

en breve



WORLD BANK

A regular series of notes highlighting recent lessons emerging from the operational and analytical program of the World Bank's Latin America and Caribbean Region.

Institutionalizing Performance in the Public Sector in LAC: The Case of Mexico

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Mexico, like other OECD governments, is committed to improving the performance of the public sector. An important first step is to gather objective information that enables governments to measure progress towards achieving their policy and program goals. As well as potentially improving decision making by politicians and civil servants provided with higher quality information on the performance of departments/agencies and programs, this information can enhance transparency and accountability to the public and the legislature.

The Government of Mexico (GoM)'s new results-based budgeting initiative is anchored in a new legal framework, establishing the Performance Evaluation System or Sistema de Evaluación del Desempeño (SED) that will provide data on the performance of publicly-financed programs and organizations as inputs to the budget cycle. These performance data include consolidated data from program evaluations or other sources on the outputs and impact/effectiveness of public expenditures; and data on the quality of public management, which is the focus of a new Management Improvement Program (Programa de Mejoramiento de la Gestión, PMG). The SED is led by two institutions: the Finance Ministry (Secretaría de Hacienda y Crédito Público, SHCP) and the Public Administration Ministry (Secretaría de Función Pública, SFP).

The World Bank is supporting the introduction and implementation of the SED and more broadly the generation and use of performance information in the public administration through a broad engagement containing an array of instruments such as the soon-to-be-approved Technical Assistance Loan that will support

the SED's implementation an ongoing technical assistance commitment through a series of Fee For Services financed activities with diverse actors such as the Secretaría de Desarrollo Social (SEDESOL), the National Evaluation Council (Consejo Nacional de Evaluación, CONEVAL) and SHCP and the introduction of performance related mechanisms in various sectors. The latter includes the use of impact evaluations in the Upper Secondary Education Ministry, the development of a monitoring system with the Ministry of Health to follow organizational and institutional reforms at the state level, the development of the National Water Information System to measure performance of utilities or the use of output-based disbursement mechanisms in infrastructure programs.

The Bank also brings significant value to the GoM through its ability to convene relevant international experience and is leveraging relevant OECD experiences and introducing case studies to inform the design and implementation of reforms for the Mexican context. As part of this commitment, the Bank has helped to put together and coordinate a newly formed Global Advisory Group on performance budgeting and an International Conference on Performance Budgeting held in Mexico on June 9-10 in collaboration with other partners such as OECD, IDB, DFID and the Mexican CIDE. These efforts have played a key role in solidifying the engagement with the GoM on performance budgeting matters, have helped to create common ground among actors and bring first-hand experience and realism to discussions with the client, paving the path to realistic expectations concerning the speed of implementation.



Finally, the Bank’s engagement includes the elaboration of a series of publications to anchor many of these good practices and challenges. For example, a series of notes on the quality of public expenditure in Mexico was launched during the conference and will continue to be published regularly featuring good practice examples, progress and challenges in the area of performance budgeting (see <http://www.worldbank.org/lac-publicsector>). This note presents the main elements of the framework for Performance-Informed Budgeting (PIB) contained in the first note of the series and its links to the Mexico context

Performance Budgeting: A Significant Development¹

Public sector accountability is increasingly moving its focus away from complying with rules and procedures to achieving outcomes. Generating and using performance information in the public administration is essential to increase accountability of actors and improve decision-making in the use of public monies. It switches the focus from how things are being done to what actors have accomplished, a fundamental change that ultimately affects all aspects of the budget cycle.

Latin American countries—and Mexico is a case in point—have traditionally been characterized by low levels of taxation, expenditure, and quality of public service delivery. Accountability mechanisms and the generation and use of performance information have also been weak, and the public has tended to view the general effectiveness and efficiency of the public sector with skepticism. Institutionalizing the use of performance information by key decision-makers in the public administration can break this vicious cycle.

Performance information can influence decision-making in planning or management in several ways. Decisions can be tightly linked to performance measurements: that is, the metrics lead to the decision in a direct way, and other sources of information play a negligible role. If decisions are informed by performance

1. For more information on performance budgeting, see Dooren, Wouter Van, Nick Manning, Jana Malinska, Dirk-Jan Kraan, Miekatrien Sterck, and Geert Bouckaert, Issues in Output Measurement for “Government at a Glance”: OECD GOV Technical Paper 2 ([http://www.oilis.oecd.org/olis/2006doc.nsf/LinkTo/NT00003F02/\\$FILE/JT03215908.PDF](http://www.oilis.oecd.org/olis/2006doc.nsf/LinkTo/NT00003F02/$FILE/JT03215908.PDF)), Paris, 2006; Ketelaar, Anne, Nick Manning, and Edouard Turkisch, Performance-Based Arrangements for Senior Civil Servants - OECD Experiences (OECD Governance Working Paper), Paris, 2007; Kraan, Dirk-Jan, Programme Budgeting in OECD Countries, OECD Journal on Budgeting (forthcoming); OECD, Performance Budgeting in OECD Countries, Paris, 2007; Marc Robinson and Jim Brumby, Does Performance Budgeting Work? An Analytical Review of the Empirical Literature, IMF Working Paper, WP/05/210, IMF Nov 2005.

information, the link is loose: performance measurement is one source of information to be incorporated with others. Another dimension is the extent to which the use of performance information is formalized. It may be institutionalized—that is, based on rules and procedures, and systematic and automatic—or it can be rather *ad hoc*, that is, opportunistic and not sustained.

Types of Performance Budgeting

The matrix in Table 1 depicts the most common models of the use of performance information in OECD countries according to these two dimensions.

	Linkage to decision-making	
Degree of Institutionalization	Tight	Loose
Institutionalized	Direct/formula performance budgeting	Performance-informed budgeting
Ad hoc	-	Presentational use of performance information

Direct/formula performance budgeting is used in rare situations when there is sufficiently constant demand for a service to ensure that performance-related variations in budgetary allocations are unlikely to lead to a politically awkward need for closure. Performance budgeting rhetoric often aspires to this use, impelled by the notion that targets for outputs can always steer the allocation of resources. In practice, this use is unlikely to succeed for several reasons: many government objectives (e.g., foreign policy, defense) are not measurable in terms of outputs; the logic of reducing funding for poorly performing but politically important programs is perverse; and, to the extent that the measures directly affect real resources, strong incentives for gaming are created. Some examples of the use of direct/formula performance budgeting: Denmark’s funding for technical schools and universities, Chile’s voucher system for child care and per capita funding for local clinics, Finland’s university and occupational education, and Sweden’s Patent Office.

In presentational use of performance information, performance information (targets, results) is presented as background information in budgeting documents for accountability. It serves as a tool for discussion by the government, the legislative, and citizens, and has no implications for resource allocation. It tends to be found in settings that impose a high degree of social responsibility on actors. For example, in Denmark and Sweden, indi-

vidual ministries can present performance information in budget negotiations but there is no expectation of a formal link between the indicators and resource allocation.

Performance-informed budgeting is the most common use of performance information in all aspects of the budget process. The term performance-informed implies that the use of performance information is institutionalized, and that the connection with decision-making is loose. The overall objective of performance-informed budgeting is to improve the quality of public expenditures through the improved allocation of resources, consistent with political and social goals, and improved efficiency in their use. The intermediate objective is to make performance information available to decision-makers so that they can use it—along with such other sources of information as experience, qualitative information, and political priorities—in planning and managerial actions.

Examples in budget preparation include most OECD countries, which require the presentation of performance targets and past performance information during budget preparation although in a few cases it is the single predominant factor in preparing budgetary estimates. Examples in budget execution include Australia, Canada, and the UK, where performance information must be presented, but is treated along with other sources of information in reviewing the effectiveness of budget execution. The remainder of this note discusses aspects of performance informed budgeting in greater detail.

Technical Foundations of Performance-Informed Budgeting

The development of program budgeting is generally a precursor to the effective use of performance information in the budget process. However, it is important to be realistic about introducing a program structure to the budget. In many cases, the program is essentially synonymous with the work of the ministry or department, which cannot realistically be described meaningfully in terms of specific outputs (e.g., foreign affairs). Introducing program budgeting entails structuring administrative actions in terms of programs and designing a program structure for the budget (or parts of it), and changing the nature of expenditure controls, with some increasing differentiation between policymakers and service-providing units, and some management autonomy to executing agents. This last point is normally addressed by (i) establishing consensus concerning the use of performance information in budget and multi-annual estimates and fiscal frameworks, (ii) introducing formal mechanisms to ensure that accountability is based on the results of programs; and (iii) maintaining or strengthening financial authority and accountability at

the spending-agency level to ensure that budgets are more effectively executed, controlling for either over or under spending. This often entails moving from centralized controls over detailed line items toward programs, with new rules governing administrative expenditures (e.g. wages and maintenance costs).

Another critical foundation is the introduction of integrated financial management information systems (IFMIS), including in procurement, treasury, and *rendición de cuenta pública*. An IFMIS is essential at all stages of the budget process to support performance-improved budgeting:

- **Budget formulation.** For planning purposes, quantifying the cost of producing results is essential. The previous year's costs of delivering specific program results are needed for planning, because central budget officers understand and negotiate the budget on a cost-result basis.
- **Budget execution.** During implementation, managers need to keep track of current program spending. When budgeting is not integrated with procurement and treasury, neither budget officers nor program managers have reliable expenditure figures to compare budget execution and, for example, physical results of the project.
- **Budget audit and evaluation.** Slow or late submission of the *cuenta pública* prevents timely expenditure evaluations. A third important foundation is the role of the supreme audit institution. This must be able to undertake performance audits; among other things, it must have an appropriate legal basis and capacity through investment in skilled human resources. Performance auditing requires skills and competencies that are more often associated with management consulting than traditional legal/accounting auditing.

Quality of Performance Information

Ultimately, the quality of performance information depends on the strength of the sectoral planning and information system in line ministries. However, some external checks are essential. For many years, financial information systems, with their internal control systems and internal and external audit systems have been developed to combat misrepresentation. In the new performance environment, quality management and quality assurance systems must be used for performance data; and audits of the quality of the data and the systems that generate them can help prevent loss of data quality. Such audits can be undertaken by statistical offices and by audit bodies. In the United Kingdom, most Public Service Agreement indicators are collected by the departments and agencies themselves. Statistics that are declared valid by the National Statistician and Statistics Commission receive a National Statistics label. The Australian National

Audit Office does not issue opinions on the nonfinancial information in the annual report but audits the quality of performance measurement systems within its value-for-money audit mandate.

Managing Change

The introduction of performance-informed budgeting is as much about the political economy of change as it is about a technically first-best option. Three key issues need to be addressed. First, there must be an agency that has the authority and capacity to oversee developments that affect the key actors as they make decisions across the budget cycle; such a situation is most often found in unitary, parliamentary countries. A second consideration is the degree to which the budget is shaped by earmarks that restrict flexibility in reprioritizing programs during budget preparation. And third, it is difficult to introduce performance informed budgeting where political and other rigidities determine how financial inputs can be used, restricting the ability to provide incentives for performance in budget execution.

The Mexican Context

In Mexico, the efforts of previous administrations to introduce results and performance information as part of the budget process have not fulfilled their promise. Mexico's public administration is still characterized by features that impede the use of relevant, timely, and quality performance information in managerial decision-making. Federal departments and agencies are mainly driven by processes, with few agreed standards that allow benchmarking of agency and program performance. A proliferation of reports, with fragmented and duplicated information, has produced a perverse outcome: information is devalued for decision-making. Public financial management systems have multiple IT platforms and databases, and they lack realtime monitoring of public expenditure execution from commitment to payment; and international accounting and financial reporting practices are only partially applied. Finally, the budget process is still dominated by a strong formalism and is defined by rigidities that prevent policymakers from introducing substantial reallocations based on performance. In addition to these limitations in budget

formulation, performance information is not used during budget execution, where it can have its greatest impact.

However, responding to strong internal and external demand, the Government is now moving forward in introducing performance-based budgeting and results-based management in the Mexican public administration. As mentioned earlier, the results-based budgeting initiative is anchored in the SED to provide data on the performance of publicly financed programs and organizations as inputs to the budget cycle. This legal framework reaches the different levels of Government: federal, state and municipal, and has already made a dent in setting up the beginnings of the robust institutional structure needed to move towards a performance based management culture.

The challenge for the public administration, and the country as a whole, is the implementation of a process that has no way back. Even though most of what is envisioned in the legal framework remains to be implemented, there are a number of achievements that point in the right direction, notably: (i) the institutionalization of the evaluation process, (ii) the creation of the National Evaluation Council (CONEVAL) and (iii) the creation of the Subsecretary for Planning and Social Evaluation (SEDESOL). The sum of these efforts and initiatives could constitute a national monitoring and evaluation system. Finally, the new initiative by the supreme audit institution (Auditoría Superior de la Federación) in the elaboration of performance audits is very encouraging.

Titles in the "MEXICO: Quality of Public Expenditure" Series

The notes series is produced in collaboration between the Mexican Government's Secretaría de Hacienda y Crédito Público and the Public Sector and Governance unit in the World Bank's Latin American and Caribbean Region.

- Note 1 - *Institutionalizing Performance in the Public Sector: An Emerging Framework for Performance-Informed Budgeting*, June 2008
- Note 2 - *The Role of Evaluation in Mexico: Achievements, Challenges, and Opportunities*, June 2008
- Note 3 - *Harnessing Evaluation to Improve Upper Secondary Education*, June 2008
- Note 4 - *The Effectiveness of Poverty Reduction: The State Dimension*, June 2008

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