

Chile: Management Control Systems and Results-Based Budgeting

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Executive Summary

As part of its broader effort to improve public sector management, the Chilean government has taken specific steps since 1994 to make the budgetary process more transparent and to improve budget analysis and preparation. The National Budget Office now has five years of experience using performance indicators and independent evaluations to assess the government programs' performance against stated aims and expected results. Introduced in 2002, the management control system aims at improving the efficiency of public resource allocation to programs, projects, and agencies. The model was developed gradually. It was designed to evaluate performance in terms of budget management, and it incorporates basic concepts of budgeting for results.

The fully integrated model feeds data and budgetary analysis back into the decision-making cycle. Key management controls and tools that enable the system are:

- Performance indicators, program and agency evaluations, including comprehensive spending reviews
- A bidding fund for public programs
- Management improvement programs linked to performance bonuses for central government employees
- Comprehensive management reports

Data are now available from a series of program evaluations and performance indicators for public services which date back to 1994 and 1997, respectively. The Central Fund for Government Priorities, a competitive financing or bidding fund, was also established in the budget process for 2001 for new programs and reformulated programs. The performance bonus scheme, which began in 1998, was reformulated in 2001, drawing upon lessons from the early years of implementation. Program impact evaluations have been incorporated into the system more recently, while a new process was established for evaluating budget execution in Congress prior to the yearly presentation of the budget bill.

A Comprehensive Set of Tools Form the Basis of the Budgeting System

The National Budget Office of the Ministry of Finance of Chile has developed and introduced a set of tools designed to strengthen the management of public services, improve budget preparation and analysis, and make the budgetary process more transparent. This approach, which has been strongly supported since 2000, places greater emphasis on the results of each action, program, and project that is implemented under the budget. The efforts to strengthen this new system have resulted in a new model for monitoring and evaluating the performance of the budget management process, which in turn feeds back into the decision-making cycle.

The management control and budgeting system includes the following tools:

- Performance indicators
- Program evaluations, including comprehensive spending reviews

- A competitive financing or bidding fund for public programs, with a standard format to submit public programs for financing
- Management improvement programs linked to performance bonuses for central government employees
- Comprehensive management reports

Besides their integration into the budget process, these tools generate synergies that derive from the conceptual elements in their design and the procedures that govern their implementation. In that respect, it is worth noting that attention has been paid to methodological consistency while incorporating feedback to strengthen the system. The following is a brief description of these instruments and the main advances that have resulted from their application. (For more information, see "Systems of Management Control and Results-Based Budgeting" in the references.)



Performance Indicators

The incorporation of performance indicators and targets into the budget process started in 1994. The purpose was to make information available on the institutions' performance and to enlighten the analysis that underlies the budget preparation and its discussion at the National Congress. Although this line of work was discontinued in fiscal years 1999 and 2000, performance indicators were reincorporated into the budget in the 2001 budget formulation process with a restatement of their original objective.

Use of the Performance Indicators

The performance indicators provide quantitative information about the results achieved in the delivery of products (goods and/or services) generated by the institution; these indicators can cover the quantitative and qualitative dimensions of this achievement or result.

Between 2001 and 2004, the trend was to define indicators for established goals in an increasingly systematic manner. The formulation of indicators during this period has shown significant improvement; the indicators' effectiveness in measuring the key products (goods and services) generated by the institutions has also improved consistently. The indicators and their targets are presented as complementary information to the budget bill, and are used as part of the evaluation of the financial execution of the budget that is submitted to the National Congress each year. In addition, the experience of the past five years has created additional areas of work and has facilitated the integration of the concept of indicators into other management tools.

In regard to the targets established by the indicators, the evaluation shows that 76 percent of indicators identified for 2003 in 111 public institutions were met satisfactorily – in the range of 95 to 100 percent (see Table 1).

Institutions and program performance evaluation. To complement the performance indicators and with the same aim, the government began incorporating different lines of ex post evaluation in 1997. Initially, program evaluation fell under a line called Evaluation of Government Programs. Later, Impact Evaluations were incorporated, followed by an institutional evaluation line called the Comprehensive Spending Review.

The design of the three lines of evaluation is based on several requirements and common principles. First, they must be independent, reliable, public, relevant, efficient, and timely. Second, the public nature of the information is ensured by formally sending the final reports from each evaluation to Congress and to other public agencies responsible for decision making in relation to the respective program or agency.

Independence for the Evaluation Process

The adoption of an external evaluation modality that features a panel of experts and the use of local universities and outside consultants selected through a competitive process helped ensure the independence of the process.

Since 2003, the results of the evaluations have also been presented to the Mixed Congressional Budget Commission. The relevance of evaluations is guaranteed with the definition of the ambits of evaluation to be included in the exercise – which must produce recommendations that address the most important issues and the need for information. With regard to efficiency, the guidelines require that the cost and the timeline of the evaluation be reasonable. Together with the previous demands, they provide relevant evaluative judgments on the main aspects of the program to meet the most important needs for information. Finally, the timeliness criterion requires that the evaluation findings be available in time for the budget formulation process. Since the introduction of these evaluation lines, 170 public programs and 12 institutions have been evaluated: 158 in the Government Program Evaluation line and 12 Impact Evaluations. This represents approximately 64 percent of all public expenditures that can be evaluated through these lines).

The Evaluation of Government Programs line is based on the logical framework methodology used by many

Table 1. Performance Indicators:
Degree of Compliance in 2003
– Classification by Function

Degree of Compliance	Economic Functions	General Functions	Social Functions	Total	Percentage
95% - 100%	229	150	352	731	76%
90% - 94%	16	14	21	51	5%
89% - 80%	24	12	26	62	7%
< 80%	32	31	51	114	12%
Total	301	207	450	958	
Percentage	31%	22%	47%	100%	



multilateral development agencies. Based on antecedents and existing information, this methodology makes it possible to reach evaluative judgments on the main aspects of the programs' design and performance within a realistic time frame and at reasonable costs.

The logical framework methodology applied in the line for evaluating government programs often makes use of the data generated from program desk reviews. These are relatively quick exercises, so evaluative judgments on final program outcomes are necessarily inconclusive in many cases. In light of this weakness, a new line of evaluation work for public programs – Impact Evaluations – was introduced in 2001. The information evaluation line applies more complex instruments and methodologies for data collection and analysis.

The Comprehensive Spending Review line was launched in 2002. It is used to evaluate an institution's objectives, programs, and procedures. The Comprehensive Spending Review is specifically suited to assess the consistency between an institution's objectives and programs, the rationality of the institutional structure, and the distribution of functions among work units. It also allows the authorities to measure the institution's effectiveness, efficiency, and wisdom in the allocation and use of resources.

In the past five years, the results of these evaluations have been examined, and concrete improvements in the management and use of resources have been identified. Like the information obtained from evaluations, information from performance indicators is not applied in an automatic mechanical fashion, but is used as input to analytical work and the decision-making process.

Table 2 summarizes the recommendations and implications from the evaluations of 87 programs that were implemented between 2000 and 2004.

Table 2. Evaluation of Government Programs and Impact Evaluations, 2000-04: Recommendations and Implications

Category	% of Programs
Minor adjustments	24%
Important modifications in design of some components or in internal management procedures	39%
Major reformulations	21%
Institutional relocation	6%
Program end	10%
Total Number of Programs	87

Concurrently, in the case of institutions evaluated between 2002 and 2003 using the Comprehensive Spending Review, the recommendations and implications correspond for the most part to important modifications of key aspects of internal management processes.

Since 2000, recommendations formulated by the evaluators are analyzed in the Ministry of Finance in conjunction with the agency under review. The purpose is to determine when and how recommendations will be incorporated. This translates into a formalization of commitments between the National Budget Office and the institution under review. The follow-up on these commitments shows a high degree of compliance in incorporating the recommended changes.

Compliance with Program and Agency Evaluations

Of the total commitments contracted prior to and until June 30, 2004, in terms of program and agency evaluations, 69 percent complied fully and 22 percent partially.

Competitive financing and standard format for the presentation of public programs. To improve the flow of information for the budget process and improve public resource allocation to new, reformulated, or amplified programs, an important procedure called Central Fund for Government Priorities (Competitive Financing or Bidding Fund) was incorporated into the budget cycle between 2001 and 2003. This new procedure is also aimed at reducing budget "inertia." It utilizes a standard format which includes the logical framework matrix for the submission of programs that apply for the Fund's resources.

Based on this experience, the 2005 budget formulation incorporates the use of the standard format for the presentation of programs. The 2004/05 budget formulation did not use the Competitive Financing or Bidding Fund because of the limited availability of fiscal resources for new initiatives and significant expansion of existing programs. The presence of a large number of programmatic commitments and pledges from the government initiated in 2000 is also an issue. This measure is meant to continue the promotion of the logical framework and improve its use as a tool to organize the presentation of programs.

Management Improvement Programs. The Chilean government began to develop the Management Improvement Programs for public institutions in 1998, under Law 19,533. The aim was to tie the fulfillment of management objectives to a monetary incentive for the employees involved.



Terms of the Monetary Incentive

The monetary incentive establishes that fulfilling management objectives commitments in an annual Management Improvement Program allows staff from the agency or unit to benefit from a five percent salary increase in the following year – as long as the compliance rate achieved by the agency is equal to or greater than 90 percent of the objectives agreed upon – or a 2.5 percent increase, if the compliance rate is between 75 and 89 percent.

Starting in 2001, the programs to improve management were restructured in accordance with a common set of management areas and systems for all the public sector agencies, called the Framework Program (see Table 3).

This program implies several stages of development for the management systems that it includes. These different development stages correspond to specific management objectives. Each stage is defined by specific contents and technical criteria, so that completing each one of them implies meeting previously established requirements.

The evaluation of the management improvement programs in 2003 revealed that 75 percent of the institutions met 90 to 100 percent of the objectives they had pledged to achieve, while 20 percent achieved between 75 and 89 percent of their agreed upon objectives (see Table 4).

Table 3. Management Improvement Program, 2005

Areas	Systems
Human Resources	Training
	Hygiene – Improvement of work environment and security
	Performance evaluation
Customer Service	Information, complaints and suggestions offices
	e-Government
Planning, Control, and Territorial Management	Planning and management control
	Internal auditing
	Territorial management
Financial Management	Procurement and hiring systems
	Accounting
Gender Focus	Gender Focus

Table 4. Management Improvement Program, 2003

Percentage allocated for agency performance	Compliance	Agencies		Staff	
		Number	% of Participation	Number	% of Participation
5.0%	90–100%	132	75%	45,637	74%
2.5%	75– 89%	36	20%	13,152	21%
0%	< 75%	8	5%	3,159	5%
Total		176	100%	61,948	100%

After four years of implementation of the Management Improvement Program, the public agencies have moved forward in developing the management systems that were part of the program. The public employees involved have received economic benefits, while the agencies have been able to build a solid base from which to address other demands and procedures that are characteristic of the process of modernizing a public sector entity, enabling it to tackle its main challenges.

In order to further consolidate the advancements achieved, the application of an external standard that would continue to promote excellence is being contemplated as a suitable option. With this objective in mind, the formulation of the management improvement programs for the year 2005 introduced the first elements to ensure a gradual transition to a certification mechanism for public services – known internationally as ISO Norms.



New Certification Mechanism

The systems to be included in the 2005 certification mechanism are: training, hygiene-improvement of work environment and security, performance evaluation, auditing, and planning and management controls.

Comprehensive Management Reports. All public sector agencies are required by law to prepare a Comprehensive Management Report for submission to the National Congress. These reports cover crucial aspects of their institutional management. They are presented in a standard format and are elaborated in accordance with the technical instructions and guidelines provided by the Ministry of Finance and the General Secretariat of the Presidency. They generally include relevant background information on the agency along with data generated through the instruments described above.

The comprehensive management reports have been used to support the evaluation process of the financial execution and management of the budget that is carried out by the National Budget Office during the first semester of each year. The comprehensive management reports are also used in the evaluation of the financial management of public services by the budget subcommittees.

Main Achievements of the Systems of Management Control and Results-Based Budgeting in Chile

The advances in the development and consolidation of the methodological and practical aspects of the different tools described herein have helped improve the management of public institutions and programs. At the same time, they have allowed the budget cycle and the government work with Congress to increasingly benefit from more and better information, contributing to greater transparency in the budgeting process. From this perspective, a significant step has been taken toward the establishment of a results-based budgeting framework in Chile. In addition, it is worth noting that the main actors that are involved in the process have developed a better understanding of the objectives and the main elements of results-based budgeting.

Some Lessons Learned from the Chilean Experience

Of the main lessons learned from this experience, the following should be highlighted:

- The development and implementation of the budget management and performance instruments requires persistence in order to facilitate their

comprehension and use and to gain the necessary credibility.

- It is important to identify the limitations of the different instruments in order to make adequate use of the information they provide.
- It is important to continually revise the instruments and the processes that relate to their use and make relevant modifications toward their enhancement in a timely manner.
- The strengthening of those technical and procedural aspects that generate synergy in the system while providing feedback for the development of the different instruments is of primary importance.

Update on Implementation of the Results Framework – Clotilde Charlot, IADB, November 2005

(Based on Chapter V of the Public Finances Report prepared by DIPRES under the supervision of Marcela Guzman, Ministry of Finance, Chile)

How well have Chile's Management Control Systems and Results-Based Budgeting efforts continued to operate in practice in 2005?

The Budget Proposal for 2006 offers a good overview of the Chilean government's performance in applying the Management Control and Results-Based Budgeting system in 2005. The preparation of the 2006 budget reflects the lessons learned from the eight years since the GOC has started to introduce a results-based focus in the allocation of public resources

The 2006 Budget Proposal combines the results of the evaluation of more than 100 programs and fourteen public institutions, the monitoring of 130 public services based on approximately 1,500 performance indicators, and the organizational evaluation of 179 public agencies. That information has guided the decisions regarding resource allocation for 2006 and has also allowed the GOC to revise and make adjustments in the programs and the institutions responsible for their implementation. Senior authorities of the concerned institutions and agencies participate fully in the decision-making process, ensuring a more effective and citizen-oriented management in the public sector. Those advances have benefited not only the end users of those public services, but also the public sector employees who have received merit-based bonuses for their performance in achieving the targets set forth in terms of programs and institutional management.



Performance of the five main instruments that comprise Chile's Management Control and Results-based Budgeting System in 2005

Performance Indicators

The number of public institutions and agencies using performance indicators reached 136 in the budget proposal for 2006 (up from 72 in the 2001 budget). Similarly, the total number of performance indicators used for next year's budget is 1,552 (up from 275 in 2001). The Budget Proposal for 2006 has an average of 11.4 performance indicators per institution. In 88 percent of the cases, these indicators reflect strategic products considered by the public institutions.

During the first quarter of 2005 the evaluation of the 2004 budget performance has been completed. Ninety four percent of the indicators have been evaluated compared to 795 for the 2001 budget. Of the total number of indicators evaluated, 86 percent were achieved satisfactorily (in 95-100 percent range) while only seven percent had an achievement rate of less than 80 percent. Of the total number of indicators evaluated for 2004, 35 percent correspond to economic functions, 23 percent to general functions, and 19 percent to social protection functions. In the 2006 Budget Proposal, 18 percent of the indicators measure intermediary or final results and 63 percent measure results in terms of products and their attributes.

Institutions and Programs Performance Evaluation

The findings and recommendations of the evaluation of Chile's Evaluation of Government (EGP) conducted by the World Bank in 2004 have been made available to the GOC in 2005. This external evaluation has stressed DIPRES ability to establish the EGP as a solid and effective instrument in a relatively short period of time. The EGP has responded efficiently, effectively, and in a timely fashion to the needs for information. The total number of public programs that have been evaluated under the EGP during the nine years since the GOC started using it reached 188 this year (from 170 in 2004). To date, a cumulative total of 19 institutions (compared to 12 at the end of 2004) have been evaluated. Two Impact Evaluations (IE) and one Comprehensive Spending Review (CSR) are ongoing.

Competitive Financing/Standard Format for the Presentation of Public Programs

The 2006 budget proposal used the Standard Format for the Presentation of Programs in the case of programs that needed resources under Transfers to Other Public Institutions, Budgetary Programs created under

Part 2. Examples of MfDR at the National Level

the 2005 Budget, and expansion and reformulations of new programs.

Management Improvement Program (MIP)

The preparation of the 2006 Budget Proposal reflects the lessons learned from eight years of implementation of the MIP by the Chilean government. The positive results achieved in the development of the management systems that comprise the MIP have led to the definition of a new phase of an Advanced Framework Program that has been in execution since 2005. This new phase of the program includes a system certification step that is consistent with the ISO 9001-200 standards. The evaluation of the 2004 MIP revealed that 75 percent of the institutions met between 90-100 percent of their objectives. As a result, more than 56,000 public sector employees received a performance-based salary increase of five percent. It is worth noting that 48 percent of the institutions involved with the MIP achieved 100 percent of their objectives. Of particular importance is the significant increase in the percentage of public employees that met 90-100 percent of the targets set for their work in 2004 (90 percent compared to 74 percent in 2003).

As part of the gradual transition toward the external certification ISO, the Office of Information, Grievances and Suggestions – Oficina de Información, Reclamos y Sugerencias (OIRS) – will be added to the system under the 2006 budget. About 62 new public institutions and agencies will be added to this advanced phase of the framework program.

Comprehensive Management Reports (CMRs)

A total of 113 institutions have met the requirement to submit their Comprehensive Management Reports (CMR) to Congress according to an established calendar. Significant improvements in the quality of the CMRs have been noted in 2005. The reports are increasingly used to inform decision making at the national and local levels.

References

“Systems of Management Control and Results-Based Budgeting: The Experience of Chile,” October 2003. www.dipres.cl

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