Program to Implement the External Pillar of the Mid-Term Action Plan for Development Effectiveness (PRODEV)

Government Strategic Planning Systems and determination of budget priorities

Final Report

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The main predicament of economy is allocation of scarce resources to multiple objectives. This is, strictly speaking, a very particular approach to a much general and permanent conflict between what the human being wishes to have and what he may actually obtain. The relationship between strategic planning and the budget is another way to express the same predicament, wishes expressed as the ideal society one would like to live in, which translates into the government's strategic plans, and actual possibilities determined by the budgetary resources available, for which another government agency is customarily accountable for.

The purpose of this paper is to discuss the possibilities of making progress in coordinating government strategic programming through the allocation and implementation of public budgetary resources, particularly with regard to Latin American countries. To that end, recent experiences of some countries that have undertaken such endeavor and have achieved significant outcomes have been taken into consideration. The cases studied include Brazil, Colombia, Guatemala, Mexico and Uruguay. Strong emphasis will be made on discussing some institutional aspects that may either favor or hinder progress in that sense. Government officials of the countries studied in this paper offered their valuable cooperation in providing information, expertise and opinions. Accordingly, none of them is to be held liable for any inaccuracy this paper may contain. Likewise, we would like to express our sincere gratitude for their collaboration.

This paper consists of three sections and two annexes. Section 1 features the conceptual framework that describes how budget-related notions have evolved and how planning has been performed over the past few years, and discusses the current characteristics of the budgetary process. Section 2 consists of a brief introduction of the country cases discussed where their major developments and their characteristics are analyzed. Finally, Section 3 presents some of the areas of progress, the discussion of which would be advisable.

Annex 1 consists of a summary of the planning systems implemented in every country. Annex 2 includes the forms each country has filled out. This data was used to build the comparative tables contained in this paper.

1. Conceptual framework for budget and strategic plan[1]

1.1. A dash of history of planning and budget.

Programme budgeting and the Programme, Planning and Budgeting Systems (PPBS)[2] were developed to foster development in Latin American countries in the 1960s. These initiatives were linked to the welfare State notion prevailing in developed countries whereby the State was assigned a major role in the economy and was made accountable for growth and development. Allocation of budgets per program was the technical expression of these ideas, as it was intended to integrate policy planning and budgetary processes[3].

By the early 1980s, only when the need to cut the fiscal expenditure in view of external imbalances became evident, did supporters realize how difficult implementation was. As the welfare State-related notions were discontinued, from the second half of the 1970s to the late 1990s the prevailing notions are those considering the private sector as the driver of economic growth and assigning the State the responsibility to stabilize economies by ensuring a framework of macroeconomic balance. People's well-being would naturally stem from economic growth, which would in turn open work posts in a wide range of sectors and support the development of social policies oriented to the deprived groups.

In the 1990s and in the light of the Washington Consensus, "*downsizing*[4]" policies and privatization of State-run companies are promoted. Simultaneously, modernization of the public administration is proposed through the New Public Management approach[5]. Although attempts have been made to associate reforms to conservative or neoliberal governments from a reductionist vantage point, reform processes actually took place in countries with rightist and leftist governments alike. Although approaches[6], procedures and their implications varied in nuances, in general they all shared the ultimate goal of causing extensive changes in the role and operation of the State by fostering a revised approach that moved aside from a State centered on its own organization and its employees and focused on the actual needs of the citizenship[7].

In the early days of the current decade, it begins to be explicitly admitted that economic growth on its own does not suffice to ensure well-being pervasiveness throughout the people. The role of the public sector is reassessed so as to design and implement public policies fostering the incorporation of social sectors in the benefits of economic growth. This renewed approach, however, keeps the private sector as the driver of economic growth.

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[1] This section encompasses some elaborated notions on the relationship between strategic planning and budget. For more comprehensive discussion, see: Schick, A. 2003 and Echeberría et al, CLAD, 2005.

[2] *Programme, Planning and Budgeting Systems* (PPBS). Developed in the U.S. during World War II based on the experience of some services (Department of Agriculture and Department of Defense in 1961, which continued relying on them until 1990). Also used in France and Canada. In the U.S., these systems were widely applied to the administration since the late 1960s, when Johnson's administration requires public organs "to articulate their program goals in specific, preferably quantifiable, results and conduct evaluations to measure the degree to which those results were achieved."

[3] Many of the countries that amended their constitution in the 1960s included this budgetary approach as a constitutional provision.

[4] Reduction of the size and cost of the public sector.

[5] Commonly referred to as NPM (*New Public Management*)

[6] Echebarría, 2000.

[7] OECD 1995, 1999, 2001.

In addition, this new role of the State leads to reassessment of planning as a tool, although the approach used differs from the one applied in the 1960s, since it incorporates the fiscal concern at macroeconomic level, the NPM tools (output-based management and result-based management) and places further emphasis on a civil-service approach. This new approach identifies how citizens benefit from the goods and services generated by the State (efficiency, effectiveness and quality) and, if possible, how public policies impact their lives.

Characteristics of the policy making process linked to the budgetary process

Budgeting is a stressful instance since it involves a conflict among players with different interests who try to influence decision making. Taking into consideration that budgetary decisions depend on the interaction of a number of actors, each of which has its own preferences and motivations, they may not be the most suitable ones.

The main actors involved in this process are the agencies responsible for global management of the economy, the "treasury guardians" and, on the other hand, the other agencies in charge of developing programs and projects in different areas of the State, or "defenders of the programs".

The treasury guardians are the agencies responsible for ensuring macroeconomic balance and achieving a balanced budget. The leading agency concerning the budget is the Ministry of Finance (MF) and in most countries, the Ministry or Office of Planning (OP), as the case may be, which very often bears an advisor's capacity, is responsible for developing the investment budget and reports to the Presidency. Treasury guardians rely on an overview that opposes the sectoral vision of Ministries (program directors). "In most countries, the Ministry of Finance's role is the closest we can find to the "owner" and in most cases, the relationship this "owner" and the public entity have is unsustainable basically because the Ministry of Finance feels that this public organ is a "black hole" that only absorbs resources and yields no output compatible with the resources it has used."

The Defenders of the programs are the agency directors (Ministers among them) and their supporting technical team. When the government consists of a coalition cabinet, the directors who belong to the parties with which the government had to reach to some kind of compromise are the ones opposing the greatest resistance to central government guidelines. In turn, public directors are the recipients of sectoral entities' demands: workers, entrepreneurs and, on occasions, service users. Altogether with the Congress, they are the box office where *lobbyists* (income seekers) bid for a portion of the budget. This private and sectoral approach grows in strength when the central government's strategic approaches concerning spending limits and policy priorities lack strength themselves.

In addition to those actors, public servants' involvement in the budgeting process is either direct -through proposals to their direct superiors or agency directors- or indirect, through the relevant trade unions.

The Legislative Branch comes into action when the budget enters its scope of action within the constitutional timeframe. Nevertheless, it is customary that prior to that the legislature is approached by worker unions or private sector's associations in order to make their requests[8].

Figure 1 shows a representation of the relationships existing among the various actors involved in this conflict arena called budget and their corresponding interests.

Fiscal results depend on the type of structure and behavior these agencies show. Some studies conclude that the more hierarchical and transparent budgeting procedures are, the greater the fiscal discipline will be. Hierarchical procedures are those assigning increased power to the entity responsible for the Treasury (the Minister of Finance) as compared to the other Ministers in government negotiations, and restricting the congress' role in terms of its capacity to modify the budget proposal submitted by the Executive branch.

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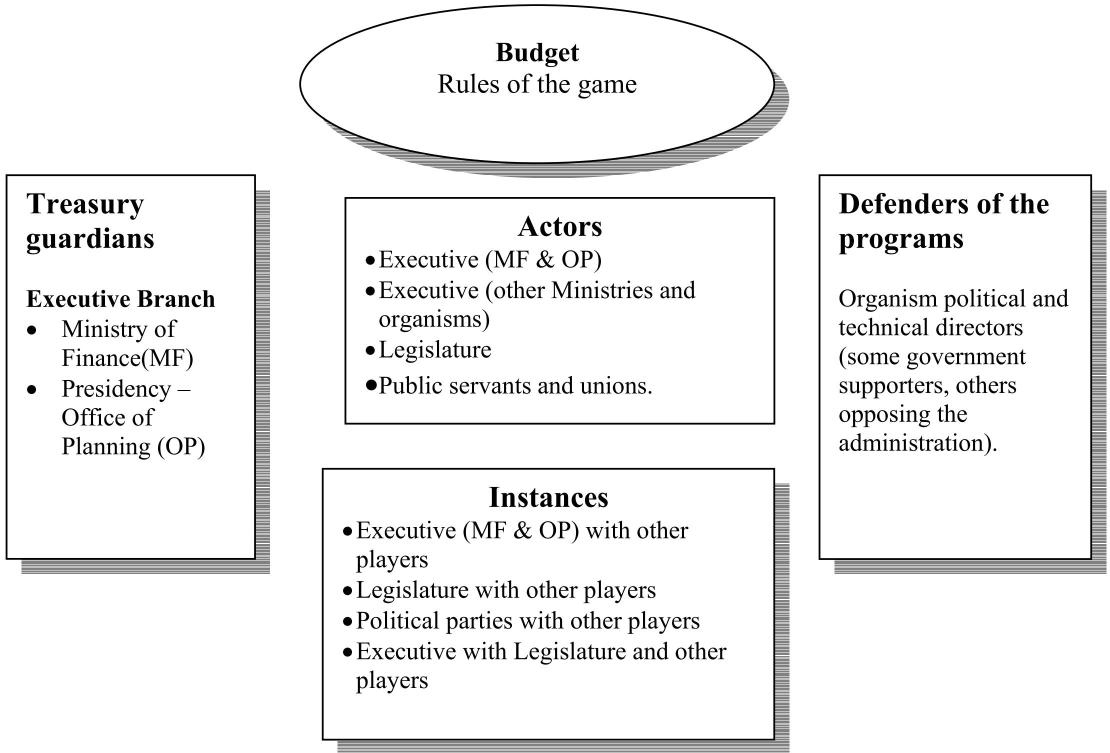
[8] A worldwide trend towards increased power of the legislature vis-à-vis the budget is observed. At the same time, another trend towards extending the budget time horizon in order to strengthen control over fiscal aggregates.

Figure 1



For budgeting activities to be successfully completed, the four main stages the budgetary process consists of (preparation, discussion, adoption, and control), the various actors are to identify suitable scopes for negotiation and that approaches are actually made as a result of sharing of certain rules and procedures common to budgetary institutions.

In general, the scope easing up the stressful budgetary process is planning. That is, the more strategically transparent the government is –by defining its priorities in the relevant political scopes and consequently the agencies that will be allotted resources- the less conflictive the budgetary process will be.

- ***The budget and financial management ruling principles***[9]

→ *Integrality and discipline*, the budget needs to encompass the government's financial operations in their entirety, thus allowing reporting on the financial impact of public decisions and forcing them to take the existing resources availability into consideration.

→ *Legitimacy* ensures that all decisions made along execution comply with the policies provided upon budget adoption.

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9 World Bank, (1998) *Public Expenditure Management Handbook*, Washington DC.

→ *Flexibility* refers to the ability public directors must be entitled to in order to make decisions to reorient their programs along the budget execution period.

→ *Predictability* relates short and medium-term decisions. The fiscal policy is to ensure timely cash flow for programs and projects.

→ *Rendering of accounts* during execution to ensure that all agencies are performing according to the plan.

→ *Honesty* must be evidenced by objective forecasts, both regarding revenue and expenses. Any bias needs to exist as a result of technical or policy reasons.

→ *Accurate and timely information* on costs, revenue and disbursements is the foundation for budget transparency and responsibility.

→ *Transparency* requires decision makers to rely on relevant information whenever they need it. This fact boosts execution flexibility and demand for accurate and timely information.

1.3. Innovations to the budgeting process

The innovations introduced to budgeting systems in recent years can be classified in three different types[10]: i. Macro-budgetary reform, ii. Distributive budgeting, and iii. Micro-budgetary reform. When budgeting is concerned with macro budget aggregates, the goal is fiscal discipline; distributional issues pertain to the allocation of costs, and micro issues relate to the operation of public services, programs and projects.

i. Macro-budgetary reforms

The general budgeting tendency in most countries is to increase spending and, probably, also deficit. In developed countries, the higher life expectancy has led to an increase in social security-related spending; in developing countries, social spending geared at the younger generations, particularly education, is increased. In most countries, dealing with this tendency has resulted in the application of certain instruments that tend to constrain expenditure by establishing commitments that are indicative of mid-term stability. The New Zealand, European Union and United States experiences have been used as background information and also as examples. In decentralized federal countries like Brazil, the European experience arising from the Maastrich agreements was of the utmost importance[11].

- ***Medium-term Expenditure Framework***

Today, most countries have incorporated the multiyear expenditure framework (MTEF), whether as an integral part of the budgetary law or as an addendum thereto[12]. This instrument was first used in Australia, where limits on expenditure for the following period (typically 3 years) are rolled ahead in order to constrain annual budgetary decisions.

- ***The rules of macro-economic responsibility***

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[10] This classification is similar to the three-level budgeting structure used by the World Bank: a) Aggregate fiscal discipline, b) Allocation of resources based on strategic priorities, c) Operational efficiency.

[11] Tavares, Martus 2004.

[12] Medium-term Expenditure Framework.

This is an explicit commitment made by the governments that impose quantitative limits on certain variables they wish to control: indebtedness, fiscal deficit or even public spending. Most countries have introduced this type of rules as part of the budgetary norm or as special laws.

It has been suggested that numerical rules present some advantages and also some disadvantages[13]. If they are respected, their advantages may include the resolution of such problems as strategic indebtedness by limiting the electoral cycle of spending. Nevertheless, there is also a number of drawbacks involved: the generation of incentives for "creative accounting", the limitation of the capacity to smooth the taxing structure, and the tendency towards excessive inflexibility (unless the rules are contingent or responsive to the cycle). In view of these drawbacks, a lack of effective enforcement mechanisms may result in non-compliance.

Other countries have a different set of rules aimed at guaranteeing procedural transparency. El The government generically commits itself to responsible fiscal management and to using clear language when explaining why it sometimes deviates from "normal" values[14].

In general, fiscal rules are added to fiscal accountability laws, as in the case of Brazil's Complementary Law 101 from 2000. Still, their mere existence is no guarantee of compliance (as was the case in Argentina), while other countries perform fiscal control without the need for special laws (Chile).

- ***Public spending counter-cyclic action***

One recurrent problem with public spending is that it climbs as economic activity is on the upswing and there are no provisions to increase expenditure when the productive cycle loses momentum. Countries like Sweden have counteracted this trend by setting up two stages of budget formulation, several months apart, as a way to prevent decision-making based on short-term indicators. During the first stage, the government updates the macro-economic outlook and submits the current macroeconomic perspectives and budget forecasts for Parliament approval, thus establishing a medium-term spending framework that has been approved by the legislative branch. During this stage, service or agency aspirations are not reviewed. Several months later, the government considers sectoral expectations, which may not exceed the expenditure ceiling already approved by the legislative branch.

- ***Integral budgeting***

In an effort to generate a protective shield against "creative accounting", Anglo-Saxon countries have gradually expanded the "government" concept in their budgets to include most extra-budgeting operations, and have applied extremely rigorous accounting standards to them. New Zealand was the first country to apply this global concept, which encompasses the central government, autonomous agencies and public companies (the Central Bank included), although local governments are not included.

The budgets have also incorporated some activities taken from budgetary spending, such as tax expenditure and contingent liabilities. These countries have also gradually incorporated the patrimonial accounting criterion in order to better ascertain the relative cost of the inputs used.

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[13] Fernandez Arias, E. (2005)

[14] In New Zealand the *Fiscal Responsibility Act* (1994) does not include numerical rules.

Although the countries have exercised discipline over public spending, *the application of these diverse systems* has not brought about cuts in public spending. On the contrary, studies conducted by the OECD indicate that nearly all countries have declared these expenditures represent a higher proportion of the GDP than 10 or 20 years ago. The era of unconstrained growth is over, although public budgeting continues to run on inertia[15].

ii. Distributive budgeting: the allocation of funds based on priorities

Once a certain limit to expenditure ("ceiling") has been agreed upon as a way to maintain fiscal performance, the focus shifts towards the reallocating processes, thus making the process more conflictive. It is no longer possible to put an end to conflict by increasing expenditure (incremental budgeting); it is now necessary to reallocate funds from one sector or agency to another. At this stage, the best way to reduce budgeting conflict levels is by clearly stating government strategic priorities. This will help determine which ministries or sectors should be prioritized, thus facilitating distribution. Intersectoral reallocations should be decided at the highest levels of government.

Priorities are defined on a national government scale (strategic guidelines), and efforts are made in order to make the goals and objectives defined by the agencies consistent with them.

Strategic planning enables an organization to identify its priority goals and the objectives it commits itself to achieve within a certain time frame. The strategic plan will provide the basis for realigning the activities and, consequently, the different agencies' budget priorities. Funding will be allocated depending on the results achieved[16].

- ***Result-based budgeting and management***

For almost three decades now, public management has shown a tendency to couple budgeting with result-based management. Result-based budgeting includes the execution of contracts between government and the organizations (government ministries or agencies), linking the increase in fund allocation to a certain organization with an increase in productivity or the results achieved[17]. Such agreement may be very formal, as in the case of some countries[18] , or may be implicit: the goals and objectives are stated and then the budget deemed appropriate for their achievement is allocated. This is the predominant system in most countries. If they are to commit themselves to a certain number of results, the organizations must conduct a process involving strategic planning.

Result-based management may be defined as the model proposing the administration of public funds that focuses on achieving the strategic actions stated in the government plan within a certain time frame[19].

What are the goals of a result-based budget? First, "strategic clarity": accurately identifying the government's priority goals for the mid-term and concentrating funds for

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[15] Schick, Allen (2003).
[16] In contrast to program budgeting, which sought to integrate policy planning into the budget process, strategic planning stands apart from budgeting. It has no time restrictions and is not constrained by funding pressures.
[17] Shick, Allen (2001)
[18] England, New Zealand, Australia, Chile.
[19] Makon, Marcos (2000)

their achievement. Second, transparency: providing the common citizen with information on those goals and committing itself to their achievement.

- ***Expenditure flexibility***

For the different governments, the feasibility of achieving new goals is immediately followed by an examination of the financing possibilities available within the current levels of expenditure or by the possibility of increasing spending. Public spending is usually referred to as very inflexible: a sizeable portion must cover the expenses derived from paying the wages of public employees who in most countries stick to their positions, and operation expenses that are not always easy to curtail[20]. Investment spending therefore appears as the most flexible and appropriate alternative for reallocation to new projects. Unfortunately, it typically suffers cutbacks when the need arises to lower public spending, and, in many cases, it is already committed to permanent projects (routine maintenance), so the portion of public expenditure susceptible of reallocation to new projects is limited.

- *Management evaluation*

In traditional budgeting, a sum of money is given to an organization for spending on certain inputs or resources.

inputs ⇨ **agency**

Traditional budget reports on: The inputs utilized by the different public organizations.

The amount spent by the public organizations on inputs. Traditional budget monitoring oversees the legality of the acts and that expenditure remains within authorized limits.

In the case of result-based budgeting, the organizations are given funds to spend on inputs in order to generate an expected volume of outputs. In turn, these outputs will bring about some results in society.

inputs ⇨ **outputs** ⇨ **results**

At the same time, result-based budgeting provides additional information: What do public organizations produce? Who produces public goods? How many goods are produced? What are the expected results? How much does achieving those results cost?

By quantifying the goals in relation to the outputs and the expected results, it is possible to measure their achievement and evaluate their performance.

This is accomplished by using Management Indicators, which provide information through quantitative measurement of the achievement or result in delivering the outputs (goods and/or services) generated by an institution, and may cover quantitative or qualitative aspects of this achievement[21].

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[20] Partly because to a large extend they consist of social spending: medicine, feeding.

[21] Indicators may be classified into: *a) Effectiveness*. They measure compliance with institutional goals. Quantifying the volume of products or services delivered by an institution is relatively easy, for example the number of medical services delivered, the population served or coverage of the programs offered. On the other hand, evaluating performance based on indicators linked to results under the partial control of the organization is more complex, as they are exposed to a number of external influences like collection, poverty level and export growth. *b). Economy*. They measure an institution's capability to obtain its funds and put them to work in achieving its goals. Some institutions couple them with self-financing capacity or loan recovery. *c) Efficiency.* They describe the relationship between two magnitudes: the result or service delivered and the inputs or funds used to generate them. In general, physical productivity measurement

The results of the assessment informed to Parliament and common citizens represent the basis for rendering an account on the results of public management (*accountability*), as they add transparency to government management and increase communication between the State and the citizens. There is a general tendency among citizens to establish greater **social control** over the government; not only do they want to know how much is spent, but what is done with the money spent.

The evaluation will be used to examine the government's plans, the organizations' strategic planning and budgetary allocation. The results of the evaluation should also fuel a system of incentives that guides the organizations' internal management by assigning individual or collective rewards and penalties. The evaluation allows making public directors accountable for the results obtained during their management. This type of accountability appears to be appropriate for autonomous organizations (agencies) managed following managerial practices, but adopting it for public organizations with traditional bureaucratic structures does not seem wise[22].

As a general rule, it may be states that the efforts made during the last decade to introduce result-based management into Public Administration has brought about some progress (information on results, goal statement and indicator measurement, integrated accounting systems, more information available through the Internet). Nevertheless, result-based management and assessment remains insufficient because of weak information systems, control mechanisms that are barely useful, evaluation reports rarely consulted, and the scant consequences of the evaluation results[23].

The prevailing control mechanisms within the organizations responsible for public finance make moving along this path a cumbersome task. Centralized control has traditionally relied on mistrust, which negatively orients the decision-making process of public officials. In turn, the organizations respond with a defensive attitude that reiteratively blames their meager achievements on the scarcity of funds allocated by the central government.

Imposing this type of system faces yet another difficulty, namely the assumption that governments rely on analytical accounting systems that differentiate between fixed and variable costs for services and can therefore calculate the total production cost for a certain volume of goods or services. Little has been done in this respect, not so much for technical as for bureaucratic reasons: agencies feel uncomfortable breaking their work into single unit outputs or calculating their budgets based on the expected production levels. It should be considered, though, that the time will come for result-based budgeting. Progress in output measurement and quantification, coupled with the demands for efficiency and quality in services will eventually force governments to grant budgetary loans based on results.

- *Management autonomy and decentralization as incentives to good performance.*

Reform experiences in several countries members of the OECD have shown that increased management autonomy at the operational level combined with strong frameworks yet foreseeable spending constraints represent a key incentive to improve performance. Giving each department greater individual responsibilities for fund allocation generates incentives to reallocate spending within an expenditure-constrained

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can be obtained by relating the level of activity. *d). Quality of service.* These refer to the institution's capacity to promptly and directly respond to the needs of its users. *e) Impact.* The effect achieving the goal produces on society.

[22] Echebarría, (2005)

[23] Schick, Allen (2001).

budget and increases result-based management. In this sense, processes tending to increase regional decision-making autonomy have resulted in financial management that is more careful in relation to costs and more efficient as regards result achievement.

It is also a proven fact that in some developing countries the combination of too little autonomy with excessive budgetary restrictions has led to increasingly dissatisfactory results, particularly as regards strategic performance and the efficiency and effectiveness of programs and services. Separating politics, planning and budgeting has had a negative impact, for it has undermined government capacity to state new strategic priorities and reallocate spending[24].

- ***Program-based budgeting and result-based budgeting***

This new 'result-based budgeting' concept, which couples with strategic planning, is not to be confused with the old 'program-based budgeting' concept so fashionable during the centralized planning era of the 1960s:

Result-based budgeting allocates the budget to organizations that state strategic plans including the policy objectives and goals agreed upon with the government[25].The activities conducted allow pinpointing the budgetary requirements necessary to achieve a particular goal. This managerial management proposal tries to determine the most efficient method to achieve a certain goal and also agency effectiveness. The idea is to provide public services with increased autonomy in exchange for the accomplishment of certain results that will be measured in terms of their effectiveness, efficiency and quality.

Program-based budgeting defines budgetary allocation to different competing policies. Goals are variable and the focus of the system is not on management but on fund allocation. It involves measuring efficiency, outputs and results, as well as identifying single unit production costs as a way to estimate the funding requirements of each policy. The system was exported to developing countries during the 1960s, but its implementation was barely successful. The critics range from its rigidity to respond to changing policies, to the need to introduce reforms to the public management capacity before implanting them. Broadly speaking, this is a long process that generates profuse information which was never used except for approval and Account Rendering. Besides, the budget allocated to budgetary programs did not accurately reflect sectoral plans and therefore veiled the future impact of current allocations on these sectors. Neither efficiency nor effectiveness showed any increase vis-à-vis traditional budgeting; the compliance criterion ended up being as formal as in traditional budgeting; results didn't actually matter; and it was not possible to determine which programs bore favorable or unfavorable results so as to cancel or modify them[26]. Consequently, the programs tended to remain unaltered, except when new funds were needed; the system was thus functional to incremental budgeting

How can the old program-based budgeting technique be transformed into result-based budgeting? The key to transition between both methods is to secure commitment from the organization and its director to achieve the goals of a program[27]. In order for a director to take responsibility s/he must be granted the freedom to make decisions with

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[24] World Bank, 1998.

[25] Although several countries undertook similar experiences in the early 1990s, the most explicit example is the United States' *Government Performance and Results Act* in 1993.

[26] Diener, Max, 2005

[27] In Uruguay, an attempt was made in 1995 to match one Executing Unit with a Budgeting Program.

a certain degree of autonomy (make him/her an expenditure organizing agent, for example). In this case, they can commit themselves with the results, as they will actually depend on their decisions.

- ***The problem of causality between outputs and results: the hurdles to impact measurement***

The causality relationship that exists between the government's strategic priorities, budgetary fund allocation and overall results is an extremely fragile one. In part, because several programs may affect certain results, or because more complex programs are not solely dependent upon governmental action, but also on other institutions as well as the social and cultural condition of the individuals the programs are intended for.

This fragile causality has led strategic or government goals to be considered directional signs or strategic guidelines, without any causality relationship with fund allocation. Despite the weakness, a useful practice is to try and identify these causality links and estimate the cost of the programs developed. For example, even though the indicator tendency may not be attributed to it, the government should know whether the child mortality rate rises or falls, and how much it is spending on the programs that may be affecting this particular result so as to take prompt action in response to the data.

Stating the problems is the cornerstone of result-based budgeting[28]. As the beacon of the institution's efforts, the desired situation describes a set of optimized functioning conditions of the organization. Its role in planning is one of "wide scope" guide or reference in designing activities that, from the present time, the institution intends to deploy in the operational field.

Arguments in the opposite direction are also possible. If the government ignores its priorities, no budget will be capable of reflecting them.

iii. Micro-budgetary reform

- ***Operational budget***

Operational budget represents the budget's microeconomic level. However modest its pretensions may appear, operational budget is important because it affects the relationship between citizens and the government. Operational budget determines the amount, quality and real cost of the outputs and services the public sector offers the citizens, and citizens get to know their government through the services they receive from it.

Within this context, Budgeting appears as a mechanism for economic and social programming that allows for short-term materialization of mid- and long-term policies. It is also a government instrument, for activities, outputs and annual goals may be reflected in the budget. It is also an administrative tool, as it permits each agency or execution level to know not only its own means and goals but also the nature and magnitude of the goods and services it contributes to.

- ***Budget within a multiannual framework.***

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[28] A problem is to be understood as the difference between the current situation and the organization's desired situation. This discrepancy may consist of perceived insufficiency in the means available to reach the institution's mission, or inadequate conceptualization of the mission, which no longer reflects the actual activity to be performed in order to meet the current social demands on the organization.

In most countries, the budget is prepared on an annual basis[29]. Annual budgeting offers the advantage of being flexible and ductile to adapt to changes in the current situation, but its main drawback is that each year it causes a discussion spiral that may alter the country's strategic course. Multiannual budgeting has the advantage of running along with the mid-term plan, but, on the other hand, it may generate rigidity.

- **To sum up**

The budgeting process may become a tool to simultaneously resolve fiscal discipline and solvency problems, assign mid-term funds to government strategic priorities, and promote efficiency and effectiveness of public services. To that end, it must keep the balance and move forward at all three levels, macro, meso and micro (Figure 2). Each level also has an associated output:

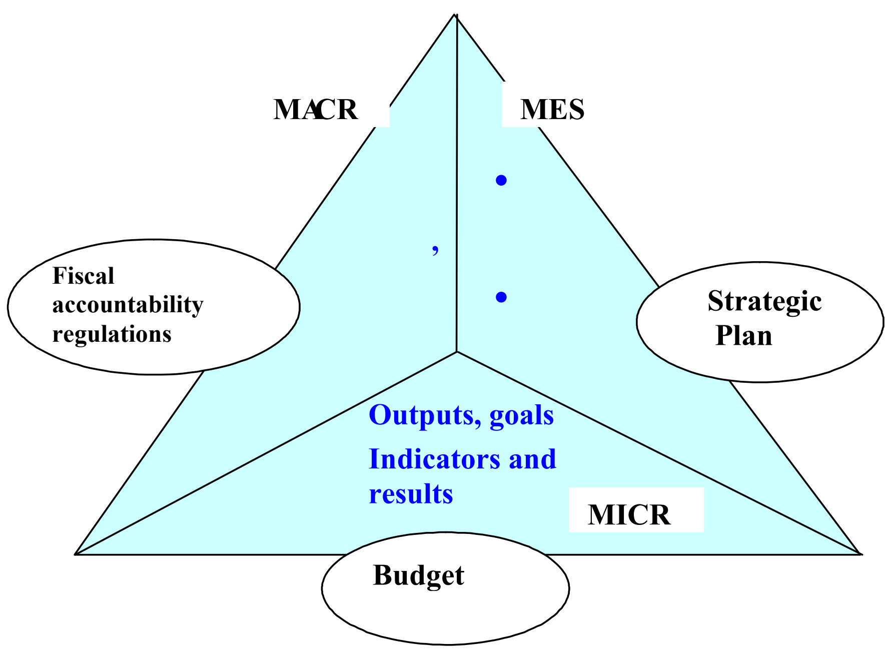
i. fiscal accountability,
ii. budget
iii. strategic plan

as well as expected results:

i. fiscal balance,
ii. strategic budgetary allocation based on priorities
iii. effective and efficient use of funds

Each level provides information to be monitored and assessed in order to ascertain whether management is being effective and efficient, and if it adequately meets citizen expectations.

Figure 2



[29] Of all the countries studied, only Uruguay has a multiannual budgetary projection -5 years, which coincides with one presidential term-.

Budgetary reforms have hitherto focused on budgetary discipline at the aggregate level and on efficient operational management, that is, on the macro and micro levels. Notwithstanding, when designing the budgetary reform, little attention has been paid to the need to improve strategic management capability and the adaptation of public policies. Outstanding reports from the Swedish Ministry of Finance show that efficiency gains due to higher productivity are far lower than system gains, although they recognize these are more difficult, for they require energetic and innovative leadership.

The studies conducted state that the higher number of indicators used in public management is essentially in terms of outputs rather than outcomes.

On the other hand, implementing public policies requires an increasing interaction between the state and different other organizations. This implies the need to achieve coordination without resorting to traditional hierarchical verticality. A result-based responsibility approach sees the appearance of additional cross-organizational problems[30].

[30] Known as *wicked problems* in the United Kingdom.

2. Strategic planning and budgeting experiences in five Latin American countries

This chapter discusses some aspects of the institutional design and experiences applied in five different countries: Brazil, Colombia, Guatemala, Mexico and Uruguay. The challenge here is comparing experiences that despite similar in kind, bear their own individual characteristics. It is, hence, not always advisable to look for stereotypes. Annex 1 contains a report with the form where the information provided by each country on various discussed below is summarized.

Over the past few years, these five countries have caused their budgeting and rendering of accounts processes to experience a change process so as to rely increasingly on strategic planning as a tool to improve public management and to help the government and the citizenship to grow closer.

2.1. Innovations from a macro perspective.

- ***The political system***

All the five countries subject matter of this discussion bear a presidentialist political system and four of them -Uruguay is the exception- operate based on an annual budget structure. As to their government term, three countries have a 4-year term, with the exception of Mexico and Uruguay, which have 6 and 5-year terms, respectively.

The presidentialist structure certainly raises greater tensions when the time comes to discuss the budget. Usually in Anglo-Saxon countries where a parliamentary political system is in effect, decision making corresponds to the Cabinet of Ministers under a "collective accountability" approach where the budget proposal is submitted to the parliament, which is entitled to make changes thereto. Those changes need to be adopted through a vote, which the State party supporting the bill submitted by the Executive usually wins. Should the opposition win and the budget so adopted failed to have the support of the Executive, this situation would be construed as lacking a vote of confidence, therefore, a new vote would be called[31].

- ***Fiscal accountability standards***

All the countries subject to discussion have set forth legal norms regarding fiscal accountability. Table 1 shows some aspects of these regulations. No Fiscal Accountability Laws are enforced in Uruguay and Guatemala. However, in the case of Uruguay, regulations of this nature are introduced increasingly often in budget bills lately. In Mexico, financial accountability is introduced as of 2006 as provided under Chapter II of the Federal Budget and Fiscal Responsibility Law.

The fiscal accountability law passed in Brazil is the most comprehensive regulation regarding enforcement.[32] This law is applicable to the three government domains

[31] Craig, J and A. Manoel (2002)

[32] Promulgated in 2001, the Fiscal Accountability Law supplements Law No. 101 of 2000. See the Fiscal Responsibility Law at http://federativo.bndes.gov.br.

(Central Government, Provinces, Federal District and over 5,500 municipalities) and the three branches (Executive, Legislative and Judiciary). Its wide scope even encompasses foundations, self-governed agencies and state-run companies. This law is a code of good public finance practices that consists of regulatory indicators, indebtedness limits, human resources expenses, management rules and monetary penalties and penal sanctions for violators. Even though it may not have a mandatory nature, the federal government includes expenditure estimates for its subnational governments in its medium-term macroeconomic framework.

- ***Medium-term Expenditure Framework***

Everywhere, the Ministry of Finance provides a medium-term expenditure framework, which is aimed at setting and foreseeable and stable horizon. This task is far from easy, given the external instability these countries are subject to. In general, setting global budget limits for several years is needed to keep budgetary demands from agencies under control during the current year.

- ***Fiscal regulations***

Most countries have opted for setting fiscal regulations that in general provide some kind of primary fiscal deficit – GDP relationship. Some have gone even farther committing indebtedness.

In Brazil, fiscal regulations are provided under the Budgetary Directives Law[33] based on the current year and 2 years later. These are standards regulating the primary deficit and indebtedness goals set by the Senate based on a several-year outlook. In Colombia, primary surplus goals and a debt sustainability analysis are submitted. Expenditure and indebtedness goals are submitted in Guatemala, whereas in Mexico goals are set over the primary balance-GDP ratio. Programa Nacional de Financiamiento del Desarrollo – PRONAFIDE (National Development Financing Program) provides long-term goals, including indebtedness. Fiscal goals in Uruguay are set jointly by the Ministry of Economy and Finance, the Planning and Budget Office and the Central Bank. The current budget includes an expenditure provision that sets forth a limited primary expenditure – major macroeconomic variables ratio (formerly only bond underwriting was restricted).

- ***Budgetary ceilings***

Overall, all the countries analyzed in this paper have faced hurdles in setting the most logical sequence between defining expenditure limits at sectoral level and defining sectoral policy objectives. Which decision is to be made first?

If the option chosen is setting expenditure ceilings, this can only be done by relying on the historical expenditure structure, therefore decision makers tend to be prone to reproducing the same priorities set by the prior administration. If sectoral entities are requested to define their programs but they are given no hints as to the resources available, the sectors' requirements tend to be so disproportionate that they generate a big turmoil as efforts are made at the Executive's level to curb them. So then, how can priorities be set prior to developing a strategic plan?

As a matter of fact, this predicament is aimed at determining whether the budgetary ceiling will actually set the limits for the plan, or if the needs specified through the plan objectives are the ones that will set the level of expenditure contained in the Budget. In

[33] Defined by the Chamber of Economic Policy that consists of the Ministry of Planning, the Ministry of Finance and the Central Bank.

some cases like Uruguay and Colombia, weak signals about the resources available were given at a certain moment and agency aspirations outnumbered estimates by far. Much effort had to be made for figures to drop back to consistency with the resources foreseen. In general, this conflict is solved at top administration level: the President and the Board of Ministers determine priorities and agree upon the budgetary ceiling applicable to each agency.

- ***Expenditure integrality***

The countries with a federated structure seem to be the ones achieving the greatest Integrality regarding the public agencies encompassed in the budget. The budget organic law in Brazil is applicable to the three government domains and the entire public, direct and indirect administration, including foundations, self-governing organisms and state-run companies.

Both Brazil and Mexico have made progress in developing a common denominator for all the agencies encompassed in the budget at federal level. In both cases, some public companies are included.

The other three countries have the firm purpose to implement information systems linking the domestic budget and public agencies and subnational governments to support real-time income and disbursement records at a comprehensive level[34].

- ***Public investment by the private sector***

The Long-term production infrastructure projects (Proyectos de Infraestructura Productiva de Largo Plazo - PIDIREGAS) have existed in Mexico since 1995, when they were conceived as a fiscal long-term financing instrument, standalone with regard to banking or financial institutions. Pidiregas has been reported to allow the federal government to engage in off-budget financial operations. The public investment stemming from contracts executed with private players is referred to as investment promoted by the public sector.

In Brazil, the Public-Private Partnerships (Parcerías Público-Privadas - PPP) were established in 2004 as private investment supervised by the State. These partnerships are aimed at enhancing the quality of the services rendered and boosting the performance of investment operations to the extent that the private partner's revenue will depend on such performance. PPPs are particularly aimed at financing infrastructure projects: Ports, highways, railroads.

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[34] The efforts made to implement integrated information systems based on decentralized data input have been critical to integrate information. Brazil; SIAFI, Integrated Financial Information System and SIDOR, Sistema Integrado de Dados Orçamentários, Colombia; SIIF (Integrated Financial Information System), SIGOB (Government Information System) Guatemala: SIAF (Integrated Financial Management System), SIGOB (Government Information System), SNIP (National Public Investment System), Mexico: SICGP (Integral Budget Management Control System), SIGOB (Government Information System) and the Presidential Goals System, Uruguay: SIIF (Integrated Financial Information System), el SIP (Budget Information System), and SEV (Performance Evaluation System) and SISI (Investment Information and Follow-up System).

TABLE 1. Fiscal accountability and global accounting

	Brazil	**Colombia**	**Guatemala**	**Mexico**	**Uruguay**
Are there fiscal accountability standards in place?	Yes Fiscal Responsibility Law Budgetary Directives Law.	Yes Fiscal Accountability and Transparency Law.	No	Yes Chapter II of the Federal Budget and Fiscal Responsibility Law 2006	Yes In the budget.
Public agencies off the national budget	At federal level Public agencies not depending on the national treasury States	State-owned trade and industrial companies (financial and non financial) + Banco de la República (Central Bank) + country level agencies + parafiscal contributions managed by agencies off the national budget.	Self-governing, decentralized agencies and municipalities	At federal level, only Banco de México and some public entities. States	State-owned trade and industrial companies (financial and non financial) + Public banks + country level agencies. (Regional Governments) + Third-party funds managed by agencies included in the National Budget.
Is there a common denominator for all the organizations included in the budget?	Yes, at federal level	Yes	Yes	Yes, at federal level	Yes
Is there a common denominator for all the public agencies?	Yes	No	Yes	Yes, at a federal level, except for Banco de México	No
Is there an integrated system that supports reporting on public expenditures in its entirety?	Yes	No	No Under implementation	Yes Integral Public Expenditure and Revenue Information System	No

2.2. Innovations at the meso level: fund allocation based on outcome

- ***Strategic plans***

In all the five countries discussed in this paper, strategic planning processes took place in order to identify medium-term objectives (in general, a government term) that resulted in strategic orientation for the government management to be focused on. Table 2 shows the main characteristics observed in every country.

For example, in all the countries but Brazil –where a Planning Ministry is in place- planning is performed by an agency related to the Presidency (Directorate, Advisor's or Secretary's Office) or even is independent from the budgeting process carried out by the Ministry of Finance.

Defining the government's major strategic goals has been a concern quite often related to identifying the President's goals. In Colombia, Guatemala and Uruguay, priority programs are chosen from the administration programs. In Brazil and Mexico, more comprehensive actions have been taken and involved various social actors.

All countries made efforts towards identifying program and goal costs, although they do not count on direct links joining the planning and the budgeting system. Consequently, they have usually relied on estimations that fail to be revised along the budgeting execution process. As of 2006, Guatemala is introducing reforms to increasingly articulate the planning system and the budget.

Plans are submitted to the Congress (which upon adoption posts it on a Web page for disclosure to the public opinion and the media). Most countries lack an evaluation structure reporting the resulting outcomes. In addition, the explicit implications of outcome achievement are scarce. Brazil, Guatemala and Colombia have disclosed brilliant outcomes. Mexico, in turn, offers rewards to the agencies attaining certain levels of quality and innovation in public management. In Uruguay, a compensation system has been recently implemented at Dirección General Impositiva (equivalent to IRS) to reward officials achieving the objectives of their Executing Unit.

TABLE 2 – Characteristics of the strategic plans in the five countries

	Brazil	Colombia	Guatemala	Mexico	Uruguay
Planning system	Planning and Budgeting System Multiannual Plans (PPA)	Government Goals System (SIGOB) National Development Plan (PND)	Presidential Goals System (SIGOB)	National Development Plan and National Development Financing Program (PRONAFIDE) Presidential Goals System	Management Evaluation System and Strategic System Management Plans SEV - PEG
Managing agency	Ministry of Planning, Budgeting and Management	National Planning Department	SINERGIA Planning and Budgeting Secretariat.	President's Office for Government Innovation	President's Office for Planning and Budgeting
How are the government's priority projects or programs selected?	During Cardoso's administration, a survey was run to determine every region's specific needs. Currently, based on the existing project portfolio.	Based on the government's program and the National Development Plan	Based on the government's program	Presidential Goals and Good Government Agenda are established	Priority investment projects are selected based on strategic goals
Are the government's major strategic plans accurately and clearly defined?	Yes. Fiscal strategic objectives are determined by the Budgetary Directives Law and the other plans are defined in the Multiannual Plans	Yes, in the National Development Plan	Every agency defines its own strategic and operational goals, and every expenditure program determines its goals.	Specific areas are highlighted in the National Development Plan	Yes, goals are determined as quantifiable objectives, based on the government's strategic management guidelines
Are management goals coast quantified?	No, only when they depend on an investment project	Yes, PND estimated value is quantified.	A multiannual budget that links the plan to the budget will be implemented as of 2006	Fund allocation occurs at institutional activity level, rather than at related objectives, goals and indicators level	Budgeting considered the cost of 100 goals. The resulting estimated value will be compared against the execution cost later.
Strategic plan contents	• Strategic guidelines of the Executive branch • Major agencies (Ministries) objectives • Goals • Effectiveness indicators • Estimated public outputs unit cost (some organizations count on such date for its own use)	• Strategic guidelines of the Executive branch • Major agencies (Ministries) objectives • Strategies • Quantified goals • Effectiveness indicators • Impact indicators (some factors)	• Strategic guidelines of the Executive branch • Major agencies (Ministries) objectives • Quantified goals • Effectiveness indicators • Impact indicators (some factors)	• Strategic guidelines of the Executive branch • Major agencies (Ministries) objectives • Quantified goals • Effectiveness indicators • Efficiency indicators • Impact indicators (some factors) • Estimated public outputs unit cost	• Strategic guidelines of the Executive branch • Major agencies (Ministries) objectives • Quantified goals • Effectiveness indicators • Efficiency indicators • Quality indicators • Impact indicators (some factors)
Where is the plan posted?	www.planejamento.gov.br. www.sigplan.gov.br	www.dnp.gov.co-{}-	www.segeplan.gob.gt	www. pnd.presidencia.gob.mx/ www.innova.gob.mx	www.cepre.opp.gub.uy
Outcome Evaluation and Rating	Yes. PPA per project, agency and sector evaluation system	No	Yes	Partial. Only concerning innovation and quality	Partial. Only at one executing unit
Management outcome implications	Highlighted. Also, information published on the agencies with successful performance	Not explicitly. The President addresses outcome owners directly.	Yes, whenever it has been provided under Performance Agreements	Rewards and Acknowledgement to Quality and Innovation in Public Management	Individual rewards by local IRS to goal achievement by executing unit

- ***Budgeting and planning in investment projects***

Broadly speaking, investment project systems have systematically emphasized the efforts made to measure material progress in terms of outputs and to assess whether the outcome achieved is consistent with the outcome expected. Investment projects are the building blocks of Multiannual Plans in Brazil, and the National Development Plans in Colombia, Guatemala and Mexico. All these countries have made especially great efforts to identify regional expenditure allocation and the outcomes achieved by the various localities, even at municipal level.

No investment project may start in Brazil unless it is included in the multiannual programming. The ability of projects identified per geographic location to support generation of information related to them makes them a useful tool to assess strategic goal achievement by the planning system from a territorial point of view. The set of projects defined as priority (roughly 50) due to their impact on regional development is the building block of the national development plan. Moreover, follow-up of these projects allows identification of the progress made by the administration in terms of public agencies, sectors and regions. In addition, investment projects also support identification of the accountable agencies and the sectors on which expenditure is focused.

In the case of Brazil and Mexico, investment project information systems are critical for strategic planning. Sound progress is also observed in Guatemala and Colombia, where the state operates jointly with the Budget Directorate. Uruguay is about to start developing a new investment monitoring system.

TABLE 3. Investment projects and their outcomes

	Brazil	**Colombia**	**Guatemala**	**Mexico**	**Uruguay**
Investment project information systems	Planning and Management Information System (SIG Plan)	Investment Project Follow-up (SPI)	National Public Investment System (SNIP)	Investment Program and Project Portfolio (PPI)	Investment information and follow-up system (SISI)
Managing agency	Ministry of Planning, Budgeting and Management	National Planning Department	SINERGIA President's Office Planning and Budgeting Secretariat.	Investment Department of the Ministry of Finance and Public Credit	President's Office for Planning and Budgeting
Information	Organisms, sectors, regions	Organisms, sectors, regions	Organisms, sectors, regions	Organisms, sectors, regions	Organisms, sectors, regions
Evaluation	Yes, effectiveness	Efficiency and effectiveness of outputs and outcomes	Effectiveness	Ex Post cost/benefit ratio Effectiveness	Material progress
Evaluation results	Success highlighted	Success highlighted	Annual budget plan and focus redefinition	Success highlighted Annual budget plan and focus redefinition	No

2.3. Innovations at the micro level: Budgetary execution and account rendering

- ***Information systems on budget execution***

The effort deployed to implant systems that allow for real time recording of income and expenditure has been a pivotal factor in information integration[35]. The information is entered by the different organizations in a decentralized manner, and then it is centrally compiled and controlled by the Accounting and Budget Directorates. The systems are generally linked to a budget system that records planned income and expenditure during budget formulation, and also during execution, thus developing systems specifically designed for investment projects.

In Guatemala, the Integrated System of Financial Administration (SIAF) records the State General Income and Expenditure budget by means of budget classifiers applied by all the organizations of the public sector. Formulated by executing units, programs, subprograms and projects, the budget records physical results, with follow-ups since 2002. The system is currently being extended to all decentralized and autonomous institutions and social funds as a way to deconcentrate SIAF into executing units (third level). This would result in a total budget account and a consolidated account of the entire public system, in real time and with physical results.

In the case of Uruguay, the possibilities offered by the Expenditure Distribution System for follow up of detailed information on budget execution allows for expenditure execution to be monitored by Activity Centers (organizational units that make up an executing unit) on a monthly basis and following the logic of an expenditure center. Accurate information on expenditure in lower-level organizational units within the structure have permitted the creation of a new system to identify expenditure per unit and per product, thus incorporating direct and indirect spending through a system known as Expenditure Analysis per Product – AGPP.

As management goals are established per activity center, the system becomes very efficient in determining where expenses are produced and identifying the outputs at a micro level. Clearly, starting at this low operational level within the organizational structure does not facilitate identification of the causal relationships that explain the impact on government results at a macro level.

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[35] In Brazil, SIAFI (Integrated System of Financial Information); in Colombia, SIIF (Integrated System of Financial Information); in Guatemala, SIAF (Integrated System of Financial Administration); in Mexico, SICGP (Integral System of Budgetary Management Control); in Uruguay, SIIF (Integrated System of Financial Information).

Table 4: Operational budget

	Brazil	Guatemala	Colombia	Mexico	Uruguay
Organization(s) that prepare and lead budget formulation and execution	Ministry of Planning, Budget and Management, through the Secretariat of Federal Budget	Ministry of Public Finance	Ministry of Finance and Public Credit – (Debt performance and service) and the National Planning Department, DNP (investment)	Ministry of Finance and Public Credit (SHCP) through the vice-ministry of expenditures (SSE)	Ministry of Economy and Finance (MEF) and Planning and Budget Office (OPP)
How many years back is each year's information compared with?	It considers 5 years back.	2 years.	2 years.	2 years. The newly approved Federal Budget Law has established 5 years back.	1 year.
Are there regular budget execution reports during the year?	Yes, Congressmen also have access to them	Yes	Yes	Yes	No
Instances for joint analysis of the information on public management and expenditure	At least not formally	At least not formally	There is an internal evaluation by the central government (coordinated by the president)	At least not formally	At least not formally
Instances where the information on management results is used for altering the budget	Results fuel annual budget, but the instances are not formal	At least not formally	At least not formally	At least not formally	At least not formally

3. Some considerations for joint progress based on the best practices analyzed

The concern to achieve certain results in terms of public policies, particularly identifying results that do not seem to automatically arise from social policies, has determined the concern for moving from public output identification to pinpointing the results and impacts of public policies. This preoccupation has led to the implementation of a wide array of practices in the different countries. They all share the awareness of being "in the process" of developing new systems, and there is great eagerness to share experiences and get to know innovative proposals.
Why is it still so hard to move along this line of public management reform after so many years of strenuous efforts? How can result measurement and assessment systems be improved, and even get result-based budgeting functions closer together? [36].

Public management faces several complex external factors that also hinder control and assessment of its results: a multiplicity of disparate and conflictive interests, uncertainty regarding goals and objectives, interdependence between multiple government organizations and levels involved in joint programs, social unrest and unforeseen economic changes.

Academic literature mentions some doubts and limitations that hamper the consolidation of the reform model by just doubling the efforts and without proposing qualitative changes to the design and strategy of the reform model.

All countries studied reflect the efforts made from three fronts of the administration to improve and modernize the budget and planning systems. These are: the Budget Directorate of the Finance Ministry, the Investment Directorate and the Planning Directorate (of the Presidency in most cases).

3.1. Integral information on the public sector. Information at a macro level.

Countries now count on new possibilities to access integral information on funds and public expenditure in real time. The organizations' political or territorial autonomy should not stand as a barrier to building the public account at a macro level. Complete information on transfers made to private organizations (profit or non-profit), mixed capital companies, social funds or third party funds administered by public organizations, as well as on the funds allocated to public investment projects with private capital, should allow for better ascertainment of how much the public expenditure amounts to and the sectors, regions or institutions it is channeled to.

3.2. Information accounting systems may provide. Operational follow-up at a micro level.

Budgetary execution assessment rests on two information systems: information on financial execution, which comes directly from accounting records, and information on physical execution, which must be produced by the executing units themselves.

Some countries have made progress in improving their accounting systems so they can provide detailed information on expenditure at an institutional level (organizational unit

[36] Zapico, Eduardo (2004).

or expenditure centers within the executing units), by geographical location and by physical units of production. This information, coupled with the information on budget execution, may account for the routine activities of public institutions and may allow measuring its ongoing production process. The relationships between physical and financial variables produce indicators permitting to measure the efficiency and effectiveness of public organization management.

The systems may therefore provide new answers to questions like: Who produces?, In what quantities?, How much does its production cost? In order to move forward in far-reaching programs, one should start from simple, specific information like: What is the cost per bed-day at a public hospital? What is the cost of each attending school pupil and what is the cost of a school graduate? What is the cost of custody and rehabilitation of a convict per year? What is the cost per day of maritime patrolling by the armed forces? This information may become a powerful tool in estimating the cost of the projects to be included in the budget.

Detailed and permanent information at an operational level permits direct monitoring of the production level and efficiency of the public organizations, with data that are certainly very useful for their own decision-making process.

Not only do these managerial indicators help political and directive tiers to evaluate their management and adopt timely corrective measures, but also to keep the Legislative Branch and the public opinion informed on the state of public management.

The great challenge for public accounting systems lies in the transition from budget to actual accounting[37]. It should record single unit costs of the goods and services at a cost center level for the services provided, it should record the patrimonial value of public assets with its corresponding depreciation, and it should accurately measure the subsidies and transfers between the different services. Guatemala and Uruguay have both made progress by generating better information on the production associated with budgetary execution in coordination with the systems that record expenditure execution.

3.3. Strategic budgeting through investment projects

Except for Brazil, where a Ministry of Planning unifies functions, in the rest of the countries planning activities reside in a Planning Directorate linked to the Presidency, whose goals are to formulate the budget and supervise its execution. They are linked to the Budget Directorate of the Finance Ministry, which is also responsible for preparing the multiannual framework of macroeconomic evolution.

The culture is generally perceived as having a greater slant towards maintaining budget within the limits of its traditional framework in Budget Directorates of the Ministries of Finance, where the emphasis is put on the advantages of obtaining quality quantitative information on a timely, systematic and permanent basis. They understand information on planning is highly variable and randomized, so it is not a good idea to invest on information systems where the quality of the information cannot be controlled due to changes in planning contents.

For its part, the Planning Directorate is the organization most strongly committed to the results of public policies and their publicizing. The perception is that greater importance

[37] Likierman, A. (1998) .

is attached to showing program coverage and policy impact rather than service costs or program efficiency.

In some countries, the Investment Directorate works jointly with the Planning Directorate, sometimes within the scope of the Presidency (Guatemala, Colombia, Uruguay). This belonging to an institution and the type of information managed makes them more prone to incorporating result-based budgeting practices. Investment projects incorporate the discretional aspect of public expenditure, which allows for a possible connection with government strategic goals. This is precisely the side of budgeting that best connects with planning.

The Investment Directorate focuses its attention on generating information on mid-term financial and actual execution, and it seems to be used to working with information that is not permanent (projects have a termination date). If projects are well designed, they should coincide with the main strategic goals.

Investment projects are typically perfectly integrated into the budget through the expenditure denominator, so using them to move along strategic planning may be a relatively easy way to better link planning and budgeting. In this sense, the Brazilian, Mexican and Colombian experiences may prove helpful.

3.4. Regional follow up of government programs. Decentralized management.

Including information on the regional destination of public expenditure is a key issue in large federal countries where negotiations between the central and regional governments on fund transfer are usually considerable. The process is particularly important in the case of social programs. Decentralization improves the efficiency of public fund management and permits greater involvement on the part of those who have a better knowledge of the characteristics of the problems that need attention.

Consequently, identifying where public expenditure is headed in the light of regional development plans may contribute to sounder decision-making and to materialize public administration decentralization.

3.5. The relationship between program and organization. Autonomous and result-based management.

By incorporating integrated systems of financial information, countries have evidently become more efficient in routine financial operations. But whether or not they have actually changed the way they administer public funds remains an open question. Integrated systems may propel decentralization or financial management and provide line managers greater discretion in the implementation of their budgets. Has this actually happened? Or, on the contrary, have the systems tended to increase centralization for closer monitoring and control over operational decisions?

Effective planning implies a cultural change in bureaucracies and citizens in order to transition from a procedure-based approach to a result-based one.

The governments obviously assumed the more transparent objectives as well as those with greater strategic orientation. However, it is possible to see that in many cases more emphasis has been put on implanting the instrument than on the final goals of result-based budgeting, namely, increased management autonomy that must be assessed per its results and the feedback of the budgeting design, thus deciding which programs should stay and which should disappear.

If the reform focuses on the instrument instead of the objective, success comes with the publication of a paper containing policy goals and objectives. If the goal includes transparency, achieving strategic goals and efficiency, then publishing a document would create discontent. If there is no conviction about the actual desire to achieve these goals, then we should stop spending time and money implanting costly information systems because the tangible results will be very limited.

At the beginning of the paper, we stated the autonomy to make result-based managerial decisions is what sets program-based budgeting apart from result-based budgeting. And this is precisely what makes investing on costly strategic planning systems a justified option. One of the reasons why results are not used is precisely because public employees and directors do not administer to obtain results[38].

3.6. Using results. Cultural change and incentives.

Establishing an actual connection between planning-programming-budgeting does not depend on a law that supports its mandatory character; instead, a cultural change is required at all government levels.

The reforms that bring about real effects are those that succeed in changing people's behavior. Agents taking part in budgeting, treasure keepers and program defenders, employees preparing the options, congressmen, etc. must change their behavior. The existence of incentive systems that produce good and bad consequences depending on organizational results guarantees actual rather than virtual systems and the introduction of permanent changes to public administration culture.

If organizational outcomes have no impact on the expenditure allocation they receive, little change will be brought to public culture, so in order to achieve this, Congress should consider outcomes.

Paying attention to institutions and incentives implies intervention to the budget reforms in order to secure compliance with certain rules once evaluations have been conducted.

A change in public management culture is required in order to shift towards production of outcomes. In other words, it is not only a question of changing information systems, but changing the decision makers' way of thinking so they can align their thinking with the new information and focus their actions on permanent achievement of results. To that end, it will be necessary to devise a system of positive and negative incentives ("carrots and sticks"[39]).

3.7. International organizations and their impact on budgeting

International organizations have tended to promote development of detailed, decentralized budget information systems that record expenditure on an accrual basis, with the main goal of helping increase transparency and public expenditure control.

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[38] Shick, Allen (2003)
[39] Waissbluth, Mario (2002)

Another type of systems being promoted comprises those that have included strategic goals and objectives, and tend to assess outcomes and impacts as a way to achieve greater management efficiency and transparency.

Both lines of progress have reaped abundant yields, for although sometimes emphasis has been placed on the instrument, the mere knowledge that systems make decisions more transparent improves management. This is a very visible result of the implantation of purchasing systems, for example.

However, management systems focused on outcomes that have not matured internally, in countries with insufficient HR both in quantity and quality, are likely to have contributed to the creation of ritualistic management systems of scarce actual and far-reaching impact on processes and individual culture.

Sometimes, countries need to meet some pre-conditions before implanting a management system. In particular, they need to develop and formalize market economy, set forth reliable external control procedures including financial control, train the civil service and establish realistic budgets[40]. More specifically, it will be necessary to develop incentive systems that promote quick behavioral changes; to do so, it may be advisable to consider rewards for good behavior consisting of something more than just honorific recognition.

[40] Shick, Allen (2005)

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