apply prospective analysis in countries' definitions of the future, "even though in more recent years the concepts of strategic planning and foresight have been reinforced, there is still no public institutional capacity for coordinating such tasks, with few exceptions. The work of technological foresight has been somewhat more stable, although its ties to productive enterprises have been weak, and the practical effect on decision making has been meager" (Marí [2009], cited in Bitar, 2013: 31).

Based on the study of country visions conducted by the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), which analyzes several international experiences related to long-term challenges (International IDEA et al., 2011), two key aspects to be placed on the government agendas of the region should be noted. The first is the disconnect between short- and long-term analyses. Government offices do not usually have a long-term approach, and strategic studies do not seem to be very useful to those who must solve immediate problems. On the other hand, "the scant sectoral studies that have been conducted with 10- or 20-year perspectives, in the areas of energy, agriculture or the environment, are not subject to a coordinating office that would provide them with the coherence needed for shaping a strategy" (Bitar, 2013: 11).

A review of the long-term visions implemented by the countries of the region confirms the conclusions of other studies: "Generally, studies on long-term world trends are not known, and the analysis of projects and programs is usually done from an exclusively national perspective, without considering alternative global scenarios or the experiences of other countries. The design of policies is adapted to short-term trends, is overly based on chance, and lacks structural programs that increase productivity, equality, and participation. This lack of perspective reduces the capacity to react to surprises or unexpected events and makes the countries more vulnerable to future vicissitudes" (Bitar, 2013: 10).

With respect to medium-term planning, more countries now have national development plans. Especially in countries with a low degree of MfDR development over the five-year period under analysis, there has been

considerable progress on this aspect. The institutional aspects of planning are also quite deeply rooted in the region. In recent years, almost all of the countries established an office of planning, and a higher than average number of them have legal frameworks for planning. Likewise, there was considerable progress in presenting the plans and posting them on the Internet.

Despite this progress, there are still two challenges related to the quality of the planning process. These involve the consistency of the plan with the program of government (measured through objectives and indicators to verify fulfillment of goals) and the operational capacity of those plans (linkage between planning and budgeting and between the medium and the short term).

With regard to the first point, how to consistently reflect the government's program in the plan, although there has been improvement in defining the objectives laid out in the plan, it is necessary to optimize the degree of achievement of objectives and their focus, as well as to improve the monitoring indicators.

Specifically with respect to the measurement of medium-term targets, countries do not always design indicators to measure the most strategic aspects. In other cases (Brazil), indicators are not presented, and monitoring occurs through the programs. In most cases, indicators make it possible to measure annual progress toward goals, while in other cases, the sources of the data are not reliable.

With regard to this point, the conceptualization of the results chain of public programs should be strengthened. What are the intermediate outputs, results, and impacts? There is a tendency for the objectives in national plans to be tied to processes and outcomes rather than to the effects to be achieved on the target population and/or on the public at large.

For the group of countries as a whole, the aspect that shows the greatest weakness in operational capacity is linkage between the medium and the short term, specifically, the capacity to break down the medium-term targets established in the plan into annual targets. This situation hinders the possibility that government priorities will be fundable and will be incorporated into the budget when a period longer than the annual budget cycle is established. In this regard, it is essential to move toward greater integration among the targets expected to be reached as part of the national priorities, institutional goals, and budget schedules. This linkage facilitates the relationship between institutional production and budgeting. The most advanced experiences (Canada, Korea) demonstrate that program structures should be defined in line with the logic of the results chain. They should also have institutional arrangements that assign responsibilities for goals shared by several programs.

Another challenge in the area of operational capacity is related to the low degree of development in assigning responsibility for achieving the results projected in the plans. The few repercussions in case of failure to achieve goals means that these have less effect on feedback to improve management, as well as on the discussion of budget formulation goals and their later evaluation. The need to obtain results, from the standpoint of both public accountability and quality of spending, is reduced because there are no consequences for noncompliance.

This poses several challenges for the operational capacity of the future planning agenda. These include strengthening flexibility and accountability mechanisms for public management, and advancing toward systems that will facilitate sharing of long-term results between ministries and public programs. Likewise, the methodologies for preparing current spending and investment budgets should be unified.

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CHAPTER 4

# Results-based Budgeting

*Marcos Makón and Marco Varea*

## Introduction

The concept of results-based budgeting (RbB) has been evolving over time. It began with a vision that overestimated its usefulness and assimilated it into a new but limited model of results-based management that only prioritized the use of physical indicators without relating them to financial resources. However, this tool's basic aim is now deemed to be the need to relate resource allocation to public management results.

In budget practices and literature, two types of RbB can be seen. The first and more common—though no less complex since it could be said to have been the point of departure for RbB development—is program-based budgeting. Thus, there are slight differences and nuances between results-based budgeting and performance-based budgeting (PbB). In RbB, the results obtained by programs are reviewed and used as inputs to prioritize resource allocation in programming the next fiscal year. PbB uses information on program performance to inform those in charge of making decisions in the executive and legislative branches regarding which programs should be prioritized during programming. For example, how could a ministry reduce training costs without reducing training effectiveness? Even though it might seem that the difference is subtle, the use of performance information is actually a huge qualitative leap.

Effective RbB implementation in turn centers on four basic aspects: (i) the existence of performance information systems; (ii) performance information that can serve as an input for allocating and using financial resources in the budget; (iii) the application of motivational mechanisms, such as institutional and individual incentives, to obtain effective management results; and

(iv) strengthening of the implementing institutions' capabilities and the subsequent decentralization of the mechanisms for managing real and financial resources (Marcel, Guzmán, and Sanginés, 2014).

In keeping with the foregoing, to evaluate the degree of RbB application, the PRODEV Evaluation Tool (PET) takes into account the effective application of the following five components and their regulatory frameworks:

- Budget classification by programs and, therefore, resource allocation and production at that level.
- Medium-term budgets that orient and frame annual budgeting.
- Mechanisms to evaluate spending effectiveness.
- Institutional and individual incentives to promote management effectiveness.
- Dissemination of information about public management.

All of the elements cited have meant that the ministries in charge of budgeting need technical assistance resources to implement RbB in any of its modalities and to adapt it to their own reality. This has made the budget programming process unusually dynamic, since it has added new variables that had traditionally not been considered in linear or incremental budgets. This process calls for vertical coordination efforts with the sectoral ministries. With these elements, new educational and training offerings have sprung up, especially virtual ones, and reaffirmed the RbB trend. In fact, there is a proliferation of websites, networks and blogs that offer and market training programs in RbB and planning-budgeting links for central, federal, and local governments.[1]

## Global Trends and Best Practices from the Perspective of MfDR Related to Results-based Budgeting

For two decades, developed and developing countries alike have been concerned about improving all stages of the budgeting process. In several cases,

[1] The following examples can be cited: ICMA Latinoamérica: www.icma.org, which offers software to manage results-based budgeting (RbB); the Center for Priority Based Budgeting: http://www.pbbcenter.org; the International Budget Partnership: http://internationalbudget.org/; and Neubrain.com: www.neu- brain.com. The main networks include the OECD Budget Directors Network; the CoPLAC-MfDR network (http://coplac-MfDR.org), and the ASIP network. Blogs on public financial management that contain budgeting elements include http://blog-pfm.imf.org and http://siaflac.bligoo.cl. The most highly specialized blog on budgeting topics is http://blog.pfmresults.com.

this has meant changes in legal frameworks, transfers of know-how among countries, and different paces in defining stages and their respective objectives. As Curristine points out (2005), New Zealand was among the first to begin the present round of performance management and/or budgeting in the late 1980s, followed in the early to mid-1990s by Canada, Denmark, Finland, the Netherlands, Sweden, the United Kingdom and the United States. A further phase began in the late 1990s to early 2000s (Austria, Germany and Switzerland). Turkey has recently begun a pilot phase of performance budgeting and management. Country approaches to performance management are constantly evolving. For example, New Zealand began by concentrating on outputs and is now moving to an outcomes approach. Denmark is changing its accounting and budgeting systems to focus on outcomes. France recently passed a law which requires the production of outputs and outcomes in budget documentation.

This section examines the characteristics and trends common to these processes, as well as the most relevant aspects and advances of RbB in Australia, Canada, South Korea, the United States, and France. These countries were chosen because they are considered to be more advanced in the area of RbB, with different characteristics in each case, but with one point in common: they are all countries with strong institutions and, therefore their administrative policies and regulations are characterized by considerable predictability and resilience.

### Duration of Implementation

In general, the processes to implement performance-based budgets have been progressive in nature and have lasted more than 20 years in the most advanced countries in this area (i.e., Australia, the United States).

### Approach Used

In some countries, such as Australia, RbB is part of a new model of results-oriented administrative management. In other cases, the reform strategy has focused only on results-oriented budgeting (France). Finally, there are countries in which reforms have focused on prioritizing the implementation of monitoring and evaluation systems and accountability, such as Canada. There is a mixed version in the United States. Although focused on the design of performance-based budget programs, it also incorporates elements of strategic planning, evaluation, and accountability. In all cases, RbB has been considered the essential tool of a new model for the State's relationship with society.

### Priority on Generating Information

With some individual differences, in the early stages of RbB implementation, priority was given to generating information, with a dual objective: to improve the decision-making process and to inform the public.

### Decentralization in Ministries and Implementing Agencies

Emphasis was placed on strengthening ministerial management and granting the ministries budget programming and implementation powers.

### Relationship between Results and Public Production

In all cases, there were difficulties in linking results to outputs and, therefore, with the allocation of financial resources in the budget. This is because the outputs-results relationship is multi-causal. An output can contribute to several results, and a result can be obtained through several outputs.

**BOX 4.1 | RbB in Australia**

Australia's experience in the area of RbB has been within an MfR model, and the current situation is the result of a systematic reform process initiated more than three decades ago. The most important aspects are highlighted below:

a. Outputs can clearly be seen as the basis for financial programming, and results or outcomes as an expression of compliance with policies.
b. Accrued expenses have been introduced as the basis for financial programming of the budget.
c. Performance contracts have been implemented between the ministers and the highest authorities of the executing agencies.
d. The coordinating office for public finance participates in the determination of results and in overall institutional resource allocation. The ministries and agencies are in charge of programming production and allocated resources.

The current budget model incorporates results, outputs, and expenses as a function of certain characteristics. Determination of the outputs is the responsibility of each institution, but there must be consensus with the Ministry of the Treasury regarding results and the required funding. Within each institution, performance agreements are reached between the ministers and the highest authorities of the executing agencies. Finally, all requests for resources or modifications of the amounts approved are subject to the reports submitted on outputs and results.

Performance information must be presented to the Joint Commission of Public Accounts and Audit (JCPAA) and the Senate Standing Committee on Finance and Public Administration (SCFPA).

*Source*: Hawke (2007).

### Scope of Application

Indicators of outputs and results are considered to be more easily applied to institutions that produce goods and services than to institutions that formulate policies.

**BOX 4.2 | RbB Implementation in South Korea[a]**

The experience with RbB implementation in South Korea can be useful for countries interested in similar processes, for several reasons: (i) during the 1990s, there were several failed attempts, until 2003, when the government introduced a broad package of public financial management reforms that incorporated performance management into the budgeting process and aimed at decentralization of budget formulation and implementation, among other aspects; (ii) there have been alleged errors with respect to the institutional model, since the initial proposal consisted of implementing RbB in certain ministries and agencies, but it was not successful due to the lack of leadership and empowerment of executive boards in the sectoral ministries, and (iii) the combination of analytical, technological, administrative and leadership capacity of the Ministry of Planning and Budgeting (MPB) is tapped to implement institutional incentives and resource allocation methodologies based on program self-assessments (Park, 2013).

Since at first there were discrepancies between the MPB and the Prime Minister's Office, but the incentives were sometimes aligned, the model was urgently implemented in several ministries to reproduce the national model for relating planning to budgeting, which was administered by a single ministry at a sectoral level. Now there is a medium-term expenditure framework, and budgeting emphasizes the definition of outputs and results as the basis for resource allocation.

The Korean model of RbB has three particular characteristics that have been gradually implemented:

a. A Performance Goal Management System, which functions with early warnings about those programs that are not achieving their goals.
b. A strategic review system, which is an intermediate stage of the evaluation of budget programs. It is the most commonly used for decision making (Park, 2013) because it consists of a checklist developed by the MPB budget office. This strategic review is applied to a third of the programs (in 2012, including more than 1400 subprograms).
c. A minute evaluation of programs, to measure relevancy, effectiveness, and efficiency. Every year about 10 percent of the programs are evaluated by panels whose members are selected from public policy research institutes and universities, according to their areas of expertise.

According to Park (2013), the main factor in the success of this experience throughout the first decade of the millennium was leadership during the change. It is argued that the executive boards of the coordinating agencies and the pertinent ministries understood the importance of combining analytical and administrative skills in implementing reforms.

[a] Asia and the Pacific Community practices for results-based development management, 2011.

### Connection between Evaluation and Budget Resource Allocation

Except in the case of Canada, program evaluation has not been used sufficiently to define resource allocation priorities during the budget formulation process. The implementation of changes and improvements in management processes has prevailed (Robinson, 2014).

### Pilot Experiences or Widespread Application

In general, the strategy chosen was to conduct pilot experiences and then progressively to expand coverage.

## Progress and Challenges in Implementing Results-based Budgeting in LAC

The RbB pillar of the PET has five components: (i) structuring of program-based expense budgets, (ii) a medium-term budget perspective, (iii) evaluation of spending effectiveness, (iv) incentives for management effectiveness, and (v) information dissemination. These components are broken down into indicators and these, in turn, into 25 requirements that measure the degree of RbB implementation.

In the 2007–2013 period, the aggregated index for the RbB pillar went from 1.5 to 1.9 points out of a maximum of 5. This reflects the fact that some progress has been made, but it has not been substantial considering the amount of time that has passed.

According to Figure 4.1, the components that grew the most over the 2007–2013 period were program-based budget structuring and a medium-term perspective, each with an increase of 0.6 points.

As for the relationship of each component to the maximum rating of 5, it should be noted that information dissemination reached 60 percent, whereas the program-based expense budget structure represented 58 percent of the maximum and the medium-term budgeting perspective represented 52 percent. Finally, the evaluation of spending effectiveness component had an index of 26 percent of the maximum, and the incentives component an index of 20 percent. This demonstrates the need to focus attention in the future on improving this pillar by allocating resources to the implementation of public spending monitoring and evaluation systems and of incentives and motivation mechanisms for public servants. The conclusions section of this chapter will discuss this topic in greater depth.

Figure 4.2 indicates the degrees of development of the RbB pillar and the variations in scores by country during the period under consideration.

**FIGURE 4.1 | Scores on the Components of the Results-based Budgeting Pillar**

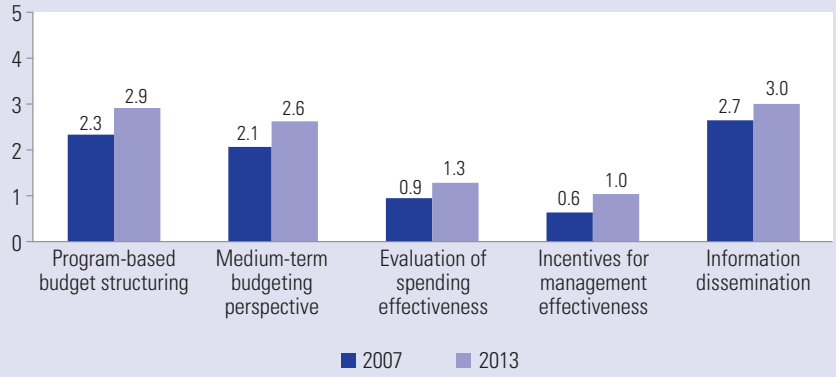



**TABLE 4.1. | Scores on the Components of the Results-based Budgeting Pillar, 2007–2013**

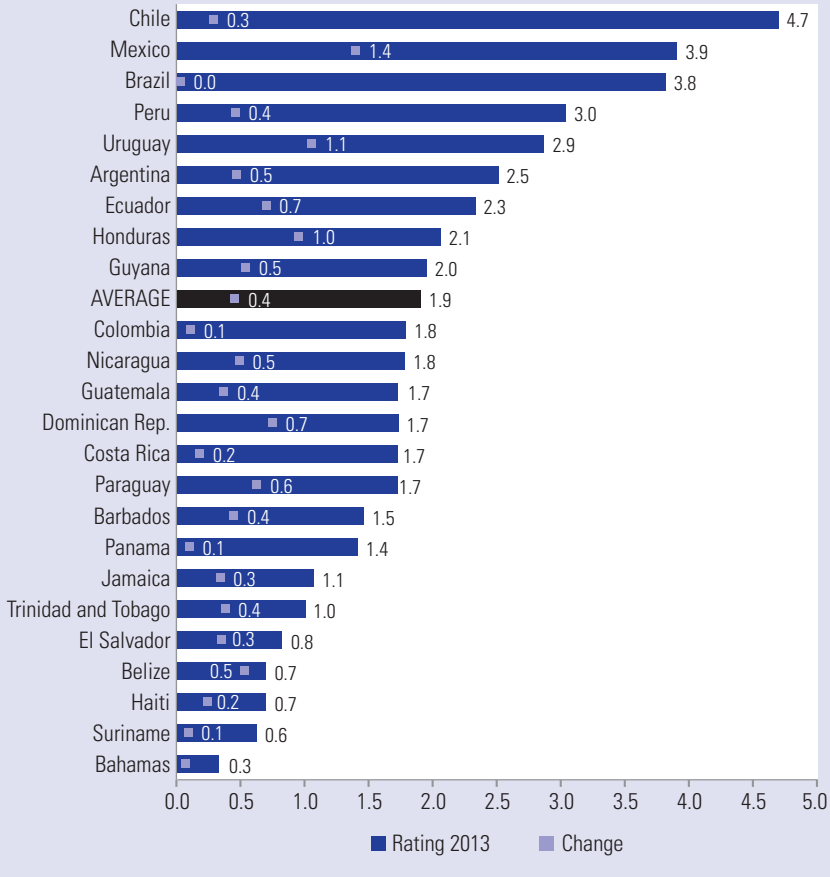
| | 2007 | 2013 | Variation |
|---|---|---|---|
| High | 1.5 | 1.9 | 0.4 |
| Program-based budget structuring programs | 2.3 | 2.9 | 0.6 |
| Medium-term budgeting perspective | 2.1 | 2.6 | 0.6 |
| Evaluation of spending effectiveness | 0.9 | 1.3 | 0.4 |
| Incentives for management effectiveness | 0.6 | 1.0 | 0.4 |
| Information dissemination | 2.7 | 3.0 | 0.4 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

The findings show differences among the countries of the region. Therefore, for the analysis, they have been classified in three groups, according to their RbB pillar scores. The first group (high level) is composed of the countries that obtained a score of 3 or higher; the second (intermediate level), of the countries that obtained scores between 1.5 and 3; and the third (low level), of the countries that obtained scores lower than 1.5.

When comparing the country classifications by degrees of RbB development (high, intermediate, and low), overall progress can be seen. In 2013, most countries (12 of 24) were at the intermediate level, whereas in 2007 the greatest concentration was found at the low level (15 of 24). Two countries,

**FIGURE 4.2 | Index of the Results-based Budgeting Pillar by Country in 2013 and Changes since 2007**




Mexico and Peru, went from the intermediate level in 2007 to the high level in 2013. (This qualitative leap is described in greater detail in the next section.)

The countries that moved from the low to the intermediate level are: Barbados, Dominican Republic, Guatemala, Guyana, Honduras, Nicaragua, and Paraguay. The common denominator between Guatemala and Paraguay is the fact that they introduced guidelines and rules for performance indicators as a first step toward implementing RbB. For their part, Honduras and Nicaragua have made substantial progress in terms of the quality of their budget program structure. Both countries have conducted pilot experiences in several ministries to introduce the results chain concept into their programs.

**TABLE 4. 2 | Country Classification by Scores Obtained for the Results-based Budgeting Pillar**

| Pillar score | 2007 | 2013 |
|---|---|---|
| High score ≥ 3 | *(2 countries)* Brazil, Chile | *(4 countries)* Brazil, Chile, Mexico, Peru |
| Intermediate score < 3 ≥ 1.5 | *(7 countries)* Argentina, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay | *(12 countries)* Argentina, Barbados, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Guyana, Honduras, Nicaragua, Paraguay, Uruguay |
| Low score > 1.5 | *(15 countries)* Bahamas, Barbados, Belize, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad and Tobago | *(8 countries)* Bahamas, Belize, El Salvador, Haiti, Jamaica, Panama, Suriname, Trinidad and Tobago |

This is a crucial variable for coordinating and aligning the development plan with the budget.

El Salvador is noteworthy because, although the degree of development of the country did not change between the two evaluation periods, a process of modernization of the public sector's financial-administrative management was implemented. It will shift from budgeting by areas of management to budgeting by programs, gradually incorporating performance indicators. The national budget is prepared using areas of management because El Salvador's current legislation stipulates that structure and does not allow program-based budgeting. However, significant progress has been made, since the country now has a budget policy that grants priority to budgeting based on the five-year development plan.[2]

Changes in the scores for the RbB pillar in the period under study have also been examined, and the countries have been classified in to three groups. The first group (substantial progress) is composed of the countries that obtained a positive change in their scores, of 0.5 or higher; the second group (fair progress) consists of the countries that saw changes in scores of

[2] A committee was formed with participants from the National Office of Investment and Public Credit of the Ministry of the Treasury. Its members meet once a month with the sectoral ministries to evaluate implementation and progressively incorporate performance indicators into the analysis.

**TABLE 4.3 | Country Classification by Degree of Progress on the Results-based Budgeting Pillar**

| | |
|---|---|
| Substantial progress<br>Change in score<br>≥ 0.5 | *(10 countries)*<br>Barbados, Belize, Dominican Republic, Ecuador, Guyana, Honduras, Mexico, Nicaragua, Paraguay, Uruguay |
| Fair progress<br>Change in score<br>< 0.5<br>> 0 | *(12 countries)*<br>Argentina, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Haiti, Jamaica, Panama, Peru, Suriname, Trinidad and Tobago |
| Null or negative change<br>Change in score<br>≤ 0 | *(2 countries)*<br>Bahamas, Brazil |

between 0 and 0.5; and the third group (null or negative change), of countries where the changes in scores were equal to, or lower than, 0. There are 10 countries in the first group, 12 in the second, and 2 in the third. This indicates a general movement toward RbB implementation, as will be seen below through the examination of the elements that influence this process.

## Legal and Institutional Frameworks for RbB

### *Legal Frameworks for Budgets in LAC*

The characteristics of the legal frameworks for budgets in LAC vary because they reflect each country's legal and institutional realities. In some cases, the legal framework is an organic law on budgeting, a legal instrument that guides all phase of the budget and assigns responsibilities in each phase. Two examples of this are Mexico and the Dominican Republic.

In other cases, the organic law on budgeting also includes aspects related to the systems of accounting, treasury, public credit, investment, and internal and external oversight. Thus, it is actually a law on the State's financial administration (this is, for example, the case in Honduras).

The most frequently occurring situation is that budget provisions are included within the framework of laws to reform public financial management. Countries where this occurs include Argentina, Costa Rica, Guatemala, Nicaragua, Peru, and Venezuela.

In all of the countries, budget initiatives are the responsibility of the executive branch, and their approval falls to the legislative branch. Except in

Uruguay, where the Constitution of the Republic establishes that the budget is valid for an entire government term (five years) and is reviewed annually, in the rest of the countries the budget covers only one year.

Several countries have taken advantage of advances in the area of public finance. They have instituted more rigorous regulations on expenditure monitoring to enact regulations related to improvements in budget formulation. This is true of countries such as Jamaica, which have used fiscal responsibility law for this purpose.

With respect to progress on regulatory frameworks to make program-based RbB implementation more viable, laws do not usually have provisions that establish methodologies for structuring budget programs; rather, they set forth general criteria. For example, budgets include techniques that make it possible to link public production to the required financial resources, or they must be prepared on the basis of the policies, goals, and targets projected in the plans. In some countries, such as Argentina, the Dominican Republic, Honduras, Mexico and Nicaragua, the type and characteristics of the budgeting technique to be used are specified in regulatory decrees or in methodological guidelines. In other countries, such as Mexico and Peru, the concepts of program and program structure are defined in the law.

Guatemala and Uruguay are different, since their respective constitutions establish that budgets must be structured by program. Article 237 of the Constitution of Guatemala stipulates that the budget must be organized by program structure. Likewise, the constitution of Uruguay, in its Article 214, indicates that the budget is to be prepared and approved by programs.

From the foregoing it is evident that there is no uniform legal framework or criterion for defining a budgeting program or the way to structure a program-based budget. In order for results-based budgeting to have an actual effect and be viable over time, laws should incorporate specific mandates to structure budgets by program, with measures of production and related resources as well as results indicators.

### *Institutional Frameworks of Budgets*

Three models are used for the institutional organization of the budgeting function:

- According to the first model, the preparation of plans and budgets is centralized in a single institution. Examples are Brazil (the Ministry

**BOX 4.3 | Peru's Budget Law and Results-based Budgeting**

In 2009, Peru introduced Chapter IV (on the National Budget System) into General Law 28.411. It regulates results-based budgeting and indicates the concepts, instruments, and procedures that should guide its implementation. According to this law, results-based budgeting is to be "progressively implemented through the budget programs, with performance monitored on the basis of indicators, evaluations, and management incentives, among other instruments that the Ministry of Economy and Finance may determine." In addition, the law establishes that budget programs "are designed to address a national problem, whose resolution is entrusted to one or more public sector entities at different levels of government. The government entities that wish to formulate and propose strategic programs must abide by the methodology and guidelines established by the Ministry of Economy and Finance, in all cases ensuring that this methodology establishes suitable intergovernmental and intersectoral coordination, as well as the necessary connection between the design of strategic budget programs and the public budget through the Functional-Programmatic Structure." Furthermore, the law states that "the National Strategic Planning Center (Ceplan) shall incorporate the instrument of Strategic Budget Programs and the principles of the results-based management approach into its strategic planning process."

of Planning and Budgeting) and Uruguay (the National Planning and Budgeting Office).

- According to the second model, used by Colombia and partially by the Dominican Republic, the office in charge of planning, regardless of its primary responsibility, assumes budget allocation duties for the investment expenditure of implementing institutions, while the Ministry of the Treasury is responsible for current expenditures.
- Finally, the third model, which is the most common in the region, assigns planning and budgeting functions to different institutions, with budgeting falling to the ministry of the treasury or finance. One particular case was Honduras in the administration that ended in 2013. Even though planning and budgeting functions are separate, the office in charge of the planning system was assigned responsibility for certifying that the budget proposal to be submitted to the National Congress would reflect the objectives and policies of the plans. The administration that took office in January 2014 created the Office of Planning, Budgeting and Public Investment under the Office of the President; in other words, it adopted the Uruguayan model.

At this point, it would be interesting to evaluate the extent to which the institutional separation of the planning and budgeting functions has been one of the causes of the weak linkage between plans and budgets.

## Analysis of RbB Components

### *Structure of Program-based Expense Budgets*

To provide an adequate analysis of this component, it is necessary to define a budget program. To that end, the conceptual framework discussed below ties together the criteria of Arrieche, Makón, and Matus (1979) with those of Robinson (2011).

According to this approach, programs must have certain basic characteristics to enable implementation and monitoring:

- They must express the increase in value produced in society as a consequence of public budget management. It is therefore necessary to use the value (or results) chain as a methodology for programming and analysis, which can describe public sector activities in a simple, easy-to-understand way, while identifying the results sought, as well as the outputs, processes, and resources available to obtain them. In this framework, the budgeting technique to be used should make it possible to express the different types of goods and services that are produced (end products and intermediate products) in the sphere of public institutions, their links to the indicators for results and impacts (see definitions below), and their relationship to the inputs required to produce each good and service.
- Based on that criterion, only those programs that have a logical structure, with detailed outputs, the real and financial inputs or resources they use, and the offices responsible for carrying out the respective productive processes should be considered budget programs. These programs should also delineate their contribution to obtaining the results projected in the plans and policies. Some advanced countries also include the expected impacts of the results.

Some of the most important elements of the logical structure of results are discussed below:

- End products or outputs are the goods and services that an institution produces or provides, that do not undergo new transformation processes and that contribute directly to achieving the expected results (e.g., primary school education, road construction). Intermediate outputs are the goods and services produced by the institutions,

which are necessary to arrive at end products (e.g., number of class hours taught, administrative support services). The relationships between an institution's end products and its intermediate products constitute the production network.

- Inputs are human resource services, non-personnel services, materials, machinery, and the equipment needed to produce goods and services. Input-output relationships entail the allocation of the real (human and material) resources that each output requires and are therefore the basis for the allocation of public budgetary spending.
- Results are a program's direct effects achieved through end products (e.g., universal access to basic education or an increase in overland transport of goods and passengers).
- Impacts are effects of greater magnitude that are directly tied to the objectives of a national or sectoral plan (if there is one).

Based on the conceptual considerations discussed above, the program-based expense budget structure component is analyzed below. The score on this component rose more than the pillar average, increasing from 2.3 to 2.9 points. The requirement that showed the highest growth (0.6) was the inclusion of information on goals and targets in budget programs. Another element that saw significant progress was the one indicating that a percentage of the budget was structured by program (0.5). On average, this element rose from an intermediate degree of development (2.6) to a high degree (3.2). With respect to this requirement, in 2007 five of the 24 countries analyzed had more than 80 percent of their budgets structured by program, whereas in 2013 the number of countries rose to nine.

With respect to the development of this component, the main score increases in the countries analyzed occurred, from largest to smallest, in Honduras, the Dominican Republic, Uruguay, Guyana and Belize. Honduras has made the most progress because, in the framework of the new planning system implemented in 2010, the country undertook an in-depth review of its program structures and incorporated production measures into the budget's program categories. In addition, budget coding was aligned with the classification structure of the plans.

In the Dominican Republic, an information system application was implemented in the Ministry of Economy, Planning and Development. Using the public value chain, it captures information on public production and incorporates it into the budget. Initiatives have also been taken to link the categories of the National Development Strategy and the Multi-annual Plan for the Public

**TABLE 4.4 | Scores on Indicators for the Program-based Budget Structuring Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Program-based budget structuring | 2.3 | 2.9 | 0.6 |
| 1. Percentage of the budget structured according to programs | 2.6 | 3.2 | 0.5 |
| 2. Correspondence between budget programs and programs in (national/sectoral) plans | 2.1 | 2.6 | 0.5 |
| 3. Inclusion of information on goals and targets in budget programs | 2.1 | 2.8 | 0.6 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

Sector to the program categories of the budget. Here, the greatest progress has been made in the area of investment plans, since investment projects are reflected in the program categories of the budget by type of project. For this purpose, an interface was developed to transfer data automatically. Program structures have also been tested in pilot organizations.

In Uruguay, improvement in this component is due to the incorporation of goals and targets into the budget. The new budget formulation system took effect in 2011. It expands the policy of budget structuring by program. The National Budget 2010–2014 redefines budget programs so that they will make more sense programmatically and it will be possible to link budget resources to objectives. It also defines the programmatic areas that reflect overarching government functions, areas to which the different programs contribute.

In Guyana, the expense budget has adopted a program classification, and objectives, strategies, impacts and indicators are defined for each program. However, the impacts are not explicitly linked to the objectives of the National Plan. This makes it difficult to monitor expenses associated with Poverty Reduction Strategy Papers (PRSPs).

In the case of Belize, during the 2007–2013 period goals and targets were incorporated into the budget for the first time, and actions began to relate programs to the budget.

Finally, it should be noted that the quality of budget programming is not measured solely based on the fact that budgets are structured by program, that budget programs correspond to the plan, or that there are output indicators. These are necessary but not sufficient conditions. It is also necessary for programs to be structured according to output-based resource allocation and for there to be a clear distinction between end products (which contribute to

### BOX 4.4 | Two Approaches to Budget Programs

There are two clearly differentiated approaches to defining budget programs. One of them is used by Argentina, Brazil and Mexico, where the programs have elements of the results chain. The other is used in countries, such as Colombia and Panama, where the concept of programs is introduced, but it is related to current or investment expenditure. To illustrate the difference, this Box discusses the cases of Argentina and Panama.

**The Case of Argentina**

Article 14 of Decree 1.344/07, which regulates Law 24.156, establishes the structuring of a program-based expense budget for each jurisdiction and entity of the National Administration.

For its part, a manual on the budgeting system, prepared by the National Budget Office of Argentina's National Administration, provides a definition of "program" as "the program category that expresses the process of producing or providing one or more end products contained in a given network of budget actions for a [given] jurisdiction or entity." It has the following characteristics:

- "It is the highest-level program category in the budgeting process."
- "It reflects an essential purpose of the network of budget actions that a jurisdiction or entity undertakes, expressed as a contribution to achieving public policy objectives through end products or the provision of goods and services."
- "Due to the foregoing, it serves as the final node of the network of program categories of the jurisdiction or entity."
- "It is composed of the aggregation of lower-level program categories, which indicate the budget actions that participate in the production or provision process, except when centers of management cannot be identified"

To reinforce Decree 1.344 of 2007, the National Budget Office also clearly defines "program" in its budgeting system manual.

**The Case of Panama**

Functional or Operational Programs. These programs comprise the activities needed to produce public goods or services. They require capital goods as a complement to productive activities, but in no case does this mean that they will become activities to produce goods whose objective is to increase national capital. This is an instrument aimed at fulfilling the State's functions within one sector or activity, whereby quantifiable or non-quantifiable goals or targets aimed at short-term end results are set. This is achieved through the administration of the human, material, financial, and technological resources allocated, in line with a given overall cost; and implementation is entrusted to a high-level administrative unit of government.

Investment Programs. These budget programs are instruments meant to produce goods that increase national capital. The conceptual difference between them and operational programs lies in the output or end result that each of them pursues, but they can be quite similar in terms of their internal structure.

achieving the results projected in the plans) and intermediate products (which make end products viable).

Even though evaluating the latter aspect was not one of the aims of the PET, it is evident that improving the quality of programming has a long way

**TABLE 4.5 | Scores on the Indicators for the Medium-term Budget Perspective Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term budget perspective | 2.1 | 2.6 | 0.6 |
| Medium-term fiscal framework | 2.3 | 2.9 | 0.6 |
| 1. A medium-term fiscal framework is prepared in line with the government program. | 2.7 | 3.5 | 0.8 |
| 2. The fiscal framework is updated annually. | 2.7 | 3.5 | 0.8 |
| 3. The fiscal framework includes economic and administrative classification categories. | 2.1 | 2.5 | 0.4 |
| 4. The fiscal framework includes functional or programmatic classification categories. | 1.5 | 1.7 | 0.2 |
| 5. The annual budgets are articulated with the fiscal framework. | 2.2 | 2.8 | 0.6 |
| Fiscal responsibility law | 1.7 | 2.2 | 0.5 |
| 1. There is a fiscal responsibility law. | 1.8 | 2.3 | 0.5 |
| 2. The law specifies quantitative goals for fiscal management. | 1.8 | 2.0 | 0.3 |
| 3. The law is obeyed or there are other mechanisms that promote fiscal discipline. | 1.6 | 2.3 | 0.6 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

to go in most Latin American countries before the aspects mentioned in the previous paragraph are fully incorporated.

### *Medium-term Budgeting Perspective*

The score on this component increased by an average of 0.6 points, while the score on the indicator for the medium-term fiscal framework also increased by 0.6 points, and the one for the fiscal responsibility law by 0.5. With respect to the indicator for the medium-term fiscal framework, 11 of 24 countries were in the intermediate range of development in 2007, whereas in 2013, 14 of the 24 countries analyzed were in that range. This indicates that there has been significant progress. In the indicator for the fiscal responsibility law, progress was also seen at the intermediate level of development; in 2007, there were only two countries at that level, while in 2013 there were six. The cases of Guatemala and Paraguay are noteworthy: no fiscal responsibility laws have been enacted, but they have undertaken actions in the area of budgetary programming.

Alongside the mixed advances on indicators and requirements, differences are also seen in the countries. With respect to the development of this component in particular, the largest increases in scores occurred in Costa Rica, Ecuador, El Salvador, Jamaica, and Trinidad and Tobago.

### The Medium-term Fiscal Framework

RbB should be conceived of within a timeframe that transcends annual budgets. This is done by projecting income, expenses, and the public debt for a three-year period or longer, within an explicit model of financial programming known as the medium-term budget framework (MTBF). The MTBF should cover all of the central government, be linked to the medium-term plan, and serve as the basis for preparing annual budgets. To the extent that budget approval involves decentralized institutions, the MTBF should incorporate multi-annual projections for those institutions, with yearly updates.

The usefulness of the MTBF is related to the degree of disaggregation of projections (the greater the degree of disaggregation, the more useful it will be), and its soundness depends on the premises and suppositions that support the projections. However, in no case should disaggregation occur at the level of annual budgets. The specialized literature disaggregates instruments as shown in Table 4.6.

**TABLE 4.6 | Types of Medium-term Fiscal Frameworks**

| MTSF | MTBF | MTFF | Projections | Description |
|---|---|---|---|---|
| ✓ | ✖ | ♦ | GDP projections | It is limited to establishing fiscal policy objectives and presenting a set of overall projections and goals that cover macro-economic and fiscal aspects (debt, GDP, etc.). |
| ✓ | ✖ | ♦ | Inflation projections | |
| ✓ | ✖ | ♦ | Aggregated spending projections | |
| ✓ | ✖ | ♦ | Aggregated income projections | |
| ✓ | ✖ | | Spending projections by administrative unit | It adds estimated medium-term spending for different administrative offices (classification of expenses by purpose-function, sector or ministry). |
| ✓ | ✖ | | Spending projections by function | |
| ✓ | ✖ | | Disaggregated income projections | |
| ✓ | | | Spending projections by program | It adds elements of program- and results-based budgeting to the previous framework. |
| ✓ | | | Result projections | |

*Source*: Filc and Scartascini (2008).
MTEF: medium-term expenditure framework.
MTBF: medium-term budgeting framework.
MTFF: medium-term fiscal framework.

In the countries of the region, progress on this indicator has been more homogeneous and sustained, unlike what occurred with the indicator for the fiscal responsibility law. Of the 24 countries evaluated in 2013, only four lacked implemented and/or consolidated policies and practices for preparing a medium-term fiscal framework (Belize, the Dominican Republic, Haiti, and Suriname). The other countries have advanced, with slight differences. Meanwhile, some countries, such as Argentina, Brazil, Colombia, Mexico, and Nicaragua, have a high level of disaggregation of medium-term instruments.

Nonetheless, it is not clear whether the MTBF is used in all cases as a frame of reference for preparing the annual budget and is in turn the link to medium-term planning. The ministries have implemented MTBF, but it would be necessary to analyze if this responds to a bureaucratic fad, or if they are really useful as instruments of fiscal planning and support for the financial viability of the strategies proposed in the development plan. In several countries the MTBF is submitted to congress along with the proposed annual budget, but it is not evaluated by the congress.

### Fiscal Responsibility Laws

Fiscal stability is an important factor in RbB implementation because it mitigates fluctuations in the economic cycle and makes income and expenses predictable. The regulations for fiscal responsibility laws usually include the design of medium-term frameworks and, in some cases, quantitative rules.

Quantitative rules for fiscal responsibility aspire to create confidence among economic agents since the indicators and goals pursued are consistent with medium-term fiscal sustainability, and therefore create certainty in investment decision making. The aim is to control the growth trend in variables such as the level of indebtedness, current spending or the functioning of public spending, whether in absolute numbers or as percentages of some other macroeconomic

**TABLE 4.7 | Fiscal Responsibility Laws and Countercyclical Policy Mechanisms by Country**

| | |
|---|---|
| Countries with a fiscal responsibility law | Argentina, Belize, Brazil, Chile, Colombia, Jamaica, Mexico, Panama |
| Countries with countercyclical policy mechanisms | Nicaragua, Peru, Suriname, Trinidad and Tobago |
| Countries without a law or countercyclical policy mechanisms | Bahamas, Barbados, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Paraguay, |

variable (e.g., GDP). In addition, when fiscal sustainability is sought, these rules also provide tools for adopting countercyclical policies. The simplest version of fiscal responsibility consists of imposing quantitative limits. A more advanced version is, for example, the structural balance rule used in Chile.

It is also important for fiscal responsibility laws to include exit rules, that is, rules for exceeding quantitative limits. Such rules provide the country with a management margin in the event of unforeseen problems, thus making it possible to comply with the law and providing greater credibility.

It should be noted that, despite not having a fiscal responsibility law, some countries have developed or put in practice countercyclical policy mechanisms (for example, Trinidad and Tobago, with the management of some extra-budgetary funds, such as the Heritage and Stabilization Fund)[3] or public indebtedness laws (such as Nicaragua's Law 477 on Public Debt).

From the PET application, it can be seen that, despite the vulnerabilities to which the countries of the region are exposed, there is no homogeneity in this area. Some countries, such as Brazil, Chile, Colombia, Mexico, and Panama, have consolidated their fiscal responsibility regulations; one country revoked its fiscal responsibility law (or increased its fiscal vulnerability) and another does not have either a fiscal responsibility law or a countercyclical policy mechanism.

### *Evaluation of Spending Effectiveness*

The evaluation of spending effectiveness or spending performance information is what differentiates RbB from traditional, linear or incremental budgeting. That evaluation consists of analyzing the performance of institutions, programs, and projects in their use of public resources, that is examining and evaluating the results obtained and making decisions based on that analysis.

To evaluate spending effectiveness, it is necessary to have a monitoring and evaluation system based on two elements: (i) a system of physical and financial monitoring of budget implementation and of public budget management results and impacts, and (ii) assessment studies that make it possible to identify and explain the results of government action.

Two types of cases of the use of information on results in the budgeting process should be pointed out: (i) those in which information is presented with the sole aim of making management more transparent, without relating results to decision making, and (ii) those in which results are used effectively,

[3] For more details, see http://www.finance.gov.tt/legislation.php?mid=6#hsf.

**TABLE 4.8 | Scores on Indicators for the Spending Effectiveness Evaluation Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Evaluation of spending effectiveness | 0.9 | 1.3 | 0.4 |
| 1. There is a law regarding evaluation of spending results, and it promotes spending quality. | 2.3 | 2.5 | 0.3 |
| 2. There is a system of performance indicators to measure spending results. | 1.4 | 1.9 | 0.5 |
| 3. The performance indicators have broad coverage. | 1.1 | 1.5 | 0.5 |
| 4. The indicators were prepared jointly with the ministries/ secretariats. | 1.5 | 2.0 | 0.5 |
| 5. Self-assessments have been done on the system of performance indicators. | 0.8 | 1.1 | 0.3 |
| 6. External assessments have been done on the system of performance indicators. | 0.5 | 0.7 | 0.3 |
| 7. Decisions are made taking into account the performance indicators. | 0.8 | 1.1 | 0.3 |
| 8. A percentage of the programs satisfactorily meet their objectives. | 0.4 | 0.7 | 0.3 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

together with complementary information, to decide on budget allocations. For the latter to occur, it is necessary to have formal procedures for using information, define institutional responsibilities related to fulfillment of objectives, and ensure that the information used is relevant to budget allocation (Marcel, Guzmán and Sanginés, 2014:162; Robinson, 2011).

Some organizations have used the term "presentational performance budgeting" for the first case and "results-based budgeting or performance-based budgeting" for the second (Marcel, Guzmán and Sanginés, 2014). The first type of budget is "informative" because there is no connection between performance information and resource allocation; the second is "supported" because there is an indirect connection between the two elements. There is also a third case, which occurs when resource allocation is based exclusively on past performance information. This is termed "formula-driven results-based budgeting" because there is a direct connection between performance information and resource allocation. This last type has been used only in the education and health sectors in South Korea.

The average for this component increased slightly (by 0.4 points), going from 0.9 to 1.3. This sluggish evolution between 2007 and 2013 explains the meager progress that results-based budgeting has made. Although several

countries have regulations making spending performance evaluation compulsory, in practice this does not always take place.

The requirements that show a higher level of growth (0.5) have been those with a system of performance indicators to measure spending outcomes and indicators prepared jointly with the ministries/secretariats. Only three of the 24 countries analyzed exhibited a high level of development in 2013, whereas in 2007 this figure was two of the 24 countries. The countries that made the most progress in this area during the period under analysis are: Argentina, Honduras, Mexico, Paraguay, and Uruguay.

### *Incentives for Management Effectiveness*

The PET indicates that incentives are an important part of RbB and results-based development management (MfDR) because they contribute to creating a culture based on obtaining results. This culture is created by introducing rules of the game that lead individuals and institutions to take action as a function of the achievement of institutional objectives. Incentive mechanisms can be classified according to the number of recipients (individual or collective) and according to the type of incentive (monetary or non-monetary). The diversification or combination of incentives enables greater alignment of public offices and officials with institutional and national objectives.

The main types of incentives examined by the PET are detailed below:

- *Individual monetary incentives*: These mechanisms consist of monetary recognition of individuals, tied directly to the achievement of objectives. The recognition can take the form of promotions, differentiated salaries, annual bonuses, and others.
- *Collective monetary incentives*: These mechanisms consist of monetary recognition of institutions, tied directly to the achievement of objectives. Recognitions can take the form of funds available through competitions among institutions, funding of institutional projects, additional funds, and others.
- *Individual non-monetary incentives*: These mechanisms consist of non-monetary recognition of individuals tied directly to the achievement of objectives. For example, they can take the form of public recognition of individual achievements (within the institution).
- *Collective non-monetary incentives*: These mechanisms consist of non-monetary recognitions of institutions, and they are tied directly to the achievement of objectives. They can take the form of public

**BOX 4.5 | Best Practices in the Evaluation of Spending Effectiveness in LAC: The Cases of Chile and Mexico**

Chile is the most relevant case, despite its only fair progress (0.5) over the 2007–2013 period. Since 1997, it has incorporated into the Budgeting Law the requirement of an annual evaluation of public budgeting programs. For this purpose, the Budget Office (DIPRES) relies on the Management Control and Evaluation System (SECG), an instrument that differentiates Chile from the other examples of RbB in the region. There are also legal provisions geared to improving spending quality, including a system of performance indicators. These indicators are applied to 93 percent of total spending. It should be noted that the number of public services rose from 139 in 2007 to 154 in 2012, an increase of approximately 10 percent.

Among the advances made in recent years, the following should be highlighted: (i) the focus of the evaluations has been modified to analyze the results in greater depth; (ii) the program classification has been modified to include categories more closely associated with evaluation results than with implications, with the aim of making performance levels more explicit and thereby making it possible to better relate resource allocation decisions to effectiveness and efficiency; and (iii) the process of commitment monitoring and follow-up has been redesigned so that, if a program's performance is rated as "poor," it must submit to an ex ante evaluation. Using this procedure enhances the evaluation cycle.

Mexico is the other case that should be highlighted. Mexico made significant progress in the five-year period under analysis, in terms of both results-based management and RbB. Among the advances made in RbB, are the strengthening of spending effectiveness indicators by applying self-assessments using the Result Indicator Matrices (RIMs) in the offices and entities of the Federal Public Administration (FPA), and by implementing the Annual Evaluation Program, the FPA's General Guidelines for the Evaluation of Federal Programs, and the agreement that establishes the general provisions for the Performance Evaluation System (PES).

In the Mexican model, performance indicators serve as the basis for PES functioning, and they are part of the RIMs, which measure the functioning of the responsible units within the respective institutions, whether secretariats (ministries) or federal entities (Takahashi-Iturriaga, 2013).

If the analysis is disaggregated, it can be seen that more than the 80 percent of the federal budget is structured by program and linked to NDP goals and targets and sectoral programs. Currently, the system of indicators for results is applicable to all spending, including debt service. Actions to improve the indicators have also been taken. For example, in 2011, as part of the "Program to Strengthen the Review, Refinement, and Integration of Indicators for Fiscal Year 2011," the Evaluation Unit, together with internal oversight offices, reviewed 107 RIM budget programs corresponding to 51 institutions.

In 2007, the Secretariat of the Treasury and Public Credit (SHCP) defined budget performance indicators. However, since 2012, these indicators have been prepared jointly by the SHCP and PFA offices and entities. Through MIR construction, the spending executors that use federal public resources must align budget programs with national planning, in keeping with Article 27 of the Federal Law on Budget and Treasury Responsibility (LFPRH).

recognition of the institutions' achievements, transfer of additional responsibilities to good-performing institutions, and others.

This component of the RbB pillar has seen the least progress. Only slight progress was seen over the 2007–2013 period, with the score rising from 0.6

to 1.0. From the analysis of the PET application, only two countries, Brazil and Chile, have introduced the incentives described above in an effective and sustainable way. Mexico has taken significant steps but still needs to improve. Ecuador, Peru, and Uruguay have all taken significant steps in the same direction. The remaining countries have made practically no progress, for two reasons: (i) a lack of political will, and (ii) the idea that the public sector does not require incentives to carry out the political, legal, and administrative responsibilities assigned to it.

In several cases, it was detected that those most reluctant to introduce incentives were the officials responsible for managing public finance, due to the fear that such incentives could generate specific increases in public spending that would become permanent and recurrent. In this context, both individual and collective monetary incentives are especially cited. The incrementalist trend in budgeting, and the subsequent "tradition" that all new spending will become an ongoing part of future budgets, has been the cause of coordinating agencies' scant interest in incorporating monetary incentives.

### *Dissemination of Budget Information*

The public should be informed in a timely fashion regarding the different stages of budgeting: from the preparation of the budget proposal, its approval, implementation, and evaluation, to the opinion of external auditors. This makes it possible to: (i) make the use of public resources transparent by informing citizens about their use and the results achieved, (ii) improve the participation of civil society organizations in State management, thanks to better knowledge about the operation of the public budget, and (iii) empower the public to influence policies and programs and duly follow up on them with a clear understanding of the actual functioning of public administration.

**TABLE 4.9 | Scores on the Indicators for the Management Effectiveness Incentives Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Incentives for management effectiveness | 0.6 | 1.0 | 0.4 |
| 1. Mechanisms that incentivize efficiency and effectiveness in the management of institutions. | 0.8 | 1.2 | 0.4 |
| 2. Percentage of the total budget (investment and current) that applies these mechanisms. | 0.5 | 0.9 | 0.4 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

Given the technical nature of this type of discussion, budget documents available to the public should be accompanied by outlines, summaries, and guides that facilitate reading and analysis. The requirements used in the PET in this area involve observing whether the information produced in the different stages of the budgeting process is available to the public in a clear and timely fashion, making it possible to relate spending to the objectives and policies laid out in the plans.

This component of the RbB pillar has advanced the furthest. Although there was only a slight increase, from 2.7 to 3.0 points, in the score during the period under analysis, within this component the requirement that saw the most progress (0.7) is making budget information available to the public. There was modest or negligible progress on the other components. From the analysis, it can be inferred that there have been advances in publishing budgets online, but similar advances have not occurred in the quality of the information published or in its simplification so that citizens can understand it.

The findings show that, in 2013, 12 of the 24 countries under analysis showed considerable development in this component. The use of technology has benefitted this practice with the creation of portals for budget and fiscal transparency. According to the World Bank (2013), in several countries of the region, good practices are applied for financial information and budgeting, which corroborates figures in the PET.

One could say that there is a consolidated practice, since, when the requirement to make budget information available to the public is analyzed, in 2013, the task of making budget information public had reached a certain degree of development, implementation, or consolidation in 21 of the 24 countries studied. What usually occurs is that the budget proposal and

**TABLE 4.10 | Scores on the Indicators for the Budget Information Dissemination Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Information dissemination | 2.7 | 3.0 | 0.4 |
| 1. Information on the budget is made available to the public. | 3.3 | 4.0 | 0.7 |
| 2. The information makes it possible to identify categories in line with government objectives. | 2.3 | 2.7 | 0.3 |
| 3. Financial statements are available to the public. | 3.0 | 3.2 | 0.2 |
| 4. The information makes it possible to identify spending according to plan categories and priorities. | 2.0 | 2.2 | 0.2 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

the approved budget are disseminated through the websites of the respective ministries. Budget implementation reports are also published. In the final stage—audit reports following implementation, which is entrusted to the respective controllers—publication is less regular and less public. Five of the 24 countries analyzed in 2013 were not producing state financial statements, whereas in the 2007 evaluation, six were not.

## Conclusions and Future Challenges

Some basic conclusions that support the ideas regarding actions to improve RbB implementation discussed in this chapter are presented below. It should be emphasized that this pillar cannot be developed independently from the others, since all of them are part of the macro-processes that comprise the results-oriented model of public management and are therefore closely interrelated.

### *Conclusions*

A first conclusion is that the evolution of this pillar was slow in the countries studied during the 2007–2013 period, both in general and for each component. The cases of Honduras, Mexico, and Uruguay, with growth equal to or higher than 1 point, are noteworthy. Mexico and Peru joined the group of the most advanced countries, while Honduras moved up from the low to the intermediate level. In the case of Honduras, the growth occurred thanks to the broader application of program-based budgeting, whereas in Mexico and Uruguay the increase in the score on the overall indicator can be explained by the introduction of incentives and the progress made in evaluating effectiveness (an area in which it slightly surpassed the other countries). Following the two evaluations done using the PET, 83 percent of the 24 countries studied are still in a low degree of development of RbB implementation, with the exceptions of Brazil, Chile, Mexico, and Peru.

A second conclusion is that the explanation for the slow progress made in this pillar, which is essential to an MfDR model, lies in the degree of achievement of its components, as well as in the impact of the progress attained in other pillars. In the case of its components, the meager progress is due in part to poorly developed monitoring and evaluation systems and weak implementation of program-based resource allocation.

Other explanations include the slow evolution of strategic planning, which conditions the setting of budget goals and targets; the weakness of

the monitoring and evaluation systems; and the high degree of centralization of budget implementation procedures, which take away management capacity from those responsible for the programs. Among those procedures, the limited powers granted to political and institutional management levels to approve budget modifications and intervene in contracts for goods and services should be noted. The figure of a program manager as the center of the decision-making process—in the framework of the policies defined—is not developed well enough in most of the countries.

A third conclusion is that the degree of RbB implementation is closely related to the degree of maturity achieved by the institutions of the country in reaching consensus on policies, agreements, and projects based on indicators and resilient over time. As has been pointed out in numerous specialized articles, results-based budgeting and management involve a cultural change, a change in the ways and the processes used to make decisions. The question asked by Besrest (2012) bears repeating: Is this a cultural evolution or a cultural revolution?

Finally, to paraphrase Marcel (2009) on the question of whether RbB is a bureaucratic fad or a new paradigm of public management, the results of the evaluations show that, except for five countries, the answer possibly involves a combination of the two. Nevertheless, national budget offices need to strengthen change management to assimilate the fact that these processes call for leadership, persistence, and consistency if they are to break away from the inertial allocations that fund what institutions do and must continue to do. Under the new paradigm, RbB introduces elements that combine both technical and political incentives, in an effort to merge inertial allocations with incremental ones. This is a political decision.

## *Future Challenges*

### The Linkage between Planning and Budgeting

This is a recurring issue in Latin America, and there is still a great deal of ground to cover. No country has attained the maximum rating of 5, and the average barely reaches 52 percent of that figure. Without exhausting the different aspects that have hampered the linkage between planning and budgeting, the following areas of divergence must be addressed.

From a methodological standpoint, two situations must be resolved. First of all, the categories used in the plans are not compatible with the categories with which budgets are structured. This makes it difficult to express policies and plan priorities in the latter. The structure of budget programs

does not have to be identical to the structure of the programs in the plans, but criteria to link the two types of programs must be defined.

Second, even though public production is the point of operational connection between planning and budgeting, that connection is not always linear. A single output can contribute to achieving different results, and a single result can be achieved by different outputs. Thus, for example, an animal sanitation output can contribute to achieving results related to livestock exports, and reducing the school dropout rate can be related to the capacity of educational services, as well as vaccination and school nutrition outputs and parents' monitoring of their children's homework. In other words, the outputs-results relationships can be multi-causal, whereas the inputs-outputs relationships considered in budgets are causal because if a combination of inputs is used in given quantities and qualities, it is possible to know with certainty that the expected output will be obtained with the expected quantity and quality. These aspects should be considered when performing both ex ante and ex post evaluations of the achievement of results and their ties to public production and the financial resources allocated.

With respect to timelines, there are operational elements that conspire against linking the two instruments. For example, development plans are multi-annual, while budgets are annual. The introduction of MTFFs will make it possible to relate medium-term planning to annual budgets to the extent that those frameworks are disaggregated to the level of priority programs and can to serve as the basis for budget formulation and its subsequent discussion by the legislative power.

Institutional arrangements are another aspect involved in linking planning and budgeting. In most Latin American countries, the institutions for planning and budgeting have competed for power and continue to do so. Today, both institutions are the result of collective processes in which multiple players tend to put their own interests above those of the collective. Furthermore, other players, such as the legislative branch, also participate in budget implementation. Each negotiation introduces more elements of conflict than of convergence, given that "[a]ctors involved in budget negotiations have their own views about the needs of society and the benefits and costs of certain policies. They may also have incentives to support different programs according to their aspirations and their roles in the political process" (Hallerberg, Scartascini, and Stein, 2010:1).

Defining the institutional location and relationships of the coordinating offices for the planning and budgeting systems is a topic that must be discussed. There are no administrative "magic formulas" for how to arrive at this

definition. It depends on each country's reality and political will. However, one model to be analyzed is that of Brazil, the country that has led the way in linking planning and budgeting in Latin America.

### Roles of the Legislative Branch and Oversight Agencies

RbB calls for an in-depth review of the roles currently played by the legislative branch and external oversight agencies. In terms of budget approval by the legislative branch, it is necessary to move beyond the traditional criterion of analyzing and approving a "set of maximum spending authorizations" (as established in most of the budget legislation currently in effect), to concentrating on the analysis of historical financial variations, to approving "what the State must do with the resources projected." This means that in the legislative discussion, priority should be granted to evaluating the goods and services that are to be produced by public institutions and their relationship to the demands of society, and to defining the required levels of spending accordingly. This also supposes that accountability to the legislative branch for budget management will be based on production, results obtained, and resources actually used for that purpose. To that end, a process to endow that power with more technical expertise must be undertaken, creating budget offices—similar to the U.S. Congressional Budget Office (CBO)—to provide technical know-how and support to legislators' decisions. These offices "offer an alternative to strengthen the technical and institutional capacities of parliaments so that they can carry out their fiscal responsibilities more effectively and responsibly" (Santiso and Varea, 2013: 20). In some Latin American countries, such an office already exists and is providing an important service. Examples include Brazil, Honduras, and Mexico, as well as the experience of the Dominican Republic for a few years and those of Chile, Costa Rica, and El Salvador. To make the "technification" process for the legislative branch and especially the generalization of technical offices sustainable over time, it is necessary to concentrate technical assistance actions there.[4]

The existence of RbB calls for redefining the role of oversight agencies. Even though they should continue to audit accounting records and verify the integrity of the use of public resources, they should prioritize evaluation of compliance with the scheduled public production and achievement of the results and impacts projected in the budget. For that purpose, operational

[4] To expand this discussion, see Santiso and Varea (2013).

audits should be added to the traditional documentation-based guidelines and standards, as well as studies and surveys on the results and impacts that the public sector has had on the population.

### Aspects of Budgeting Techniques

With respect to budgeting techniques, three steps should be highlighted. The first is the need to develop a conceptual model to budget by program and to incorporate the International Monetary Fund's Government Finance Statistics Manual. The basic elements of that technique should make it possible to identify the output of goods and services and their ties to the results and the resource requirements (Arrieche, Makón, and Matus, 1979; Marcel, Guzmán and Sanginés, 2014; Robinson, 2011, 2014).

To achieve this, it is necessary to strengthen and expand the use of the public value chain, clearly distinguishing the characteristics of the causal relationships of input-outputs and the multi-causal relationships for outputs-results-impacts, as analyzed previously. All of this must be done without relinquishing the use of the logical framework as a project programming tool.

Once the program is well defined and conceptualized, the second step is to position it as a basic element of budget programming. This is what Argentina, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua and Peru are now doing.

Finally, the third step, which represents a significant qualitative leap, is the implementation of instruments (matrices) of indicators to monitor program spending. Again, this requires joint efforts by the budget coordinating office and the sectoral level. To that end, it is essential that, within the framework of reforms of financial management systems, expenses should be recorded when accrued as a key variable in measuring financial progress in budget implementation, while at the same time serving as the basis for determining costs by outputs.

Once these three stages have been implemented, a subsequent step will be to include policies, methodologies, and instruments of evaluation. Moving forward, it will be necessary to focus on different types of evaluation that are ultimately aimed at institution-building processes.

### Legal Framework

Although all of the countries have legal provisions in the area of budgeting, only a few have regulations for results-based budgeting in general and for budget programs in particular.

To provide a legal framework for the processes to implement results-based management legal provisions in the area of results-based budgeting should be formulated. Specifically, there is a need for regulations on performance contracts and on expanding monetary and non-monetary incentives.

Performance contracts make it possible to define the commitments made by public institutions in the area of compliance with policies and production goals, targets and results; the resources allocated; and the incentives that they will receive if they fulfill their commitments. Therefore, performance contracts are an essential tool in the processes of budget formulation and evaluation of budget implementation. To complement them, the use of incentives should be generalized. It is not possible to propose improvements in budget management if administrative treatment is similar for all public offices, whether they perform efficiently and effectively or not and fulfill objectives and comply with policies or not. The same is true with respect to public officials and employees: it is necessary to motivate and encourage efficient and effective officials and employees, and to distinguish them from those who are not.

### Institutionalization of the Evaluation of Spending Effectiveness

From the analysis, it is evident that only Brazil, Chile, and Mexico have implemented spending effectiveness evaluation policies using evaluation instruments and methodologies. In this area they are quite a bit more advanced than the other countries, which have still not reached the halfway point in this area.

In fact, the budgeting literature has only recently begun to pay attention to the evaluation stage, partly because this stage is associated more with planning and public investment programs than with budgeting. Therefore, the incorporation of evaluation methodologies as a multipurpose tool, i.e., their use at several stages of budgeting, is an institutional challenge for the countries, because to implement them requires officials to have considerable training, decision makers to develop a sense of ownership, and personnel with specific technical skills. Still, it must be kept in mind that the findings yielded by the evaluation will not necessarily be acknowledged in political circles.

In any case, it has been proven that applying robust expenditure monitoring and evaluation policies leads to making the theory of spending quality operational to make spending more effective and efficient.

The institutionalization of an expenditure monitoring and evaluation office would make a substantial contribution to RbB implementation.

### Evaluation of Fragmentation, Duplication, and Overlap in Public Spending Programs

The evaluation of spending effectiveness also involves assessing fragmentation, duplication, and overlap in public spending.[5] Government policies and projects in the region are plagued with examples of duplication or overlap. However, they have not been given the importance they deserve because they affect interests. Even though this is an administrative reform issue, it is still a key problem that impacts the efficiency and effectiveness of public spending. A typical case in several countries is attention to health problems, in which the respective ministries and the social security institutions work with similar programs in the same geographic areas.

In the United States, evaluations of duplication, fragmentation, and overlap in public spending are conducted annually by the General Accountability Office (GAO), which has rules to guarantee its independence. The conclusions and recommendations are implemented throughout the institutions identified in duplicated projects, to safeguard the sound use of the resources of American taxpayers.

As seen previously, in the case of Chile, an institutional evaluation is also done to assess the degree of consistency in the application of policies and programs among institutions. However, that evaluation does not encompass what is needed here, at least not in the way that the GAO evaluation does.

These evaluations should be performed by the offices in charge of the budget system, in close coordination with the offices in charge of public sector management or administrative reform.

These studies are deemed to attack the problems of public spending efficiency and effectiveness at their roots, and they constitute a major challenge to budget institutionalization.

### Rigidity in Budget Administration

One obstacle that budgets face is the high degree of rigidity found in budget implementation and administration. The more centralized the budget

[5] Fragmentation occurs when more than one government institution (ministry, secretariat or department) is involved in a single area or sector with national needs and there are opportunities to improve service delivery. Overlap occurs when several government institutions or programs (ministries, secretariats, or departments) have similar objectives and beneficiaries and participate in similar or strategic activities to achieve the proposed objectives. Finally, duplication occurs when two or more government institutions or programs (ministries, secretariats or departments) are involved in the same activities or provide the same services to the same beneficiaries (GAO, 2013, 2014).

administration, the higher the degree of data aggregation in budget formulation in an attempt to "escape" the rigidity. Institutions are obliged to meet goals and targets, but resource management is centralized in the offices in charge.

In most countries, the program managers that are responsible for producing goods and providing services with the best quality possible do not have the power to manage budgets. In the area of budgeting per se, approval of modifications to resource allocations and periodic spending quotas is centralized. Rigidity does not only appear in the area of budgeting, however.

The processes for contracting or procuring real (human and material) resources are excessively regulated and oriented almost exclusively to monitoring integrity in the use of resources. Without removing the controls necessary in the processes of contracting and procuring real resources, it is necessary to address decentralization processes. Doing so implies a reassessment of the role of program managers.

In sum, decentralizing certain aspects of budget administration and revising the roles of program managers will help to substantially improve the quality of results-based budget programming.

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CHAPTER 5

# Public Financial Management

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## Introduction

Public financial management (PFM) is the group of administrative elements in public organizations that make it possible to capture resources and apply them to achieving public sector goals and targets. They encompass the principles, regulations, agencies, resources, systems, and procedures involved in the programming, management, and control operations required for both capturing and spending resources (Makón, 2000).

Although PFM objectives overlap with those of macrofiscal policy, it is important to clarify that they are not the same. The aims of macrofiscal policy are macroeconomic stability and sustainable growth, while the aims of PFM are fiscal discipline, spending efficiency, transparency, and improved overall public management (Hemming, 2013).

This chapter focuses on some of the main areas of PFM related to the execution of public spending, including treasury, accounting, public procurement and contracting, and auditing and control. Some of the main global trends and good practices for each of these areas are discussed briefly below.

## Global Trends and Good Practices in Public Financial Management from the Perspective of MfDR

The main PFM trends in the Latin American and Caribbean (LAC) region involve changes that are, generally speaking, geared to achieving greater transparency, efficiency, and quality in public spending and that are based

on international standards. The instruments and criteria that prevail in current practices are discussed briefly below.

### *Management of the Treasury*

#### Treasury Single Account (TSA)

To ensure sound treasury management, the LAC countries have been adopting the concept of a treasury single account (TSA) since the 1980s. The TSA is a unified structure for government accounts that facilitates the consolidation of cash balances and the optimization of their use, which allows ministries of finance to supervise government cash flows and improve budget monitoring and control. The TSA consists of an account, or a group of interrelated accounts, through which the government handles all of its revenue and payment transactions and obtains a consolidated panorama of its cash position at the end of each day. The TSA is based on the principle of expendability of all cash, regardless of its end use (IMF, 2010). In this way, treasury offices are much more than offices in charge of making payments and are instead financial management offices that administer the entire financial cash flow.

Under this concept, the benefits of a TSA go beyond financial control. They promote significant improvements in public spending management and transparency and also reduce the opportunity cost of maintaining financial resources idle in fragmented and disconnected bank accounts. According to Williams, the establishment of a TSA is one of the first steps in the development of modern cash management (IMF, 2013).

#### Active Cash Management

Another important trend in treasury management consists of promoting sound coordination and complementarity between the policies of the treasury and of the central bank, to align active cash management with monetary policy. The development of modern and efficient cash management affects the central bank and commercial banks. This calls for appropriate governance models to manage monetary conditions and requires a broader relationship between the treasury and the central bank, structured with different levels of coordination (IMF, 2012).

### *Harmonizing Accounting with International Standards*

With respect to public accounting, the entire LAC region is currently engaged in a process of transformation to harmonize accounting with international

standards. This includes a shift from cash accounting to accrual accounting and a more detailed and updated register of assets and liabilities (with the corresponding depreciation and provision), which is shaping a new paradigm for public accounting (Chan and Zhang, 2013). This process's consolidated accrual accounting[1] is fundamental for the transparency and credibility of public finances and the calculation of fiscal results, to avoid the possibility of fiscal illusion.[2]

Most LAC countries have been making progress in adopting standards of their own, aligned with the International Public Sector Accounting Standards,[3] which are one of the main references in this process of public accounting convergence. The greatest challenge in this process is the implementation and sustainable operation of accounting harmonization, beyond regulation. This calls for including changes in the countries' financial management systems and developing the stronger institutional capabilities required for continued operation over time.

One of the expected impacts of this process of accounting modernization is expanded use of accounting for decision making, with a view to achieving more efficient spending, and accounting entries and financial balances that will contribute to better cost accounting in LAC countries.

### *Modern and Transparent Systems of Procurement and Contracting*

The procurement and contracting system plays a key role in PFM by promoting efficiency, effectiveness, and transparency in public management. An appropriate and agile procurement system enables the institutions that

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[1] *Accrual or proprietary accounting* is that which, in addition to annual economic and financial flows, includes updated information on the assets, rights, and obligations of the entire public sector. Net worth comprises a positive part (assets), composed of goods (material or tangible elements) and rights (intangible elements), derived from public sector legal relationships, and a negative part (liabilities) composed of obligations. The calculation of assets minus liabilities yields net worth.

[2] *Fiscal illusion* occurs when the sources of public revenues are not completely transparent or are unknown to taxpayers. This means that government costs are perceived as lower than they actually are. Due to the fact that taxpayers benefit from the expenses funded by those revenues (unknown or hidden), the public's demand for larger spending increases provides incentives for politicians to increase government spending.

[3] The International Public Sector Accounting Standards (NIC-SP) can be found in the *Handbook of International Public Sector Accounting Pronouncements* (IFAC, 2013), produced by the Council for International Public Sector Accounting Standards of the International Federation of Accountants (IFAC).

implement programs to provide quality goods and services, on time and at a reasonable cost, all of which contributes to greater effectiveness in public management.

In this context, there is increasing understanding that an effective procurement system plays a strategic role in helping governments to avoid wasting public resources. On the basis of this concern, the Organisation for Economic Co-operation and Development (OECD) has defined 10 principles for preserving the integrity of government procurement systems and has grouped them in four areas: (i) transparency, (ii) good management, (iii) prevention of misconduct, compliance and follow-up and (iv) accountability and control (OECD, 2009).

The area of public procurement and contracting has seen the greatest progress in LAC in the past two decades, both in terms of transparency of the processes (*e-government procurement*) and implementation of new approaches to procurement, such as framework agreements and electronic reverse (lowest-price) auctions. In addition, public procurement has become increasingly consolidated as a strategic government process in the region. However, implementation of transactional public procurement portals remains a huge challenge, since—as will be seen further on—only six countries in the region have made progress on this new business platform (OECD and IDB, 2014).

### *Integrated Financial Management Systems (IFMS)*

All of the areas briefly summarized in the preceding paragraphs are handled through the region's integrated financial management systems (IFMSs). IFMSs are information systems that automate the financial procedures needed to record the revenues collected and apply them to the achievement of public sector objectives. These systems began to function in the 1980s, especially as a way to improve the recording and monitoring of public spending in response to the fiscal and macroeconomic crises of the time, and they have made a major contribution to economic stability and fiscal responsibility in recent decades (Pimenta and Farías, 2012).

Currently, IFMSs are present in most LAC countries. Although they have contributed to a substantial improvement in public financial management and have evolved conceptually and technologically, in the future it will be necessary to move toward more modular and flexible systems, integrated with other public spending functions and focused on management and on support for decision making.

## *Control and Auditing Systems*

### Strengthening of the Capacities of Supreme Audit Institutions

As for the areas of government control and auditing, the LAC region has seen a profound transformation in recent decades. It has been aimed at strengthening the capacities of the control organizations, both external—supreme audit institutions (SAIs)—and internal, whether these are single agencies recently established or the agencies and offices of control and internal auditing of the different units of public administration.

The changes have been quite varied and have consisted of interventions of different kinds and scopes. Likewise, the results have been very heterogeneous. Thus, in the region there are currently countries that have robust, advanced systems of control, many of whose features are comparable to international standards, while others have more significant weaknesses, with systems of control scoring lower than the average for other PFM actors and processes.

Generally speaking, the interventions and transformations that have occurred in the area of control can be divided into three categories, in keeping with the main objectives pursued: *effectiveness, efficiency, and transparency*.

*Effectiveness* reforms are those geared to improving the effectiveness of the government's control efforts. These reforms constitute the core business of the control and oversight agencies, and the interventions have centered on improving the processes, systems, and methodologies applied to mission and non-mission tasks. Thus, for example, several SAIs have been endowed with integrated management and quality control systems that combine in a single platform all of the management processes associated with the control function. In this same aspect of modernization of the control agencies' core business, major efforts have been made in the areas of modernization and methodological standardization.

One of the features of government control, whether external or internal, is the high degree of dissemination of good practices and international standards. Thus, for example, with respect to external control, the International Organization of Supreme Audit Institutions (INTOSAI) has generated the International Standards for Supreme Audit Institutions (ISSAI) at four major levels. These are, from the most general to the most specific: (i) the Declaration of Lima, which outlines the core concepts of SAIs worldwide; (ii) the INTOSAI Code of Ethics; (iii) the INTOSAI auditing standards, which contain the basic assumptions for performing audits; and (iv) the INTOSAI implementation guidelines, which include recommendations and good practices with a good degree of detail. In general, the SAIs of the region have advanced a

great deal in aligning their methodologies with international standards. This has been one of the key concerns in SAI modernization processes.

Despite the relative homogeneity of SAIs with respect to that of other agencies, the models that have been adopted in LAC are quite varied and can be classified in three major categories: (i) the Anglo-Saxon or Westminster model, which is preferred in countries such as Chile and Peru and is characterized by the figure of a comptroller with great visibility, authority, and independence but accountable to the parliament; (ii) the judicial or Napoleonic model, which has been chosen by countries such as Brazil and Colombia and is independent of both the executive and legislative branches; and (iii) the collegiate executive model, which is used in Argentina.

Regardless of the model, there are some essential elements for the sound functioning of the external government oversight agencies: (i) a sound legal basis that guarantees their existence, if possible in the national constitution itself; (ii) functional, organizational, and financial independence; (iii) a clear, broad public mandate, enabling all public resources (both income and expenses) to be audited; and (iv) an effective mechanism for monitoring external oversight recommendations to ensure the effective contribution and impact of such control.

### Transformations in Governments' Internal Audits

First of all, internal control or oversight has been guided by alignment with the Committee of Sponsoring Organizations (COSO) standard,[4] although the results have been much more limited and fragmented. In general, one of the serious problems facing the region with respect to its oversight capabilities is the significant asymmetry between capabilities for external control and those for internal control. This comes primarily from the situation with respect to State organizational structure: external control, which is—as its name implies—outside of the executive branch and usually has much sounder financial resources than those of internal control, which rely on the general resources of the executive branch. This difference in the origin of funds usually extends through all of the aspects of the control systems' capacity and quality. External oversight agencies have more resources, better-trained personnel, and a much better-defined mission and relevance. However, given its systemic situation within the processes of public policies, internal oversight offers more room for prevention (in the fight against corruption) and of

[4] The COSO standard, unlike the INTOSAI regulations, does not emanate from an international agency that defines good practices; rather, it is the result of the evolution of a 1987 COSO report and is internationally recognized as a standard in the field.

orientation and improvement of management (in efficiency efforts). Strengthening and improving internal control is undoubtedly one of the PFM issues pending in LAC for the coming years.

Second, several of the transformations in government control have been aimed at strengthening its role in improving the spending cycle, not so much by calling attention to legality issues but rather by optimizing efficiency and performance. This task has mainly—although not solely—been implemented through so-called performance audits, also known as management and operational audits. Unlike compliance and financial audits, these seek to offer recommendations for improving management and maximizing the impact of public resources. The results of these interventions have been quite varied, as has the effort to perform the audits satisfactorily. Thus, it is necessary to have systems that encourage expenditure quality not only in the control aspects, but also in others, such as results-based budgeting, determining indicators, monitoring and reporting systems, and others. Likewise, performance audits, although well-intentioned, can lead to distortions among public financial management actors if their roles and responsibilities are not well defined (Waring and Morgan, 2007). For example, in a region such as LAC, where implementation of the public investment budget represents a serious problem, a poorly gauged performance audit intervention can entail more disadvantages than advantages because of a weak contribution to improved management and a heavier auditing burden, which is often cited by public administrators in the region as one of the causes of poor budget implementation (together with related ones such as public procurement and inflexible contracting systems).

A third area of transformation of government control has been the focus on transparency. Traditionally centering on the task of control, in recent years, oversight agencies have opened up and made information publicly available. That transparency and accountability effort, which often occurs through transparency portals, public spending observation groups and similar initiatives, has been fundamental in giving new uses to the enormous amount of information compiled by oversight agencies. Thanks to the public's access to this information, the oversight agencies are gradually becoming tools for strengthening the exercise of rights and responsibilities by the public.

### *Final Comments*

In recent years, a paradigm shift has occurred in all areas of public financial management. In the 1980s and 1990s, the highest priority was to produce information for greater fiscal control, especially in view of the economic crises

at the time. The TSA principles were adopted, along with IFMSs and fiscal responsibility laws, among other instruments. By 2000, a shift had begun toward disclosing more information for transparency, credibility, efficiency, and quality in public spending (while maintaining progress on fiscal control). This has greatly improved the quality of the information generated in these PFM areas and brought about greater involvement of society.

## Progress and Challenges in Public Financial Management in LAC

The PRODEV Evaluation Tool (PET) disaggregates PFM into three interrelated components: (i) budgeting and financial management, (ii) procurement, and (iii) internal and external auditing. It is evident that in the period under analysis, the scores on the three components increased, but by different amounts because of dissimilar situations in relative terms, with inversely proportional increases from their baselines. Thus, the range between the figures for the most advanced and the least advanced PFM components decreased.

The findings show differences among the countries of the region. For the analysis, they have been classified in three groups, according to the PFM pillar scores obtained. The first group (high level) is composed of the countries that obtained a score of 3 or higher; the second (intermediate level), of the countries whose scores fell between 1.5 and 3; and the third (low level), of the countries that obtained scores lower than 1.5.

When comparing the categories of countries by PFM development levels, a slight improvement can be seen in capabilities. In 2007, 8 of the

**FIGURE 5.1 | Scores on the Components for the Public Financial Management Pillar**

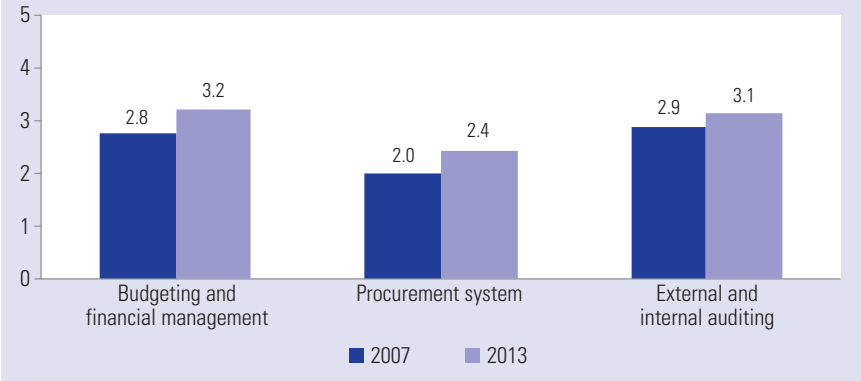
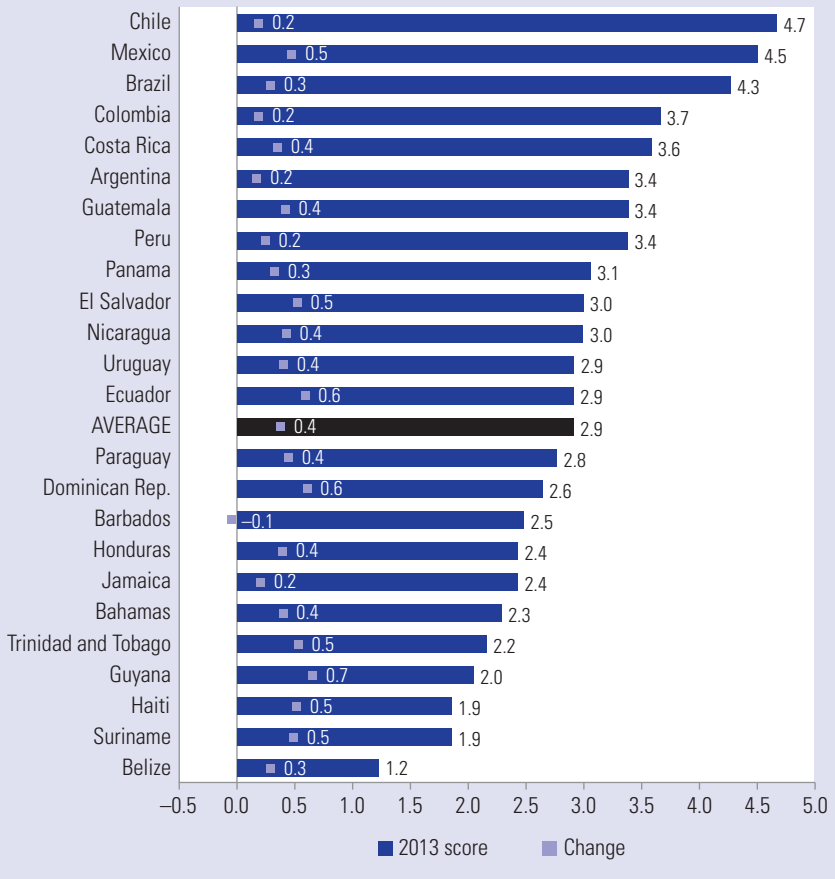


**TABLE 5.1 | Scores on the Components for the Public Financial Management Pillar, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| III. Public financial management | 2.5 | 2.9 | 0.4 |
| Budgeting and financial management | 2.8 | 3.2 | 0.5 |
| Procurement system | 2.0 | 2.4 | 0.4 |
| External and internal auditing | 2.9 | 3.1 | 0.3 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

**FIGURE 5.2 | Index for the Public Financial Management Pillar by Country in 2013 and Changes since 2007**



24 countries considered had a high level of development, whereas in 2013 this figure rose to 11. In other words, almost half of the countries analyzed currently have a good level of PFM institutionalization.

The change in the scores of the PFM pillar was also examined during the period under analysis, and the countries were classified in three groups. The first group (substantial progress) is composed of those that obtained a change of 0.5 points or higher; the second (fair progress), of the countries that had changes of between 0 and 0.5 points; and the third (null or negative change), of countries that experienced changes equal to or lower than 0 points.

To understand some of the factors that enable PFM progress in LAC, a disaggregated analysis of the components that comprise this pillar is provided below.

## Budgeting and Financial Management

This component analyzes interrelationships and coherence among the different systems that comprise financial management. These include budgeting, accounting, debt (public credit) administration, and cash (treasury) management. These systems must function in an integrated way, which presupposes that the principles, regulations, and procedures must be interrelated through electronic means. The lack of integration in the area of financial management leads to fragmentation and duplication of information, difficulty in using the data in budget planning and administration processes, and lack of transparency

**TABLE 5.2 | Country Classification by Scores Obtained for the Public Financial Management Pillar**

| Pillar score | 2007 | 2013 |
|---|---|---|
| High score ≥ 3 | *(8 countries)* Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Peru | *(11 countries)* Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru |
| Intermediate score < 3 | *(12 countries)* Bahamas, Barbados, Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Trinidad and Tobago, Uruguay | *(12 countries)* Bahamas, Barbados, Dominican Republic, Ecuador, Guyana, Haiti, Honduras, Jamaica, Paraguay, Suriname, Trinidad and Tobago, Uruguay |
| Low score < 1.5 | *(4 countries)* Belize, Guyana, Haiti, Suriname | *(1 country)* Belize |

**TABLE 5.3 | Country Classification by Progress on the Public Financial Management Pillar**

| | |
|---|---|
| Substantial progress<br>Change in score<br>≥ 0.5 | *(10 countries)*<br>Dominican Republic, Ecuador, El Salvador, Guyana, Haiti, Mexico, Nicaragua, Paraguay, Suriname, Trinidad and Tobago |
| Fair progress<br>Change in score<br>< 0.5<br>> 0 | *(13 countries)*<br>Argentina, Bahamas, Belize, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Jamaica, Panama, Peru, Uruguay |
| Null or negative change<br>Change in score<br>≤ 0 | *(1 country)*<br>Barbados |

in fiscal transactions, among other problems. All of this facilitates acts of corruption, reduces management capacity and limits accountability.

The component is divided into seven indicators, including risk analysis, budget classification, transparency, accounting and the integrated financial management system (IFMS). This component, with a score of 3.2 out of a maximum of 5 in 2013, is one of the most robust registered by the PET. The trends seen in the region during the period under analysis are highlighted below.

### *Risk analysis and mitigation have expanded*

In PFM, fiscal risk analysis, that is, the examination of future events related to the payment of liabilities and direct or indirect obligations that could entail financial tension, is a core issue.

The PET analyzes two types of obligations or liabilities: direct and indirect or contingent. The former are financial commitments that the government must meet in the future and for which there are legal obligations, such as debt bonds, contracts for the concession of public services with minimum guarantees for services, pensions, and pension payments. The second (contingent liabilities) are expenses that the government incurs if a given event occurs and for which there are legal obligations, such as guarantees granted by the central government to third parties, State insurance, adverse court rulings, and environmental liabilities. These types of events should be taken into account and analyzed because, should they occur, they can have a significant impact on fiscal management.

The findings of this study reveal that this aspect of PFM had been neglected in the region (1.5 out of 5 in 2007) but has since made substantial progress. In 2007, there were 12 countries in which fiscal risk analysis for

**TABLE 5.4 | Scores on the Indicators for the Budget and Financial Management Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Budget and financial management | 2.8 | 3.2 | 0.5 |
| Relationship between original and actual expenses | 2.7 | 3.2 | 0.5 |
| 1. Average deviation between budgeted and actual expenses | 2.7 | 3.2 | 0.5 |
| Risk analysis | 1.5 | 2.2 | 0.7 |
| 1. Direct obligation risks are analyzed | 2.5 | 3.2 | 0.8 |
| 2. Mechanisms are available for mitigating direct obligation risks | 1.5 | 1.8 | 0.4 |
| 3. Contingent obligation risks are analyzed | 1.4 | 2.1 | 0.8 |
| 4. Mechanisms are available for mitigating contingent obligation risks | 0.8 | 1.6 | 0.8 |
| Transparency and budgeting | 4.3 | 4.5 | 0.2 |
| 1. Undeclared budget spending compared to total spending | 4.2 | 4.4 | 0.2 |
| 2. Information on donations included in fiscal reports | 4.4 | 4.6 | 0.2 |
| Classification of budget expenses | 3.3 | 3.7 | 0.5 |
| 1. Administrative and economic classifications according to EFP standards | 3.9 | 4.2 | 0.3 |
| 2. Functional classification using CFAP standards | 3.2 | 3.9 | 0.7 |
| 3. Classification with no lower than subfunctional program disaggregation | 2.7 | 3.2 | 0.5 |
| Budget approval by the legislative branch | 4.3 | 4.2 | –0.1 |
| 1. Budget approval by the legislative branch | 4.3 | 4.2 | –0.1 |
| Accounting | 3.4 | 3.8 | 0.3 |
| 1. The accounting system adheres to international rules and standards | 3.6 | 3.7 | 0.1 |
| 2. Accounting reflects all of the budget item classification | 3.7 | 4.3 | 0.6 |
| 3. Accounting is organized on an accrued basis | 3.3 | 3.4 | 0.1 |
| 4. Accounting is organized on a cash basis | 3.1 | 3.8 | 0.7 |
| 5. A report on income and expenses is prepared annually | 3.9 | 4.4 | 0.5 |
| 6. A consolidated report on assets and liabilities is prepared annually | 3.2 | 3.7 | 0.5 |
| 7. The report is subject to external auditing | 3.5 | 3.8 | 0.2 |
| Integrated financial management system | 2.0 | 2.7 | 0.6 |
| 1. The State has an electronic financial management system | 2.9 | 3.4 | 0.5 |
| 2. The system of public investment is integrated into the IFMS | 1.4 | 2.3 | 0.9 |
| 3. The electronic system of public procurement is integrated into the IFMS | 1.8 | 2.3 | 0.5 |
| 4. The financial information for local governments is integrated into the IFMS | 1.2 | 1.9 | 0.7 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

**BOX 5.1 | Countries that Include Risk Analysis in Their Budget Laws: The Cases of Brazil and Chile**

In Brazil, Appendix VI of the Law on Budget Guidelines analyzes contingent fiscal liabilities. Among the types of contingent liabilities that have been considered, the following should be especially mentioned: liabilities derived from indexing controversies; obligations growing out of tax- and reserve-related lawsuits; judicial matters related to State administration such as privatizations, shutdowns of organizations, company liquidations, and assets resulting from extrajudicial liquidations of financial institutions; and guaranteed debt operations of entities of the Federation and of state-owned enterprises.

In Chile, the Public Finance Report that accompanies annual budget proposals analyzes contingent liabilities such as the State's guarantee of minimum pensions, contingent obligations in concessions, laws on State guarantees for public enterprises, the law on guaranteed financing for higher education, and legal proceedings against the State.

direct obligations was in the phase of development, implementation, or consolidation (scores of 3, 4 or 5, respectively, in keeping with the PET scoring criteria). In 2013, that figure rose to 17 countries that were regularly performing this type of analysis and were found in one of these three more advanced phases. Meanwhile, following the same type of measurement described above, the analysis of contingent liabilities—an element much less developed than the first—went from six countries in 2007 to nine in 2013.

The weakest aspect of risk management in LAC is the lack of mechanisms to mitigate the effects of risk on fiscal accounts. However, there has also been some progress on this aspect. In 2013, seven countries had instruments for mitigating contingent liability risks, whereas six years before only three had them. Some examples are Brazil's fund for the compensation of salary variations; contingency funds for unemployment, pension reserves, and economic and social stabilization created in Chile under the Law on Fiscal Responsibility; insurance or reinsurance policies against natural disasters and the contingency fund for public-private partnerships or concessions in Colombia; and funds to respond to natural disasters and to support pension restructuring in Mexico.

Finally, it should be noted that progress on fiscal risk analysis, specifically liability monitoring, in LAC occurred mostly on the basis of parallel, specific calculations and not on the basis of accrual accounting, which should automatically generate this type of information in annual public sector balance sheets. Even though several countries have begun to adopt accounting standards that are aligned with international standards, very few have completed this process, and they are still far from having more detailed and updated accounting of their assets and liabilities.

### *There is a trend toward applying budget classification practices using international standards*

An appropriate budget classification enables the economic, functional, and programmatic aspects of spending to be monitored. Economic classification organizes public spending in keeping with the basic structure of the national accounting system and makes it possible to analyze the economic impact of government transactions. It encompasses the following categories: remunerations, use of goods and services, fixed capital consumption, subsidies, and pension funds. Functional classification provides information on the purposes for which resources are allocated, such as education, health, public security, or defense. To bring together the economic and functional budget classifications, most of the countries have used international standards as references. Since the programmatic classification makes it possible to link budgeting with planning, each government's budget structure will depend on the number of programs implemented and their characteristics, since there are no international standards for this type of classification.

In LAC, there has been progress on the adoption of these budget classification systems in general and on each one in particular. The main refinement has occurred in the economic classification, followed by the functional and then the programmatic classifications. The number of countries that have achieved implementation or consolidation (according to the International Rules for Classifying Public Administration Functions) was 13 in 2007 and 18 in 2013. One of those countries is Panama, which, through Resolution 244 of January 2011, updated its manual on budget classifications for public spending, in keeping with best practices at the international level.

### *There is a higher degree of harmonization between budgeting and public accounting*

To have an accounting classification system that enables financial decision making that leads to better management, public accounting must not only encompass all central government institutions, but must also reflect all of the budget item classifications. This coherence between the accounting system headings and those of the budget classification is one of the PET's accounting indicator requirements.

This is an area that has become consolidated in recent years, or is on the path to consolidation, in 20 of the 24 countries analyzed in the region in 2013. It is also an area in which some countries made considerable progress

toward implementing this harmonization during the period under study. This is the case, for example, of Guyana. In this country, accounting-budgeting harmonization has already been an area of analysis and certification by the Public Auditing Office, as reported to the National Assembly in 2012.

### *There has been substantial development of IFMSs*

IFMSs are a powerful tool of modern and efficient PFM, thanks to which States cannot only rely on well-organized and effective management but also more easily have accountability that is open and transparent. These management systems provide governments with an information base that enables them to integrate the components of different PFM subsystems, so that financial information can be recorded, organized, and analyzed, compliance with PFM guidelines can be facilitated, and resource management can be optimized.

PET findings make it possible to conclude that in recent years, progress has been made toward an electronic information system that effectively integrates the areas of budgeting, tax administration, public credit, treasury, and accounting of the State's financial management but also integrates other subsystems, such as public investment and procurement. There has also been substantial progress by local governments, which have adopted their own IFMSs. In some cases, these have been partially or totally integrated into the IFMS of a central or national government.

**BOX 5.2 | The Mexican Government's Electronic Payments**

In 2010, the Secretariat of the Treasury and Public Credit (SHCP), headed by the Treasury of the Federation (Tesofe) team, began implementing a project to authorize and process all federal government expenses through a single information technology platform, resulting in the centralization of as many payments as possible in the Tesofe. By late 2012, approximately half of the payroll and most of the pensions and payments to suppliers, although only 4 percent of social transfers, had been centralized in the Tesofe.

Savings were calculated under the headings of salaries, pensions, and transfer programs, and it was concluded that total savings rose to US$379 million in salaries, US$867 million in pensions, and US$65 million in the three participating transfer programs (equivalent to 2.6 percent, 4.9 percent, and 0.9 percent of payments made, respectively). Thus, through electronic transfers and centralized payments, the government of Mexico saves some US$1.3 billion per year, equivalent to 3.3 percent of total spending on salaries, pensions, and social transfers.

*Source*: Babatz (2013).

## BOX 5.3 | Colombia: Reinforcing Key PFM Elements

Colombia is a good example of a country that has been working on a variety of fronts to appropriately strengthen financial management systems. Three initiatives in particular should be highlighted: (i) modernization of the regulation of public accounting, (ii) regulation of the national single account, and (iii) expanded coverage of the Integrated Financial Information System (IFIS).

### Modernization of the Regulation of Public Accounting

The General Accounts Office of the Nation (CGN) is the agency in charge of determining guidelines and responsibilities related to the organization of accounting in public institutions. In 2011, the CGN prepared a document for reviewing, updating, and harmonizing the public accounting regime with international accounting standards. The report was then submitted for public discussion, for the purpose of receiving feedback and inputs for the preparation of regulations based on international standards. Thus, requirements are structured on the basis of international standards taken as models for the Colombian public sector (but adapting requirements to national needs, not simply copying them). At the same time, the latest practices in the areas of identification, quantification, disclosure, and presentation of economic data in government entities and state-owned companies are being implemented as part of a strategy for consolidating the results of the entire public sector and for strengthening competitiveness, governance, and business development.

### Regulation of the National Single Account

With the Organic Law on Budgeting of 1989, the principle of cash unity was implemented, so that the collection of all revenues and capital resources would be used for the timely payment of appropriations authorized in the General Budget of the Nation (GBN). The law proposed that accounting of public income and expenses should necessarily be done under a unified regime. It also indicated that the Office of the Director of the National Treasury at the Ministry of the Treasury and Public Credit (MHCP) would have the responsibility for managing the National Single Account (Cuenta Única Nacional, or CUN). Later, Law 1.450 of 2011, which included the requirement to issue the National Development Plan for 2010–2014, stipulated that collection of all revenues and capital resources would be used for timely payment of appropriations authorized in the GBN through the CUN System (SCUN). In this context, Decree 2785, regulating the SCUN, was issued in November 2013. This decree defined how the SCUN was to be understood, determined its scope of application, and regulated various aspects of its administration. It will therefore be possible to expand and refine the utilization of the Colombian approach to the concept of treasury single account (TSA), that is, the unified structure of government accounts that facilitates the consolidation of cash balances and the optimization of their use, thus allowing better supervision of cash flows and better control of budget implementation.

### Expansion of IFIS Coverage

The IFIS is an MHCP initiative that allows the country to consolidate financial information from the entities that comprise the GBN and to exercise control over the budgeting and financial implementation of the entities belonging to the National Central Administration and their decentralized units, with the aim of fostering greater efficiency in the use of the country's resources and providing timely and reliable information. A project (IFIS Nation II) is underway with the central aim of expanding functional and institutional coverage of the current IFIS Nation project, through the use of cutting-edge technologies geared to facilitating access to and integrating the IFIS Nation II (development web) and related systems. In this way, the financial information of the nation can be centralized in a safe, reliable way, operational efficiency can be generated in PFM, and financial efficiency can be provided through the timely use of available resources.

In 2013, in keeping with the PET methodology, 12 of the 24 countries analyzed had an IFMS in a mature or consolidated stage of implementation, 10 countries were in an initial or intermediate phase, and 2 countries had not begun developing their IFMSs or were only recently in the proposal phase. This contrasts positively with what was occurring in 2007, when 8 countries had an IFMS in a mature or consolidated stage.

One of the advances in recent years has been the pursuit of some form of integration of the national public investment systems (NPISs) into the IFMSs. There has been some progress along this path, with the implementation or consolidation phase (i.e., PET scores of 4 or 5, respectively) seen in 8 countries, compared to only 5 countries in 2007.

A number of countries provide examples of IFMS evolution over the 2007–2013 period. In Argentina, the Integrated Financial Information System (SIDIF) already has a virtual interface (the e-SIDIF), the platform to which central administration agencies are migrating. In Ecuador, the Ministry of Economy and Finance signed an agreement with the National Secretariat of Planning and Development in 2012 to improve the linkage between the e-SIGEF and the Public Investment System. In Honduras, significant progress has been made in the construction of a new SIAFI in a web environment. In recent years there has also been substantial development in the Dominican Republic's Financial Management Information System (SIGEF), which includes data on public procurement and purchasing as well as public investment. These are only some of the many initiatives that are being carried out in LAC to extend this key management tool.

## Procurement System

This component is composed of two indicators: a legal and institutional framework for the procurement system and an electronic procurement system. With a 2013 score of 2.4 out of a maximum of 5, the component is positioned at the average of the 2013 PET score.

The trends that have occurred in the region in the period under analysis are highlighted below.

### *Legal and regulatory frameworks have been improved*

For public procurement and contracting processes to be based on competition and transparency, it is necessary to have a legal framework to regulate those processes, and all government institutions must abide by

**TABLE 5.5 | Scores on the Indicators for the Procurement System Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Procurement system | 2.0 | 2.4 | 0.4 |
| Legal and institutional framework for the procurement system | 2.7 | 3.5 | 0.7 |
| 1. There is a legal framework. | 3.6 | 4.2 | 0.6 |
| 2. The legal framework is applied. | 2.8 | 3.5 | 0.6 |
| 3. There is a supervising or regulating agency for State procurement. | 3.3 | 3.9 | 0.6 |
| 4. The regulatory agency does not participate directly in procurement. | 3.5 | 3.9 | 0.4 |
| 5. There is an office that has procurement statistics. | 2.0 | 2.7 | 0.7 |
| 6. A process is applied for presenting and settling claims. | 3.0 | 3.3 | 0.4 |
| 7. The claims process is conducted by an external agency. | 2.0 | 2.7 | 0.7 |
| Electronic procurement system | 1.2 | 1.3 | 0.1 |
| 1. There is an electronic system (e-procurement). | 3.0 | 3.1 | 0.1 |
| 2. The electronic system is used for buying and selling. | 1.1 | 1.2 | 0.1 |
| 3. The system is accepted by the IDB (*). | 0.9 | 0.9 | 0.0 |
| 4. There is a strategy for providing training and information to the contracting entities. | 2.1 | 3.0 | 1.0 |

*Note*: (*) Given that the criteria used by the IDB for accepting the use of procurement systems changed between the two applications of the PET, in all of the countries the same score received in 2007 was maintained to preserve comparability. To facilitate the reading, the numbers have been rounded off to tenths.

them.[5] In recent years, the region has seen progress in improving the legal rules of operation of the public procurement and contracting systems. In 2007, 14 countries had this type of legal framework and modern, open regulations in place (under the criteria for scores of 4 and 5), and 17 countries had reached that status by 2013.

In this context, it is interesting to note, for example, Ecuador's 2009 Organic Law on the National System of Public Contracts and the respective 2011 regulations, which eliminated exceptions and reduced the discretionary power of officials; and in Paraguay, the implementation of Law 3.439 of 2007, which created the National Contracting Office, the Public Contracting Information System, the State Suppliers Information System and the electronic

[5] Currently, this legal framework should also promote and facilitate the development, implementation, and adoption of electronic procurement systems.

**BOX 5.4 | Ecuador: Progress on the Public Procurement and Contracting System**

During the period under analysis, Ecuador made significant progress on the legal, institutional, and instrumental frameworks for the system of public contracting. In 2008, the Organic Law that regulates public contracting was enacted, and in 2009 the respective general regulations were adopted. This not only helped to better organize the system of public contracting but also created the National Public Contracting Service (Sercop) as the coordinating agency and regulated the electronic procurement and public contracting system. Sercop was also made stronger and endowed with better-qualified human resources, a large information system capacity, and the appropriate technical procedures.

The creation of the electronic procurement and public contracting system enabled all of the public institutions to conduct bidding processes and buying-and-selling transactions via the Internet. The system has a database of suppliers of goods and services, as well as modules for the dissemination of purchasing information and statistics. Nonetheless, the information on purchasing or contracting processes and on the awarding of contracts is still not open to the public. It can only be consulted by the contracting entities and the suppliers involved.

system for the procurement of standardized goods and services using an electronic reverse auction approach.

In the other countries with less developed purchasing systems, there was also progress to report. In Haiti, for example, the legal framework for contracting was strengthening through laws enacted in June 2009 and May 2011, in which provisions were established regarding public contracting and concession contracts, with the aim of having the procurement process promote more transparent markets and enhance competition among bidders.

### *The regulatory agencies of public procurement systems have been strengthened*

For a public procurement system to function efficiently and transparently, the State must have a coordinating agency, that is, an entity or administrative unit that will be in charge of regulating and supervising the system. The existence of such an agency will make it possible to create greater transparency, increase the procurement and contracting efficiency of government institutions, and promote competition between purchasers and suppliers. Progress was also seen in this area during the 2007–2013 period, with an increase from 3.3 points in 2007 to 3.9 points in 2013 in the PET question that asks whether there is a supervisory or regulatory entity for State procurement or the regulatory functions are clear and legally assigned to various offices within the government.

One case that should be mentioned is Colombia. In 2011, the National Public Contracting Agency ("Colombia Buys Efficiently") replaced the Inter-sectoral Commission on Public Contracting for the purpose of having a specialized technical agency in charge of promoting policies and regulations, unifying processes in the area of public procurement and contracting, preparing framework agreements for prices and linking the participants of public procurement and contracting processes to optimize the use of State resources and achieve greater social profitability.

### *More statistical information on public procurement is available*

One advantage of electronic systems for purchases and contracts is that they increase the amount of information available to public contracting offices, suppliers, and the public to have more accountability and greater transparency. This can be achieved if purchasing information and statistics, bidding invitations, and information on the awarding of contracts are disseminated via the Internet. There was significant progress in this aspect during the period under study. The PET requirement corresponding to this aspect went from 2 points in 2007 to 2.7 in 2013, for an increase of 0.7 points, 35 percent higher than the baseline figure.

Brazil offers one of the most notable examples in this aspect. The information provided via the Internet has evolved to offer a variety of services in the free-access menu for Comprasnet (without registration or passwords) so that excerpts of the offers being made, the outcomes, excerpts of the contracts signed between the federal government and its suppliers, and other documents can be viewed. Furthermore, the applications provided allow suppliers to submit proposals and bids after they register on Comprasnet.

### *The expansion of "transactional" government e-procurement systems has not been substantial*

The advantages of greater efficiency and transparency provided by electronic purchasing systems will increase because there are more and more procedures that can be handled via the Internet. Even though more countries in the region now have some version of e-procurement, few have moved from providing only an information service to offering a more advanced version with a large number of electronic transactions. In 2007, 16 countries had some type of e-procurement, and by 2013 that number had risen to 17.

### BOX 5.5 | Savings from Reverse Auctions

Reverse or lowest-price auctions allow a buyer to identify the supplier that is willing to offer the lowest possible price for a specific product. With this mechanism, it is the buyer who determines the maximum price that it is willing to pay for a product or service and who then invites potential sellers to offer their lowest price. Sellers compete among themselves to submit the best offer, thus lowering the price. When bids or offers are posted online and prices are disclosed in real time, the process is more transparent and there is a better possibility of attaining a fair market price.

Reverse auctions make it possible to deal with the practice whereby each public sector entity's procurement office handles its procurements separately, producing considerable variation in prices even for the same products. This problem, known in the economic literature as "passive waste," leads to high costs to the public sector. For example, a recent evaluation of government acquisitions in Italy revealed that if all of the country's public institutions paid the same prices as those that obtained the lowest prices, expenses would decrease by up to 27 percent.

International experiences show that overall savings of between 5 and 30 percent can be obtained with reverse auctions (Shalev and Asbjornsden, 2010), with an average of 15 percent. In the United States, the average savings is 12.1 percent, and in the state of São Paulo it is estimated to be as much as 24 percent (IDB, 2012).

However, only a few countries have electronic purchasing and contracting systems that enable them to conduct massive buying and selling transactions through the Internet. The list of countries where this practice is more extensive is limited to Brazil, Chile, Guatemala, Mexico and Panama; and partially Ecuador, with the modality of "electronic reverse auctions." Paraguay has also recently joined this group, with its electronic lowest-price procurement method.

### BOX 5.6 | Paraguay: Progress in the Public Procurement System

Until 2008, all public sector procurement in Paraguay was done through a traditional purchasing method. Since each procurement office handled its procurements separately, prices varied considerably, even for the same products.

The reform and modernization of public procurement was one of the key elements of the public management reform program undertaken in Paraguay in 2008, when the reverse auction mechanism was introduced. The savings were considerable. In the case of fuels and lubricants, the prices obtained through reverse auctions were 9 percent lower than those obtained at traditional auctions, whereas for certain products, such as medical inputs, prices were more than 50 percent lower. The prices for products purchased by the government in 2011 using this method, were, on average, 7.5 percent lower than those corresponding to purchasing done through traditional auctions or bidding processes.

*Source*: Adaptation of Pimenta and Mejía (2012).

## Internal and External Auditing

The auditing component is made up of two indicators: internal audits and external audits. It was one of the components with the highest PET scores in 2013, and it reflects countries' concern for strengthening their systems of control, a task to which international organizations have also enthusiastically contributed through their assistance programs in the countries.

The trends described below occurred in the period under study.

### *Internal auditing offices have a stronger presence in central government entities*

Internal control, or oversight, is a comprehensive process designed to address risk and offer reasonable assurances that, in attempting to achieve the entity's mission, management objectives will be attained. These include the orderly, efficient, and effective implementation of operations; compliance with accountability obligations; and safeguarding of resources to avoid loss, misuse, and damages. In the framework of MfDR, internal auditors review the internal control policies, practices, and procedures of an entity or administrative unit to guarantee that controls are in compliance with the institutional mission.

During the period under consideration, the region made progress in endowing central governments with internal control offices to review data from financial information systems, inventories, and accounting systems. Periodic internal audits have begun to be carried out to review compliance with internal control processes and other activities. In 2007, 14 countries had such a unit (in the implementation or consolidation phases, that is, with PET scores of 4 or 5 points, respectively), and 16 countries had attained that level by 2013.

One of the subregions that best illustrates this progress is Central America, with especially notable progress in El Salvador and Honduras. In the latter, when the National Office of Comprehensive Control Development (Onadici) was created in 2007, it filled a void because there had previously been no state policy for internal control, although some offices had personnel in charge of internal auditing. Thus, in addition to having an internal oversight unit in all of the secretariats, there is an Internal Control Committee in charge of implementing the mandatory practices included in the guidelines published by Onadici within the framework of the National System for Control of Public Resources. In any case, despite the importance of these

**TABLE 5.6 | Scores on the Indicators for the Internal and External Auditing Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Internal and external auditing | 2.9 | 3.1 | 0.3 |
| Internal audits | 3.6 | 3.9 | 0.3 |
| 1. There is a legal framework for internal auditing, common to all public institutions. | 4.3 | 4.5 | 0.2 |
| 2. The legal framework adheres to international auditing standards. | 3.5 | 3.8 | 0.4 |
| 3. In public institutions there are offices in charge of internal auditing. | 3.6 | 3.9 | 0.3 |
| 4. Internal auditing is done in the entities of the central government. | 3.1 | 3.4 | 0.3 |
| Legal and institutional frameworks for external audits | 2.6 | 2.9 | 0.2 |
| 1. There is a legal framework that regulates external audits of the public sector. | 4.2 | 4.5 | 0.3 |
| 2. The legal framework adheres to international auditing standards. | 3.8 | 4.1 | 0.3 |
| 3. There is an independent organization that performs external audits. | 4.2 | 4.2 | 0.0 |
| 4. Audits on income/expenses. | 3.5 | 3.4 | –0.1 |
| 5. Audits on assets/liabilities. | 2.1 | 2.6 | 0.5 |
| 6. Management audits are done in central government entities. | 1.9 | 2.0 | 0.2 |
| 7. The audited institutions submit a formal written response. | 2.2 | 2.8 | 0.6 |
| 8. The auditing reports are submitted to the legislative branch. | 2.8 | 3.0 | 0.2 |
| 9. The audited reports are made available to citizens via Internet. | 2.5 | 2.9 | 0.4 |

*Note*: To facilitate the reading, the numbers have been rounded off to tenths.

advances, very significant asymmetry can still be seen between internal control and external control in the region, with much room for improvement in internal control.

### *Slow progress is being made in adopting the practice of performance audits*

Performance or management audits provide a tool for decision making based on results. This type of audit focuses on measuring the economy, efficiency, and effectiveness of public management and on formulating recommendations to improve management. Performance audits can be applied to public institutions or to programs and projects underway, with the aim of analyzing efficiency in the use of resources to achieve specific objectives and/or to measure the effectiveness of an institution or program in achieving its proposed objectives.

**BOX 5.7 | Brazil and the Strengthening of Internal Control: The National General Comptroller's Office (CGU)**

The National General Comptroller's Office (CGU) is a unique case among Latin American oversight agencies. Even though its name could be misleading (in Spanish-speaking countries of Latin America "comptroller's office" or "controller's office" is the term usually given to SAIs, i.e., external auditing institutions), in Brazil the comptroller's office is the result of the federal government's will and effort to have a single institution that would centralize internal oversight functions, thus avoiding scattering them and enabling the creation of an institutional "critical mass" to strengthen internal oversight capabilities, with a focus on prevention, improved management, and transparency.

Thus, the CGU was created in 2003 as an agency under the direct authority of the Office of the President of the Republic to defend the public patrimony and increase transparency in management through internal oversight activities, public auditing, correction, prevention, and anti-corruption efforts. The CGU is thus the central agency of the System of Internal Control and the System of Correction, both under the federal executive branch. Before it came into existence, its functions were performed by the Federal Secretariat of Internal Control (SFC) and the National General Oversight Office, under the Ministries of the Treasury and Justice, respectively.

This singular, new, and well-defined institution is the result of the desire to have a stronger agency. The mere fact that the CGU has been endowed with an identity of its own, with an organizational structure and its own resources and objectives, has allowed it to develop a body of methodologies and good practices that would otherwise have been very difficult to have. Furthermore, the CGU has progressively been taking on the functions of a national anti-corruption agency, thanks to which Brazil has a definite entity acting as a "focal point" for different issues, among which is the international open government initiative. Currently, the CGU continues to grow in importance and expand its sphere of action in areas such as transparency (it is responsible for the transparency portal that provides citizens with information on federal government spending) and the prevention of corruption, with innovative initiatives such as the Public Expenditure Observatory Group, centering on a massive analysis of data and making it possible to foresee and orient efforts at an advanced level.

The PET requirement that gathers information about this type of auditing measures the presence of this practice but not its scope or coverage, since these are often complex and expensive audits. In Costa Rica, for example, the national comptroller's office conducts 130 audits a year, of which only 12 to 15 are operational (performance) audits.

Among the region's main actors in this area, Mexico's supreme auditing institution (Auditoría Superior de la Federación) stands out. In addition to reporting to the Chamber of Deputies (House of Representatives) on oversight efforts, it prepares the Findings Report for the Public Account Review (IRCP), a special performance audit based on the findings obtained from reviews throughout the year. Another country that has made progress in this area in recent years is Peru. The General Comptroller's Office has implemented a new, comprehensive approach to control, using results-based

management as one of the critical factors in the fight against corruption and performance audits as one of the instruments in this effort.

### *There are greater efforts to address observations made in external audits*

One of the primary purposes of external audit studies is to improve the management of the financial and performance aspects of the audited institution. To make this happen, audited institutions are required to submit a formal written response to the observations made in the audit, detailing the measures to be taken as a result of the audit.

This is an aspect in which there has not been greater awareness of a need; in fact, only about one-third of the countries analyzed implemented some type of improvement in this regard. The annual reports of Guyana's Auditing Office provided evidence of the observations and the responses from central government entities, and Paraguay adopted a standard model of internal control in 2008 requiring audited organizations to submit an improvement plan to the General Comptroller's Office in response to observations made by that organization.

### *More information is shared with the public*

The direct management improvements derived from modern auditing practices must be complemented by appropriate accountability to the public. Greater transparency is achieved by disseminating information from the financial and performance audits.

Similar numbers of countries are now engaged in implementing or consolidating the practice of making audit reports available to the public through the Internet. This figure rose from 8 countries in 2007 to 11 countries in 2013, but the quality of this information is poor and uneven. One country with good practices in this area is Colombia, where audit reports are understood to be "released," sometimes signed by the respective agencies, once the audits are made available to the public on the portal of the General Comptroller's Office.

Belize is one of the countries that has made progress in recent years. In 2007, the country's audit reports were not being disseminated, but they are now being posted on the Internet, although with a significant lag with respect to the prescribed dates. Another example of improvement is Guatemala, where the government audit reports of the Office of the Controller General of Accounts are made public through the Internet at the same time that they are submitted to the legislative branch, within five months of the end of the fiscal year.

## Conclusions and Challenges for the Future

The progress on PFM in LAC discussed in the preceding sections is notable, and in recent decades it has effectively contributed to greater macroeconomic stability and sustainable growth. It has brought about a significant improvement in fiscal discipline and in the transparency of public accounts. However, there is still much to be done.

Even though numerous PFM reforms were undertaken in developing countries, including those of LAC, in many cases the results were limited and not very significant (Andrews, 2013a). According to Matt Andrews, this occurs because many reforms are designed with scant attention to each country's political and institutional context and are focused largely on changing formal rules—often in the form of external signs (institutional isomorphism)—and on importing solutions without creating institutional capacity in the countries themselves.[6] Andrews concludes that Institutional reforms tend to be adopted as signs aimed at receiving short-term support rather than as long-term solutions for PFM issues (Andrews, 2013b).

It is therefore important to move forward with the reforms still pending in the region so that they will be effective and sustainable over time. One of the major challenges is that, in addition to addressing future issues such as the implementation of a new public accrual accounting and the creation of transactional procurement portals, many countries still have tasks pending to complete the agenda of the last three decades. These tasks include achieving more integrated and efficient cash management with a TSA and consolidating modern and reliable financial information systems.

The main conclusions, challenges, and future agendas for each issue in public financial management analyzed in this chapter are presented below.

### *Budgeting, Accounting, Financial, and Procurement Information Systems*

Beyond the contextual element, which appears to a greater or lesser extent in the developing world, and which also depends on the economic cycle, it has been possible to see significant progress in PFM in LAC in recent years. In fact, the period of economic growth that the region has enjoyed on

[6] A 2008 World Bank study notes that 60 percent of the countries that carried out PFM reforms improved their scores; however, only 50 percent of them optimized their transparency and accountability indicators, and only 40 percent improved the indicators for the quality of public management.

average, the views of leaders, the greater professionalization at senior levels of public administration, and the arrival at technical consensus in these areas have, among other factors, made it possible for MfDR, risk management, and other instruments of sound PFM to become goals shared by governments in their pursuit of a more efficient, effective, and transparent public sector. The following PFM achievements (as measured through the PET) are worth highlighting:

i. Risk analysis and mitigation activities have expanded.
ii. More attention has been paid to implementing budget classification practices in line with international standards.
iii. There is greater harmonization between public sector budgeting and accounting.
iv. There has been substantial development of IFMSs.
v. The legal and regulatory frameworks for public procurement have been improved.
vi. The offices in charge of procurement systems have been strengthened and more statistical information is available.
vii. The "transactional" possibilities of electronic procurement have expanded, though only very modestly.

All of this PFM progress has also led to significant benefits outside the public sector. In fact, it has contributed to countries' greater access to financial credit and to lower economic volatility, which is in turn directly related to greater transparency and the quality of a country's financial, accounting, and economic information. Likewise, a paradigm shift can currently be seen that implies moving from information focused solely on fiscal control to information geared to transparency, credibility, and public spending efficiency and quality.

Even though there is still a long road ahead, progress in recent decades has blazed a clear path, demonstrating that PFM modernization has direct impacts on development and on people's quality of life. The key challenges for the region are enumerated below.

a. **The capacity to forecast and implement budgeted expenditures**
An increasing number of countries in the region have gradually begun to implement different approaches to results-based budgeting (RbB). This means not only agreeing on and negotiating budget allocations and financial and physical goals, but also determining the indicators and the targets to be achieved during the fiscal year.

All of this effort to develop PbR runs the risk of losing value if legislative branches are not invited to participate in the discussion (with a results-based approach), and if the expenditures implemented ultimately differ substantially from the amounts budgeted, whether due to lack of coordination, shortcomings in provisions, or the traditional under-implementation of spending due to financial administration and management problems.

b. **Effective risk management**

Another factor that must be taken into account when preparing the budget is the occurrence of unforeseen events that could require allocation of funds. In this context, one challenge still present in LAC is to implement active risk management, performing risk analyses related not only to direct obligations such as public debt, but also to catastrophic events and indirect or contingent liabilities.

The authorities' concern certainly cannot remain solely in the area of studies and analyses of fiscal risks (even if these are periodic). Suitable mitigation mechanisms must also be adopted. Paradoxically, this is a challenge for most of the countries of the region even though the region offers some very good examples of the adoption of such mechanisms, as a result of exercising appropriate fiscal discipline and taking advantage of the options available in financial markets and for risk coverage.

c. **Integration of financial information systems**

Despite the recent substantial development of IFMSs in LAC, as reported in this chapter, their importance and the opportunities they provide are a reason not to neglect the trend to adopt and refine them.

Even though technological options should be associated with the countries' needs and sizes (this is especially relevant for some Caribbean nations), the most flexible, most user-friendly, and least expensive alternatives on the market should be sought. In larger countries, where institutional and coordination-related complexities tend to be more challenging, the search for greater integration of systems should not be abandoned (given its benefits in terms of savings, effectiveness and transparency), even when this may appear to be an insurmountable challenge.

Meanwhile, it is necessary to improve these systems' capacity to generate more automated balance sheets for the new public accrual accounting, to make it possible to calculate costs in a better, timelier fashion, and to contribute more effectively to the decision-making process when allocating and implementing public spending.

d. **Implementation of electronic procurement systems**

A recent study (OECD and IDB, 2014) estimated that public procurement represents, on average, 26 percent of total public spending in LAC. This same study identified harmonization of information availability with current accountability processes as one of the challenges in the area of procurement in the region. Thus, it can be seen that electronic procurement systems "resolve" one of the challenges in public procurement, that is, the need for transparency, and also the better-known challenges of government efficiency and cost reduction.

At this point it is worthwhile to mention the conclusions of a very recent publication (OECD, n.d.) that addressed public procurement and development. It maintains that one global challenge—which also affects many OECD countries—is that public procurement is still organized as an administrative more than a strategic function, and that the countries that conduct performance-based monitoring of their public procurement systems (involving the entire public procurement cycle) are still the exception.

### *Oversight and Auditing Systems*

Government control, both external and internal, is undergoing a profound transformation in the region, in sync with what is occurring in the rest of the world. This evolution goes beyond mere modernization of auditing processes and involves a true redefinition of the role and scope of oversight efforts. Thus, supreme auditing institutions are currently transitioning from a focus centered on oversight and control to one geared to improved management and public spending, prevention, transparency, and public participation.

This transformation of oversight agencies entails a substantial change because they are becoming increasingly integrated into public and financial management, not functioning as isolated offices, but rather as active participants in the overall spending cycle. In this way, government control in the region is being articulated around three major core concepts:

- Accountability, focusing more on prevention and risk analysis than on subsequent identification.
- Efficiency, which goes beyond a mere vision of the legally correct management of public resources to provide true value added in the form of efficient management.

- Transparency and public participation, according to which the oversight agencies become tools for the public, articulating a two-way flow of information between society and the public administration: from the administration to society via the oversight agencies that make information available, and from society to the administration via society's strengthened participation in oversight efforts.

These transformations have special significance in the case of LAC. The growth experienced in the region in recent years is the result of important changes in public financial management and fiscal policy (fiscal equilibrium, sounder macroeconomic bases, etc.). However, this growth has not been without problems. On the one hand, corruption and poor transparency continue to be a scourge that undermines the quality and credibility of the countries' democracies. On the other hand, the limited effectiveness and efficiency of public management is a problem in many nations. There is a huge amount of room for increasing the effectiveness of public management, by, for example, optimizing the implementation of public investment or promoting efficiency through savings obtained from improved public spending. Within this framework, internal and external oversight efforts become even more important when they are able to collaborate with more transparent and efficient public management.

The profound transformations of oversight agencies open up great opportunities but also involve risks and challenges. At least four major challenges can be identified in the areas of public auditing and control related directly to SAIs in LAC:

a. **The contribution of external control to improving public management and spending**

To achieve the proposed goals, particular attention needs to be paid to two main aspects: (i) the need for cultural transformation in SAIs and in public administration (the auditors and those audited) to establish a new logic of collaboration and cooperation; and (ii) broad work, with the participation of all stakeholders in the spending cycle, such as the ministries of economy and planning, national public investment systems, and others. Experience shows that working in these areas without coordinating or including these PFM actors is a serious mistake that leads to obstacles and problems that are difficult to overcome.

Many of the countries of the region are currently facing serious difficulties in implementing public investment budgets, and the administrations

attribute most of the blame to oversight agencies—rightly or wrongly. A larger, but imprecise, intervention of SAIs in these areas could hinder budget implementation without offering increases in efficiency.

b. **The contribution to transparency and accountability**

There is growing demand for transparency and accountability in LAC. SAIs have traditionally played a fundamental oversight role, but a limited role in communicating with society at large. Thus, SAIs now face the challenge of learning how to combine all of the information they handle to make it a useful instrument for the public and how to make it available in an agile, useful, and user-friendly way.

SAIs can play an increasingly important role in this area, not only by providing information, but also by establishing stronger communication and citizen participation within a two-way dialogue.

c. **Decentralization processes in the region and the growing need for oversight in local governments**

Decentralization processes have shed light on the imbalance between management and oversight: competencies and spending cannot be decentralized without also providing the necessary oversight. In most of the countries in the region, the national SAI has jurisdiction over all government control functions, including local offices. With growing participation by these institutions in public resource management, the SAIs currently face the challenge of effectively deconcentrating their capabilities wherever necessary.

This challenge calls for a profound transformation of SAI management in decentralized models governed by the principle of subsidiarity (where each function is performed at the most appropriate level). A detailed analysis of processes, value added, and the demand for control at the territorial level are necessary steps to initiate discussions about how to address SAI decentralization.

d. **The need to strengthen internal control**

In practically all of the countries, the focus has mainly been on strengthening external control and its agencies, leaving aside internal auditing and control capabilities. This has led to deep asymmetry that reduces the area of control (understood as the group of agencies, functions, and processes geared to public management oversight). Internal control plays an essential role and is strategically situated to be able to contribute more to the tasks of prevention and support for improved management and public spending.

The first major challenge for internal control is educating managers so that they will be able to understand and assimilate the importance

of internal control as a function that adds value to the spending cycle. Alongside this cultural change, it is necessary to renew methodologies with systems centering on control through risk analysis, focused on early identification and prevention and on active contributions by administrators to improve management efficiency. In many countries, the SAI—an external control agency—is in turn, in its role as coordinating agency for the national control system, in charge of regulation and of the methodology for internal auditing and control. This represents an added challenge because it often generates disappropriation by public administrators, who view internal control as something alien to their core business and with little value added. It is also necessary to establish bridges of collaboration between SAIs and public administrations, which—without detriment to the necessary independence of external control—are instrumental when revitalizing and positioning internal control among the public management priorities.

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CHAPTER 6

# Program and Project Management

This chapter discusses the program and project management pillar, which focuses on the production of goods and services for the public. Since this pillar is concerned with generating public value, it is the focus of interest for results-based development management (also known as managing for development results, or MfDR). The pillar analyzes two different but related aspects of public management: (i) ex ante evaluation and prioritization of public investment projects, and (ii) management of goods and services. The chapter is divided into two parts, each of which examines one of these aspects.

## I. EX ANTE EVALUATION AND PRIORITIZATION OF PUBLIC INVESTMENT PROJECTS

*Marcos Makón and Marco Varea*

Public investment plays a key role in countries' economic growth and in adjustment processes. It is essential that investment decisions be balanced so that they do not adversely affect growth or governance.

Traditionally, the life cycle of investment projects has four stages: (i) pre-investment, (ii) investment, (iii) operation and maintenance, and (iv) monitoring and evaluation. Pre-investment or ex ante evaluation is in turn composed of the following processes: (i) identification, (ii) profiling, (iii) prefeasibility, and (iv) feasibility.

Financial resources are allocated in the budget to fund both pre-investment and investment, as well as project operation and maintenance once the project has been implemented. Having a sound ex ante evaluation is necessary to guarantee successful project implementation and operation.

Although the conceptual and methodological development of pre-investment evaluation has been amply discussed, the focus has basically been microeconomic, centering on production and efficiency, often discounting the

political priorities considered in the development plans and instead considering individual projects in isolation (Cuadros and Pacheco, 2010).

Ex ante or pre-investment evaluation is a requirement for project implementation approval and the subsequent allocation of budget resources, even though approval does not necessarily require compliance with all of the pre-investment processes. In general, those exempted from completing some of those processes are investments in infrastructure projects that do not involve a given amount and human capital formation projects that are subject to sociopolitical evaluations.

Ex ante project evaluation is a necessary but not sufficient condition for prioritizing the allocation of budget resources. Political viability and ties to development priorities must also be taken into account. Ex ante technical evaluation should be seen as a contribution to political decision making but should not replace those decisions.

The reinstatement of planning systems in Latin America and the fact that public investment planning should be considered an essential element of planning have led to the elimination of the exclusively microeconomic orientation of ex ante analysis of investment projects and the inclusion of development policies and priorities.

In the past 50 years, national public investment systems (NPISs) in Latin America and the Caribbean (LAC) have evolved, closely following the development of planning systems. This first part of Chapter 6 analyzes global trends and good practices, indicates the region's progress and challenges in this area, and discusses challenges for the future and recommendations to improve NPISs.

## Global Trends and Good Practices

Until the mid-1980s, NPISs were part of planning systems, from both a conceptual/methodological and an institutional standpoint. Their scope encompassed investments in infrastructure projects as provided for in the 1960s System of National Accounts, whose concept of a "project" was similar to that in budgeting and investment systems.

With the decline and disappearance of planning systems in numerous countries in the late 1980s and the 1990s, NPISs became the only reference point for planning. The concept of investment was extended beyond "gross fixed capital formation" in response to the lack of frames of reference for medium- and long-term priorities and based on the new conceptions of public investment, which also include human capital formation. Meanwhile,

the use of microeconomic evaluation criteria for investment projects as a basic element in prioritizing and allocating investment project resources was accentuated. During that period, Chile, Colombia, and Mexico maintained their coordinating bodies for planning, handling investment systems through them. In most countries, the coordinating bodies for investment systems were moved to the ministry of the treasury or the economy.

In these first two stages, the methodological development of NPISs centered on the formulation and ex ante evaluation of investment projects, without giving adequate treatment to monitoring, implementation evaluation, or ex post evaluation. The renewal of planning systems in Latin America, a phenomenon that has been occurring in recent years, calls for reassessing the role of NPISs as essential planning system tools and the basis for resource allocation for investment in the budget. This in turn calls for considering, at a minimum, the following guidelines:

i. When prioritizing investment projects, in addition to microeconomic evaluations, it is necessary to consider national priorities, the frame of reference for macroeconomic programming, and sociopolitical viability.
ii. Public investment monitoring and evaluation mechanisms should be similar to those used in planning and budgeting systems, as part of a comprehensive monitoring and evaluation system for public management.
iii. From a methodological standpoint, the broader concept of investment projects in the public investment system should be compatible with the concept of investment projects in the budgeting system, with the latter corresponding to the capital expenditures established in the 2008 System of National Accounts (UNSTATS, 2009). This should be done for the purpose of avoiding the "capitalization" of investment project expenses that correspond to current expenses in the budget and therefore in public accounting.

Unlike the institutional structure for public investment that has been implemented in LAC, developed countries promote public investment management performance systems (PIMPs), which include investments of the central government and of state-owned enterprises. This is where a first difference can be seen with LAC, where NPISs do not include investments of public enterprises.

Recent analyses indicate that the evaluation of PIMPs might be more refined than that of NPISs. By introducing the performance variable, an effort is made to maximize resource efficiency, particularly during times of economic depression, whereas under similar conditions in emerging countries,

budget cuts tend to be made across the board. Fragmentation, efficiency, and effectiveness are also analyzed to safeguard the less protected sectors, and studies are conducted to accelerate processes between project stages, especially between conception and implementation (World Bank, 2009).

The NPISs in Organisation for Economic Co-operation and Development (OECD) countries play different roles than those of LAC countries. LAC NPISs have concentrated mainly on microeconomic considerations related to the efficiency, costs, and benefits of individual projects, while those of OECD countries incorporate the macroeconomic aspect, that is, the aggregate level of public investment, measuring the short-term effects on the economy and the long-term effects on the sustainability on public financing. Along these lines, other distinctive features are the links to medium-term fiscal frameworks and sectoral frameworks as well as the consideration of public–private partnerships (PPPs) as mechanisms for improving efficiency and distributing risk more equitably between the public and the private sectors.

## Progress and Challenges in Ex Ante Evaluations of Investment Projects in LAC

The assessment of countries' capacity to perform ex ante evaluations considered the following criteria: (i) regulations and institutions; (ii) scope of ex ante evaluations, and (iii) their use and dissemination.

The average score for the ex ante evaluation and prioritization of investment projects component for all of the countries in the region rose by only 0.4 points in the 2007–2013 period, going from 2.1 to 2.5 points; that is, in 2013 it had attained 50 percent of the maximum. The current stagnation in ex ante evaluation coverage is a matter of concern in terms of the effective use of this methodology as a basis for investment resource allocation in budgets and consideration of priorities in development plans. Even though the growth of regulation and institutionalization and of information dissemination in the area of investments is positive in terms of investment process sustainability and transparency, it is also highly formal and does not enable improvement per se of resource allocation processes based on technical evaluations.

The findings reveal differences among the countries of the region. For the analysis, they have been classified in three groups, according to the scores obtained in this component. The first group (high level) is composed of the countries that obtained scores of 3 or higher; the second (intermediate level), of those that obtained scores of between 1.5 and 3; and the third (low level), of those that obtained scores lower than 1.5.

**FIGURE 6.1 | Scores on the Indicators for the Ex Ante Evaluation of Public Investment Projects Component**

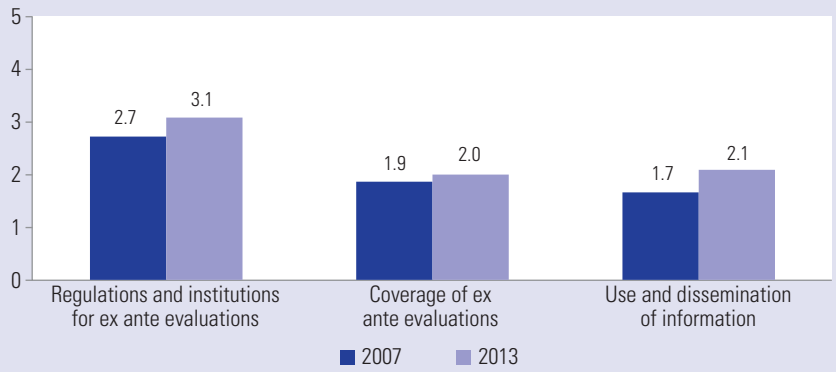


**TABLE 6.1 | Scores on the Indicators for the Ex Ante Evaluation of Public Investment Projects Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Ex ante evaluation and prioritization of investment projects | 2.1 | 2.5 | 0.4 |
| Ex ante evaluation regulations and institutions | 2.7 | 3.1 | 0.4 |
| Coverage of ex ante evaluations | 1.9 | 2.0 | 0.1 |
| Use and dissemination of information | 1.7 | 2.1 | 0.4 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

Table 6.2 shows that several countries moved from the low to the intermediate level. Unlike in 2007, when most countries had a low level of development (10 of 24), in 2013 most countries had moved to the high level (9 of 24).

The changes in the scores on the ex ante evaluation and public investment project prioritization component for the period under analysis were also analyzed, and the countries were classified in three groups. The first group (substantial progress) is composed of the countries that obtained a positive change of 0.5 points or higher; the second (fair progress), those that saw changes of between 0 and 0.5 points; and the third (null or negative change), of those that had changes equal to or lower than 0 points.

Costa Rica increased its score over that of the 2007 evaluation thanks to the creation in 2010 of the National Public Investment System under the aegis

**TABLE 6.2 | Country Classification by Scores Obtained on the Ex Ante Evaluation Component**

| Component score | 2007 | 2013 |
|---|---|---|
| High score ≥ 3 | *(9 countries)* Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru | *(9 countries)* Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru |
| Intermediate score < 3 ≥ 1,5 | *(5 countries)* Argentina, Dominican Republic, Nicaragua, Panama, Trinidad and Tobago | *(7 countries)* Argentina, Brazil, Costa Rica, Dominican Republic, Paraguay, Trinidad and Tobago, Uruguay |
| Low score < 1,5 | *(10 countries)* Bahamas, Barbados, Belize, Costa Rica, Guyana, Haiti, Jamaica, Paraguay, Suriname, Uruguay | *(8 countries)* Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Panama, Suriname |

of the Public Investments Unit of the Ministry of National Policy and Economic Planning (Mideplan). Once established, this unit prepared the "General Methodological Guide for the Identification, Formulation and Evaluation of Public Investment Projects," which offers general guidelines for investment projects and the inputs required to perform ex ante project evaluations and also affirms the need to establish the social price of economic evaluations. Nonetheless, it has yet to incorporate a catalog of social prices, nor does it differentiate based on project size or scale. One area of considerable improvement is the public disclosure of evaluation results via the Internet. However,

**TABLE 6.3 | Country Classification by Degree of Progress on the Ex Ante Evaluation Component**

| | |
|---|---|
| Substantial progress Change in score ≥ 0.5 | *(9 countries)* Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Paraguay, Suriname, Uruguay |
| Fair progress Change in score < 0.5 > 0 | *(7 countries)* Argentina, Barbados, Belize, Chile, Colombia, Mexico, Trinidad and Tobago |
| Null or negative change Change in score ≤ 0 | *(8 countries)* Bahamas, Brazil, Guatemala, Guyana, Haiti, Jamaica, Panama, Peru |

one weakness found in the first evaluation that remains in the Costa Rican system is that, while 100 percent of the investment projects that require internal or external funding are evaluated, projects not financed with funds from an institutional budget are not.

Paraguay and Nicaragua also increased their scores. Paraguay now has an adequate legal and institutional framework for its public investment system. The unit in charge has technical autonomy, with regulations and methodologies that differentiate among the various types of ex ante evaluations by project scale. Nevertheless, as a system, the NPIS remains in an incipient stage of implementation. For its part, Nicaragua made progress in creating evaluation instruments and on the coverage of ex ante evaluation. Thus, this type of analysis is currently being applied to a larger percentage of project proposals.

One noteworthy case is Colombia, where ex ante evaluation of investment projects is in the hands of the National Planning Department (NPD). The NPD has been strengthening its institutional capacity in this area for over two decades. It has a bank of projects (BPIN) and regulations, instruments for their operation, and technology and information systems that facilitate their management. As of its restructuring in 2012, the unit in charge of public investment is the Office of Public Investment and Finance (DIFP), which has improved the institutional framework for the performance of its functions, since it previously belonged to a less hierarchical unit. Another significant improvement is the strengthening of the instruments and methodologies to identify, prepare, and evaluate investment projects using the General Methodology for the Formulation of Public Investment Projects (MGA), which includes software that operates via the Internet and is connected to other systems involved in public investment management. Two aspects where more progress is needed are publication of ex ante evaluation results and standardization of ex ante evaluation procedures and systems for investment projects formulated by local governments.

### *Ex Ante Evaluation Relations and Institutions*

The growth in this indicator was average for the component, increasing by 0.4 points. In 2007, 11 of the 24 countries analyzed had a high degree of development in this indicator, and the number of countries with a high degree of development rose to 14 of 24 in 2013.

In the areas of institutionalization and regulation in ex ante evaluation, Chile continues to be the most advanced country, with a score on this indicator in the optimal range. In 2013, Mexico, Nicaragua, and Peru also maintained

**BOX 6.1 | Good Practices for the Analysis of Policy, Program, and Project Proposals: The Green Book of the UK Ministry of Finance**

*The Green Book. Appraisal and Evaluation in Central Government* was prepared by the Ministry of Finance of the United Kingdom (HM Treasury) to protect the public interest and ensure that no policy, program, or project would be adopted without first answering the following questions: Are there better ways to achieve the objective sought? Can these resources be better used? The book presents the techniques that should be applied and the aspects that should be considered in analyzing policy, program, and project proposals, whether related to public investment, regulations, or revenue. It also establishes the way that the combined analysis of economic, financial, social, and environmental aspects of such proposals is to be performed. It is a guide for good practices for all central government entities, covering projects of all types and sizes. This document is supplemented by a series of guidelines on analyzing proposals on air quality, citizen security, health, transportation, and other aspects.

*Source*: See the link https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government.

their high scores reached in 2007. This shows that institutionalization and regulation of the investment system are consolidated there.

The countries with the largest increases in scores are Costa Rica, the Dominican Republic, El Salvador, Paraguay, and Suriname. When Law 4.394 was enacted in Paraguay in 2011, it assigned technical direction of the public investment system to the Public Investment System Office of the Ministry of the Treasury, in coordination with the Secretariat of Planning. Within the framework of that law, a regulation was issued and technical guidelines prepared with the aim of providing the country with methodological tools geared to guaranteeing that investment projects would be framed within development policies. Thus, by 2011, Paraguay had begun a process to implement a public investment system.

In the case of Suriname, in 2007 regulation and institutionalization in the area of public investment did not exist, but by 2013 the country had introduced methodological guidelines for formulating and selecting investment projects. It also created an incipient public investment unit within the Ministry of the Treasury, although there is still no solid legal framework to orient and structure that system.

Institutionalization and regulation are a first step in contextualizing project evaluation, but they do not guarantee an increase in the number of projects to which investment resources are allocated in budgets as a function of ex ante evaluation technical criteria. This can be appreciated below.

**TABLE 6.4 | Scores on the Indicators for Ex Ante Evaluation Regulations and Institutions, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Ex ante evaluation regulations and institutions | 2.7 | 3.1 | 0.4 |
| 1. There is a SNIP or a government entity that performs ex ante evaluations of investments. | 3.0 | 3.3 | 0.3 |
| 2. The SNIP or the entity operates under the mandate of a law that establishes functions, responsibilities, and resources. | 2.8 | 3.1 | 0.3 |
| 3. The SNIP or the entity has formally established technical standards and work methodologies. | 2.6 | 3.0 | 0.4 |
| 4. The SNIP or the entity uses the contribution to achieving government goals as a basic criterion. | 2.5 | 2.9 | 0.4 |

*Note:* To facilitate the reading, numbers have been rounded off to tenths.

### *Coverage of Ex Ante Evaluations*

Growth in this indicator was negligible—only 0.1 point. In 2007, six of the 24 countries analyzed had a high degree of development (high level of coverage of ex ante evaluations), whereas by 2013 the number of countries had risen to nine on this indicator. In 2013, 10 countries had a low level of development.

Costa Rica, Ecuador, El Salvador, Honduras, and Mexico had the largest increases in scores. In Costa Rica and Ecuador, the increase in coverage occurred in the central government sphere, while in other countries it was concentrated in local governments.

In the case of Ecuador, the substantial increase in the indicator score was due to the fact that there was 100 percent central government coverage. As a result, its position was the same as that of Colombia, El Salvador, Honduras, Mexico, and Peru. Ecuador's new Guidelines for Preparing Annual and Multi-annual Investment Plans were prepared in 2010 within the framework of the Organic Code for Public Planning and Finance (Coplafip). The guidelines stipulate that in order to include a public investment project in the budget, there must first be a favorable ex ante evaluation. To that end, the methodology for prioritizing public investment projects uses an investment priority index (IPI) to evaluate projects that may be included in the annual investment program.

Mexico notably expanded ex ante evaluation coverage in local governments. The internal regulations of the Secretariat of the Treasury and Public Credit (SHCP) stipulate that all investment projects financed by the federal

**TABLE 6.5 | Scores on the Indicators for Ex Ante Evaluations, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Coverage of ex ante evaluations | 1.9 | 2.0 | 0.1 |
| 1. Ex ante evaluations are performed of the central government projects. | 2.4 | 2.5 | 0.1 |
| 2. Ex ante evaluations are performed of the local government projects. | 1.3 | 1.5 | 0.2 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

government must be evaluated by the SHCP's Investments Unit and also registered in the Portfolio of Investment Programs and Projects. This is applicable to projects implemented by state governments but totally or partially financed by the federal government. Because Mexico has a federal system of government, like Argentina and Brazil, projects that have resources from local governments only are prioritized and evaluated in keeping with the laws of the respective governments.

### *Use and Dissemination of Information*

The increase in this indicator (0.4 points) was in line with the average for the component. The increase in the information dissemination requirement ("information on evaluations is available to the public via the Internet") was larger than that of the use of information indicator ("evaluation results are used during budget programming"). In 2007, seven of the 24 countries analyzed had a high level of development, whereas by 2013 that number had risen to nine. However, there is still much room for improvement in the use and dissemination of information on public investment, since in 2013 most countries (11) still had a low level of development.

**TABLE 6.6 | Scores on the Indicators for Use and Dissemination of Information on Ex Ante Evaluations, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Use and dissemination of information | 1.7 | 2.1 | 0.4 |
| 1. Evaluation results are used during budget programming. | 2.0 | 2.4 | 0.4 |
| 2. Information about evaluations is available to citizens via Internet. | 0.9 | 1.5 | 0.5 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

The countries with the largest increases in scores are Chile, Costa Rica, Honduras, Nicaragua, and Paraguay. In 13 of the 24 countries analyzed there was no improvement in the indicators, and scores fell in two countries.

Furthermore, in some countries, such as Peru, the score in this area did not increase because by 2007 they had already attained a high score.

Costa Rica and Nicaragua stand out as countries that did not meet the requirements of this indicator in 2007 but made significant progress during the period under analysis. In the case of Costa Rica, enactment of Law 9.097 made it possible for any citizen to access program evaluations. The use of evaluations of budget programming projects (85 percent of the projects incorporated them into the budget) and the development of the public investment system website enabled Nicaragua to join the few other countries in Latin America that use and disseminate ex ante evaluations of investment projects.

In Honduras, weekly publication of reports on programs and projects with ex ante evaluations represented substantial progress.

The Dominican Republic has sought to ensure that the projects approved by the coordinating agency for the investments system would be incorporated into the annual budget. In that country, as in many others, an NPIS code is assigned to each project. Based on this factor, an interface is defined between the investment information system and the financial management system. This prevents inclusion in the annual budget of any project not previously approved by the coordinating agency of the investments system and assigned an NPIS code.

Thus, with the exception of some English-speaking Caribbean countries, the countries of the region have advanced on several fronts. These include the incorporation of training as an integrating element in NPISs to disseminate methodologies, processes and policies; and prioritization criteria, to approve projects.

## Conclusions and Challenges for the Future

### *Conclusions*

i. Those countries that were leaders in the ex ante evaluation of the investment projects component in 2007 (Chile, Colombia, Mexico, and Peru) maintained their positions. This reflects continuity and soundness in the application of their policies in this area and the institutional maturity of their respective governments.

ii. As for the use and dissemination of information on public investment, even though this indicator also reflected growth, there is still a gap between the use of evaluations in allocating financial resources in the budget and their dissemination to the public via the Internet. Whereas the indicator for use represented 50 percent of the maximum, the one for dissemination attained only 28 percent. This situation was the same as in 2007 and revealed that, on average, information and transparency policies in this area did not evolve significantly during the period under analysis.

iii. The stagnation in the expansion of coverage of ex ante evaluations continues to be an area of concern. The reasons for this should be investigated, since progress in this area would improve the quality of investment prioritization and allocation of budget resources to investments. The factors that should be investigated include: (i) the usefulness and timeliness of ex ante evaluations for the different decision-making actors, (ii) the disconnect between the technical complexity of the evaluations and the training of the officials in charge of them, and (iii) the application of ex ante evaluations, using all of the pre-investment processes, in projects that have low costs or for which, due to their nature (social projects), such evaluations are not applicable.

### *Challenges*

#### Integrating Investment Planning with Development Planning and Fiscal Planning

The current trend of strengthening or reinstating planning requires public investment to be an integral part of planning systems. Ex ante evaluations are an essential contribution to that end, since, when they are made to be compatible with development priorities, they make it possible to clearly define which investment projects will be part of medium-term plans. This will most likely call for revising or complementing the methodologies currently used.

Organizing multi-annual budget programming requires medium-term investment planning to be clearly identified and incorporated into budgets. This is aided by the existence of a rule in the annual budget that calls for approval of the initiation and continuation of investment projects whose implementation extends beyond one budget year. This provision is included in the basic budget rules in several LAC countries, including Argentina, the Dominican Republic, Honduras, and Nicaragua. It makes it possible to simplify project contracting procedures and provide project implementation with a longer foresight horizon.

### Linking NPISs to IFMSs or Similar Systems

Linking NPISs and integrated financial management systems (IFMSs) is essential. The interface between the two systems makes it possible for investment project programming and implementation to be framed within the policies and priorities defined in the investment plan, and for the concepts of investment projects defined in the budgeting and investment systems to be automatically "translated" into the corresponding national accounts.

### Expanding Coverage

The challenges described above can only be met if more investment projects are subject to ex ante evaluation. The features of the expansion of coverage differ from one government to the next, whether national or local. At the national government level, expansion of ex ante evaluation is subject to the decision of political officials and implementation by technical experts concentrated in a single institution with well-established degrees of authority.

With respect to local governments, constitutional autonomy in most countries makes it more difficult to achieve such expansion because there are different institutional bodies with a variety of political authorities and technical levels. This issue is even more germane for countries with a federal system with three levels of government (national, provincial or state, and municipal), such as Argentina, Brazil, and Mexico. Initially, expansion of coverage at the local government level should be concentrated in investment projects financed by national governments. For projects financed with their own resources, municipal governments should consider the use of very simple ex ante evaluation methodologies. Methodologies should also be developed for provincial and state governments—methodologies that are not as simple as those for municipal governments but less complex than those used at the national level.

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## II. SECTORAL MANAGEMENT OF GOODS AND SERVICES

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### Introduction

Program and project management is the basis of public value creation and is therefore also the basis for MfDR. It is the means used by the State to achieve the objectives established in the plan of government. The State's main function is to improve people's quality of life, specifically by providing public services. Most public funds are invested in this process, and planning, budgeting and financial management, procurement, auditing, and monitoring and evaluation systems are all involved.

From the standpoint of MfDR, officials in charge of program management must put together a medium-term sectoral plan in line with the objectives and strategies of the national plan. Likewise, those plans must have annual and multiannual targets for the provision of goods and services, and must indicate who will be responsible for working to achieve them.

To clearly determine the quantity, conditions, and quality to be produced, management and performance contracts should be signed between top officials of the ministry or secretariat and public managers. This requires defining a catalog of goods and services in each institution, with specifications of objectives, rules of access, costs, and standards of quality—aspects that are usually not detailed in the public sector. Organizations should also establish user satisfaction as an objective of their strategy for continuous improvement of goods and services. Furthermore, human resource management should apply performance evaluation mechanisms that incentivize personnel to work toward achieving individual and institutional results.

To achieve good management, the focus should be on the users and their satisfaction. It is therefore necessary for public managers to periodically solicit the opinions of users and incorporate them when making corrections and improving their practices. Management strategies and outputs should also be designed and adjusted taking the opinions of the public into account through consultative mechanisms of civil society organizations (CSOs).

Finally, sound management of the production of goods and services depends on having good information systems that can document and show the quantity, quality, and cost of what is produced. Thanks to this

instrument, public officials can make key decisions based on reliable information regarding institutional operations and progress. In addition, the data gathered are the primary resource for the monitoring and evaluation system. Consequently, they can help provide feedback in planning results-based budgeting systems.

The following aspects of program and project management will be analyzed below: sectoral planning, management of goods and services, and information systems. The analysis is based on information obtained on the education, health, social development, and infrastructure sectors.

## Global Trends and Good Practices in the Management of Public Goods and Services for MfDR

### *International Quality Standards*

Continuous quality improvement is an important part of MfDR. It depends on several elements: (i) the definition of quality standards, (ii) the collection of information about the quality of goods and services, and (iii) institutionalized procedures and criteria for improving quality.

Quality standards are increasingly universal. Regulatory agencies worldwide implement and update technical standards and parameters for the design and operation of new projects in their respective sectors, and they also influence certification of processes under ISO standards and their equivalents. Another practice that has spread is the application of comparative international measures, such as those established in several sectors in OECD countries. These prove very useful in identifying development gaps and defining strategies that will enable qualitative leaps to be made.

In education, for example, in addition to developing their own systems to measure learning, countries should use instruments that enable international comparisons, such as the Program for International Student Assessment (PISA). This would make it possible not only to identify gaps in quality but also to identify models of excellence, enabling significant leaps in MfDR, in at least two interdependent aspects. The first has to do with detecting a country's relative gaps and providing early warning signs to encourage results improvement.

The second is related to identifying good practices in countries where students obtain the highest scores, to use them as a reference for the transfer of technology aimed at improving results.

### *Information and Communication Technologies*

Information and communication technologies (ICTs) are providing new directions, challenges, and opportunities. Sectoral entities are posting and updating information on the Internet and allowing free access to it, in some cases through their own website portals and in others through a shared website. Two LAC examples are the Monitoring System for Government Goals (Sinergia) in Colombia and the Comprehensive Management Balance Sheet in Chile. In a more advanced phase, electronic government ("e-government") systems are creating more favorable environments for sectoral management and allowing open access to data, as well as interactive information, transactions, transformation processes, and others. In addition to ICTs, sectoral management of programs and projects has new possibilities for development. Some examples of the use of ICTs in the management of services are: the Colima Model: Comprehensive Service Innovation to Benefit Citizens (Colima, Mexico), the Comprehensive Service Center (Puebla, Mexico), the Pernambuco Commerce Board's Program of Comprehensive Solutions (Pernambuco, Brazil) (Alvim Camargo et al., 2014), and the Intelligent Government Project (Pernambuco, Brazil).

### *Public-Private Partnerships*

Another trend that has appeared relatively recently is the use of PPPs as "forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service." (European Commission, 2004: 1). Beyond being a form of contracting, PPPs constitute comprehensive design-financing-risk management-implementation-operation processes, thanks to which improvements are made in program and project efficiency, quality, and effectiveness.

The following PPP contributions should be highlighted:

- Significant contributions of investment resources from the private agent, which frees up public sector resources for investment in other priority areas of development.
- Greater efficiency, thanks to the private agent's interest in minimizing costs and investment periods to quickly enter the service delivery phase.

- Better quality and greater effectiveness of results, as an outgrowth of the know-how contributed by the project implementer and of the demanding oversight parameters for PPPs.[1]

The infrastructure sector makes the most use of the PPP approach, for example, for various modes of transportation, especially roads, railways, seaports, and airports. This trend will intensify due to competitiveness efficiency requirements.

### *Intersectoral Action*

Thanks to the current and future dynamics of the globalized world, close interactions are created among the different sectors. They are forged by, among other factors, *climate change* challenges, *territorial competitiveness* growing out of the increasingly more numerous free trade agreements (FTAs), the *environmental sustainability* of programs and projects—in the Triple Bottom Line approach, where economic, social, and environmental systems intersect (Credidio, 2009)—and *citizen security* (which is increasingly more comprehensive and intersectoral, for it is the result of social, educational, prevention, law enforcement, mobility, public space, environmental risks, and citizen training and education programs).

Intersectoral aspects pose new challenges for program and project management within the framework of MfDR because they call for establishing points of intersection and synergies in the formulation of plans, the establishment of responsibilities for working toward targets in conjunction with other actors, in implementation mechanisms, and others. In public health, for example, the good performance of primary health care programs is due to appropriate coordination among several sectors, such as those involved in child

[1] According to EUROsocial (2011), the main benefits of a PPP are:
- Increasing the supply of basic infrastructure services to citizens in the most economical, effective and fastest way possible.
- Increasing investment in the development of a larger number of public infrastructure works.
- Generating investment options for the private sector in areas where this has proven to be more efficient.
- Making a key contribution to fostering social cohesion.
- Complementing the fiscal resources allocated to investment.
- Centering the public sector on project deliverables and the quality of services from the beginning, not merely during project implementation.
- Maintaining service quality throughout service life.

nutrition, school lunch programs, education, family services, and community infrastructure. Likewise, social development programs, such as the fight against poverty, job creation, and support to microenterprises, call for close interinstitutional coordination. This helps to mobilize intersectoral energy and contributes significantly to MfDR because it calls for responses from sectoral entities whose outputs and services are necessary for the greater integration and sustainability of the benefits sought for the target populations.

### *Management Effectiveness Mechanisms and Incentives*

Among the mechanisms for effective sectoral MfDR are inter-administrative contracts and incentives. The essence of the first mechanism is contracts signed between the sectoral authority and public managers in charge of carrying out programs/projects or providing services. The contracts stipulate the quantity, quality, and efficiency targets that public managers commit to meeting. In some cases the mechanism also trickles down to intermediate management levels.

The second mechanism, incentives, is a necessary support for the first because it encourages individuals and institutions to act with a view to achieving results. Incentives can be monetary or non-monetary, individual or collective, or a combination of these. Monetary incentives are promotions, differentiated salaries, and annual bonuses. Non-monetary incentives include awards, training, public recognition, and others. Individual mechanisms can either be monetary (a raise) or non-monetary (recognition for good performance). Collective mechanisms include funds made available through competitions among institutions, financing for institutional projects, and additional funding.

These mechanisms are well established in pioneering countries for MfDR. Korea is an example of a country that uses incentives for personnel performance aligned with results (APCoP-MfDR, 2011).[2]

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[2] According to the Asia-Pacific Community's study on management practices for development results (APCoP-MfDR, 2011), in Korea promotions and levels of personnel remuneration are determined in large part by regular performance evaluations. The criteria for individual performance evaluations are aligned with the achievement of the objectives of the respective entity's strategic plan. The central budgeting office uses the annual performance reports to give feedback to the project-implementing offices for the formulation of their budget requests. The budgets of ministries that do not meet their performance objectives can be cut, and officials are aware of the implications for their career prospects.

However, only a few LAC countries have adopted them. In Chile, for example, the Management Improvement Program (MIP) is based on collective monetary incentive mechanisms for officials and other employees to improve the quality of public services.

## Progress and Challenges in the Sectoral Management of Goods and Services in LAC

The PRODEV Evaluation Tool (PET) disaggregates sectoral management of programs and projects into three components: (i) a medium-term sectoral vision, (ii) sectoral management of goods and services, and (iii) sectoral information systems. The *medium-term* vision component sets the direction for action, and several of its elements are tied to Pillar 1: results-oriented planning. The *management of the production of goods and services* component is a key element in the consolidation of outputs and results with quality, coverage, and efficiency. The *information systems* component supports the previously mentioned components, and several of its elements are related to the monitoring and evaluation pillar.

Sectoral management of goods and services saw a rise in scores during the period under analysis of 0.4 points. The best-performing components were management for the production of goods and services and sectoral information systems. Meanwhile, the score on medium-term sectoral vision rose by only 0.2 points even though it had the highest level of development.

**FIGURE 6.2 | Scores on the Indicators for the Sectoral Management of Goods and Services Component**

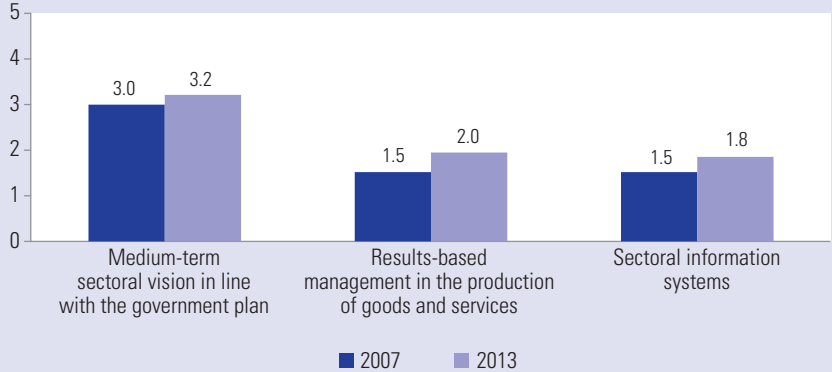


**TABLE 6.7 | Scores on the Indicators for the Sectoral Management of Goods and Services Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision | 3.0 | 3.2 | 0.2 |
| Results-based management in the production of goods and services | 1.5 | 2.0 | 0.4 |
| Sectoral information systems | 1.5 | 1.8 | 0.3 |
| Weighted average for sectoral management of goods and services | 1.8 | 2.2 | 0.4 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

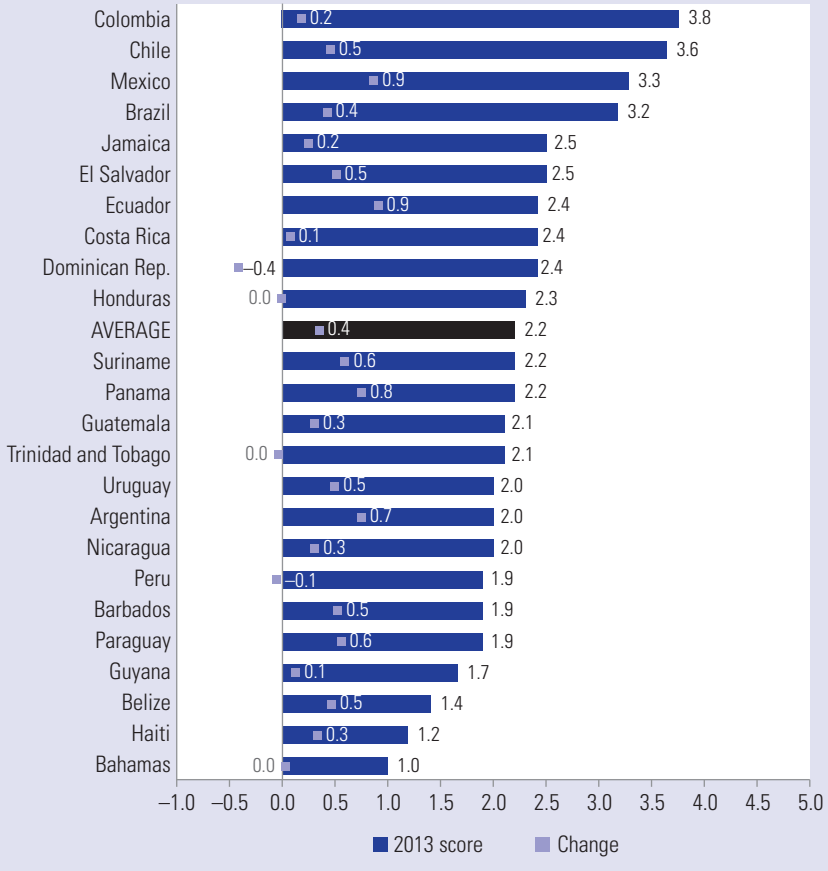
Analysis of the evolution of sectoral management of goods and services shows significant dispersion in the scores. Figure 6.3 shows the development of the sectoral management of goods and services component by country. The countries have been classified in three groups according to the scores obtained (Table 6.8). The first group (high level) is composed of the countries that obtained scores of 3 or higher; the second (intermediate level), of the countries whose scores were between 1.5 and 3; and the third (low level), of those whose scores were lower than 1.5.

When the categories of countries with high, intermediate, and low levels of development are compared, it can be seen that four countries moved up from the low to the intermediate level, and two from the intermediate to the

**TABLE 6.8 | Country Classification by Scores on the Sectoral Management of Goods and Services Component**

| Component Score | 2007 | 2013 |
|---|---|---|
| High score ≥ 3 | *(2 countries)* Chile, Colombia | *(4 countries)* Brazil, Chile, Colombia, Mexico |
| Intermediate score < 3 ≥ 1.5 | *(15 countries)* Brazil, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Peru, Suriname, Trinidad and Tobago, Uruguay | *(17 countries)* Argentina, Barbados, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay |
| Low score < 1.5 | *(7 countries)* Argentina, Bahamas, Barbados, Belize, Haiti, Panama, Paraguay | *(3 countries)* Bahamas, Belize, Haiti |

**FIGURE 6.3 | Index of the Sectoral Management of Goods and Services Component by Country in 2013 and Changes Occurring since 2007**




high level. Whereas few countries had a high level of development in 2007, in 2013 the smallest number of countries was in the low level.

The changes in the scores on the sectoral management of goods and services component in the period under analysis were also examined, and the countries were again classified in three groups. The first group (substantial progress) is composed of those countries that obtained positive changes of 0.5 or higher in their scores; the second (fair progress), of those that had changes of between 0 and 0.5; and the third (null or negative change), of those that showed changes equal to or lower than 0.

**TABLE 6.9 | Country Classification by Degree of Progress on the Sectoral Management of Goods and Services Component**

| | |
|---|---|
| Substantial progress<br>Change in score<br>≥ 0.5 | *(10 countries)*<br>Argentina, Barbados, Belize, Ecuador, El Salvador, Mexico, Panama, Paraguay, Suriname, Uruguay |
| Fair progress<br>Change in score<br>< 0.5<br>> 0 | *(9 countries)*<br>Brazil, Chile, Colombia, Costa Rica, Guatemala, Guyana, Haiti, Jamaica, Nicaragua |
| Null or negative change<br>Change in score<br>≤ 0 | *(5 countries)*<br>Bahamas, Dominican Republic, Honduras, Peru, Trinidad and Tobago |

Table 6.9 shows that most countries made substantial progress during the period under analysis. Nonetheless, most are still at an intermediate level of development with respect to sectoral management of goods and services.

To analyze the management of goods and services, the study took four sectors into account: education, health, social development (programs of services to poor and vulnerable populations), and infrastructure. These sectors are responsible for a high percentage of public spending and investment. However, it should be noted that, because of a number of factors, not all sectors were analyzed in all countries. The tables showing the scores for each sector indicate the countries not included in the analysis. The main findings in each of the sectors mentioned above are presented below.

### *Education Sector*

The education sector is one of the most institutionally consolidated in LAC. Public instruction occurs alongside private, and in many countries that are in the process of decentralizing education, both the implementation of programs and projects and the provision of educational services fall under ministries or national institutions. This sector's planning systems are the most advanced among all of the sectors examined, and the medium-term plans provide roadmaps focusing on the demands of the modern world: coverage, quality, and efficiency. When progress is made on coverage, quality becomes a priority. There is a special orientation of government policies toward early childhood programs that provide comprehensive services, as well as toward learning tests using international standards, that is, standardized instruments that make it possible to measure progress in educational quality.

**TABLE 6.10 | Scores on the Indicators for the Management of Goods and Services Component in the Education Sector, 2007–2013**

| Education sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision in line with the government plan | 3.2 | 3.7 | 0.5 |
| Results-based management in the production of goods and services | 1.7 | 2.1 | 0.4 |
| Sectoral information systems | 1.7 | 2.4 | 0.6 |
| **Weighted average for the education sector** | **2.0** | **2.5** | **0.5** |

*Notes*: Calculation of the average for 2013 did not include Suriname.
To facilitate the reading, numbers have been rounded off to tenths.

The Millennium Development Goals (MDGs) have encouraged the achievement of important goals in the education sector. The greatest challenges lie in the program and project management mechanisms for achieving the desired results.

One aspect that conditions the implementation of sectoral policies is the potential opposition by labor unions to new initiatives such as management contracts and incentive systems, which are subject to performance evaluations.

The education sector has seen considerable progress in the period under analysis, increasing its score by 0.5 points. This growth was achieved primarily because of advances in sectoral information systems (0.6), the medium-term sectoral vision (0.5) and—to a lesser extent—results-based management of the production of goods and services (0.4).

In 2013, of the 23 countries analyzed, eight had a high level of MfDR development, whereas 14 had an intermediate level and one had a low level. Based on these data, it can be seen that in most LAC countries the education sector is beginning to develop MfDR practices. A disaggregated analysis of the sectoral components is presented below, covering a medium-term sectoral vision, results-based management in the production of goods and services, and sectoral information systems.

### Medium-term Sectoral Vision

This component starts with the sector's planning vision. It analyzes the coherence of the medium-term plan with the guidelines of the National Plan of Government and whether it has been formulated based on the participation of stakeholders. These requirements are reflected in Table 6.11.

By 2013, an improvement over 2007 could be seen in the medium-term sectoral plans indicator, as well as in its compatibility with the government plan and the quality of the plans' goals, targets and indicators.

**TABLE 6.11 | Scores on the Indicators for the Medium-term Sectoral Vision of the Education Sector, 2007–2013**

| Education sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision according to the government plan | 3.2 | 3.7 | 0.5 |
| 1. There is a medium-term plan for the sector. | 3.3 | 3.9 | 0.6 |
| 2. Civil society participated in preparing the plan. | 2.7 | 3.1 | 0.4 |
| 3. The sectoral plan coincides with government goals and targets. | 3.4 | 3.7 | 0.3 |

*Notes*: The calculation of the average for 2013 does not include Suriname.
To facilitate the reading, numbers have been rounded off to tenths.

With respect to the medium-term vision, it should be noted that several countries had a medium-term educational plan that was tied to the goals and targets of the national plan of government and that was prepared with the participation of civil society organizations. This is the case of El Salvador and Honduras. Belize made the most progress in this component, followed by Panama and Colombia.

### Management of the Production of Goods and Services

This is the core component of this pillar because it is responsible for ensuring the delivery of the outputs and services necessary to achieve the results proposed in the plans, programs, and projects. This component showed notable progress during the period, although the individual requirements behaved asymmetrically.

The first two requirements showed fair progress: 1 (there are annual and multi-annual targets for the provision of goods and services) and 2 (there are offices responsible for achieving annual targets). The first gives consistency and viability to programs and projects, and the second is an indispensable element in implementation and monitoring. It should be noted that, despite the progress cited, these requirements were at a high level of development. In fact, with respect to setting medium-term targets, 14 of the 24 countries analyzed had already attained that level in 2007, and by 2013 this number was 19.

Requirements 3 (offices and programs sign management contracts with the ministry/secretariat) and 4 (personnel remuneration and evaluation systems incentivize results) received the lowest scores and also made little progress during the period. These were: Paradoxically, the global trend showed that the countries that have been successful in their MfDR efforts have paid special attention to these two requirements. Only three LAC countries (Brazil, Chile, and Colombia) have effectively addressed them and exhibited good practices.

**TABLE 6.12 | Scores on the Indicators for Results-based Management in the Production of Goods and Services of the Education Sector, 2007–2013**

| Education sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Results-based management in the production of goods and services | 1.7 | 2.1 | 0.4 |
| 1. There are annual and multi-annual targets for provision of goods and services. | 3.0 | 3.3 | 0.3 |
| 2. There are offices responsible for achieving annual targets. | 3.1 | 3.5 | 0.4 |
| 3. Offices and programs sign management contracts with the ministry/ secretariat. | 0.5 | 0.7 | 0.3 |
| 4. Personnel remuneration and evaluation systems incentivize results. | 0.7 | 1.0 | 0.4 |
| 5. An MfDR strategy is being implemented. | 1.7 | 2.2 | 0.5 |
| 6. There is a strategy for improving the quality of services. | 2.3 | 3.0 | 0.8 |
| 7. Information is gathered on user opinions about goods and services. | 1.7 | 2.0 | 0.3 |
| 8. Citizen consultation mechanisms are used to improve goods and services. | 1.8 | 2.3 | 0.4 |

*Notes*: Calculation of the average for 2013 did not include Suriname.
To facilitate the reading, numbers have been rounded off to tenths.

Requirement 6 (there is a strategy for improving the quality of services) saw the most growth in the period. In 2013, it was at a high level of development. But the two related requirements, which are determining factors in shaping quality in line with user expectations, did not advance at the same pace. These were requirements 7 (information is gathered on user opinions about goods and services) and 8 (civil society consultation mechanisms are used to improve goods and services). This can indicate, as a general trend, that the decisions to improve quality were being made unilaterally by institutions and therefore did not necessarily match customer satisfaction.

Colombia had the region's highest level of MfDR development in the education sector. In fact, since 2006 it has been implementing the Integrated Management System (SIG), especially in administrative and financial procedures. It also administers standardized tests for student learning, which make it possible to examine the results of the ministry's actions. Among the management innovations implemented in the sector are the signing of management contracts with public administrators and the application of incentive mechanisms to improve staff performance, in keeping with national regulations currently in effect (2005 Presidential Decree 1227). Mexico and Belize made the most progress in this component, followed by Ecuador.

**TABLE 6.13 | Scores on the Indicators for Information Systems in the Education Sector, 2007–2013**

| Education sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Sectoral information systems | 1.7 | 2.4 | 0.6 |
| 1. There are information systems on the production of goods and services. | 2.5 | 3.0 | 0.5 |
| 2. There are information systems on the quality of goods and services. | 2.0 | 2.8 | 0.8 |
| 3. There are indicators for the costs of goods and services. | 0.9 | 1.2 | 0.3 |
| 4. There are efficiency indicators for the coverage of goods and services. | 1.6 | 2.7 | 1.1 |
| 5. The information on management results is available to citizens. | 1.6 | 2.2 | 0.6 |

*Notes*: Calculation of the average for 2013 did not include Suriname.
To facilitate the reading, numbers have been rounded off to tenths.

### Sectoral Information Systems

This component is key for the monitoring and evaluation of results derived from sector management efforts. As in the previous component, the scores on the individual requirements varied considerably.

In 2013, the requirement that received the highest score was 1 (there are information systems on the production of goods and services). This is information compiled regularly from administrative records, which can sometimes facilitate its availability without the need for additional efforts.

The following requirements were in second place: 2 (there are information systems on the quality of goods and services produced), 4 (there are efficiency indicators for the coverage of goods and services), and 5 (information on management outcomes is available to the public). These elements make it possible to have essential information about the attributes of goods and services: quality, efficiency, coverage, and results, and at the same time contribute to management transparency. Without them, sectoral management would not know which course to follow, and the public would have no notion about performance. There was substantial progress on requirement 4. The number of countries with a high level of development went from six in 2007 to 13 in 2013. The lowest scores were for requirement 3 (there are indicators for the costs of goods and services), which saw little progress during the period under analysis.

As for information systems, the country with the highest score was Colombia. However, the situation of Guatemala should also be examined. According to the 2013 PET evaluation, its National System of Educational Indicators (SNIE) was providing a complete and up-to-date database on

educational quality, coverage, and costs through indicators. In fact, this practice was already consolidated at the time of the 2007 PET evaluation.

The countries that made the most progress on this requirement were Guyana, Honduras, and Peru, but some other countries' progress with respect to monitoring of educational quality management should also be noted. Chile and Colombia, together with Argentina, Brazil, Costa Rica, Mexico, Peru, and Uruguay, were administering the international PISA test as a reference for quality improvement. They also had national learning assessment systems.

### *Health Sector*

This sector is characterized by the coexistence of a number of institutional systems: national and local, private and public, parallel systems of financing and coverage, as well as assurance modalities (guaranteed coverage for the right to health care) and health care services (network of hospitals and referral systems). Ministerial entities have been formulating medium-term plans

**BOX 6.2 | Planning in Belize: The Ministry of Education, Youth and Sports**

The education sector is the main area of public expenditure in Belize, accounting for about one-fourth of non-financial expenditures. The government has demonstrated strong commitment to education and invested approximately 6.1 percent of GDP in it during the 2008–2010 period (World Bank, 2014). These figures are considered high compared to regional and international averages. In the same period, public spending in education rose to 5.5 percent of GDP in OECD member countries and 4.6 percent of GDP in LAC (World Bank, 2014). The purpose of this important investment was to improve the quality of education, for which positive reforms have been promoted in the sector in recent years.

Thus, in 2011, the medium-term strategic plan, the Education Sector Strategy 2011–2016, was prepared. It includes a sector assessment based on qualitative and quantitative information. It also defines policy objectives, from which a matrix of results indicators can be drawn with quantitative targets for the period and baselines. Belize also had a Medium-term National Development Strategy 2010–2013, with a section detailing objectives for the education sector. However, although some of the objectives of the Education Sector Strategy were similar to those of the Medium-term National Development Strategy, they were not explicitly linked to each other. That is, there was still no linkage between sectoral and national planning.

Finally, there were also modest reforms in the operational effectiveness of planning. The Ministry of Finance introduced pilot budget reform processes in five ministries (including the Ministry of Education), with the aim of switching from incremental budgeting to corporative performance management. The Ministry of Education's new budgeting documents indicate the mission, the vision, the sector's strategic objectives, and the programs. However, those programs are still not being structured with an MfDR logic, since they appear to be simply a recategorization of spending according to the level of education (for example: primary school, secondary school, and higher education). In any case, preparation of the Education Sector Strategy and the implementation of the Corporative Performance Management represented a good first step toward the structuring of results-oriented budgeting programs.

for the achievement of results, focusing on promotion and prevention, epidemiological observation and tracking, universal vaccinations, the fight against HIV/AIDS, and medical care. Several countries have also been introducing regulatory and institutional changes, and some have done so satisfactorily. However, others, in which a variety of approaches have been taken, have had management difficulties reflected in inefficiencies and declines in quality, attributable to management failures and to poor fits in funding mechanisms, with the ensuing risks for sustainability.

Another aspect of the major challenges that remain, beyond improvement within the sector itself, is the intersectoral aspect of public health. Interinstitutional coordination efforts with other systems are required in this area, focusing on accident prevention, as well as security, basic sanitation, child nutrition, school lunches and environments, and others.

In the MfDR approach, medium-term plans yield clarity about expected results in individual and public health, but the main challenges arise when defining expected outputs and the mechanisms for achieving them.

Table 6.14 shows that, with an increase of only 0.3 points, the health sector did not progress much in the period under analysis. However, along with the education sector, it is one of the more advanced among those analyzed. Progress during the period was mainly bolstered by improvement in the results-based management of the production of goods and services (0.4) and to a lesser extent in the sectoral information systems (0.2). The medium-term sectoral vision actually saw a slight decline in the period (–0.1).

Of the 24 countries analyzed in 2013, six had a high level of development in the sectoral management of goods and services, 17 had an intermediate level of development, and only one had a low level. These data indicate that, in most countries of the region, the health sector was beginning to institutionalize MfDR practices. A disaggregated analysis of the indicators is presented

**TABLE 6.14 | Scores on Indicators for the Management of Goods and Services Component in the Health Sector, 2007–2013**

| Health sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision in line with the government plan | 3.4 | 3.4 | –0.1 |
| Results-based management in the production of goods and services | 1.9 | 2.3 | 0.4 |
| Sectoral information systems | 1.8 | 2.1 | 0.2 |
| **Weighted average for the health sector** | **2.2** | **2.5** | **0.3** |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

**TABLE 6.15 | Scores on the Indicators for the Medium-term Vision of the Health Sector, 2007–2013**

| Health sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision in line with the government plan | 3.4 | 3.4 | –0.1 |
| 1. There is a medium-term plan for the sector. | 3.7 | 3.7 | 0.0 |
| 2. Civil society participated in preparing the plan. | 2.8 | 2.7 | –0.1 |
| 3. The sectoral plan coincides with government goals and targets. | 3.4 | 3.2 | –0.2 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

below: a sectoral vision of medium-term, results-based management in the production of goods and services, and sectoral information systems.

### Medium-term Sectoral Vision

In 2013, 17 of the 24 countries analyzed obtained scores equal to or higher than 3. Despite the null progress on requirement 1 (there is a medium-term plan for the sector), most countries analyzed had medium-term strategic health care plans, often aligned with the government plan, although with relatively low participation by civil society. Throughout the region there was a decline in the linkage of medium-term sectoral plans with the goals of national government plans. Slightly lower civil society participation was also seen in the preparation of health sector plans.

With respect to the levels of development and progress in the medium-term vision of the countries' health sectors, Brazil, Costa Rica, and Honduras had the highest scores. However, they saw slight declines in the linkage between their medium-term sectoral plans and their national government plans.

The countries that made the most progress in this requirement were Ecuador, Panama, and Paraguay. Paraguay deserves special mention because it made progress in sectoral planning based on a medium-term plan (Strategic Plan 2009–2013) for the sector through the Ministry of Public Health and Social Welfare (MSPBS). That plan was prepared prior to the plan of government, but it established operational ties with the latter through emblematic or flagship programs.

### Results-based Management in the Production of Goods and Services

Requirements 5 (an MfDR strategy is being implemented in the institution) and 6 (there is a strategy to improve the quality of services) were major focuses during the period under analysis. For requirement 5, between 2007

**TABLE 6.16 | Scores on the Indicators for Results-based Management in the Production of Goods and Services in the Health Sector, 2007–2013**

| Health sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Results-based management in the production of goods and services | 1.9 | 2.3 | 0.4 |
| 1. There are annual and multi-annual targets for provision of goods and services. | 3.0 | 3.1 | 0.1 |
| 2. There are offices responsible for achieving annual targets. | 3.6 | 3.7 | 0.1 |
| 3. Offices and programs sign performance contracts with the ministry/secretariat. | 1.2 | 1.3 | 0.2 |
| 4. Personnel remuneration and evaluation systems incentivize results. | 1.0 | 1.5 | 0.5 |
| 5. An MfDR strategy is being implemented in the institution. | 1.7 | 2.3 | 0.7 |
| 6. There is a strategy for improving the quality of services. | 2.5 | 2.9 | 0.5 |
| 7. Information is gathered on user opinions about goods and services. | 2.2 | 2.7 | 0.5 |
| 8. Public consultation mechanisms are used to improve goods and services. | 1.9 | 2.3 | 0.4 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

and 2013 the number of countries whose health sector strategies had been implemented or consolidated went from four to nine; and for requirement 6, from 12 to 15. There were also qualitative improvements in several countries. The latter requirement, on which the region's progress was only modest, is an essential element for the sectoral management of goods and services in health care, for which reason it will have to improve in the future.

Meanwhile, the two requirements that advanced the least during the period were requirements 1 (there are annual and multi-annual targets for the provision of goods and services) and 2 (there are offices in charge of achieving annual targets). Nonetheless, these requirements are highly developed in the region.

Requirement 3 (offices and programs sign management contracts with the ministry/secretariat) also saw slight progress. In this requirement, Chile and Colombia were the leaders, whereas countries such as the Dominican Republic made some progress, with agreements between the corresponding ministry and several regional health care agencies. In other countries, such as Ecuador, the top ministry officials were signing management commitments, but public administrators did not sign management contracts with ministerial authorities. Requirement 4 (personnel remuneration and evaluation incentivize results) also promotes management efficiency and showed significant progress. Just as with requirement 3, Chile and Colombia led the way, but

Mexico and Brazil also made significant progress during the period. The regulation of evaluation and performance-based payments are items pending on the regional agenda.

Finally, requirements 7 (information is gathered on user opinions about goods and services) and 8 (public consultation mechanisms are used to improve goods and services), continued to have an intermediate level of development, even though notable progress was made. One example of good practices in the aforementioned requirements is Colombia's Ministry of Health, which has standards of quality for the goods and services produced by the sector and also has information systems on the quality of a wide range of processes. Likewise, in Colombia all insurance companies and health care service providers have regular user survey systems to learn about users' perceptions of the quality of services and to compile suggestions for improvement.

### Sectoral Information Systems

This indicator obtained a low score and made little progress over the period under analysis. Requirement 5 (information on results-based management is available to the public) was the only one that made significant progress. In general, this reflects the fact that the region's ministries of health were posting more management information on their websites; however, the level of development of this component continued to be intermediate, and there was still much room for improvement in terms of the quality and periodicity of the information disclosed.

The other requirements for this indicator only made very slight progress. Just as in other sectors, Requirement 3 (there are indicators on the costs of

**TABLE 6.17 | Scores on the Information Systems Indicator for the Health Sector, 2007–2013**

| Health sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Sectoral information systems | 1.8 | 2.1 | 0.2 |
| 1. There are information systems on the production of goods and services. | 2.5 | 2.6 | 0.1 |
| 2. There are information systems on the quality of goods and services. | 1.5 | 1.8 | 0.2 |
| 3. There are indicators for the costs of goods and services. | 1.4 | 1.5 | 0.1 |
| 4. There are efficiency indicators for the coverage of goods and services. | 2.0 | 2.2 | 0.3 |
| 5. The information on management outcomes is available to citizens. | 1.7 | 2.3 | 0.5 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

**BOX 6.3 | Improvement of the Management of Goods and Services in Argentina: The Ministry of Health (MSAL)**

The National Ministry of Health (MSAL) is the coordinating agency for the health care system in Argentina. In recent years, there has been progress in MfDR implementation in several of its components, particularly its management of the delivery of goods and services.

Special note should be made of improvements in quality management through the creation of the National Program of Quality Assurance in Medical Care, which sets standards of quality for health care services and establishments, both in terms of their processes and their structures. Another element that should be mentioned is that, even though there are still no instruments such as "management contracts," collective incentive mechanisms have been implemented, such as the Plan Nacer. This plan "introduces an innovative public policy management model to implement a results-based financing structure whereby the nation transfers resources to the provinces according to the registry of beneficiaries and fulfillment of health outcomes." The Essential Functions of Public Health (FESP) project should also be noted. It has been operating since 2007 and is geared to strengthening the capacities of health care institutions to promote and protect the population's health by measuring and developing essential public health functions. Its specific objectives include developing capacities for monitoring and measuring results; promoting the systematic evaluation of policies, programs, and services; and using measurement data to improve program implementation.

goods and services) had the lowest score. This is definitely a weak point in the system, derived in part from the fact that many institutions do not have updated catalogs on the services they provide.

### *Social Development Sector*

The traditional classification of "social" distinguished subsectors, such as health, education, and others, from one another. The new approach, from which a crosscutting sector has emerged, seeks results for the most vulnerable populations and territorial impacts. A number of the programs in this sector focus on two areas: (i) eradicating poverty, in keeping with the first MDG, and (ii) providing subsidies to needy families so that their children can enter and remain in the educational system. This sector is in the process of institutional consolidation but has challenges in the area of management. Among those challenges, two should be highlighted: (i) its cross-sectoral nature calls for intersectoral management, which in turn calls for coordination with other sectors; and (ii) since its emblematic programs seek impacts requiring long lead times, the sector entities must consolidate information systems to monitor policy results and evaluations and sustainability.

This sector showed slight progress during the period and reached an intermediate level of development. The components that saw the most progress

**TABLE 6.18 | Scores on the Indicators for the Management of Goods and Services Component in the Social Development Sector, 2007–2013**

| Social development sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision in line with the government plan. | 2.9 | 3.0 | 0.1 |
| Results-based management in the production of goods and services. | 1.4 | 1.7 | 0.3 |
| Sectoral information systems. | 1.2 | 1.5 | 0.3 |
| **Weighted average for the social development sector** | **1.7** | **2.0** | **0.2** |

*Notes*: Calculation of the average for 2013 did not include Brazil, El Salvador, Guatemala, Honduras, Peru, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

(0.3), albeit the lowest level of development, were results-based management of the production of goods and services and sectoral information systems.

The medium-term sectoral vision component had the highest level of development in this sector, but its progress during the period was negligible.

Of the 18 countries analyzed in 2013, 3 had a high level of development, 10 had an intermediate level, and 5 had a low level of development. These data indicate that while most of the countries studied had begun to implement MfDR, this trend was not as homogeneous as it was in the education and the health sectors. Except for the three countries with high development, this sector showed a significant lag, and there were still important challenges to be addressed. The components are analyzed below: a medium-term sectoral vision, results-based management in the production of goods and services, and sectoral information systems.

### Medium-term Sectoral Vision

This indicator can be said to have stagnated in the period under analysis. The entities have some capacity to formulate medium-term plans as their institutional development become consolidated. Given the social priorities that they serve, they are aligned with the government's plans, although public participation in the formulation of the medium-term plan is not as evident.

There are asymmetries in the level of development and the progress made in the medium-term vision of the social development sector. Countries with more consolidated organizations that had incorporated lessons learned in their national planning and investment system had the most coherent medium-term plans.

The countries with the best medium-term sectoral visions in the social development sector were Mexico and Uruguay, while those that made the

**TABLE 6.19 | Scores on the Indicators for the Medium-term Sectoral Vision of the Social Development Sector, 2007–2013**

| Social development sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision in line with the government plan | 2.9 | 3.0 | 0.1 |
| 1. There is a medium-term plan for the sector. | 3.4 | 3.5 | 0.1 |
| 2. Civil society participated in preparing the plan. | 1.8 | 1.8 | 0.0 |
| 3. The sectoral plan coincides with government goals and targets. | 2.9 | 2.9 | 0.0 |

*Notes*: Calculation of the average for 2013 did not include Brazil, El Salvador, Guatemala, Honduras, Peru, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

most progress during the period under analysis were Chile, Ecuador, and Panama. Mexico's Secretariat of Social Development (Sedesol) should be cited as a positive example because of its medium-term sectoral plan and for having goals, targets, and indicators consistently linked with the general objectives and strategies of the National Development Plan (NDP). Sedesol's sectoral plan uses a logical structure for budget programs and projects, with objectives, designated offices in charge, targets, and results indicators, which are the basis for the Expenditure Budget of the Federation.[3] Sectors in other countries are in the process of consolidation. Examples are Colombia's Administrative Department for Social Prosperity (DPS) and Peru's Ministry of Development and Social Inclusion (MIDIS),[4] both of which were created only recently (2011).

### Results-based Management of the Production of Goods and Services

This indicator exhibited a fair degree of progress during the period under analysis. A good number of the entities had targets assigned to people/offices, especially those that have to do with results. However, in several cases, even in the most consolidated entities, goods and services targets were not clearly or fully identified.

The four requirements corresponding to core management operations performed poorly and made little progress during the period under analysis. Requirements 3 and 4, the contract and results-based incentive requirements, which are

[3] In the case of Mexico, this is a situation common to all sectors, so the Secretariat of the Treasury and Public Credit (SHCP) establishes linkage guidelines and mechanisms and systematically interacts with sectoral entities.

[4] Because the MIDIS was created only recently (2011), it was not included in the 2007 study and therefore no comparative review was done. However, due to its exemplary practices, it is presented as an interesting case to review.

the mechanisms for promoting ownership and positive responses, had tenuous results. The requirements for implementing an MfDR strategy and strategies for quality improvement, 5 and 6, showed modest progress. Information-gathering on user opinions and user and public consultation mechanisms (requirements 7 and 8) improved the most during the period under analysis.

Although they offer different institutional solutions, Chile and Mexico are both models of good development. Chile's Solidarity and Social Investment Fund (FOSIS) exemplifies good performance in most component requirements and carries out the processes established by the national system, such as the Management Improvement Program and the Comprehensive Management Balance Sheet. Mexico's Sedesol awards prizes, incentives, and compensation to recognize the efforts of administrative staff. The National Public Administration Award, a public recognition and monetary stimulus for outstanding employees whose work made significant contributions to the continuous improvement of Federal Public Administration institutions and offices, is noteworthy.

### Sectoral Information Systems

This indicator had a low level of development and showed modest progress. Even though moderate progress was seen in requirement 4 (there are efficiency indicators for the coverage of goods and services), it was attributable to the creation of initial capabilities in some countries. In 2007, 12 of the 18 countries

**TABLE 6.20 | Scores on the Indicators for Results-based Management in the Production of Goods and Services in the Social Development Sector, 2007–2013**

| Social development sector | 2007 | 2013 | Var. |
|---|---|---|---|
| Results-based management in the production of goods and services | 1.4 | 1.7 | 0.3 |
| 1. There are annual and multi-annual targets for provision of goods and services. | 2.6 | 2.8 | 0.3 |
| 2. There are offices responsible for achieving annual targets. | 2.9 | 3.0 | 0.1 |
| 3. Offices and programs sign management contracts with the ministry/secretariat. | 0.6 | 0.6 | 0.0 |
| 4. Personnel remuneration and evaluation systems incentivize results. | 0.8 | 0.9 | 0.1 |
| 5. An MfDR strategy is being implemented. | 1.0 | 1.5 | 0.5 |
| 6. There is a strategy for improving the quality of services. | 1.6 | 1.9 | 0.3 |
| 7. Information is gathered on user opinions about goods and services. | 1.9 | 2.4 | 0.5 |
| 8. Public consultation mechanisms are used to improve goods and services. | 1.9 | 2.3 | 0.4 |

*Notes*: Calculation of the average for 2013 did not include Brazil, El Salvador, Guatemala, Honduras, Peru, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

analyzed had a low degree of development, and that number fell to eight in 2013. In other words, four countries moved from a low level of development to an intermediate level in the indicators of coverage of their goods and services.

With respect to levels of development and progress on sectoral information systems, there are leading institutions in countries that have consolidated information systems. The countries with the highest levels of development were Colombia, Chile, and Mexico, whereas those that increased their scores the most were Costa Rica, Mexico, and Paraguay. Mexico's Sedesol, for example, has implemented an information and monitoring system for the production of goods and services, with updated result indicators matrices (RIMs), which serve as the basis for results-based budgeting. Those indicators were jointly designed by the SHCP and Sedesol.

### *Infrastructure Sector*

Territorial competitiveness poses a long-term challenge for the infrastructure sector, in terms of both internal mobilization and efficient connections with the globalized world. Multimodal systems (integration of several modes of transportation) are on the agenda, and megaprojects, including international corridors, are an important part of these systems. For this reason, design risks and errors lead to extra costs and delays. Another obstacle for sector

**BOX 6.4 | Peru's Ministry of Development and Social Inclusion**

Peru's Ministry of Development and Social Inclusion (MIDIS) was created in 2011 with the mission of "guaranteeing that the social policies and programs of the different government sectors and levels will act in a coordinated and linked fashion to close the gaps in access to quality universal public services and to opportunities that expand economic growth." Since this entity was founded only recently, several aspects of its institutional structure were still in an incipient stage. However, as will be explained below, significant efforts have been made for the effective implementation of MfDR within the ministry.

As for strategic planning, the MIDIS has a Multi-annual Sectoral Strategic Plan (PESEM) linked to the national plan of government, for which an alignment exercise was done. This exercise is a good practice that facilitates coherence among the different policy instruments. Practically all of the objectives established in the PESEM have been transferred to budget programs. Workshops were also held to gather the views of civil society for the preparation of the plan.

With respect to the management of goods and services, it should be noted that the MIDIS has an office in charge of evaluating the quality of the services provided by the budget programs. Among other functions, this office must establish standards and gather user complaints about services. Given its recent creation at the time of the study, the entity was still designing a system of quality standards.

One of the most important aspects to be highlighted is that the MIDIS is one of only a few entities in Peru that use performance contracts (tied to target commitments) for senior officials.

**TABLE 6.21 | Scores on the Indicators for Information Systems in the Social Development Sector, 2007–2013**

| Social development sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Sectoral information systems | 1.2 | 1.5 | 0.3 |
| 1. There are information systems on the production of goods and services. | 1.8 | 2.2 | 0.5 |
| 2. There are information systems on the quality of goods and services. | 1.1 | 1.3 | 0.2 |
| 3. There are indicators for the costs of goods and services. | 0.6 | 0.8 | 0.2 |
| 4. There are efficiency indicators for the coverage of goods and services. | 1.2 | 1.7 | 0.5 |
| 5. The information on management results is available to citizens. | 1.3 | 1.6 | 0.2 |

*Notes*: Calculation of the average for 2013 did not include Brazil, El Salvador, Guatemala, Honduras, Peru, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

development has to do with the huge amounts of resources needed to fund projects. The main challenge is responding with mechanisms that will facilitate efficient and effective handling of the project cycle, starting with good project design and appropriate structuring prior to contracting, because it has been shown that having concerns about the design during actual implementation is not an ideal situation. In light of these difficulties, PPPs appear to be appropriate mechanisms for ensuring good infrastructure results, especially roads, with the advantages already cited. In LAC, Chile and Brazil are pioneers in this area, followed by Peru, Mexico, and Colombia.[5]

In Colombia's road infrastructure sector, PPPs have been promoted under the so-called Fourth Generation (4G), tapping lessons learned from pioneering countries such as Chile. Road megaprojects are being commissioned under 4G principles, with important contributions to MfDR, including the following:

i. Improving ex ante evaluation processes and requirements reduces design flaws.
ii. Distributing risk provides greater clarity in contracting processes and avoids or reduces extra costs, noncompliance, and onerous renegotiations, resulting in efficient implementation.
iii. In addition to reinforcing efficient management, the financing and implementation responsibilities assigned to contractors provide incentives for enhanced services (operation of the concession using the parameters

[5] One interesting observation that merits analysis is the high correlation between PET scores in the infrastructure sector and the IDB's PPP Development Index.

and guidelines of quality established in new forms of contracting) and greater efficiency and effectiveness.

iv. Projects are subjected to prior discussion with communities and user groups; timely, efficient, and high-quality maintenance is ensured during operations; and monitoring and evaluation systems are set up to verify user satisfaction.

This experience provides points of reference for management mechanisms that could optimize the sector's performance in the region in the coming years.

Of the four sectors analyzed, infrastructure developed the least, making only slight progress during the period under analysis. The growth, though meager, was due mainly to the components that made the most progress: results-based management of the production of goods and services (0.5) and sectoral information systems (0.3). Although medium-term sectoral vision is the component with the highest level of development, it declined slightly (–0.1) compared to its 2007 score.

Of the 18 countries analyzed in 2013, three showed a high level of development, seven an intermediate level, and eight a low level. The data indicate that most countries had a low level of development. Thus, considerable effort should be focused on this sector in the future to close gaps in the institutionalization of MfDR. A disaggregated analysis of the indicators is presented below: a medium-term sectoral vision, results-based management of the production of goods and services, and sectoral information systems.

### Medium-term Sectoral Vision

On average, the medium-term sectoral vision in the period analyzed declined slightly. With regard to requirement 1 (there are medium-term sectoral plans), the drop in the score in some cases was because the formulation of plans had been discontinued. In general, medium-term plans were prepared with slightly greater civil society participation, but they were still not appropriately in line with the national plans of government.

With respect to the medium-term vision in the infrastructure sector, the countries that progressed the most were Chile, Colombia, and Ecuador. There were good examples of planning framed in territorial productivity strategies and competitiveness in Ecuador where, despite the fact that the Ministry of Transportation and Public Works did not have a medium-term plan, it did have an Institutional Two-Year Strategic Plan for 2011–2013. There was also a Sectoral Production Council Agenda for the Transformation of

**TABLE 6.22 | Scores on the Indicators for the Management of Goods and Services Component in the Infrastructure Sector, 2007–2013**

| Infrastructure sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Medium-term sectoral vision in line with the government plan | 2.6 | 2.6 | –0.1 |
| Results-based management of the production of goods and services | 1.1 | 1.6 | 0.5 |
| Sectoral information systems | 1.3 | 1.5 | 0.3 |
| **Weighted average for the infrastructure sector** | **1.5** | **1.8** | **0.3** |

*Notes*: Calculation of the average for 2013 did not include Argentina, Barbados, Belize, Panama, Paraguay, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

Production 2010–2013, which considered certain goals and targets related to the transportation infrastructure sector in terms of productivity and systemic competitiveness strategies as well as crosscutting policies. In Guatemala, the Roadway Development Plan 2008–2017, designed as a continuation of the previous plan, offered a thorough assessment of the situation, including an analysis of existing proposals for the sector, a study of the territorial and economic framework, a review of the road network, and details on the needs for intervention in road networks.

### Results-based Management of the Production of Goods and Services

This indicator showed fair progress in the period analyzed. That progress was substantial in requirements 1 (there are annual and multi-annual targets for the provision of goods and services) and 2 (there are offices responsible for achieving annual targets). These requirements had an intermediate level of development, with a higher score than the rest. In 2013, 13 of the 18 countries analyzed set annual and/or multi-annual targets for the provision of goods and services.

**TABLE 6.23 | Scores on the Indicators for the Medium-term Sectoral Vision of the Infrastructure Sector, 2007–2013**

| Infrastructure sector | 2007 | 2013 | Variation |
|---|---|---|---|
| **Medium-term sectoral vision in line with the government plan** | **2.6** | **2.6** | **–0.1** |
| 1. There is a medium-term plan for the sector. | 3.0 | 2.9 | –0.1 |
| 2. Civil society participated in preparing the plan. | 1.7 | 1.9 | 0.2 |
| 3. The sectoral plan coincides with government goals and targets. | 2.7 | 2.5 | –0.2 |

*Notes*: Calculation of the average for 2013 did not include Argentina, Barbados, Belize, Panama, Paraguay, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

**TABLE 6.24 | Scores on the Indicators for Results-based Management of the Production of Goods and Services in the Infrastructure Sector, 2007–2013**

| Infrastructure Sector | 2007 | 2013 | Variation |
|---|---|---|---|
| Results-based management in the production of goods and services | 1.1 | 1.6 | 0.5 |
| 1. There are annual and multi-annual targets for provision of goods and services. | 2.4 | 2.8 | 0.5 |
| 2. There are offices responsible for achieving annual targets. | 2.3 | 2.9 | 0.6 |
| 3. Offices and programs sign management contracts with the ministry/ secretariat. | 0.7 | 0.9 | 0.2 |
| 4. Personnel remuneration and evaluation systems incentivize results. | 0.7 | 1.0 | 0.3 |
| 5. An MfDR strategy is being implemented. | 0.7 | 1.2 | 0.5 |
| 6. There is a strategy for improving the quality of services. | 1.2 | 2.1 | 0.9 |
| 7. Information is gathered on user opinions about goods and services. | 1.3 | 1.8 | 0.4 |
| 8. Citizen consultation mechanisms are used to improve goods and services. | 1.3 | 1.6 | 0.3 |

*Notes*: Calculation of the average for 2013 did not include Argentina, Barbados, Belize, Panama, Paraguay, and Suriname. To facilitate the reading, numbers have been rounded off to tenths.

It has not been possible to institutionalize management contracts or incentive mechanisms (requirements 3 and 4). Unlike the previous sectors, infrastructure is not a service-providing sector but rather a generator of installed capacity. This partially explains the fact that neither management contracts nor incentive systems tied to services have been adopted. Nonetheless, cases of good performance can be cited, such as Chile and Colombia in management contracts and Mexico in incentives. Mexico's Secretariat of Communications and Transportation (SCT) has been offering public sector career officers bonuses for outstanding performance. Likewise, Chile's Ministry of Transportation had an explicit results-based management strategy within the framework of the Special Program for Management Improvement 2008–2012 (PMG), coordinated by the Budgeting Office of the Ministry of the Treasury.

Requirement 5 (an MfDR strategy is being implemented in the institution) has progressed as much as the average for the indicator while requirement 6 (there is a strategy for improving the quality of services) saw the most progress.

Information gathering about user and citizen opinions and consultation mechanisms (requirements 7 and 8) showed progress similar to the component average. However, they had low scores, which indicates that there are still major challenges with respect to the collection of information on the quality of goods and services in the infrastructure sector.

With respect to levels of development and progress in the results-based management of the production of goods and services in the infrastructure sector, Colombia, Chile, and Mexico had the highest level of development, while Ecuador, Haiti, and Mexico made the most progress in the period under analysis. Recognizing that there are disparities in the performance from one country to the next, the PET applied to Ecuador's Ministry of Transportation and Public Works (MTOP) represents a typical situation for this component in the LAC region: "With respect to sectoral management, the MTOP does not yet have a catalog of the goods and services it produces. Nor does it have annual and multiannual production targets. However, in the area of quality, the MTOP made considerable progress because it improved the standards of quality for infrastructure projects such as roads, bridges, highways, signage, and others. As mandated in the Law for Public Contracting, these standards were included in bidding documents and contracts. Although project inspectors and contract managers collect information on those standards, no institutionalized procedures to correct flaws detected through that information were seen."

### Sectoral Information Systems

This indicator saw low levels of development and progress during the period analyzed. The greatest progress was seen in requirements 2 (there are information systems on the quality of the goods and services produced) and 4 (there are efficiency indicators for the coverage of goods and services). Brazil, Chile, and Costa Rica had the highest level of development, whereas the greatest progress was seen in Costa Rica, Haiti, and Mexico. It is also worthwhile to note Haiti's progress (driven by the reconstruction process), as well

**TABLE 6.25 | Scores of the Indicator for Information Systems of the Infrastructure Sector, 2007–2103**

| Infrastructure sector | 2007 | 2013 | Var. |
|---|---|---|---|
| Sectoral information systems | 1.3 | 1.5 | 0.3 |
| 1. There are information systems on the production of goods and services. | 2.0 | 2.2 | 0.2 |
| 2. There are information systems on the quality of goods and services. | 1.1 | 1.6 | 0.4 |
| 3. There are indicators for the costs of goods and services. | 0.9 | 1.1 | 0.2 |
| 4. There are efficiency indicators for the coverage of goods and services. | 1.0 | 1.4 | 0.3 |
| 5. The information on management results is available to citizens. | 1.2 | 1.4 | 0.2 |

*Notes*: Calculation of the average for 2013 did not include Argentina, Barbados, Belize, Panama, Paraguay, or Suriname. To facilitate the reading, numbers have been rounded off to tenths.

**BOX 6.5 | Strategies for Improving the Quality of Sectoral Goods and Services in LAC**

Continuous improvement of the quality of goods and services is an important part of MfDR. Sectoral strategies to improve quality should include elements such as the definition of quality standards and/or regulations to monitor the delivery of goods and services, information-gathering on the quality of the goods and services produced by a given sector, and the existence of institutionalized procedures and criteria for improving quality. Those elements provide a frame of reference for implementing, measuring, and correcting programs and projects in the different sectors and ensuring their quality.

However, at the time of this study, only nine countries had strategies to improve the quality of health care services and seven to optimize education. In some cases there were specific projects, and in others, offices with ongoing institutional functions. Not all strategies stipulated standards of quality as parameters to measure evolution, which seriously weakened the possibility of continuous improvement. For the social development and infrastructure sectors, this type of strategy was less common and weaker. In general, there was very limited progress on improvement in the quality of services since the first PET application, and major institutional weaknesses were still evident.

One exception was Chile's Management Improvement Program (PMG). This is an instrument to support public service management by developing common strategic areas in public management for a predetermined standard. Completion of stages of development was associated with monetary incentives for personnel. Another country with practices to improve management quality was Colombia, which had a Quality Management System for State entities. For its application, Technical Standards of Quality for Public Management (NTCGP 1000:2004) were prepared, based on international standards of quality. Since the creation of Law 872, a number of line ministries had obtained, or were in the process of obtaining, accreditation for their quality management systems.

as the experience of Mexico's Secretariat of Communications and Transportation (SCT), which has reliable information systems on the production of goods and services. On the SCT website, different databases come together, organized as statistical yearbooks, pocket statistics, the main statistics for the sector, and monthly indicators. There are also efficiency indicators related to the coverage of goods and services.

The 2012 Work Program defined strategic targets and indicators, as well as annual progress, based on strategic communication and transportation objectives for the sector as proposed by the current administration.

## Conclusions and Challenges for the Future

### *Conclusions*

#### How can the trends observed in LAC be summarized?

For the four sectors analyzed, the component of medium-term sectoral visions was the most highly consolidated in the region. In general, the existence of

medium-term plans is the factor that has made the most progress. The other two components, results-based management of the production of goods and services and sectoral information systems, had the lowest scores in all sectors. On the one hand, a significant development of the capabilities for sectoral planning and for establishing medium- and short-term targets can be seen. On the other, there was little development in management mechanisms and in sectoral information systems for monitoring. In other words, LAC has sectoral planning capacity, two other areas need strengthening: (i) planning and project management capacity, making it possible to turn plans into concrete realities and satisfy the expectations of the public for quality products and services, and (ii) the capacity to establish and operate systems, making it possible to verify the achievement of goals.

The education and health sectors are the most advanced in terms of MfDR. This is because these two sectors have a long institutional tradition of doing long-term planning exercises[6] and they have good statistical systems for planning and monitoring, based particularly on administrative records (enrollment, retention, and promotion in education; hospital admissions and releases, epidemiological profiles, in health), and quality regulation and standardized and international achievement tests (education). Moreover, these two sectors were most involved in the MDGs. Over the last decade, this commitment helped significantly to boost development indicators and adopt a results-based approach.

The social development and infrastructure sectors, in that order, had the greatest lags in MfDR. Their medium-term vision components were weaker, and the management of goods and services and sectoral information systems components received particularly low scores. These are institutionally less consolidated areas. The social development sector, in its modern expression, has evolved on the basis of national programs to combat poverty. Unlike the situation of the other sectors analyzed, where ministries were created long ago, ministries of social development have appeared only recently in several

[6] The insertion of planning into the ministries of education and health dates back to the 1960s and 1970s, as an outgrowth of the regional conferences and initiatives promoted by sectoral agencies of the United Nations (UNESCO, UNICEF, WHO, PAHO). Based on demographic information, the ministries conducted planning exercises, centering first on information systems and coverage and then on human capital. Agencies in the health sector, under the umbrella of the Pan-American Health Organization (PAHO), have made headway in planning exercises based on epidemiological profiles and public health perspectives. Argentina, Brazil, Colombia, and Mexico were pioneers in these initiatives (UNESCO, 1978).

countries of the region (for example, in Peru and Uruguay). At the time of the study, they were therefore still in a process of institutional consolidation, and that affected the level of MfDR implementation. The infrastructure sector, represented by ministries of public works and/or transportation, have been undergoing transformations to better manage tenders and incorporate PPPs into megaprojects. These processes of change have not led to progress in medium-term planning systems and much less in the management and monitoring components. Given its nature, the infrastructure sector focuses more on the production of physical goods and less on direct services to the public. Therefore, some of the elements of program and project management—such as the preparation of strategies for quality or user satisfaction surveys—have not historically been priorities, and there has been little effort to improve their use.

### What are the LAC countries' gaps compared to the countries with advanced levels of MfDR?

The pioneering countries in MfDR (among them, Australia, Canada, New Zealand, and the United States) display the following characteristics:

i. There are notably decentralized systems, where local entities play key roles.
ii. There is a high degree of outsourcing in production and in service delivery.
iii. Public institutions' communication channels with the public and stakeholders are two-way, flow well, are highly transparent, and make use of consultative processes.
iv. Good information systems are available, including on production targets and indicators, production costs, coverage, and quality of service.
v. There is great concern about the quality of services, and there are mechanisms to encourage commitment to results. These include inter-administrative management contracts and versatile catalogs to provide incentives for individual agents and the teams responsible to reach targets.

The aforementioned aspects are still not highly institutionalized in LAC, however.

### Why is MfDR implementation more effective in some sectors?

The fact that better performance can be seen in MfDR implementation in the education and health sectors compared to performance in the social development and infrastructure sectors is the result of several factors. These include a longer tradition of statistics management derived from administrative

records that provide important support for the planning, service management, and evaluation components.

It is also possible to identify deeply rooted political and institutional factors in the sector, such as cultures and practices seen in the countries of LAC. In most cases, these factors act as barriers to MfDR objectives, and in a few others as engines.

In the education sector, for example, teachers unions have traditionally been strong, and much of their discourse has been against mechanisms such as performance contracts and incentives based on performance assessments.[7] Another issue in this sector is the experience with PPPs that obtain concessions whereby private corporations take over the administration of public schools, a mechanism opposed by various social groups with different arguments.

Likewise, in the health sector, unions, medical associations, and some political sectors have opposed PPPs and favored using public funds for private corporate intervention for service delivery. In this sector, the LAC region uses different approaches to financing and delivering services. Some of them have still not been sufficiently evaluated in terms of efficiency and results.

In the social development sector, even though progress has been made in determining socially valid and technical criteria, the mechanisms for beneficiary selection and local resource allocation are subject to strong political pressure, which is detrimental to results-based decision making and resource allocation.

In the infrastructure sector, unions and political forces initially opposed outsourcing and preferred the traditional approach, with project implementation and maintenance entrusted to public entities through their own teams of personnel and equipment. This direct implementation approach has been abandoned in most countries due to its inefficiency, but it persists in local governments that have in their hands part of the responsibilities and resources that have been decentralized. This is the case, for example, of interventions in secondary and tertiary networks within the road system. Local entities are in charge of these, and they do not resort to efficient outsourcing opportunities but instead adopt direct implementation practices that entail high costs and longer implementation periods than anticipated, with scant achievement of expected results.

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[7] Santibañez (2008) indicates that teachers unions hold great sway in the education sectors of many Latin American countries. They are viewed as an obstacle to educational innovation and have been criticized for prioritizing their union agenda to the detriment of an agenda more conducive to improving the efficiency and quality of education.

One important step in the adoption of participatory mechanisms in the infrastructure sector is consultations with the communities affected by public works. Nevertheless, in many situations, the application of this mechanism is hindered by the intervention of local political interests and by the fact that communities in the affected areas interpret the consultation as an opportunity to demand compensation, delaying project implementation and leading to budget overruns. In this case, the resources allocated do not yield results with the desired efficiency and effectiveness.

### *Challenges for the Future*

The challenges for each of the components analyzed are detailed below.

Medium-term sectoral vision:

- Strengthening participatory strategies in the formulation of plans.
- Moving forward in linking plans with long-term strategies and with government plans, especially in the social development and infrastructure sectors.

Management of the production of goods and services:

- Strengthening management mechanisms, such as results-based performance contracts and goal-oriented incentive systems. The performance of these two factors is low in all sectors.
- Strengthening strategies to improve the quality of service delivery, establishing quality standards for the provision of goods and services, designing institutional procedures for using information on quality in decision making and corrective measures, and designing strategies supported by participatory consultation with the target populations.

Sectoral information systems:

- Advancing in the establishment of sectoral information systems in the entities, to perform appropriate monitoring of management and of the objectives stipulated in medium- and long-term plans, to efficiently allocate the resources of sectoral programs and assess program impacts.
- Strengthening cost estimates for the production and delivery of services as a condition for producing efficiency indicators and making them available to users. This factor is lagging quite far behind in all sectors.

### *Recommendations*

All of the efforts to establish and strengthen sectoral MfDR systems call for linking the processes of planning, management, and information in the value chain so that the outcomes forecast in the plans can be appropriately expressed in the outputs (goods and services) that should be visible to management programs and monitoring boards. In this aspect there is much room for improvement. Product portfolios in sectoral entities are scarce, and control panels, when they exist, indiscriminately display dispersed output and outcome indicators, without showing how the former contribute to the latter and thus losing the logical meaning of the public value chain. As a result, monitoring declines, and the possibility of learning and taking corrective measures decreases. In this area, training and technical assistance should be promoted, with the aim of identifying of good practices.

Thus, based on the assessment presented in this chapter, sectoral officials in each country should focus on those components of the management of goods and services that are lagging behind in MfDR implementation, and should deploy responses geared to surmounting obstacles and strengthening weak aspects.

As a complement to this, the exchange of information on good practices in public policy and on cutting-edge management approaches in program and project implementation and in the production of goods and services should be fostered. These include PPPs, performance assessments using international references to improve quality, and comprehensive electronic government options that facilitate user access and accountability to the public.

Another aspect that should be included on MfDR sectoral agendas is sectoral-territorial coordination, in keeping with the degree of progress made in decentralization and boosting the capacity of municipalities to manage programs and projects that play decisive roles in local development. As decentralization processes are expanded, sectoral entities at the national level should concentrate more on strategic aspects and evaluation and less on implementation. Management components and requirements should shift toward decentralized entities and away from national entities.

The global trend toward public management based on comprehensive indicators transcends the sectoral level and poses challenges for the national offices responsible for intersectoral linkage. Many international comparisons are expressed in intersectoral indices such as the Human Development Index (HDI), the Unmet Basic Needs Index (UBNI), the Global Competitiveness Index (GCI), and the Environmental Performance Index (EPI). Each sector

contributes information on performance to the configuration of each overall indicator, but comprehensive analysis requires the involvement of ministries of planning or coordination.

Intersectoral aspects will pose major coordination challenges in the future. In this regard, the results of the sectoral management of programs and projects pillar must interact, and they will depend on the approaches and scopes established for the other pillars of MfDR, especially Pillar 1 (results-oriented planning) and Pillar 5 (monitoring and evaluation).

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CHAPTER 7

# Monitoring and Evaluation

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## Introduction

The fifth pillar of the PRODEV Evaluation Tool (PET) analyzes the public sector's institutional capacity to monitor and evaluate the results achieved by policies, programs, projects, and activities geared to creating public value. With this aim in mind, it gathers information on three closely overlapping systems: statistics, monitoring, and evaluation.

The *statistics system* is composed of the government departments created for the purpose of compiling, interpreting, and disclosing official statistics. These offices have a variety of structures. Some of them compile statistics on a broad spectrum of economic and social issues, while others are highly specialized and only gather information on transportation, banking, or agriculture (United Nations, 2004). The information collected by these offices is useful, among other aspects, for diagnosing the country's socioeconomic situation, defining and monitoring national goals and targets, and analyzing the elements that affect the performance of government policies, programs, and projects.

The *monitoring system* systematically compiles data on performance indicators to provide the administrators and actors involved in policies, programs, and projects with data on the progress made toward achieving objectives, as well as on resource utilization, over a given period (OECD, 2002).

The *evaluation system* conducts systematic studies on, and sets objectives for, the design, implementation, and outcomes of policies, programs, and projects underway or completed. These studies seek to determine the relevancy of the objectives and the degree of their achievement, as well as

to verify the efficiency, effectiveness, impact, and sustainability of the programs, policies, and projects conducted. They also seek to incorporate lessons learned from the studies at different points into the public management cycle and to serve as the basis for accountability to the public (OECD, 2002).

One key difference between the monitoring system and the evaluation system is that the former contributes data on the degree of achievement of expected outcomes but does not explain why the interventions do or do not work or what effect they have on society. This role is fulfilled by evaluation, through specific studies. Monitoring without evaluation does not take advantage of the information gathered, and evaluation without monitoring data lacks empirical bases. The two functions complement each other but call for different procedures, tools, capabilities, and institutional arrangements. For this reason, it is important to consider them as separate systems, as the PET does.

To implement evidence-based management, it is fundamental for monitoring and evaluation (M&E) systems to have reliable statistical information available from the administrative records of public entities and from the censuses and surveys conducted by the national agency in charge of statistics. Therefore, the degree of institutionalization of the statistical system has repercussions for the soundness of M&E systems. A country that does not have an adequate statistical system can hardly implement sound M&E systems, since, for example, it would lack the information needed to underpin the indicators and/or its data would not be reliable. On the other hand, a country with a good statistical system but without M&E systems would underutilize its storehouse of information and waste the resources allocated for compiling and organizing the data.

This chapter is divided into three sections. The first offers a brief recounting of how M&E systems began in Latin America and the Caribbean (LAC) and discusses the major trends in this area. Based on a comparison of the data compiled by the PET for the 2007–2013 period, the second section indicates the progress made and the challenges faced by the countries of the region in implementing M&E systems. The third section contains the chapter's conclusions and indicates the challenges remaining.

## Trends in Monitoring and Evaluation Systems Using the MfDR Approach

Until the 1970s, discussions about the role of the State centered on determining areas of intervention and mobilization of resources: it was thought that, when the market failed in its resource allocation function, the State should

intervene. At that time it was not acknowledged that markets not only fail, but also that government interventions can be flawed. It was thought that market failures were due to unequal income distribution, among other reasons, which severely limited the demand of a significant segment of society (the "excluded"), and also to the existence of strategic areas, such as energy, in which there would be divergence between the pursuit of private interests and benefits to society. Moreover, the role of civil society was not stressed since it was assumed that the State represented it.

In this context, public management focused on the processes deemed necessary to implement policies, programs, and projects. The crisis of the late 1970s, brought about by a sharp increase in oil prices, created pressure to increase the efficiency of public management. With this aim in mind, some private sector management practices began to be applied in the public sector to develop "new public management," which granted a key role to performance contracts. In particular, management information systems (MIS) began to be used in public management and some M&E systems appeared as adaptations of MIS. This background laid the groundwork for the M&E efforts that began in the 1990s.

Governments' and international agencies' recent emphasis on implementing evidence-based policies has generated more interest in M&E systems, given these systems' central role in producing information and assessing government actions. Currently, four trends can be seen in the management of M&E systems: (i) M&E practices in LAC ceased to be a requirement of international agencies alone and became an initiative of the governments of the region themselves, (ii) in the sphere of monitoring, emphasis was placed on creating systems with performance indicators, (iii) in the sphere of evaluation, impact assessments appeared, and (iv) inter-governmental agencies and international aid agencies fostered the implementation of good practices common to evaluation processes. These trends are examined below.

### *From Systems Required by International Aid Agencies to National Systems Based on Government Initiatives*

To understand trends in the implementation of M&E systems in LAC, it is necessary to go back to the early 1970s, when important initiatives emerged to design development projects that would make it possible to access funds from international organizations. In those years, both the Inter-American Development Bank (IDB) and the World Bank supported the creation of offices and/or ministries of planning, as well as the application of social

evaluation of projects as a key tool for decision making about investment priorities. Emphasis was placed on ex ante evaluation of investment projects. In the late 1970s, international finance organizations (the IDB, the World Bank and the United Nations International Fund for Agricultural Development) began to include clauses requiring ex post evaluations in loan contracts, particularly those for comprehensive rural development projects (Cunill and Ospina, 2008; Feinstein, 2012).

At the same time, monitoring and evaluation mechanisms were created within the offices in charge of implementing programs and projects financed with external funds, but their application was confined to those specific interventions. Methodology manuals were published to support project M&E, and the aforementioned organizations and the Organization of American States (OAS) offered training activities. In Central America, the training activities of the Regional Unit of Technical Assistance (RUTA)[1] received an important boost from a joint project sponsored by international organizations during the 1980s (Feinstein, 2012).

During those decades, project monitoring and evaluation were mostly perceived as a requirement of international organizations, and governments did not express much interest in them. However, in the 1990s the situation began to change and both the governments and civil society, driven by the consolidation of democratic regimes, began to take more interest in the utilization of public resources and accountability. Thus, for example, Colombia's 1991 constitution called for organizing a system to evaluate and manage results (Articles 343 and 344), and in 1997 Chile introduced the evaluation of government programs. In 1999, Mexico commissioned an evaluation of the Education, Health Care, and Food Program (Progresa), one of the government's most important social interventions (IFPRI, 2000). This evaluation marked the start of the implementation of a series of rigorous program evaluations in Mexico and other countries of the region. Also in 1999, Brazil introduced the Multi-annual Plan as an integrated planning and budgeting instrument. In that plan it developed monitoring and self-evaluation mechanisms for all of the programs.

In the early 2000s, the practices and institutions launched by the pioneering countries in the 1990s were strengthened, and most LAC countries

[1] RUTA emerged in 1980 as an inter-governmental initiative involving multiple agencies, with the aim of providing technical assistance to the governments of Central America and Panama through their ministries of agriculture in areas related to sustainable rural development. RUTA is currently part of the Central American Agricultural/ Livestock Council.

showed increasing interest in undertaking actions or even in implementing M&E systems. The interest was no longer limited exclusively to projects, as had been the case previously, but rather included the examination of plans, policies, and institutions. Some countries have implemented systems for monitoring medium-term plans or presidential goals; others have implemented evaluations of priority programs and projects; and still others have included performance indicators in their budget programs. Thus, the initiative to apply M&E that came primarily from international organizations in the 1970s and 1980s has now become an expectation of the governments of the region themselves.

Finally, in the international sphere, the *Paris Declaration on Aid Effectiveness*,[2] signed in 2005, promotes support for national initiatives to develop M&E systems. This agreement committed international aid to using and strengthening the national systems of the countries that received resources for the management of programs and projects financed with external funds, including monitoring and evaluation systems. It also committed partner countries to establishing results-based frameworks of accountability through performance indicators. The Declaration thus intended to foster international coordination of the efforts to strengthen institutional capacities for good public management in developing countries, leaving behind the corporative vision that was limited to managing specific projects and funds. Even though the evaluation of the implementation of this agreement (Wood et al., 2011) pointed out some shortcomings in its implementation, it also cited the progress made by countries and by international aid agencies, since it created a favorable environment for the harmonization and convergence of national M&E systems and those proposed by international aid agencies.

### *Implementation of Monitoring Systems Based on Performance Indicators*

Another noteworthy trend is the progressive implementation of public management monitoring systems based on performance indicators, either to

[2] The *Paris Declaration on Aid Effectiveness* is an international agreement that establishes global commitments made by donor and partner countries to improve the delivery and management of development aid and thereby make it more effective and transparent. More than 100 donor and partner countries, international agencies, and multilateral organizations signed the agreement in March 2005. Commitment 21 notes that donors "commit to use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, to establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures" (OECD, 2005).

measure public spending effectiveness or to analyze achievements in the implementation of medium-term national plans.

In the international realm, the focus has shifted from project monitoring systems to policy systems, emphasizing the connection with budgeting processes and evaluation processes. Efforts have also been made to reduce the number of monitoring indicators and to control and improve the quality of monitoring information (López Acevedo, Krause, and Mackay, 2012).

In recent decades, public management in LAC countries has evolved from a traditional bureaucratic model to an approach focusing on results. This evolution has led to a shift in emphasis from inputs and processes to results, and from physical and financial monitoring to the use of performance indicators (Bonnefoy and Armijo, 2005). This has enabled greater and better use of the information generated by those systems. However, as will be seen in the following sections of this chapter, there is still much to be done in this area.

### *Emergence of Impact Assessments*

Impact assessments have seen robust development in the twenty-first century. On the one hand, international financial institutions have substantially increased the number of impact assessments that they conduct. On the other, there is growing interest in impact assessments in countries throughout the world, although only in a very few countries does this type of evaluation represent a significant proportion of all evaluations conducted (one exception is the United States, particularly in the education sector). There are also controversies about how to conduct this type of evaluation, that is, whether only randomized controlled trials should be used or a variety of methods should be considered (see Stern et al., 2012). The trend clearly shows the increased importance of impact assessments.[3]

The evaluation of the Progresa program set a vital precedent for impact assessments in LAC and also influenced other regions. In this century, LAC governments (partly due to demands by civil society) began to be interested in determining the impact of the programs and projects implemented.[4] Thus,

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[3] In addition to the reference indicated in the previous footnote, two Internet sites that provide examples of impact assessments and methodology instruments used to conduct them are: http://www.povertyaction lab.org/ and, particularly, http://www.3ieimpact.org/.

[4] Environmental impact assessments were introduced several years earlier. However, they were ex ante and are not considered in this chapter.

for example, in 2001, Chile incorporated impact assessments into the Management Evaluation and Control System of the Ministry of the Treasury's Budgeting Office, and Colombia's Sinergia began a program of periodic and systematic evaluations. Methodology materials have also been created, and human resources have been trained on how to conduct impact assessments, with support from bilateral aid agencies and international financial institutions.[5] These efforts have been geared to generating evidence on the results of policies, programs, and projects, making it possible to improve the design of future interventions and to make resource utilization accountable.

### *Good Practices in Evaluation*

Finally, since the 1990s, the Evaluation Cooperation Group (ECG), comprising the evaluation offices and departments of multilateral development banks (MDBs), has disseminated evaluation "good practices" and standards. These provide a frame of reference for evaluation tasks (ECG, 2012). The good practices and standards developed by ECG cover the types of evaluations usually performed by MDBs: evaluations of country strategies and programs, evaluations of public sector operations, and evaluations of private sector operations. They also provide governance and independence guidelines for the evaluation function. The purpose of these norms is to harmonize the evaluation practices of the ECG members and make them transparent. The guidelines have been adapted as the conditions in which MDBs operate have evolved. In addition, in the early twenty-first century, the Development Evaluation Network, created by the evaluation offices of the bilateral development agencies of the member countries of the Organisation for Economic Co-operation and Development (OECD), with support from MDB evaluation offices, prepared a glossary for results-based management and evaluation (OECD, 2002), as well as standards of quality for the evaluation of development interventions (OECD, 2010). For its part, the United Nations Evaluation Group (UNEG) also prepared a set of good practices that, together with those prepared by the ECG and by the Development Evaluation Network, are useful for orienting the work of the

[5] One example that should be mentioned is the World Bank's US$14 million Special Impact Evaluation Fund (SIEF), financed by the government of Spain, which supports impact assessments in health care and education in Latin America and other regions. The second phase of this cooperation effort began in 2012 with a US$52 million contribution from the United Kingdom (see Feinstein, 2012).

governments and facilitating comparisons (through benchmarking) and peer reviews (UNEG, 2005).[6]

In the case of evaluation institutions and offices, there is marked heterogeneity among those that belong to MDBs, agencies of the United Nations System, and bilateral development agencies. For this reason, their evolution over the last two decades has followed different paths, creating three different networks, which have implemented an information exchange mechanism. Finally, even though for many years there have been discussions on the certification of evaluation processes, in the short and medium terms it is not likely that progress will be made toward a system such as the ISO (or its European equivalent, the EFQM) even though the existing guidelines and standards are used in peer reviews. This procedure would also be applicable at the country level[7] and would contribute to improving the quality and usefulness of evaluation systems and evaluations.

## Progress and Challenges in Monitoring and Evaluation Systems in LAC

### *Situation and Changes in the Implementation of Monitoring and Evaluation Systems in LAC*

The PET makes it possible to analyze the implementation of M&E systems in LAC countries for the 2007–2013 period and to make comparisons to identify those with a higher level of progress (or greater improvement) and establish benchmarks. It also offers guidelines for promoting the development of capacities and cooperation between the countries of the region. The data show that during the 2007–2013 period, there was overall improvement in the M&E pillar (Table 7.1). However, that progress was not sufficient to affirm that there are systems installed in most of the countries of the region. What in fact was seen was that a majority of the countries were making efforts to design and implement such systems and that this pillar and results-based budgeting continued to be the weakest of the five examined by the PET.

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[6] UNEG has devised standards and guidelines for evaluating development interventions, and—through the work of ad hoc groups comprising subsets of its members (evaluation offices of agencies of the United Nations System)—has put together guidelines for impact assessments, a guide for incorporating human rights and gender equity perspectives into evaluations, and good practices for following up on the recommendations made by the evaluations.

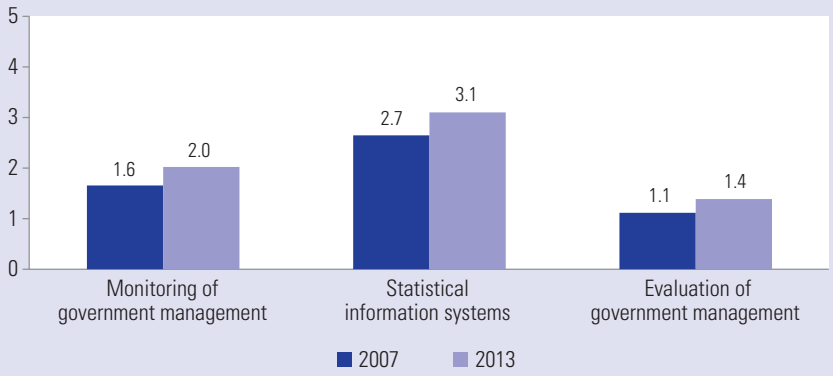
[7] Feinstein (2010) discusses the issue of linking quality certification systems and evaluation.

**TABLE 7.1 | Scores on the Components of the Monitoring and Evaluation Pillar, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Monitoring and evaluation | 1.6 | 1.9 | 0.3 |
| Monitoring of government management | 1.6 | 2.0 | 0.4 |
| Statistical information systems | 2.7 | 3.1 | 0.3 |
| Evaluation of government management | 1.1 | 1.4 | 0.2 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

**FIGURE 7.1 | Scores on the Components of the Monitoring and Evaluation Pillar**




When the information is disaggregated, two important differences can be seen between the scores for the evaluation component and the statistical information systems component (in the first component, "monitoring of government management," the scores are similar): the average for statistical information systems is considerably higher and notably less dispersed (Table 7.2). This means, on the one hand, that there would be much more room for improvement in the monitoring and evaluation component than in the statistical information systems component; and on the other hand, that there would be more opportunities to learn from the countries with higher scores on the first two components, since the countries' situations are more heterogeneous. It is also necessary to bear in mind that the factors that influence the development of statistical information systems are quite different from those that determine the evolution of monitoring and evaluation systems.

**TABLE 7.2 | Dispersion of Data in the Components of the Monitoring and Evaluation Pillar**

| Components of the M&E Pillar | 2007 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Average | Standard deviation | Variation coefficient* | Average | Standard deviation | Variation coefficient* |
| Monitoring systems | 1.6 | 1.4 | 0.8 | 2.0 | 1.4 | 0.7 |
| Statistics systems | 2.7 | 1.0 | 0.4 | 3.1 | 1.1 | 0.4 |
| Evaluation systems | 1.1 | 1.4 | 1.2 | 1.4 | 1.4 | 1.0 |
| MfDR Index | 2.0 | 0.9 | 0.4 | 2.4 | 0.9 | 0.4 |

*The variation coefficient is the quotient for standard deviation and the average.
*Note*: To facilitate the reading, numbers have been rounded off to tenths.

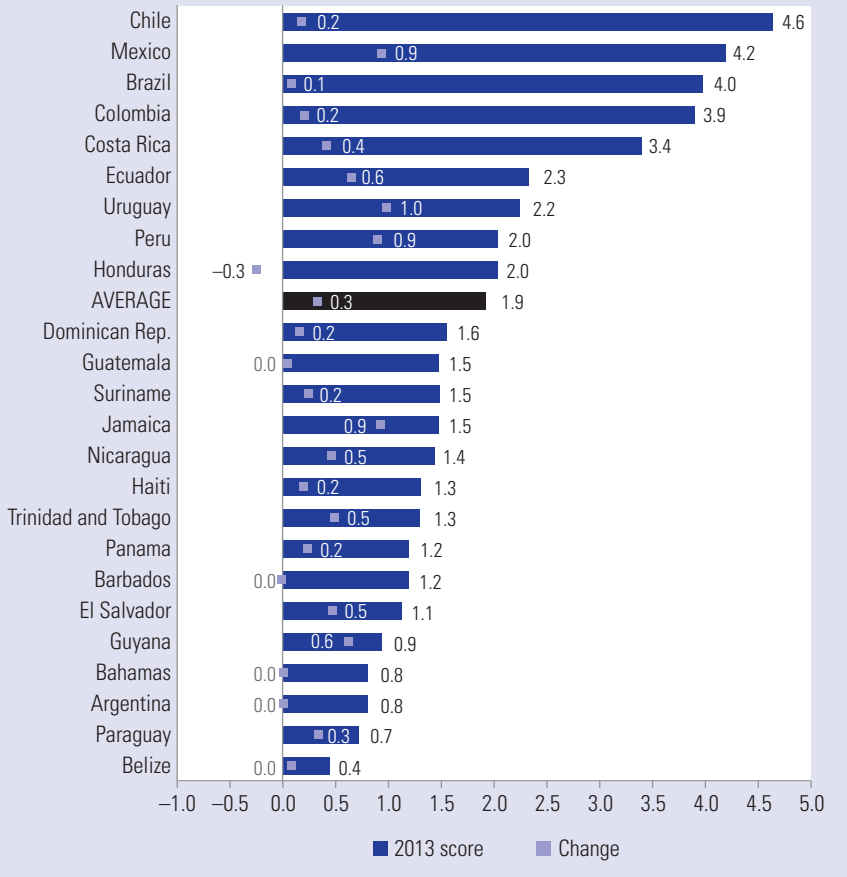
Even though statistical information systems provide inputs for monitoring and evaluation, strictly speaking they are not part of the M&E systems. Statistical information systems have a very different history than M&E systems, the personnel involved has different training, and the institutions and standards for information systems are similar in the different countries. The countries with the strongest statistical systems are Brazil, Chile, Colombia, and Mexico, and they also have the best-developed M&E systems. Thus, there is a significant positive correlation between the degree of development of M&E systems and the evolution of statistical systems.

As for the monitoring component, the situation was better in 2013 than in 2007. In some countries there has been progress in terms of the quality of the regulations for M&E systems and, in most, the entities responsible for these systems have made progress in terms of work methodologies and instruments. Nevertheless, these institutions have much room for improvement in perfecting their functions and contributing data that can be made available to the public and used effectively to improve management.

Likewise, with respect to the government performance evaluation component, there has been some progress in designing institutions to conduct evaluations and in regulating the evaluation of government policies or programs. However, there has been very little progress in conducting and using evaluations.

To analyze the changes that occurred in the countries during the period under study, the countries were classified in three groups. The first group (substantial progress) is composed of the countries that obtained a positive change of 0.5 points or higher; the second (fair progress), of those that saw changes of between 0 and 0.5 points; and the third (null or negative change),

**FIGURE 7.2 | Index for the Monitoring and Evaluation Index by Country in 2013 and Changes since 2007**




*Note*: Data for Argentina does not include the statistical information systems component for 2013, which had a value of 2.9 in 2007. The original score for the fifth pillar in 2007, including statistics, was 1.2, and the original average of the five pillars was 2.0.

of those whose score changed 0 or less. The data compiled by the PET indicate that the changes in the institutional capacity of the M&E systems were heterogeneous: most countries (45 percent) had modest changes, approximately 30 percent had significant improvements, and 25 percent saw no changes. The countries with fair progress included Brazil, Chile, Colombia, and Costa Rica. These countries had already developed or consolidated their systems by 2007, so it was predictable that they would show less progress than the countries that began to implement their systems more recently. The

**TABLE 7.3 | Country Classification by Degree of Progress on the Monitoring and Evaluation Pillar**

| | |
|---|---|
| Substantial progress<br>Change in score<br>≥ 0.5 | *(7 countries)*<br>Ecuador, Guyana, Jamaica, Mexico, Peru, Trinidad and Tobago, Uruguay |
| Fair progress<br>Change in score<br>< 0.5<br>> 0 | *(11 countries)*<br>Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Haiti, Nicaragua, Panama, Paraguay, Suriname |
| Null or negative change<br>Change in score<br>≤ 0.0 | *(6 countries)*<br>Argentina, Bahamas, Barbados, Belize, Guatemala, Honduras |

only exception was Mexico, which already belonged to the advanced group but still made significant progress in recent years, especially on its monitoring system, as a result of the implementation of results-based budgeting.

To observe the countries' mobility in the degree of development of their systems, the countries were also classified according to the sores they obtained in the M&E pillar for the two PET applications. The first group (high level) is composed of the countries that obtained a score of 3 or higher; the second group (intermediate level), of those that obtained scores between 1.5 and 3; and the third (low level), of those with scores lower than 1.5 (Table 7.4).

**TABLE 7.4 | Country Classification by Scores on the Monitoring and Evaluation Pillar**

| Component score | 2007 | 2013 |
|---|---|---|
| High level score<br>≥ 3 | *(5 countries)*<br>Brazil, Chile, Colombia, Costa Rica, Mexico | *(5 countries)*<br>Brazil, Chile, Colombia, Costa Rica, Mexico |
| Intermediate level score<br>< 3<br>≥ 1.5 | *(3 countries)*<br>Ecuador, Guatemala, Honduras | *(8 countries)*<br>Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Peru, Suriname, Uruguay |
| Low level score<br>< 1.5 | *(16 countries)*<br>Argentina, Bahamas, Barbados, Belize, Dominican Republic, El Salvador, Guyana, Haiti, Jamaica, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay | *(11 countries)*<br>Argentina, Bahamas, Barbados, Belize, El Salvador, Guyana, Haiti, Nicaragua, Panama, Paraguay, Trinidad and Tobago |

**TABLE 7.5 | Other Important Monitoring and Evaluation System Variables Included in Pillar 4**

| Variables | 2007 | 2013 | Variation |
|---|---|---|---|
| *Information is gathered on user opinions about goods and services* | | | |
| Education | 1.7 | 2.0 | 0.3 |
| Health | 2.2 | 2.7 | 0.5 |
| Social development | 1.9 | 2.4 | 0.5 |
| Infrastructure | 1.3 | 1.8 | 0.4 |
| *There are efficiency indicators for the coverage of goods and services* | | | |
| Education | 1.6 | 2.7 | 1.1 |
| Health care | 2.0 | 2.2 | 0.3 |
| Social development | 1.2 | 1.7 | 0.5 |
| Infrastructure | 1.0 | 1.4 | 0.3 |
| *Information on management results is available to the public* | | | |
| Education | 1.6 | 2.2 | 0.6 |
| Health care | 1.7 | 2.3 | 0.5 |
| Social development | 1.3 | 1.6 | 0.2 |
| Infrastructure | 1.2 | 1.4 | 0.2 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

When the compositions of the groups are compared for the two reference years, it is evident that the major change occurred in the five countries that went from the low level of development (less than 1.5) to the intermediate level of development (between 1.5 and 3). Among those countries, those that showed significant changes were Jamaica, Peru, and Uruguay. This reflected the implementation of actions to design and construct their monitoring systems (Jamaica and Uruguay) and evaluation systems (Peru and Uruguay). The remaining countries showed less progress. These changes will be analyzed in more detail further on.

The PET also contributes useful monitoring and evaluation information that does not appear in Pillar 5 (M&E), but rather in Pillar 4, which examines program and project management (Table 7.5). In that regard, the following should be highlighted:

- *Information on user opinions of goods and services.* The PET contributes information on the status of the education, health, social

development, and infrastructure sectors. In general, the ratings are low. For this requirement, three of the four sectors had scores lower than 2 in 2007, whereas in 2013 only the infrastructure sector was lower than 2.

- *Existence of efficiency indicators on the coverage of goods and services*. Whereas in 2007 the scores for the four sectors were lower than 2, in 2013, those for education and health were at 2.7 and 2.2 points, respectively.
- *Information on management outcomes available to citizens.* The same pattern seen in the previous case is seen here as well: education and health had scores of 2.2 and 2.3, respectively, in 2013, while the other sectors had scores lower than 2.

There is also important information related to global aspects of M&E that does not appear in Pillar 5 (M&E), but rather in Pillars 2 (results-based budgeting) and 3 (public financial management).

- *Evaluation of spending effectiveness.* The score increased from 0.9 to 1.3, but the level is still very low. Even though this PET requirement appears in the results-based budgeting pillar, the low score for spending effectiveness is directly related to M&E systems and is consistent with the important implementation gap seen in them. Chile has the most institutional capacity in this area since, for more than a decade, it has been implementing a set of analytical instruments tied to its performance-based budgeting model.
- *Incentives for management effectiveness.* The score rose from 0.6 to 1 point between 2007 and 2013, but just as in the case of the preceding variable, the level of development is still low—despite the fact that it is one of the keys to improving M&E systems. It should

**TABLE 7.6 | Other Important Variables for the Monitoring and Evaluation Systems Included in Pillars 2 and 3**

| Variables | 2007 | 2013 | Variation |
|---|---|---|---|
| Evaluation of the spending effectiveness | 0.9 | 1.3 | 0.4 |
| Incentives for management effectiveness | 0.6 | 1.0 | 0.4 |
| Management audits in central government entities | 1.9 | 2.0 | 0.2 |

*Note*: To facilitate reading, numbers have been rounded off to tenths.

be noted that there is significant heterogeneity in the situations of the countries with regard to incentives for management effectiveness. This means opportunities for the countries with low scores in this requirement to learn from the experience of those with higher scores. Examples of such experience can be found in Chile's Management Improvement Program (Box 7.2) and, more recently, in the individual and collective incentives tied to the performance of Brazil's ministries of education and health.

- *Management audits in central government entities.* This indicator hardly varied: in 2013 it obtained a score of 2 points, whereas in 2007 it had scored 1.9 points. These types of audits are evaluations and therefore complement the information of the fifth pillar of results-based management. One example in this area is the work done by the Special Performance Audit of the Federation of Mexico. However, in most LAC countries, this type of audit is not performed even though it is provided for in laws and their respective regulations. This explains the score obtained.

For a more in-depth understanding of progress in M&E systems in LAC, a disaggregated analysis of the evolution of the legal framework and of the institutional arrangements for M&E systems is provided below.

## Evolution of the Legal Framework for Monitoring and Evaluation Systems in LAC

Public administration activity in Latin America is heavily determined by the laws, decrees, regulations, and other instruments that regulate State functions, institutions, and systems. Unlike the public sectors of the Caribbean countries with Anglo-Saxon traditions, in which laws establish, in general, the functions of institutions and the attributes of authorities, in the countries of Hispanic heritage the tendency is for all of the details of government activity to be put into laws. For this reason, it is important to review the regulations that govern public management systems.

There is a great deal of heterogeneity in the degree of specificity of the regulations for M&E systems. Many only mention these functions as one of the activities that, for example, the coordinating agency for planning or budgeting must perform. Other laws distinguish between monitoring and evaluation, specify the two concepts, and establish the institutional organization and even the instruments that should be used to conduct them. The latter

**TABLE 7.7 | Degree of Regulatory Specificity and Differentiation between Monitoring and Evaluation**

| | Differentiation between monitoring and evaluation | |
|---|---|---|
| **Regulatory specificity** | **Sí** | **No** |
| Defines concepts, institutional organization and instruments. | Chile, Colombia, Costa Rica, Mexico, Peru | — |
| Partially defines concepts, institutional organization and instruments. | Brazil | Dominican Republic, Ecuador |
| Does not define concepts, institutional organization or instruments. | — | Argentina, El Salvador, Paraguay, Trinidad and Tobago, Uruguay |

*Note*: Although Colombia has not developed regulations for Law 152 (the Organic Law for the Development Plan), there are technical documents that specify the functioning of the monitoring and evaluation systems. That is why it is included in the group of countries whose regulations define concepts, institutional organization, and instruments.

is the case of regulations for results-based budgeting in Mexico and Peru.[8] Taking the foregoing into account, the degree of regulatory specificity has been classified according to two criteria: (i) inclusion of concepts, institutional organization, and instruments related to M&E, and (ii) differentiation between monitoring and evaluation. Table 7.7 classifies the countries with M&E legislation according to these criteria.

As can be seen in Table 7.7, of the 13 countries that have some type of M&E legislation, eight have regulations that partially or completely define concepts, institutional organization, and instruments in this area. Of these, only six differentiate between monitoring and evaluation: Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru. The regulations of Chile, Costa Rica, Mexico, and Peru provide greater detail on concepts, institutional organization, and instruments than those of the other countries. Furthermore, Mexican legislation establishes coordinating agencies for monitoring and evaluation. A great deal can be inferred about the scant development of M&E functions in LAC, given that only this small group of countries have legal frameworks with an appropriate hierarchy; regulations that differentiate between monitoring and evaluation; and institutions, systems, and procedures designated to handle these functions.

[8] These are Peru's General Law 28.411 on the National Public Budgeting System (Section III, Chapter IV) and Mexico's Federal Law on Budgeting and Treasury Responsibility (Articles 110 and 111 of the Law and Articles 303 and 304 of the Regulations).

Most countries either do not have legislation for these functions or use criteria that are insufficient and that refer to "monitoring and evaluation" as though they were the same thing. Standards for monitoring are more developed than those for evaluation. However, only those of Chile, Costa Rica, Mexico, and Peru establish a conceptual, institutional, and instrumental framework for evaluation. Even though the other countries' legal frameworks refer to monitoring and evaluation, careful analysis indicates that those terms are used as an accounting formula, exclusively for the monitoring function.

Nevertheless, it is noteworthy that in recent years several countries have reformed the regulations for their public management systems, specifically in the areas of planning and budgeting. Such rules address monitoring and evaluation, with greater or lesser degrees of emphasis. Due to its scope and specificity, the most important reform was Peru's Law 28.411 for the National System of Public Budgeting, whose Chapter IV incorporated the conceptual and methodological progress that the country had made in implementing results-based budgeting (RbB) since 2007.[9] Enacted in 2008, and reformed in 2012, that law stipulates definitions, functions, and the offices responsible for the M&E systems tied to the analysis of the quality of public spending. However, monitoring and evaluation in that law is not adequately aligned with the concepts in the law that regulates the planning system (Law 1.088 of 2008).

Another law that appeared recently also deserves to be mentioned. It is Ecuador's Organic Code for Planning and Public Finance, which regulates the planning, information, public investment, budgeting, and financial management systems in an integrated way. Passed in 2010, this law establishes the necessary linkages between the planning and public finance processes, a key step in implementing results-based management. Nonetheless, in this case, even though the law indicates that monitoring and evaluation are part of those processes, it does not detail them. This was addressed, in part, by Executive Decree 555 of 2010, which regulates the implementation of the Results-based Government System, but only with respect to monitoring. The legal framework does not address the evaluation system.

In 2011, the Dominican Republic enacted Law 1–12, which establishes the National Development Strategy 2030. This law, which complements a previous

[9] Chapter IV of Section III of this law refers to result-based budgeting and indicates that it is to be implemented progressively through budget programs, performance monitoring actions based on management indicators, evaluations, and incentives, among other instruments determined by the Ministry of the Economy and Finance, through the General Office of Public Budgeting, in collaboration with other State entities.

one for the planning system (Law 496-06), created the National Monitoring and Evaluation System (Chapter II, Article 38), whose function is to oversee compliance with the goals and targets defined in the National Development Strategy 2030. The law, however, does not specify how that system should work.

Finally, in 2014 Mexico reformed Article 26 of its political constitution and included a paragraph referring to the composition and functions of the National Council for Development Policy Evaluation (Coneval), reinforcing that entity's legal framework, which was already regulated by the Social Development Law of 2003. The article establishes that the president of Coneval is to be appointed by the Chamber of Deputies and held accountable to all branches of government. This bolsters the council's independence. Coneval is the only independent evaluation organization in the LAC region, since the others (in Brazil, Colombia, Peru and Uruguay) fall under a State secretariat.

Thus far it can be concluded that there is a positive correlation between the level and specificity of regulations and the degree of system development. Hence, the countries that had a more specific framework grounded in organic laws (Chile, Colombia, and Mexico) are the ones that have set up the best institutions in this field, as will be seen further on. At the other extreme, the countries that do not have standards for these systems have not developed institutions or processes to implement such systems.

This does not mean, however, that the establishment of standards is sufficient to move the systems forward or that, to the contrary, systems cannot be implemented even without having standards at a high government level and a high degree of specificity. In fact, there are countries that have standards but do not apply them, and others—mainly in the English-speaking Caribbean—that built their systems with fairly general guidelines for the functions that budgeting institutions should perform.

In conclusion, in most countries M&E regulations are recent, as is the construction of these systems. The legal reforms on planning and budgeting undertaken by several countries in recent years indicate a positive shift toward the implementation of M&E system standards and institutions tied to those functions. The government level and specificity of the standards are factors that have influenced system institutionalization.

## Evolution of the Institutional Framework of Monitoring Systems

As indicated at the beginning of this chapter, a monitoring system is responsible for systematic data gathering on performance indicators to provide the actors involved in implementing policies, programs, and projects with information on

the progress made toward achieving objectives and on the use of allocated funds in a given period. In the realm of public policy, performance is defined as the extent to which a development intervention or an entity involved in fostering development acts according to specific criteria, standards, and guidelines and obtains outcomes in line with established targets or plans (OECD, 2002).

For a monitoring system to be able to adequately perform its functions, it should have the following basic elements: (i) a legal framework that defines the entities involved and their functions, (ii) a coordinating agency for the system, (iii) institutions that generate information on their performance, (iv) common methodologies and systems for measuring performance, (v) procedures for improving performance based on the analysis and use of the information gathered, and (vi) public dissemination of the information produced by the system.

In the first PET application, the information gathered indicated that only Brazil, Chile, Colombia, and Mexico had monitoring systems well developed enough to contribute to managing for development results (MfDR). Costa Rica also had a system with an intermediate level of evolution. Information from the second PET application showed that those countries continued to lead the list and that during the period 2007–2013, there was modest progress on average for the monitoring systems implementation indicator for the countries of the region, as it rose from 1.6 to 2 points (over 5). Nonetheless, this average masks the fact that some countries made significant changes.

**TABLE 7.8 | Scores of the Indicators for the Monitoring Component of Government Management, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Monitoring of government management | 1.6 | 2.0 | 0.4 |
| Monitoring institutions | 2.1 | 2.5 | 0.4 |
| 1. There is an entity in charge of monitoring government goals and targets. | 2.6 | 3.0 | 0.4 |
| 2. The entity has formally established technical standards and work methodologies. | 1.8 | 2.2 | 0.4 |
| Scope of program and project monitoring | 1.5 | 2.0 | 0.5 |
| 1. The monitored programs represent a certain percentage of total spending (excluding debt service). | 1.5 | 2.0 | 0.5 |
| Use and dissemination of monitoring information | 1.2 | 1.6 | 0.4 |
| 1. There are criteria for correcting implementation noncompliance detected by monitoring. | 1.1 | 1.7 | 0.6 |
| 2. Monitoring information is available to the public. | 1.4 | 1.4 | 0.0 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

Ecuador, Jamaica, Mexico, Trinidad and Tobago, and Uruguay achieved changes greater than one point between the two PET applications. Of the five countries mentioned, two were developing their monitoring systems as part of budgeting processes (Mexico and Uruguay) and the other three were already linking them to their planning processes (Ecuador, Jamaica, and Trinidad and Tobago). The progress seen in each of them is discussed below.

Mexico advanced the most during the period under study, since as of 2008 it had consolidated its systems through an ambitious plan for implementing a performance-based budgeting model. The plan was led by the Secretariat of the Treasury and Public Credit (SHCP) in collaboration with the Secretariat for Public Management and Coneval. That plan improved the linkage between planning and budgeting through similar program structures for the two functions, strengthened the monitoring system through the Performance Assessment System, implemented Coneval evaluation programs to be conducted every three years, and prepared mechanisms for effectively using M&E information in improving program performance (see Box 7.1).

Ecuador also made significant progress. In 2011, the National Secretariat for Public Administration (SNAP) began to implement the results-based management (also known as managing for results, or MfR) model. This system is designed to support the management of a broad range of institutional performance aspects, including strategic and operational planning, project management, process management, and outcome monitoring. The tool encompasses the goals and targets established in the medium-term national plan (National Plan for Living Well, or PNBV), as well as the annual work plans that ministry officials formally commit to carrying out to meet PNBV objectives. The tool also has indicators to measure progress toward the achievement of work plan targets. One of this system's most important aspects is its effective use as a monitoring tool by senior government officials. However, the system's information on institutional performance is not made public.

Trinidad and Tobago created the National Transformation Unit (NTU) in 2010, through a Cabinet resolution (Cabinet Minute 1.057). This office, under the Ministry of Planning and Sustainable Development, implements public management monitoring and evaluation systems. Its mission is to direct and guide the institutionalization of results-based management, to transform governance structures and systems through M&E practices, and to facilitate the process of producing and delivering results to the public. It has a strategic plan for 2013–2015.

In 2010, Jamaica created the Performance Monitoring and Evaluation Unit (PMEU) as an office that reports to the Cabinet. Its function is to implement results-oriented public management. The PMEU in turn developed the

**BOX 7.1 | Mexico's Monitoring and Evaluation Systems**

The development of monitoring and evaluation systems in Mexico has been driven by reform processes geared to improving the quality of public spending by compiling and using information on performance. One of the most important reforms occurred in 2006, following approval of the Federal Law for Budgeting and Treasury Responsibility. This law made it possible to systematize a set of standards for improving public management that had been included in the Federation's Expense Budget Decrees since the late 1990s. With respect to monitoring and evaluation systems, the law requires the Secretariat of the Treasury and Public Credit (SHCP) and the Secretariat for Public Management (SFP) to regularly generate information on budget implementation and the performance of public programs to be sent to Congress; to evaluate the results of all programs annually for consideration in formulating the next budget; and to implement a Performance Evaluation System (PES) based on indicators to evaluate and provide feedback on budget programming and to prepare bi-monthly reports for Congress.

With this background in mind, PES implementation began in 2007, for the purpose of systematically monitoring and evaluating policies and programs of the entities and offices of the federal administration. The entities that it covers are: the Secretariat of the Treasury and Public Credit (SHCP), the Secretariat for Public Management (SFP) and the National Council for Social Development Policy (Coneval). Likewise, the PES is composed of two elements: ( i) program monitoring through a system of performance indicators and evaluation through an Annual Evaluation Program (AEP) and (ii) a second component centering on institutional management.

The monitoring system is based on the indicators established in the Indicator Outcomes Matrix (IOM) that each program of the National Development Plan (NDP) has and that establishes goals, indicators and targets, as well as processes, products, results, and impacts. It also incorporates the financial monitoring of spending. The NDP program structure coincides with the budget program structure; thus, planning is fully aligned with budgeting.

The evaluation system is based on the Annual Program of Evaluations that PES officials have been issuing since 2007 and that indicates the types of evaluations that will be conducted in a given year, the implementation timetable, the link between the schedule and programming and budgeting and, finally, the use that will be given to the evaluations in keeping with the results-based budgeting (RbB) methodology.

In 2010, Coneval, the Secretariat of the Treasury and the Secretariat for Public Management jointly designed a mechanism for monitoring aspects that can be improved according to program evaluation reports (recommendations). This is an important, pioneering step that increases the likelihood that the evaluations will be used in the budgeting process.

In 2014 a constitutional amendment (Article 26C) established Coneval as an autonomous body with status as a legal person and its own resources, to be in charge of measuring poverty and evaluating social development policies and programs. Its officials are designated by the Chamber of Deputies and approved by the president of the country.

Performance Monitoring and Evaluation System (PMES), which includes instruments to define goals and targets, to establish performance indicators, and to prepare reports on public management outcomes.

In the case of Uruguay, in 2013 the Planning and Budgeting Office created the Area of State Management and Evaluation (AGEV) and implemented

the Planning and Evaluation System, an online information program that contains information on the institutions' goals, targets and indicators and on the budget programs and the units that implement them. AGEV also prepared manuals and instructions on how to handle planning and monitoring.

Another case worthy of mention is Peru. It has also improved its public management monitoring capacity as a result of the progress made in the results-based budgeting model implemented by the Ministry of the Economy and Finance (MEF). Whereas in 2007 it was monitoring budget programs that accounted for only 5 percent of spending, in 2012, 25 percent of programs were monitored. In addition, as of 2012, an MEF mandate (005-2012-EF/50.07) has been applied to evaluate institutional budgets of the central government and of regional government entities, once or twice a year. It contains indications for monitoring budget programs within the framework of RbB. However, although the methodology for preparing budget programs is consolidated, the monitoring system is still in an initial phase.

Given the findings reviewed herein, just as in 2007, Brazil, Chile, Colombia, and Mexico continued to have the monitoring systems most suitable for MfDR in 2013. However, in some countries, a positive shift can be seen toward creating institutional offices and monitoring systems linked to both budgeting and planning processes. Table 7.9 summarizes the situations of the countries studied with respect to the degree of institutionalization and use of their public management monitoring systems in 2013.

## Evolution of the Institutional Framework for Public Management Evaluation Systems

The aim of an evaluation system is to prepare systematic, objective studies on the design, implementation, and results of policies, programs, and projects underway or completed. These studies seek to determine the relevancy of the objectives and the extent of their achievement, as well as efficiency, effectiveness, impact, and development sustainability. The system also seeks to have the lessons provided by the studies incorporated into the different moments of the public management cycle and to have them serve as the basis for accountability.

The fundamental difference between monitoring and evaluation lies in the fact that the former offers information on the relative status of the goals and targets of a policy, a program, or a project. Evaluation explains why those objectives are being (or have been) achieved or not, and reveals the changes that have been produced among the beneficiaries and in society. Through a

**TABLE 7.9 | Public Management Monitoring Systems by Degree of Use and Institutionalization in 2013**

| Use of monitoring systems | Low: System implementation is incipient. | Intermediate: The system is becoming institutionalized, and instruments and methodologies are being prepared. | High: The system is institutionalized and has duly formalized instruments and methodologies. |
|---|---|---|---|
| **High** Used to make technical, administrative, and budget decisions. | — | — | Chile |
| **Intermediate** Used to make high-level decisions. | — | Costa Rica, Ecuador | Brazil, Colombia, Mexico |
| **Low** Not used, or used very little, to analyze and correct efforts to achieve targets. | El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Peru, Trinidad and Tobago | Argentina, Uruguay | — |

Degree of monitoring system institutionalization

*Note*: The following countries lack a performance monitoring system: Bahamas, Barbados, Belize, the Dominican Republic, Guyana, Panama, Paraguay, and Suriname.

systematic process of gathering and analyzing relevant information, evaluation judges the reasons for the results, examines unexpected results, studies the process followed to obtain results, and provides recommendations for future actions.

It is important for evaluations to be independent—that is, performed by entities and individuals that are not under the control of those responsible for designing and implementing the development intervention. Independence means that the evaluation is not subject to any political influence or to pressures from any organization, that the information is accessible, and that the research is conducted and disclosed with full autonomy. An evaluation's credibility depends partly on the degree of independence with which it is performed (OECD, 2002).

An evaluation system requires the following elements to function adequately: (i) a legal framework that defines the entities involved and their functions, (ii) a coordinating agency for the system, (iii) at least annual schedules for the evaluations to be conducted and the respective financing, (iv) methodologies

**TABLE 7.10 | Evaluation Systems Operating in LAC in 2013**

| Country | Evaluation System | Repository for Evaluations Done |
|---|---|---|
| Brazil | *Secretariat for Evaluation and Information Management of* the Ministry of Social Development | http://aplicacoes.mds.gov.br/sagirmps/simulacao/sum_executivo/pg_principal.php?url=abertura |
| Chile | *Program and Institution Evaluation* of the Budget Office of the Ministry of the Treasury (DIPRES) | http://www.dipres.gob.cl/594/w3-propertyvalue-15697.html |
| Colombia | *National System of Evaluations* of the National Planning Department's National System of Management Evaluation and Results (Sinergia) | https://sinergia.dnp.gov.co/PortalDNP/default.aspx |
| Mexico | *Social Policy Evaluation* of the National Council for Social Development Policy Evaluation (Coneval) | http://www.coneval.gob.mx/Evaluacion/ Paginas/Evaluaciones-y-resultados-de- programas.aspx |
| Peru | *Independent Evaluations* of the General Office of Public Budgeting of the Ministry of the Economy and Finance | https://mef.gob.pe/index.php?option=com_ content&view=article&id=3332&Itemid=10 1532&lang=es |
| Uruguay | *Design, Implementation and Performance (DIP) Evaluations* of the Planning and Budgeting Office's. Area of State Management and Evaluation (AGEV) | http://www.agev.opp.gub.uy/observatorio/ servlet/mainconsultadocumentos |

defined for the different types of evaluations and evaluation implementation procedures, (v) procedures for incorporating evaluation recommendations into policies, programs and projects, as well as into planning and budgeting processes, and (vi) public dissemination of evaluation results.

In 2007 only four LAC countries had evaluation systems: Brazil, Chile, Colombia, and Mexico. While the systems of the last three were well developed, Brazil's system still needed to be expanded and strengthened. Colombia's evaluation system is part of the National System for Management and Outcomes Evaluation (Sinergia), administered by the National Planning Department (NPD). Chile's is a component of the Management Evaluation and Control System (SECG) under the Budget Office (DIPRES) of the Ministry of the Treasury. In Mexico, the entity in charge of evaluation is Coneval. Brazil does not have a centralized evaluation entity although a large percentage of the evaluations are performed by the Secretariat for Evaluation and Information Management (SAGI) of the Ministry of Social Development.

By 2013, the situation had not varied substantially, and the region's average index for the evaluation component continued to be extremely low: 1.1

**TABLE 7.11 | Scores of the Indicators for the Government Management Evaluation Component, 2007–2013**

| | 2007 | 2013 | Variation |
|---|---|---|---|
| Evaluation of government management | 1.1 | 1.4 | 0.2 |
| Legal and institutional framework of government management Evaluation | 1.5 | 1.8 | 0.3 |
| 1. There is a law providing for the evaluation of government policies or programs. | 2.2 | 2.4 | 0.3 |
| 2. The law specifies the responsible agency, its objectives and its functions. | 1.7 | 2.0 | 0.3 |
| 3. There is an institution that evaluates public policies and/or sectoral strategies. | 1.9 | 2.2 | 0.3 |
| 4. There is an institution that evaluates programs and projects. | 2.0 | 2.3 | 0.3 |
| 5. There is an official document establishing methodology and the technical aspects of evaluation. | 1.3 | 1.6 | 0.3 |
| 6. Evaluations are external. | 0.9 | 1.0 | 0.1 |
| 7. There are stable resources devoted to evaluating government policies and programs. | 1.3 | 1.6 | 0.3 |
| 8. The entity in charge has personnel and procedures devoted to training implementers. | 0.9 | 1.2 | 0.3 |
| Scope and Linkage of the evaluation system | 0.6 | 0.9 | 0.2 |
| 1. Percentage evaluated with respect to total spending. | 0.6 | 0.9 | 0.3 |
| 2. Articulation and coordination among evaluating institutions. | 1.0 | 1.2 | 0.2 |
| 3. Percentage of programs that satisfactorily meet objectives. | 0.4 | 0.6 | 0.3 |
| Actions to be taken if targets are not met | 0.8 | 1.0 | 0.2 |
| 1. If evaluations detect a failure to meet targets, there are corrective actions. | 0.8 | 1.0 | 0.3 |
| 2. Those in charge of the evaluated policies or programs must respond to observations. | 0.8 | 1.0 | 0.2 |
| Dissemination of evaluation findings | 1.2 | 1.4 | 0.2 |
| 1. Evaluation reports are submitted to the legislative power. | 1.3 | 1.4 | 0.1 |
| 2. Evaluation reports are available to citizens via Internet. | 1.1 | 1.4 | 0.3 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

in 2007 and 1.4 in 2013. However, during this period two countries made efforts to construct evaluation systems: Peru and Uruguay. In Peru, the process was promoted by the Ministry of the Economy and Finance, and in Uruguay by the Planning and Budgeting Office.

Within the framework of implementation of results-based budgeting, in 2008 the General Office of Public Budgeting (DGPP) of Peru's Ministry of the Economy and Finance issued Directive 009-2008-EF/76.01, which establishes procedures and guidelines for the application of independent evaluations. The evaluation process includes four steps: (i) preparation of the evaluation, which involves procedures related to the selection of evaluators, compilation of information on the intervention to be evaluated, and training of the evaluators; (ii) application of the evaluation, which includes procedures related to the implementation of the evaluation per se and the publication of its findings; (iii) definition of the commitments to improve performance in terms of effectiveness, efficiency, and quality, between the unit responsible for carrying out each intervention and the National Office of Public Budgeting (DNPP); and (iv) monitoring of the performance improvement commitments.

The Directive stipulates that two evaluation instruments will be used: the Budget Design and Implementation Evaluation (EDEP) and the Budget Impact Evaluation (EIP). Between 2008 and 2012, 42 budget design and implementation evaluations were undertaken, of which 33 had been completed and nine others were underway at December 31, 2012. The MEF produces an annual report on the evaluations performed and on the monitoring of the commitments made by the institutions that are implementing the interventions. These documents, together with the evaluation reports, are made available to the public via the MEF's website. Impact assessments had not yet been conducted at the time of the PET application, but there were plans to do.

In the case of Uruguay, in 2012 the Area of State Management and Evaluation (AGEV) of the Planning and Budgeting Office (PBO) launched the Design, Implementation and Performance (DIP) evaluations, which are instruments applied in a short time using secondary sources. Each evaluation is conducted by a group of three external evaluators (one expert in methodology, another in sectoral issues, and the third in administrative-accounting aspects) plus one international expert on the area being evaluated. AGEV technical experts, who propose the evaluation methodology and provide technical coordination for its application, oversee the evaluation process. During the evaluation, the AGEV technical experts work with a team of staff members involved in the intervention under evaluation and endeavor to identify opportunities to improve design and implementation. All of the evaluations culminate in the signing of an improvement agreement between the BPO and the institution that conducts the intervention. Therefore, the latter pledges to implement some of the recommendations emerging from the evaluation.

Finally, as mentioned in the section that analyzes the legal framework, a fundamental change occurred in Mexico's evaluation system from a normative standpoint because the constitution included an article referring to the composition and functions of Coneval. That article provides that the president of the agency be appointed by the Chamber of Deputies. This change seeks to reinforce the independence of the evaluation function and to raise its standing as a public management instrument. This would be a good practice for the remaining countries to implement, even though they could use other legal and institutional mechanisms to do so. Unlike the evaluation systems in the other countries, Mexico's system is implemented by an autonomous agency, which has the status of a legal person and a budget of its own. Another case that should be highlighted is Chile, which is summarized in Box 7.2.

### *Articulation of M&E Systems with Planning and Budgeting Systems*

To complement the analysis presented in the preceding section, this section discusses linkage of monitoring and evaluation systems with planning and budgeting systems. This linkage is important both for better implementation of plans and programs and for designs and budget allocations that take the evidence generated by the evaluations into account.

Data from the PET reveal that, with few exceptions, the linkage is far from being satisfactory. Monitoring systems have appeared in a variety of institutional arenas, including planning, budgeting, and the presidential agenda. Furthermore, the monitoring of investment projects is basically physical and financial, whereas if a medium-term national plan is prepared, monitoring is done on the basis of performance indicators, and the presidential agenda usually includes a battery of indicators of different types. Even though these institutional mechanisms exhibit different degrees of articulation, in most of the countries the connection is weak.

Meanwhile, as seen previously, evaluations are not very well-developed, and in few cases is the information produced by the evaluations used as the basis for making budget, program, and planning decisions. Only Brazil, Chile, Colombia, Mexico, and Peru systematically perform evaluations. Uruguay joined this group in 2012, with its evaluation exercises coordinated by the Budgeting Office in the context of an effort to improve the quality of expenditure in the five-year budget in effect in that country. The evaluation exercises of Chile, Mexico, and Peru are linked to their RbB systems, whereas the evaluations of the Colombian government are linked to the programs of the

### BOX 7.2 | Chile's Management Monitoring and Evaluation System

The creation of monitoring and evaluation systems in Chile is framed within the development of public management improvement initiatives based on compiling, analyzing, and using evidence of the results of the institutional actions that have been applied in the country for more than two decades. Some instruments were implemented in the early 1990s, and in 2000 they were merged into the Management Monitoring and Evaluation System (SECG) under the Budget Office (DIPRES) of the Ministry of the Treasury. The system, based on the concept of results-based budgeting, contains a set of instruments whose purpose is to use information on the performance of institutions, programs, and projects to support decision making and thus achieve efficiency in the allocation of public resources, improve public management, and facilitate transparency in the use of resources and accountability. The implementation of results-based budgeting is fully consolidated in the country and recognized worldwide as an exemplary practice.

The instruments and work methodologies of the SECG, which have been gradually developed in an ongoing process of improvements and adjustments, encompass three complementary elements that are a core part of results-based budgeting: (i) monitoring of institutional performance, (ii) evaluation of the achievements of policies, institutions, programs, and projects, and (iii) institutional performance incentive mechanisms. Each element has a set of instruments to perform its functions. The monitoring instruments include performance indicators and the comprehensive management balance sheet. The evaluation instruments are the Government Program Evaluation, the program impact assessments, the New Program Evaluation, and the Comprehensive Evaluation of Spending. The incentive mechanisms for institutional performance are the Management Improvement Program (PMG), the Medical Law, and the Institutional Efficiency Targets. Since these instruments are part of an integrated system that provides information for decision making in the various stages of budgeting, there is a high degree of coordination and complementarity among them.

It is worthwhile to note that no single law regulates the SECG, but the Organic Law for State Financial Administration (DL 1.263 of 1975) contains a regulatory framework composed of different standards; as do the annual budgeting laws; specific laws such as Law 19.553 of 1998, which regulates the PMG; and ministerial decrees that regulate specific aspects of the instruments.

Finally, three additional aspects of the Chilean experience should be highlighted because they are worthwhile to consider if the system is applied to other countries of the region: (i) the high degree of centralization of the Chilean State (in contrast to the federal structure of a number of Latin American countries); (ii) the consultation of Parliament regarding the evaluation agenda, as a good practice to implement in the event that the evaluation system is anchored in the executive branch; and (iii) the fact that, after more than a decade of experience, Chile has made great progress in establishing an independent ex post evaluation agency (something that other countries could do without having to go through the same learning process).[a]

[a] This would be a sort of "leapfrogging." See World Bank (2010:29).

National Development Plan and its investment plan. In Brazil, evaluations are tied to sectoral policy (through the Ministry of Social Development, SAGI). Only Chile can be said to have a mature system that links monitoring and evaluation with a high degree of centralization. The other countries are still building such coordination.

### *Use and Dissemination of M&E Information*

The use and dissemination of information generated by M&E systems are their main benefit. To justify the production cost, it is essential to conscientiously put that information to good use. However, the PET shows that the use and dissemination of M&E information is problematic (see Table 7.12), with scores lower than 2 points. There is also notable heterogeneity among the countries. This indicates that it could be possible to tap the experience of those countries that have progressed the furthest in this area and to complement it with experiences from outside the region (see the final section of this chapter).

With regard to the use and dissemination of information generated by the monitoring systems, no improvement can be seen in the score between 2007 and the 2013, and there is much room for progress in publishing information so that it will be available to the public (the respective score had risen to 1.4 points by 2013). It should be noted that even though the technological difficulty of disseminating information has decreased, the score remained the same as in 2007. This suggests that the problem could be more political than technical.

Meanwhile, what has in fact improved, even though the level of development continues to be low, is the existence of criteria for correcting any failure to meet implementation targets. Since corrective actions are based on monitoring data, this is one of the important uses of the information generated by monitoring.

**TABLE 7.12 | Indicators of the Dissemination and Use of Information from Monitoring and Evaluation Systems, 2007–2013**

| Dissemination of M&E information | 2007 | 2013 | Variation |
|---|---|---|---|
| 1. The information on monitoring is available to the public. | 1.4 | 1.4 | 0.0 |
| 2. Evaluation reports are submitted to the legislative branch. | 1.3 | 1.4 | 0.1 |
| 3. Evaluation reports are available to citizens via Internet. | 1.1 | 1.4 | 0.3 |
| **Use of M&E information** | | | |
| 1. There are criteria for correcting implementation noncompliance detected by the monitoring. | 1.1 | 1.7 | 0.6 |
| 2. If evaluations detect a failure to meet targets, there are corrective actions. | 0.8 | 1.0 | 0.3 |
| 3. Those in charge of the evaluated policies or programs must respond to the observations. | 0.8 | 1.0 | 0.2 |

*Note*: To facilitate the reading, numbers have been rounded off to tenths.

In addition, as the PET revealed, very few countries (Chile, Colombia, and Mexico are exceptions) have institutionalized criteria and procedures for using evaluation results to optimize the performance of the policies, institutions, programs, and projects evaluated.

Finally, the legislative branch's access to the information from evaluations is also very limited. The experiences of Brazil, Chile, Colombia, and Mexico are, in this sense, exceptional. This is another area in which the benefits derived from evaluations could be significantly increased, at low cost. The five countries that systematically perform evaluations (Brazil, Chile, Colombia, Mexico, and Peru) make them publicly available via the Internet. This is a good practice in accountability and transparency.

## Conclusions and Challenges for the Future

As noted previously, data from the PET (and from direct observation) reveal notable heterogeneity in the countries' situations and evolution with respect to their M&E systems. This heterogeneity has two main consequences. The first is that generalizations drawn regarding those systems should be limited. The second is related to defining an agenda for the future: there are countries in the region whose greater relative development in this pillar can orient the others and thus enable them to accelerate their progress. This section begins by identifying gaps in M&E systems, from which a set of challenges for the coming years can be derived. The chapter concludes with lines of action that can be used to address the challenges posed.

### *Gaps and Challenges in the Construction of M&E Systems*

Based on PET data, the following gaps can be identified in the institutionalization of monitoring and evaluation systems:

- *Normative gaps*: These occur when the entity that performs government management monitoring and/or evaluation lacks formally established regulations. In some countries there is no normative framework to regulate the monitoring system, and in most there is no framework for this type of public management evaluation system. Most of the existing normative frameworks do not differentiate between monitoring and evaluation, nor do they detail the functions of the coordinating agency or the procedures to be followed to use the information. The requirement that the government entity or

office in charge of the management evaluation system have technical, administrative, and budgetary autonomy to perform its functions is seldom met (quite the opposite of what happens in the case of statistical information systems). This lack of independence of the entity in charge of government management evaluation affects the credibility of the evaluations, a factor which negatively impacts their use.

- *Institutional gaps*: These exist in countries where there are no institutions assigned the responsibility of coordinating monitoring and/or evaluation systems. In some countries, no institution centralizes the monitoring process, and most countries lack an institutional framework for evaluation.
- *Tool gaps:* This refers to the lack of the tools needed to perform monitoring and/or evaluation of government management.
- *Implementation gaps:* These are seen when evaluations are not conducted and/or government management is not systematically monitored. The implementation of a public management monitoring system based on performance indicators continues to be a challenge in most of the countries. In addition, in some, the public management monitoring system is fragmented, since there is no overarching system for management as a whole, but rather partial, parallel systems without institutional coordination. The implementation of annual or multi-annual evaluation agendas is definitely a limited practice.
- *Communication gaps:* These occur when monitoring and evaluation results and/or work methodologies and/or databases are not shared with the public. If there is an implementation gap, as there is in some countries, there will obviously be a communication gap since there would be nothing to communicate, except possibly methodologies that were not applied.

The challenges of constructing M&E systems have to do with the elimination of the aforementioned gaps. In Table 7.13, which quantifies the gaps for 2013, the main differences between monitoring gaps and evaluation gaps are implementation and institutional aspects.

As a complement to this information, Table 7.14 indicates the distribution of the gaps by country for both monitoring and for evaluation. This table considers gaps of two or more points.

The three countries of the region that show the highest degree of M&E system development are Chile, Colombia, and Mexico. Mexico made the

**TABLE 7.13 | Gaps in the Implementation of Monitoring and Evaluation Systems, 2013**

| Gaps | Monitoring | Evaluation |
|---|---|---|
| Institutional gap | 2.0 | 2.7 |
| Normative gap | 2.9 | 2.8 |
| Instrument gap | 2.8 | 3.5 |
| Implementation gap | 3.1 | 4.2 |
| Communication gap | 3.7 | 3.5 |

*Source*: PET. For monitoring: 2 requirements ME1.1, ME1.2, ME2.1 and ME3; for evaluation: 2 requirements ME5.1, ME5.2, ME5.3, ME5.4, ME5.5, ME6.1 and ME8.
*Calculation*: A gap is the result of the difference between the maximum PET score (5) and the requirement score. For example, a gap of 3 corresponds to the difference between 5 and a PET requirement score of 2.
*Note*: To facilitate reading, numbers have been rounded off to tenths.

greatest progress in reducing gaps between 2007 and 2013. Brazil, Costa Rica, Ecuador, and Peru also made significant progress, especially in terms of their monitoring systems. The rest of the countries had gaps in most of the aspects.

### *Lines of Action for an Agenda to Strengthen Monitoring and Evaluation Systems*

As mentioned at the beginning of this section, the notable heterogeneity in the countries' situations and with respect to the monitoring and evaluation pillar is a first aspect that should be taken into account in defining an agenda for the future. There are countries in the region (Chile, Colombia, and Mexico) whose greater relative development in this pillar can provide orientation to the others, thus enabling the latter to make progress at a faster pace. Lines of action to address the gaps identified in the institutionalization of monitoring and evaluation systems are described below.

#### Complete the normative framework for M&E systems

In general, progress has been made in regulating M&E systems, and therefore it is not necessary or advisable (or sufficient) to propose the creation of a complex normative apparatus. However, there are several normative gaps, for example with regard to the autonomy or independence of evaluation functions. It is also important to ensure that the standards for M&E systems complement planning and budgeting standards, to facilitate the linkage of the various

**TABLE 7.14 | Countries with Gaps in Monitoring and/or Evaluation**

| | Gaps | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Institutional | | Normative | | Instruments | | Implementation | | Communication | |
| Country | Mon | Eval | Mon | Eval | Mon | Eval | Mon | Eval | Mon | Eval |
| Argentina | x | ✓ | ✓ | ✓ | x | ✓ | x | ✓ | ✓ | ✓ |
| Bahamas | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Barbados | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Belize | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Brazil | x | ✓ | x | ✓ | x | ✓ | x | ✓ | x | ✓ |
| Chile | x | x | x | x | x | x | x | x | x | x |
| Colombia | x | x | x | x | x | x | x | x | x | x |
| Costa Rica | x | ✓ | x | x | x | ✓ | x | ✓ | ✓ | ✓ |
| Dominican Republic | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ecuador | x | ✓ | x | ✓ | x | ✓ | x | ✓ | ✓ | ✓ |
| El Salvador | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Guatemala | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Guyana | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Haiti | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Honduras | x | ✓ | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ |
| Jamaica | x | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mexico | x | x | x | x | x | x | x | x | x | x |
| Nicaragua | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ |
| Panama | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Paraguay | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Peru | ✓ | x | x | x | ✓ | x | ✓ | x | ✓ | ✓ |
| Suriname | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Trinidad and Tobago | x | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ |
| Uruguay | x | x | x | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ |

x No gap ✓ Gap

components of the public management cycle. Standards or regulations should also contribute to differentiating monitoring systems from evaluation systems, establishing specific roles and responsibilities for each function, and indicating the processes and procedures for which they will be responsible.

Taking into account the specificities of each country, it is advisable to consider the possibility of adopting (and, when necessary, adapting) the regulations put forth in this field by the leading countries of the region and to consider other experiences as well, such as Peru's regulations for independent evaluations.[10] One standard that helps to disseminate M&E system outputs is the one that calls for information transparency, because it promotes the publication of the findings of the monitoring system and the evaluations.

International aid agencies can collaborate by facilitating access to the experiences of other countries in the region (the PET contains invaluable information on the countries' progress in this and other areas of M&E), and also to experiences beyond the region.

### Support institutional development

In some LAC countries, the institutionalization of M&E systems is incomplete. It is important to advance in the process of assigning responsibilities and resources for these systems, taking examples from the region as references (particularly those of Chile, Colombia, and Mexico). With respect to the monitoring system, there should be close coordination with the institutions in charge of planning and budgeting to ensure that the monitoring information generated will make it possible to detect the need for corrections during the implementation of policies, programs, and projects.

To mitigate the risk that institutions that assume responsibility for evaluation will be forced to use their resources for other activities,[11] and to increase the credibility of their outputs (evaluations), it is essential to ensure the independence of the evaluation function. Even though the normative and

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[10] Board of Directors for Independent Evaluations in the National System of Public Budgeting in the Framework of Results-based Budgeting (Directors Resolution 053-2008-EF-76.01).

[11] Two types of crowding-out effects have been seen in the region and should be kept in mind: on the one hand, resources allocated to monitoring and evaluation but used for another type of activity (which is why it is important not to simply verify planned M&E resource allocation) and on the other hand, resources for evaluation that have been used only for monitoring. One of the means of avoiding this second displacement or crowding-out effect is to clearly separate the allocation of funds for monitoring from the allocations for evaluation.

institutional framework of Coneval is ideal for exercising evaluation functions (since it is an autonomous body that has the status of a legal person and has its own resources), countries can pursue different institutional arrangements that will guarantee the stability of resources and independence in the evaluation exercise. In many cases, institutional autonomy is the last step in a long learning and institution-building process.

Some international aid agencies, and some bilateral donors have supported governments' efforts to promote the institutional development of M&E systems, both in the sphere of the central government and, in some cases, in local governments. These efforts can be extended to other countries, and expanded, so as to contribute to exchanges and to the dissemination of experiences.[12]

### Disseminate the instruments implemented in some countries of the region

To address the instrument gap, it would be advisable to put together a catalog of monitoring and/or evaluation instruments existing in the region, and to make it accessible on the Internet for the countries that need it. The progress made in Chile, Colombia, and Mexico could be useful to other countries and even to these countries themselves.[13] Some examples of instruments available on the Internet are noted below:

- Colombia's manuals and methodologies for carrying out monitoring and evaluation processes, such as the *User's Handbook for the New Government Goal Information and Monitoring System* (2010), the *Guide for Evaluating Public Policies* (2012) and the *Methodology Guide for Monitoring the National Development Plan and Evaluating Strategic Policies* (2012).
- The DIPRES *Impact Assessment Methodology* (2009) of Chile's Ministry of the Treasury.
- Indicator Outcomes Matrices (IOMs), which were developed in Mexico and serve as the basis for the preparation of a results-based budget; and the mechanism for monitoring aspects that can be improved identified by external evaluations and reports on federal programs in 2012.

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[12] Feinstein (2014) addresses the role of international cooperation in strengthening the institutionalization of evaluation in Latin America.

[13] For example, a United Nations Development Programme (UNDP) evaluation recommended that Chile take advantage of the progress made by Mexico in the area of social program evaluation. In the same way, Mexico and other countries of the region can benefit from the progress of Chile in other areas of MfDR (UNDP, 2009).

### Periodically review the progress of M&E system implementation

Exercises such as the PET make it possible to periodically review progress made in the implementation of M&E systems, as well as in other MfDR pillars, by identifying gaps and orienting future actions. They could also encourage the countries to conduct annual self-assessments of their M&E systems, whose outputs could be presented at regional technical encounters, such as the annual meeting of the Latin American and the Caribbean Network for Monitoring, Evaluation and Systematization (ReLAC).

### Improve the dissemination and use of M&E system outputs

Even though the dissemination of M&E system outputs via the Internet makes it possible for the public to learn about them, it does not guarantee that the public actually will. In any case, it is the main dissemination vehicle, and several countries still need to take this step. Brief notes summarizing the content of the aforementioned outputs will facilitate their use and understanding by citizens.

Meanwhile, to improve the dissemination of evaluation results to the legislative branch, it can be useful to take into account the experience of Canada, where parliamentary commissions have access to evaluation reports. Annual departmental performance reports are also submitted to Parliament and become public documents used in debates on the performance of government programs.[14]

[14] For more about the experience of Canada, see the link http://siteresources.worldbank.org/INTEVACAPDEV/Resources/ecd_wp_23.pdf, especially pp. 23 and 24.

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# Glossary

**Accountability:** Obligation to demonstrate that work has been conducted in compliance with agreed upon rules and standards or to report fairly and accurately on performance results vis-à-vis mandated roles and/or plans. This may require a careful, even legally defensible, demonstration that the work is consistent with the contract terms. Note: Accountability in development may refer to the obligations of partners to act according to clearly defined responsibilities, roles, and performance expectations, often with respect to the prudent use of resources. For evaluators, it connotes the responsibility to provide accurate, fair, and credible monitoring reports and performance assessments. For public sector managers and policymakers, accountability is to taxpayers or the public (OECD, 2002).

**Audit:** An independent, objective assurance activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to assess and improve the effectiveness of risk management, control, and governance processes. Note: A distinction is made between *regularity (financial) auditing*, which focuses on compliance with applicable statutes and regulations; and *performance auditing*, which is concerned with relevance, economy, efficiency, and effectiveness. *Internal auditing* provides an assessment of internal controls undertaken by a unit reporting to management, while *external auditing* is conducted by an independent organization (OECD, 2002).

**Effect:** Intended or unintended change due directly or indirectly to an intervention (OECD, 2002).

**Effectiveness**: The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance (OECD, 2002).

**Efficiency:** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results (OECD, 2002).

**Evaluation:** The systematic and objective assessment of an ongoing or completed project, program or policy, its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency, effectiveness, impact, and sustainability (OECD, 2002).

**Ex ante evaluation:** An overall assessment of the relevance, feasibility, and potential sustainability of a development intervention prior to a funding decision (OECD, 2002).

**Fiscal risk analysis:** Examination of events that could occur in the future and that would entail financial stress. Risks can be related to the payment of direct obligations (external debt, bonds, or long-term commitments) or contingent liabilities (central government guarantees for local government loans, actuarial liabilities, or judicial rulings that involve payments), and to the occurrence of natural disasters.

**Results-based management (or managing for results):** A framework whose function is to facilitate effective and comprehensive processes for public organizations to create value (results) and thereby optimize performance, ensuring maximum efficiency and effectiveness, the achievement of government objectives and goals, and the continuous improvement of institutions (IDB and CLAD, 2007).

**Central government:** Political authority extending over the entire territory of the country. The central government can impose taxes on all resident institutional units and on nonresident units engaged in economic activities within the country. The central government typically is responsible for providing collective services for the benefit of the community as a whole, such as national defense, relations with other countries, public order and safety, and the efficient operation of the country's social and economic system (IMF, 2001).

**Impacts:** Long-term effects produced by a development intervention, directly or indirectly, intended or unintended (OECD, 2002).

**Incentives:** Management principles whose purpose is to stimulate institutional teams' achievement of goals and targets.

**Inputs:** The financial, human, and material resources used for the development intervention (OECD, 2002).

**Integrated financial management system:** An information system that integrates standards and data from the following areas of state administration: accounting, budget implementation, tax administration, public credit, and the national treasury.

**Logical framework:** Management tool used to improve the design of interventions, most often at the project level. It involves identifying strategic elements (inputs, outputs, outcomes, impact) and their causal relationships, indicators, and the assumptions or risks that may influence success and failure. It thus facilitates planning, execution, and evaluation of a development intervention (OECD, 2002).

**Medium-term fiscal framework:** An instrument aimed at extending the fiscal policy horizon beyond the annual budget schedule, by projecting income and expenses for a three-year period or longer, with annual updates. During the first year, the fiscal framework projections correspond to the actual budget.

**Medium-term national plan:** The analysis of a country's situation and definition of priority medium-term objectives with their corresponding programs, targets, and indicators. The programs should have a framework of outcomes, that is, a logic explaining how each development objective is to be achieved, including causal relationships and underlying assumptions.

**Monitoring:** A continuing function that uses systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives in the use of allocated funds (OECD, 2002).

**Outcome:** The likely or achieved short-term and medium-term effects of an intervention's outputs (OECD, 2002).

**Outputs:** The products, capital goods, and services that result from a development intervention. They may also include the post-intervention changes that are relevant to the achievement of outcomes (OECD, 2002).

**Performance:** The degree to which a development intervention or a development partner operates according to specific criteria/standards/ guidelines or achieves results in accordance with stated goals or plans (OECD, 2002).

**Performance indicator (or outcome indicator):** A variable that allows verification of changes in the development intervention or shows results relative to what was planned (OECD, 2002).

**Performance or management contracts:** Agreements among institutions in which the results to be achieved, the distribution of implementation responsibilities, the conditions for achieving outcomes, and the amounts of resources to be allocated are stipulated.

**Program:** A policy instrument composed of a number of similar individual interventions (each of which could be a project) (Aldunate and Córdoba, 2011).

**Program budgeting:** An exercise whose core objective is improved expenditure prioritization. Expenditure prioritization means that limited government resources are allocated to the programs that deliver the greatest benefits to the community given the money spent. By providing information on the costs and benefits of alternative programs, a program-budgeting system facilitates decisions about which areas of expenditure to cut back on and which to augment, to best meet community needs. By contrast, a traditional budget in which funds are mainly allocated by line item is of limited value as a vehicle for choices about expenditure priorities (Robinson, 2015).

**Programmable spending budget:** The total spending budget minus debt service.

**Public procurement system:** An institutional and normative framework that promotes competition and transparency in public procurement and that is implemented through an online electronic transactions system.

**Results- or performance-based budgeting:** A budgeting process (programming, approval, implementation, and accountability) that incorporates the analysis of the results produced by public sector actions and whose projected expenditures are classified according to the programs established in the medium-term strategic plan. The analysis of the results is based on performance indicators and evaluations.

**Sectoral ministries:** The ministries (or secretariats) in charge of given areas of activity, projects, or programs for delivering goods and services. Examples: education, health, social development, transportation, and public works.

**Standards of quality:** Basic attributes that goods and services should have.

**State government:** The level of government that exercises power in a state, province, or region (depending on the name given to the largest geographic area into which a country as a whole may be divided for political or administrative purposes) (IMF, 2001).

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## DEVELOPMENT EFFECTIVENESS

Improving public services, using State resources efficiently, and managing State agencies effectively have been ongoing concerns of the governments of Latin America and the Caribbean since the beginning of this century. Government officials are now paying special attention to the results obtained by their administrations. The public now demands not only universality but also quality in the services that the State provides—that is, better schools, hospitals, and justice systems.

To respond to the growing demand for public sector effectiveness, governments have formulated new laws, created or modified institutions, and implemented innovative management methodologies and instruments.

Based on data gathered in 24 countries, this book analyzes the current situation, the progress made, and the challenges still facing the governments of the region in their efforts to achieve more effective public administrations.

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