



GOVERNMENT OF CHILE
MINISTRY OF FINANCE
National Budget Office

Systems of Management Control and Results-Based Budgeting The Chilean Experience

**Management Control Division
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Systems of Management Control and Results-Based Budgeting *

Marcela Guzmán S. **

I. Introduction

When facing the challenge of evaluating performance in government organizations, or agencies¹, and their activities, the doubts that emerge can be summed up in two basic questions: what tools are available to carry out this function? and how can evaluative judgments from an evaluation process be transformed into action? There are no easy answers, and there is ample documentation² to attest to the following characteristics of public sector activities, which any evaluation must confront:

- The breadth and ambiguity in objectives definitions, often due to the agencies' long histories and/or the logic of political processes. The result is a highly heterogeneous spread of products and beneficiaries.
- The complex relations between outputs and results, the latter often diverse, with qualitative dimensions that are hard to treat objectively, with effects that cannot always be measured in time frames compatible with the time limits set by administrative processes or political agendas, or with final impacts subject to only partially-controlled external variables.
- The lack of a transactional relationship with the beneficiary: Since many products or services are provided free or heavily subsidized, the users have no adequate way to express the value they place on them. This also makes it difficult to use an aggregate performance indicator for management results. In the private sector, sales are a clear sign of acceptance, and the balance sheet is an aggregate indicator for results.

These factors create real problems for those taking decisions on how to allocate public resources, while at the same time there is growing demand from politicians and the general public for fiscal discipline and accountability. As a result, in recent years there has been a tremendous development of theory and practice in performance or results-based budgeting³.

* This paper presents a systematized and updated account of the Chilean experience of using management performance tools in the National Budget Office of the Ministry of Finance. I am very grateful to the experts in the Performance Management Division for their contributions, particularly Luna Israel, Heidi Berner and Maria Teresa Hamuy, and also to Mario Marcel, the National Budget Director, for his comments.

** Economist, Chief of Management Controls Division of the National Budget Office, Ministry of Finance.

¹ "Agencies" includes all government organizations that are part of central government, but excludes government companies.

² See Marcel (1999), Mayne and Zapico-Goñi (2000), Allen and Tommasi (2001).

³ For more details, see World Bank (1998); World Bank; Mayne and Zapico-Goñi (2000); Kromann, Groszyk and Buhler (2002); Kibblewhite and Usher (2002); OECD (2002b) and OECD(2002c).

The three objectives⁴ of all budgetary systems must be kept in mind. They are: to maintain fiscal discipline; to allocate resources efficiently, in line with government priorities and program effectiveness; and to promote operational efficiency in providing services. Results-based budgetary management is needed to achieve these three objectives.

In recent years, and as part of a wider series of initiatives to improve public sector management, the Ministry of Finance has thus developed and introduced a set of tools to make the budgetary process more transparent, and improve budget analysis and preparation.

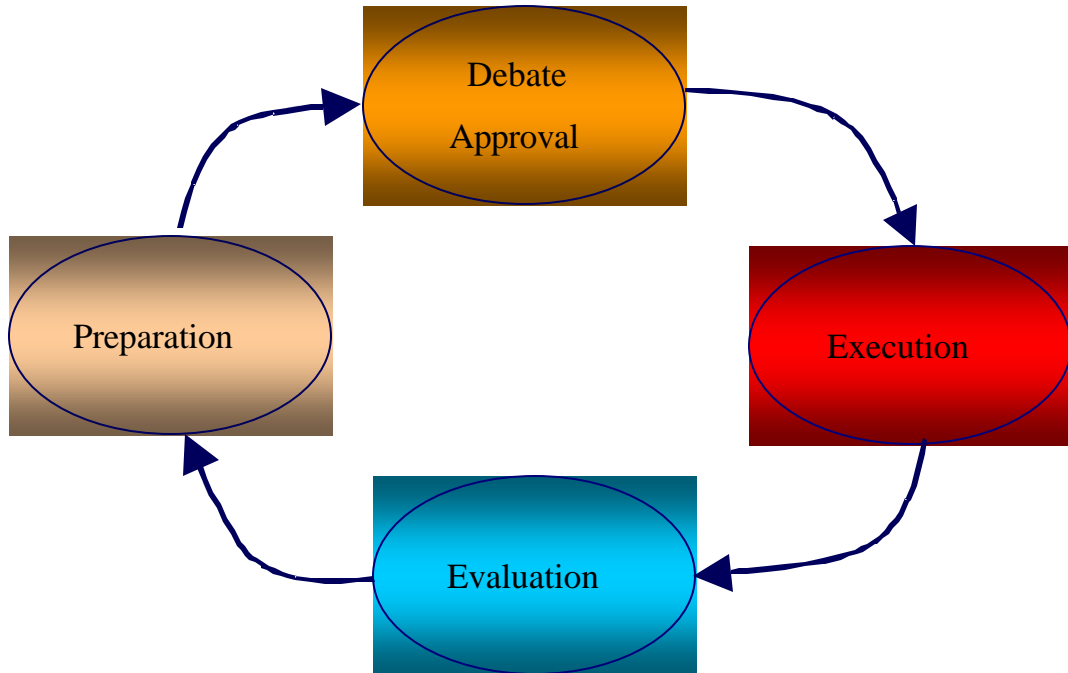
In 2002 the National Budget Office pushed the process further forward. Using the progress and experience of previous years in implementing evaluations and management tools, it created a system of management controls aimed at making public resource allocation to programs, projects and agencies more efficient, while at the same time helping them improve their management.

As a result, it has been possible to create a model for evaluating and revising performance in budget management, which incorporates the concepts of budgeting for results. The model feeds back into the decision-making cycle, as shown in Diagram 1.

³ For more details, see Schick (2001), and Allen and Tommasi (2001).

Diagram 1

RESULTS -BASED BUDGETING

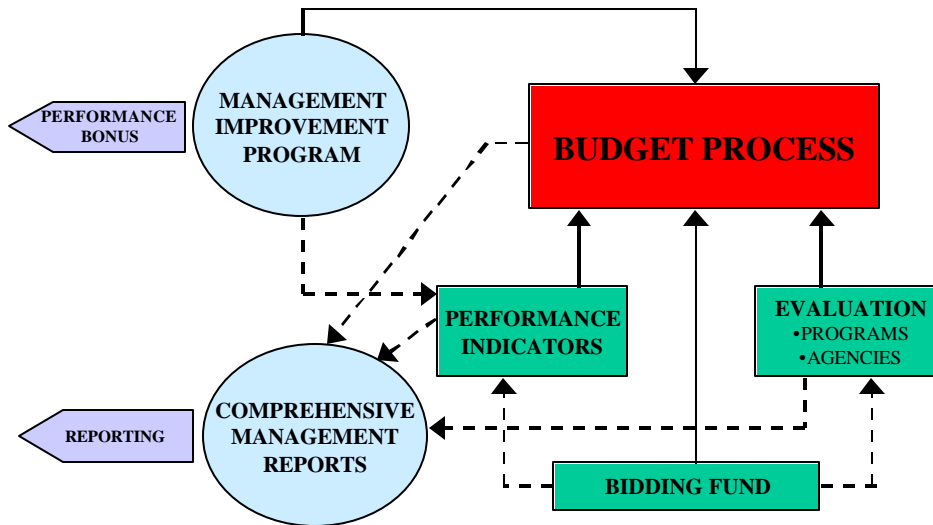


The system of management controls mentioned above and described in this document consists of the following tools: performance indicators; program and agency evaluations (including Comprehensive Spending Reviews); a Bidding Fund for public programs; Management Improvement Programs, linked to performance bonuses for central government employees; and Comprehensive Management Reports.

These tools are all integrated into the budget process, and create synergies from the conceptual elements in their design and implementation. Care has been taken to maintain consistency in the methodology, and to emphasize feedback, as Diagram 2 shows.

Diagram 2

MANAGEMENT CONTROL INTEGRATION IN THE BUDGET CYCLE



It is a characteristic of this system that it has been developed gradually. Data is now available from a series of program evaluations and performance indicators for public services, which date back to 1994 and 1997, respectively. The performance indicators were discontinued and then reintroduced in the 2001 budget process. 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 extended or reformulated programs (which must apply each year, using a standardized form); the performance bonus scheme, begun in 1998, was reformulated; program impact evaluations were incorporated; and a new instance for evaluating budget execution in Congress was established, to precede presentation of the Budget Bill each year. The year 2000 saw a new drive to draw up agency balance sheets, with the Comprehensive Management Reports created in 1997. Finally, 2002 saw the incorporation of a form of performance evaluation known as a Comprehensive Spending Review.

Clearly, the process begun in Chile is following a direction taken in other countries. Though Budget Offices are responsible for drawing up and executing budgets, in recent years their role in public administration has changed substantially. One example has been the major and complex transformations in the OECD countries, where new institutional arrangements have integrated the budget with other management processes, encouraging or forcing public agencies to measure performance and evaluate results. Alongside these changes, new guidelines and methods for managerial reporting and new information and reporting systems have been developed, all of which has been essential for eliminating some input or ex-ante controls⁵.

⁵See Schick (2001) and OECD (2002b)

This document describes the tools mentioned, with an emphasis on the main conceptual and methodological elements, the links to the budget cycle, the main advances and results, and the pending issues.

II. Performance Indicators

1. Start-up and Development

1.1 Objectives y Requirements

Performance indicators and targets and goals began to be incorporated in the budget process in 1994⁶. The aim was to make information available on agencies' performance that would enrich the process of drawing up the Budget and debating it in Congress. Although this line of work was suspended in fiscal years 1999 and 2000⁷, up to 1998 there had been steady growth in the number of agencies involved, and in the 2001 budget process, performance indicators were reintegrated, with a restatement of the original objective⁸.

Performance indicators are tools to provide quantitative information about results in providing outputs (goods or services) generated by the agency. They may cover quantitative or qualitative aspects. The indicator establishes a relationship between two or more variables, which can be compared against previous periods, similar outputs or a target or goal, thus making it possible to evaluate performance.

Performance indicators incorporated in the budget include a target or goal or commitment, so the indicator result makes it possible to infer a measurement of outcome. The target or goals may be directly related to an output supplied by the agency, or to a broader aspect of its work.

Performance indicators must meet certain basic requirements, of which the main ones are relevance, independence of external factors, comparability, reasonably-priced information needs, reliability, simplicity and comprehensiveness, and that they may constitute public information.

They must also cover the most relevant aspects of management, giving priority to the main objectives of the organization, but there must not be more indicators than the users can reasonably analyze. There must also be a differentiation between measurements for internal use, for

⁶The initiative to incorporate performance indicators in the budget came with the pilot plan to modernize public service management, carried out by the National Budget Office in 1993 with the participation of five agencies. The final output of the plan was to obtain performance indicators and construct a system of management controls in each agency.

⁷In 1998 Management Improvement Programs were introduced (under Law 19,553), incorporating indicators and targets and linked to salary bonuses. Standards for meeting the agreed targets were low, and the results hard to verify. These programs, which cover most agencies, were reformulated from 2001 onwards.

⁸Certain agencies were excluded, where their mission made it harder to evaluate performance through indicators. These included the judiciary, the legislature, the Comptroller General's Office, and some services of the Ministry of Defense.

monitoring purposes, and those for accountability purposes and/or use in the budget. In the latter case the focus should be on key outputs and be oriented to intermediate results or outcomes.

1.2 Indicator Areas and Dimensions. Methodological aspects⁹.

1.2.1. Delivery levels

Performance indicators can be used to obtain information from the different delivery levels required to check the application of public policies and programs. A description follows:

a) Processes. These refer to activities related to the way in which work is carried out to achieve outputs (goods or services). They include activities or work practices such as procurement procedures, technological processes and financial management. Process indicators help evaluate performance at levels where outputs or results are hard to measure.

b) Outputs. These refer to goods and/or services produced or delivered, and correspond to a first result in the activities of a public program or action. The quality of the goods and services are also taken as a result at output level. Some sectors may also use output indicators as intermediate result or outcome indicators, such as, for example, the number of kilometers of road built. In other cases, particularly in social sectors, results may be so far removed from outputs that these are not relevant.

c) Intermediate results. These refer to changes in behavior, states, attitudes or certification of beneficiaries once they have received the goods or services of a public program or action. They are important inasmuch as they should lead to the expected outcome, and they thus offer an approximation.

d) Outcomes or impacts. These results are obtained once the goods or services have been delivered, and imply an improvement in the conditions of the target population, which can only be attributed to such outputs. The measurements are sometimes hard to make, mainly because of the difficulty of isolating the effects from other external variables, and/or because the results are often long term. At this level, quality, efficiency and economy in relation to the outcome, or degree of result, are also taken into account.

⁹The methodological elements given here have been constructed on the basis of various technical papers and the Chilean experience of recent years in using indicators.

Box 1
Examples of Results Indicators

1. Percentage of children leaving protection programs into favorable conditions (National Youth Protection Service, SENAME).
2. Annual variable rate of inmates with work contracts (National Prison Service).
3. Average number of conflicts resolved per lawyer (Superintendent of Private Health Insurance Companies).
4. Percentage of short-term credits recovered (Farming Promotion Agency, INDAP).

1.2.2. Performance Dimensions

Besides the control levels mentioned, performance also includes other dimensions, some of which interact and can conflict with each other. Constructing indicators and analyzing their results must therefore be done with great care, and with an overall vision of the different dimensions. The management dimensions, which can feasibly and relevantly be measured through indicators are effectiveness, efficiency, economy, and quality of service. A description of each concept follows:

a) Effectiveness. This refers to the degree to which an area or agency as a whole is fulfilling its objectives, without necessarily taking into account the resources allocated. Effectiveness measures can be defined provided the agency's objectives are clear.

b) Efficiency. This describes the relationship between two orders of magnitude: the physical production of output (goods or service), and the inputs or resources used to reach this level of production. It refers to the execution of actions, benefits or services by the agency using the minimum of possible resources.

In public Services there are many approaches to this concept. Some refer to the average productivity of different production factors for goods and services, and link the level of activity to the level of resources employed. Others relate production costs such as unit costs and/or cost structures, (management costs in relation to the total expenditure involved in delivering outputs).

c) Economy. This concept relates to the ability of an agency to generate and mobilize financial resources adequately to accomplish its mission.

Within the mission framework, resource management always demands maximum discipline and care in managing cash flow and budget, in preserving equity capital and in generating income.

Possible economy indicators in an agency are its capacity to finance itself, the effectiveness of its budget execution or its capacity to recover loans.

d) Service quality. This is a specific dimension of the concept of effectiveness, which refers to the agency's capacity to respond quickly and directly to the needs of its clients, users or beneficiaries. These are attributes of the output, such as timeliness, fair access, accuracy and continuity of service, convenience and courteous service.

Relationships which reflect this concept are, for example, the number of complaints as a percentage of all cases seen, time taken to process benefits, waiting time in public offices, or speed in responding to letters, phone calls or complaints by users.

Examples of indicators for each dimension described appear in the following box:

Box 2
Examples of Indicators, by Dimension

<p>A. EFFECTIVENESS</p> <ol style="list-style-type: none">1. Percentage change in farm income per farmer-PRODECOP IV Region in relation to base year ¹⁰ (Farming Promotion Agency, INDAP).2. Coverage of pensioners (65 years) vaccinated against 'flu (Under-Secretary for Health). <p>B. EFFICIENCY</p> <ol style="list-style-type: none">1. Average number of applications in trademarks and patents dealt by employee (Under-Secretary of Economy).2. Average number of inspections per inspector (Superintendent of Private Health Insurance Companies, Isapres). <p>C. ECONOMY</p> <ol style="list-style-type: none">1. Percentage of income from sales and concessions in relation to total spending (National Patrimony Ministry).2. Percentage of resources contributed by third parties (National Commission on the Environment, CONAMA). <p>D. SERVICE QUALITY</p> <ol style="list-style-type: none">1. Percentage of users who rate the quality of the school meals program at 5.5 points or above (National Scholarships and School Aid Board, JUNAE). 2. Average time for delivering homes (Housing and Town Planning Service, SERVIU).
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1.2.3. Methodological Considerations for Elaborating Indicators

To optimize the process of identifying and elaborating performance indicators in the framework of the requirements, and to orientate the actions to measure them, the following aspects are taken into account:

¹⁰ Farm income per farmer constitutes total production over sales price. Total production covers production of vegetables (fruit, vegetables, fodder etc.), animals (goats, cows, etc) and other (dairy produce, wool, dried fruit, preserves, etc.).

a) Timeliness. When identifying performance indicators, it is important to identify the moment at which different results should occur, and should thus begin to be measured. The moment will depend on the nature of the objectives (processes/outputs/outcomes).

This is particularly important in the case of outputs whose results are medium or long term, where indicators can be identified but not measured immediately. The identification is nevertheless useful for developing the processes to make measurements, once it is technically advisable to do so.

Measurement may be made at different intervals, half-yearly, annually, biennially and so on.

b) Information sources. Once the level for which indicators are to be constructed has been defined, the ways of obtaining measurement information must be identified. Often it may reasonably form part of the regular management process, and be obtainable through the data collection which is part of normal activity, by surveying or sampling, gathering statistics, through questionnaires, observation notes, and so on, depending on the aspect being measured. The information sources are identifiable, even if they are not available. If the latter is the case, the data collection mechanisms should be designed or re-designed to make measurements possible.

On other occasions the level to be measured is more complex, and requires equally complex and costly methods of collecting and processing data, using specific methodologies. Generally in these cases, studies or reviews must be carried out and the measurements cannot be made through regular data collection. This also affects the periodicity of indicator measurement, making it highly advisable to identify the best moment or moments in the light of the comments on timeliness.

Finally, and probably exceptionally, it could happen that no methodology exists to allow a reasonable measurement of the impact of a program or a component; or that the cost is very high in comparison with the program's total expenditure and the information gap it seeks to fill.

Reviewing these factors, it is clear that a plan to construct performance indicators requires indicators, which can be measured, at appropriate moments and at intervals that balance the information needs against the technical and financial resources.

1.2.4. Presentation of Indicators in the Budget

Indicators and their annual targets and goals are presented by identifying in each case the strategic agency output, the formula used to calculate it, the effective measurement of the indicator in recent years, the budget appropriation¹¹ to which it is linked, and the means of verification. This is illustrated in Box 3 below.

¹¹ Through the strategic output the indicator may be associated directly to one or several appropriations, one or several items, one or several sub-heads and one or a group of programs.

Box 3
Performance Indicators Formula

MINISTRY SERVICE PROGRAM Related strategic/ relevant output							ITEM CHAPTER PROGRAM	Program/ item sub-head/ appropriation	Means of Verification	
	Performance Indicator	Calculation Formula	Effective Data			Estimate				Target
			1999	2000	2001	2002				2003
<i>Effectiveness</i>										
<i>Efficiency</i>										
<i>Quality</i>										
<i>Economy</i>										

The purpose of the first column of information is to review the internal consistency with the agencies' strategic definitions (see Box 4), providing a clearer vision of the accountability chain of strategic output-indicator-goals and achievement. The calculation formula for the indicator is the mathematical expression for quantifying the level or magnitude the indicator achieves over a period of time, in line with the values of the corresponding variables. The historical data is the effective value of the indicator in recent years. It allows for analysis of goal consistency against the course of the indicator and the budget resources allocated, so as to ensure the commitment is sufficiently demanding. The purpose of identifying budget appropriations¹² is to make it easier to analyze the results-resources relationship, and also provide an approach to sizing that part of the budget whose performance is being evaluated with this tool.

Box 4
Strategic Definitions

Mission. The statement, which defines the purpose or reason for existence of an agency, and helps orientate the employees' actions towards achieving the desired result. The mission must be comprehensive, and clearly identify the relevant outputs and the clients/users/beneficiaries at whom its actions are aimed.

Strategic objectives. In the context of public sector management, the strategic objectives express the results that ministries and their agencies are expected to achieve in the medium term.

Strategic or relevant outputs. These correspond to an aggregate definition of the goods and services the agency or department offers in response to the needs of its clients, beneficiaries or users. The agency is responsible for generating the products, either directly or through sub-contracting.

¹² Program, sub-head, item or appropriation, according to the classifier in the Budget Law.

1.3. Institutional Framework, Actors Involved and Functions

1.3.1 Institutional Framework

Performance indicators and targets and goals are included in the information reports, which accompany the submission of the Budget Bill to Congress. The Bill is presented by the National Budget Office, which is responsible for it.

1.3.2 Actors and Functions

a) Agencies. They take part directly in preparing performance indicators and targets and goals, because these must first be submitted jointly with their budget proposal to the National Budget Office¹³.

b) Ministry of Finance. The Ministry's National Budget Office analyzes the indicators presented in the light of their technical requirements and the consistency of the targets and goals and resources allocated. The Ministry and the agency work together to incorporate the Ministry's observations.

c) Congress. Congress receives the reports on indicators, targets and goals and compliance for use when debating and approving the Budget Bill.

1.4. Follow up

Since the 2001 targets and goals and commitments were set, compliance is recorded in the Comprehensive Management Report (see Section VI), which is made in the first quarter of the following year. Meetings are then held to analyze the results. The pre-defined means of verification are the base of the information at this stage. The compliance report is presented to Congress in the pre-Budget evaluation and together with the submission of the Budget Bill.

A significant aspect of the follow-up process is the verification of data. As well as the review of indicator measurements and the consultations and technical meetings with the agencies by the Ministry of Finance, the Government General Internal Auditing Committee audits the databases and/or information systems. The audit is carried out on a random basis or in areas of particularly high public impact, as defined by stated indicators.

1.5. Integration in the Budget cycle

The formulation of indicator targets and goals is carried out in line with the appropriation of resources in the Budget Bill in each case. Indicator measurement and target and goal compliance are input for the following budget cycle. Since 2002 the results on goal compliance from the previous year are reviewed in the Internal Evaluation stage, which is part of the budgetary process of the National Budget Office (see Box 5), and subsequently in the Technical Committees (see Box 6), which meet during budget preparation.

¹³ Form H, Performance indicators, in the Budget preparation for 2003.

Box 5
Budget Process. Internal Evaluation Stage.

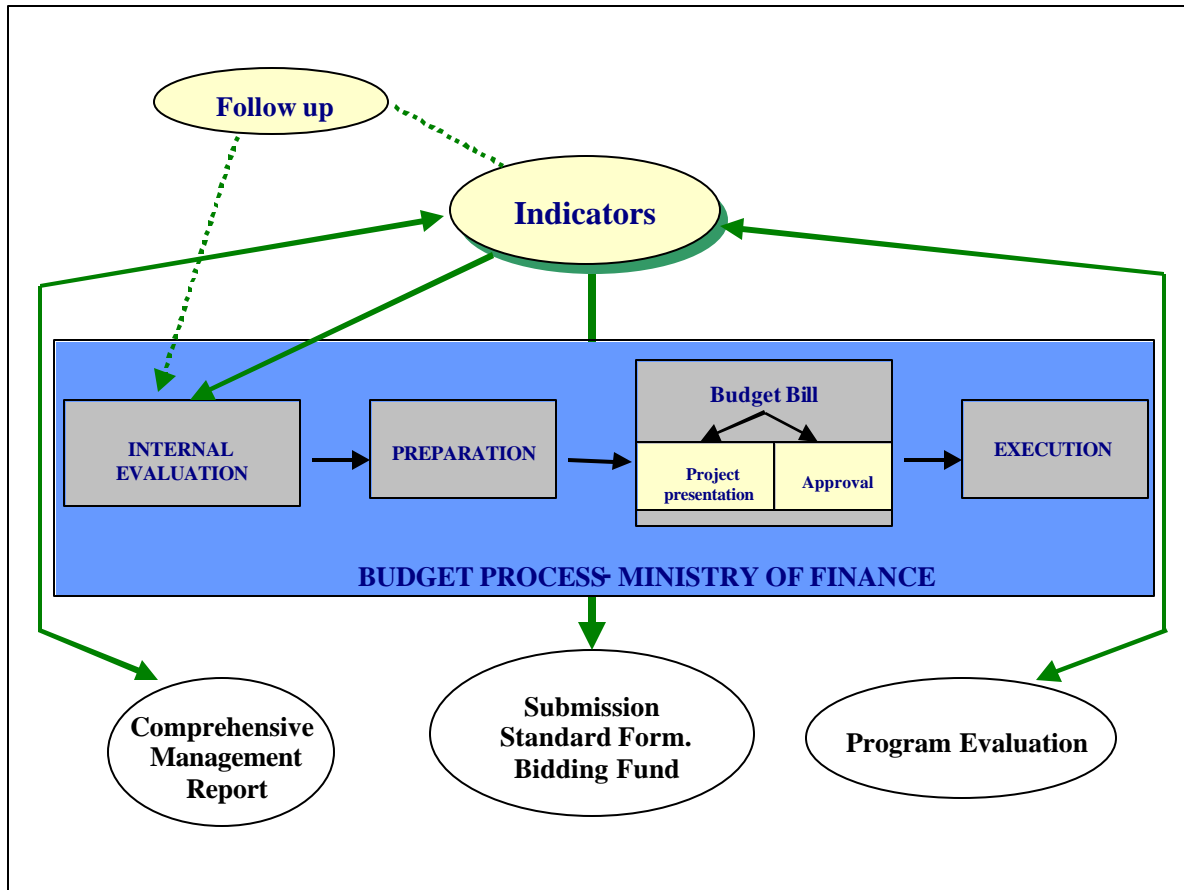
Since the 2001 budget preparation process the National Budget Office has consolidated an initial phase known as internal evaluation. At this stage the Budget Director, the Deputy Director and the Management Controls Division analyze all the available data relating to financial and performance management in the ministries, which then serve as the basis for setting exploratory budgets and budget frameworks for the next stage in preparing the Budget Bill. The most significant aspects of this review are presented and commented in the technical committees at preparation stage.

Box 6
Technical Committees in the Budget Process

The Technical Committees meet in every agency whose budget comes under the Budget Bill and the National Budget Office. Their meetings are held each year during the period in which the Budget Bill is prepared, and the director or head of the agency presents and analyzes with the committee the general lines of their budget bid for the following year. Since 2001 the technical committee meetings have also included agency performance data from the management control system of the National Budget Office.

As noted, the indicator targets and goals and degrees of compliance are sent to Congress as part of the data accompanying the submission of the Budget Bill, so congressional committee members have the information available for the debate and approval process (see Diagram 3).

Diagram 3
Integration in the Budget Cycle



It should be noted that the objective of the performance indicator is not necessarily to constitute a direct, mechanical link between performance measurement and resource allocation. Greater or lesser degrees of goal compliance do not automatically imply more or fewer resources. In the cases of programs or products where the results are poor but where the beneficiaries would be hurt by significant budget cuts, it may be preferable to set conditions which encourage or demand better performance, which can be established in the Budget Law or in the process of its preparation. The decision can then be reviewed subsequently on the basis of the performance indicator(s). In other cases, areas of high performance may not need extra resources if their requirements are adequately covered, and the performance data can be used to support maintaining the existing level of resources.

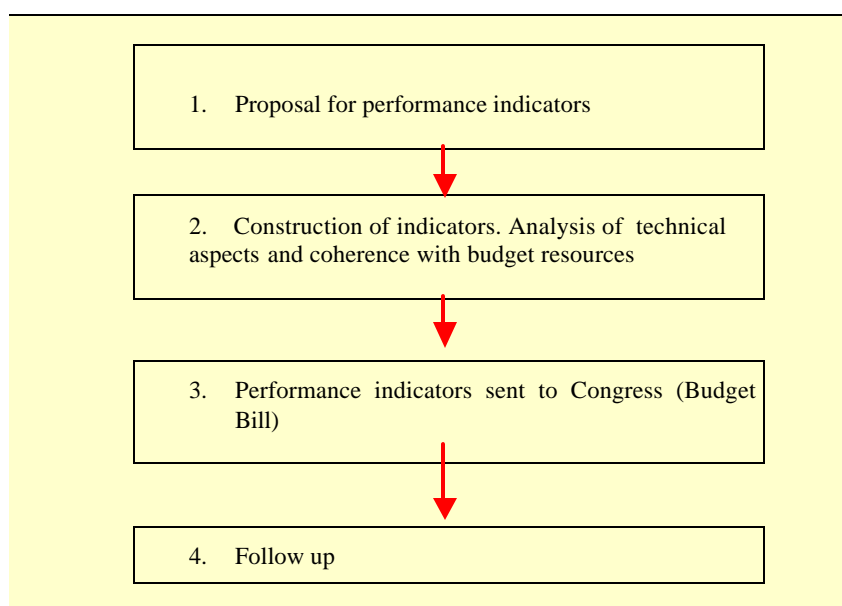
Bearing in mind these factors and their inherent limitations¹⁴, the indicators and their measurements must be used with caution. They cannot always provide a comprehensive account of agency performance, and other complementary information may be required, which reinforces the need for prudence in using the data.

¹⁴ See Allen and Tommasi (2002)

1.6. Operational design

The operational design consists of four stages, presented in Box 7 and described below.

Box 7 Performance Indicators. Operational Design



i) Proposals for indicators. The working process begins with a proposal from the Ministry of Finance for performance indicators for a group of agencies¹⁵. The proposal collects and chooses performance indicators from different available information sources, such as indicators incorporated in the previous Budget, or from programs, which have been evaluated (see Section III), and performance reports from Comprehensive Management Reports (see Section VI).

The indicator proposals are included in the forms for preparing the Budget Bill as the basis for the agency's work, and the proposal may be modified, improved and broadened. Each agency proposal must be presented together with its budget proposal.

ii) Indicator construction. Once the proposal is presented to the Ministry of Finance it is reviewed, and then, jointly with the agency, the indicators are selected and defined to be included in the documentation for the Budget Bill. At this stage there is a technical review and an examination of the consistency between goals and budget appropriation.

iii) Dispatch of Performance Indicators to Congress. The Indicators are sent formally to Congress together with the Budget Bill.

¹⁵ In previous years the process started with proposals from the agencies. For the 2002 budget preparation, proposals of indicators were sent to 64% of the centralized agencies which prepare MIPs (93 in all), as part of the management planning and control system. In 2003 the same procedure was followed for 99% of these agencies.

iv) Follow Up. As noted, the follow up is done on the basis of the information in the respective Comprehensive Management Report.

2. Performance Progress Report: Main Advances and Lessons

2.1 Systematizing the Experience

Between 2001 and 2003 targets and goals have been set increasingly and systematically through indicators, and those for the 2002 and 2003 budgets have been notably better constructed than those in 2001. Although indicators are still not in place for all the agencies' key outputs, there has been progress in agreeing measurements and targets and goals in major aspects of performance, and more and better indicators are in use.

In 2003 there has been a new step, with the development of a computing platform on-line via the Internet.

2.2 Effectiveness

2.2.1. Preparation 2001-2003

In the past three years the number of performance indicators and agencies preparing them has grown substantially. The 2001 budget included 275 indicators for a total of 72 agencies. In 2002 there were 537 indicators for 109 agencies. In the 2003 budget the figure rose to 1,039 indicators for 111 agencies - 82% of all those asked to prepare them¹⁶, a significant increase over previous years (see Chart 1).

Chart 1
Number of performance indicators per year

Functions	2001		2002		2003	
	N°	%	N°	%	N°	%
A. General	53	19%	82	15%	215	21%
B. Social	113	41%	266	50%	500	48%
C. Economic	109	40%	189	35%	324	31%
Total Indicators	275	100%	537	100%	1039	100%
N° Agencies	72		109		111	

Note: Classified according to the Functional Classification of Expenditure, Finance Statistics, National Budget Office.

In the three years under review, the preparation of indicators has focused mainly on social and economic functions, and largely covers effectiveness, as Charts 2, 3 and 4 illustrate.

¹⁶ In 2003 135 agencies were asked to elaborate indicators.

Chart 2
Performance indicators 2001. Evaluation Dimensions

Functions	Effectiveness	Efficiency	Economy	Total	%
A General	42	2	9	53	21.4 %
B Social	72	14	27	113	41.0%
C Economic	86	8	15	109	39.6%
TOTAL	200	24	51	275	100%
%	72 %	9 %	19 %	100%	

Note: Classified according to the Functional Classification of Expenditure, Finance Statistics, National Budget Office.

In 2003 the indicators relate to 33% of the outputs supplied by the agencies¹⁷, a 13-point rise over the 2002 figure.

Chart 3
Performance indicators 2002. Evaluation Dimensions

Functions	Effectiveness	Efficiency	Economy	Service Quality	Total	%
A General	51	7	8	16	82	15.3
B Social	133	33	38	62	266	49.5
C Economic	115	13	21	40	189	35.2
TOTAL	299	53	67	118	537	100
%	56	10	12	22	100	

Note: Classified according to the Functional Classification of Expenditure, Finance Statistics, National Budget Office.

From 2002 onwards, indicators in the quality dimension have been separated from effectiveness.

¹⁷ This means there is one or more indicator for each defined strategic output.

Chart 4
Performance indicators 2003: Evaluation Dimensions

Functions	Effectiveness	Efficiency	Economy	Service Quality	Total	%
A General	122	31	43	19	215	21
B Social	291	68	45	96	500	48
C Economic	142	54	48	80	324	31
TOTAL	555	153	136	195	1039	100
%	53	15	13	19	100	

Note: Classified according to the Functional Classification of Expenditure, Finance Statistics, National Budget Office.

2.2.2. Results 2001

As noted earlier, in the 2001 budget process a total of 72 agencies pledged targets and goals through performance indicators. Their results were evaluated in the first quarter of 2002¹⁸.

Of the 275 indicators established, compliance was evaluated in the case of 207. The remaining indicators were not reviewed, mainly because they had been subject to technical re-formulation during this period, to make them more relevant. They were then included in the 2002 budget process. Also, the CORFO agencies became autonomous entities, which took them out of the central government budget¹⁹. Of the 207 indicators evaluated, the agencies reported on 79%, with an 80% compliance rate. There were no major differences among the functions, as the following chart shows.

Chart 5
Performance Indicators Agreed for 2001: Evaluation Dimensions

Functions	Number of indicators			Fulfilled	%	
	Pledged				Reported/ total	Fulfilled/ reported
	Reported	Non-reported	Total			
General	34	13	47	27	72%	79%
Social	75	15	90	62	83%	83%
Economic	54	16	70	41	77%	76%
Total	163	44	207	130	79%	80%

¹⁸ Note that the indicators commit for a year t, and can only be evaluated in the year following year t+1.

¹⁹ Of the 68 indicators eliminated: 6 were removed because it was not possible to measure them; 42 were eliminated to be technically re-formulated and incorporated in the 2002 budget set of indicators; 20 were eliminated because the agencies involved became public enterprises and no longer formed part of the central government budget. This left 207 indicators agreed for 2001.

As Chart 6 shows, 80% of all targets were met satisfactorily, in a range from 95% to 100%, and only 10% performed below 80%.

Chart 6
Degree of Compliance, by Function Classification

Degree of compliance	Economic	General	Social	Total	%
95% - 100%	41	27	62	130	80%
90% - 94%	3	2	5	10	6%
89% - 80%	1	2	3	6	4%
< 80%	9	3	5	17	10%
Total	54	34	75	163	100%
%	33%	21%	46%	100%	

The targets and goals review were accompanied by background information on the results. In many cases this showed that though there had been progress, targets and goals were not met because of problems with information. In other cases, resources had been reallocated internally as a result of changed priorities or external factors, making it impossible to meet the targets.

2.3 Institutional Development

The experience of the past three years has created workspaces with the agencies' staffs, and these and the indicators established constitute the basis for future work. Within many of the agencies new links have also been generated between management and finance units, an essential move for improving internal management and strengthening budget reviews and preparation.

2.4 Quality

2.4.1 Consolidating the Methodology

In the past three years the forms for presenting indicators and the technical documents, which offer guidelines for preparing them, have been improved. This has helped consolidate the methodology. In the interests of standardizing basic technical criteria, the same methodology is now used in evaluating programs and agencies (see Section III), and has been incorporated into the standard form for presenting projects to the Bidding Fund (see Section IV). It is also included in the technical guidelines for the system of planning and management control in the Ministry of Finance's Management Improvement Program (see Section V).

2.4.2 Generating Competencies

Preparing indicators for inclusion in the budget has helped create competencies within the agencies, and it has also played an educational role in introducing a performance culture. More direct working relationships among the staff in charge in each agency has also generated more detailed analysis of the technical aspects, which also helps create a better understanding of the

measurement objective. All these factors should create greater synergies between preparing indicators and using them as management tools.

Major efforts have gone into supporting the agencies in making their strategic definitions and preparing performance indicators, with workshops, videoconferences throughout the country and special meetings.

2.5 Feedback in Decision-making

2.5.1 Follow Up

The cycle of the first indicators, presented in 2000 for the 2001 budget (when they were reincorporated into the process), closed in 2002. The follow up on compliance was carried out in the first quarter of 2002, in the process described in Section II.1.4.

For the follow up process for the 2001, 2002 and 2003 indicators, means of verification for revising target and goal compliance were identified. In the completed 2001 process, for the first time, the Government General Internal Auditing Council²⁰ was brought in to audit databases and information systems. The results were to be delivered to the National Budget Office in early 2003. In the second quarter of 2003 the auditing process for the 2002 indicators was due to start.

With the 2003 budget preparation, databases are now available that allow on-line interaction with the agencies through their websites, and makes it possible for the agencies to generate reports on target and goal compliance in a fast and timely way.

2.5.2 Indicator Quality

Of the indicators presented for the 2003 budget, 26% measure intermediate results or outcomes, a lower figure than in 2002, as Charts 7 and 8 show. As noted in II.1.2. above, the difficulty in measuring outcomes occurs also in the Chilean case, and this has made it necessary to have indicators at other delivery levels, providing information on other aspects, which are also important. Specifically, indicators are also used in the process area, mainly in the economic dimension (financial resource management), and in outputs. The combination of measurement levels appears to be satisfactory for this stage of development.

It should also be noted that the measurement frequency of many outcome indicators set in 2002 exceeds one year, and goals were thus not set for 2003. This reduces the number of such indicators.

²⁰ The Government General Internal Auditing Council is an advisory body to the Presidency, based in the Ministry for the Presidency.

Chart 7
Performance Indicators 2002: Delivery Levels

Functions	Process	Output	Result			Total
			Intermediate	Outcome	Total	
A General	12	34	30	6	36	82
B Social	44	68	88	66	154	266
C Economic	22	72	72	23	95	189
Total	78	174	190	95	285	537
	14%	32%	35%	18%	53%	100%

Note: Classified according to Public Finances, Finance Statistics, National Budget Office.

Chart 8
Performance indicators 2003: Delivery Levels

Functions	Process	Output	Result			Total
			Intermediate	Outcome	Total	
A General	79	83	37	16	53	215
B Social	90	268	84	58	142	500
C Economic	70	176	65	13	78	324
Total	239	527	186	87	273	1039
	23 %	51%	18%	8%	26%	

Note: Classified according to the Functional Classification of Expenditure, Finance Statistics, National Budget Office.

But for 2003 the agencies have presented a higher number of indicators; these are better constructed and identify the delivery levels to be evaluated. This will help advance their use in decision-making.

2.5.3 Integration in the Budget Cycle

The growing number of agencies that prepare indicators means a significant set of performance targets and goals are now available. The information on goal compliance has been used in the budget process, particularly at the Internal Evaluation stage in 2002 (see Box 5), and analyzed in conjunction with other information. The indicators are thus beginning to contribute to the objectives of efficient allocation and efficient operation defined for the budget process.

3. Aspects Pending and Solutions

3.1. Continuing to Improve Indicator Preparation and Availability of Information for Measurement

Despite the increase in the number of indicators presented in the 2003 Budget Bill, improvements are still needed in the measurement of results for key goods and services, to comply with the respective strategic objectives.

This requires us to tackle the problems with indicator preparation and the availability of information necessary for making measurements. Advances must be made on specifying the anticipated results, and identifying and creating adequate and timely records.

These problems are common in performance measurements²¹, which means they represent permanent medium term work. They also confirm the need to continue using different tools, which complement each other to allow a more comprehensive evaluation.

Progress towards overcoming these deficits and weaknesses depends entirely on working steadily along these lines, providing continuity and strengthening the process of consolidation. The current method of working more closely with the agency will be reinforced through the following two lines of action: -

a) Developing the system of management planning and control within the Management Improvement Program (MIP) in the public agencies (see Box 8). This includes identifying and preparing indicators associated with the main outputs, and developing adequate systems of data collection and systematization.

b) Providing technical assistance in preparing indicators from either the Finance or the Planning Ministry, for the Budget, for program evaluations and for the Bidding Fund.

Box 8

Management Improvement Program: Management Planning/Controls System

In the system of Management Planning and Controls incorporated in the framework of the Management Improvement Program the aim is for the agencies to design and implement a Management Information System (MIS) with performance indicators to support decision making.

The system is developed in six stages: One, the preparation of strategic definitions, i.e. mission, strategic objectives, outputs, clients. Second, a management information system (MIS) is designed, including responsibility units and performance indicators by output. Three, the MIS is implemented and adjusted. Four, the agency presents performance indicators for its main outputs in the annual budget preparation. Five the agency assigns priorities and weighting to the indicators incorporated in the budget; and finally, six, it pledges to achieve a minimum compliance level for these indicators.

3.2. Internalizing Use of Performance Indicators in the Agencies

Although there have been advances in socializing and internalizing performance indicators as a management tool within the agencies, these are often drawn up by a reduced group of staff, and the effort is not sufficiently shared with other members of staff on whom the results depend. Nor is best use made of the indicators in analyses and decision-making within the agency. Both the lines of work noted above will help address this issue.

²¹ See Allen and Tomassi (2002), and OECD (2002b).

3.3. Strengthening Follow Up and Verification of Information

There is a need to go more deeply into analyses of indicator measurements at the end of each year in order to discover the precise reasons for failures and take the necessary measures in a timely fashion.

Given the crucial importance of accurate measurements for those who use them, the auditing process must also be continued and strengthened. This means incorporating changes in the light of the 2001 and 2002 experiences, including greater timeliness, in order to have verified information available close to the final stage of each process.

3.4. Improving Integration in the Budget Cycle

As noted previously, at the Internal Evaluation stage carried out in the National Budget Office, the results of the indicators of the previous year are reviewed along with other performance information. Given the importance of this process, this practice will continue in coming years, when better quality information will also become available.

Progress must also be made in identifying better the link between the outputs to which the indicators refer and their corresponding budget appropriations. Currently, the way in which the budget is prepared does not always allow such clear identification. The application, in 2003, of the State Financial Management Data System will speed progress in this area.

III. Agency and Program Evaluation

1. Start Up and Development

1.1. Objectives and Requirements

Since 1997 the government has been incorporating different lines of ex-post evaluation. Its aim is to generate information to support management, analysis and decision-making on resource allocation. Initially it began reviewing public programs ex-post through its Evaluation of Government Programs (EGP). It later added Impact Evaluations, and then the Comprehensive Spending Reviews.

The aim of each line of evaluation is to help allocate public resources efficiently. They began with and now form part of a protocol agreement signed between the Congress and the Ministry of Finance when the Budget Bill is approved each year. This Ministry is responsible for its execution.

The aim of the evaluations is also to improve management through an institutional learning process among managers or others responsible for implementing policies and programs. They learn as the evaluation and results analysis develops, and thus collaborate to improve operating efficiency in the Budget system. Evaluation also contributes to another major aim of public policy: accountability.

Evaluation is different from monitoring in that it is a more overall and comprehensive process, which looks mainly at causal relationships. In Chile, evaluation also differs from auditing, which refers chiefly to legal compliance in public actions²².

With these observations in mind, along with the objectives and requirements of evaluations, as described below, the EGP work was based on the logical framework methodology used by multilateral development agencies such as the World Bank and the IDB. This centers on identifying program objectives, then determining the consistency of design and results against these objectives. On the basis of existing information and records it is possible to reach evaluative judgments on the main aspects of program performance, within reasonable time and costs.

Since the logical framework methodology of the EGP generally uses the data available from the program and is applied in a relatively short period of time, some evaluative judgments on outcomes are often inconclusive. So since 2001 a new line of evaluation, the Impact Evaluations, has been introduced, using more complex tools and methodologies of data collection and analysis.

Impact Evaluations are complemented with assessments on the basis of the logical framework, and developed in line with the same requirements and principles, as described later. The institutional framework, the actors involved and the main aspects of the operating design, which integrate them in the Budget process, follow the same lines.

²² In Chilean custom and practice the functions of program evaluation and auditing, whether external or internal, are separated. The financial audit carried out by the Comptroller General's Office does not include cost effectiveness auditing.

The Comprehensive Spending Review line begun in 2002 aims to evaluate the set of policies, programs and procedures managed by an agency, whether a ministry or a dependent agency. This means evaluating the rationale of its structure and the distribution of functions among work units, as well as its effectiveness, efficiency and economy in the use of resources.

Design of the three lines of evaluation is based on the following requirements or principles, which the evaluations must meet: they must be independent, public, reliable, relevant, timely and efficient.

To ensure independence, external evaluations were put in place with panels of experts, universities or consultants. The process is also managed externally to the agency responsible for the program.

The public nature of the information is ensured, formally, by sending the final reports on each evaluation to Congress and to the agencies responsible for decision making in relation to the respective program or agency. The reports are available to the public on request.

The external evaluators should provide not only independent evaluative judgments but also technical reliability. External evaluators are chosen by public competition, which guarantees the selection of the most competent.

Relevance is secured with the definition of the levels of evaluation to be included in the methodological designs, and the requirement that the evaluation must produce recommendations for improving performance, in the light of its findings.

Timeliness is related to the need for the evaluation findings to provide data for the resource allocation process.

Finally, efficiency requires the evaluations to be carried out at an accessible cost. Together with the previous demands, this seeks to ensure evaluative judgments on the main aspects of program and agency performance within reasonable time and costs.

1.2. Evaluation Dimensions and Aspects of Methodology.

1.2.1. Evaluation of Government Programs²³

As noted, the Evaluation of Government Programs is based on the logical framework methodology used by multilateral development bodies such as the World Bank and the IDB. It centers on identifying program objectives and examining the consistency of design and results against these objectives, on the basis of existing data and records²⁴.

²³ See web page www.dipres.gob.cl on management control, evaluation of government programs.

²⁴ In some cases, where necessary, and compatible with the timetable, complementary research has been done, mainly to gather new information or systematize existing data.

Evaluation begins with the preparation of the logical framework matrix, which includes different levels of program objectives through the process (shown below) of identifying aim and purpose (general objective), the specific objectives of each component, main activities, and corresponding performance indicators and assumptions.

Box 9
Logical Framework Matrix (EGP)

LOGICAL FRAMEWORK MATRIX			
Program:			
Service:			
1	2	3	4
Objectives statement	Indicators / Information	Means of verification	Assumptions
AIM:			
PURPOSE:			
COMPONENTS:			
ACTIVITIES:			

On the basis of this information the evaluation is developed, taking into account the dimensions or delivery levels indicated below:

- a) Rationale. Rationale is the stage for examining the diagnosis or problem which gave rise to the program, and which it was intended to solve.
- b) Design. Design evaluation means examining the ordering and consistency of the program against its stated aims and purpose (objectives), and its corresponding components and activities. This takes into account the initial rationale, and the way the diagnostic elements have evolved.
- c) Organization and management. Evaluating the organization and management means analyzing the main institutional aspects within which the program operates, and the main processes, areas of coordination and tools available to it for developing activities and meeting the objective.
- d) Results. The review of results or performance centers basically on the evaluation of the program's effectiveness, efficiency and economy.

The concept of effectiveness includes the degree of compliance with stated objectives, both in terms of production of goods and services and in the results for the target beneficiaries. The concept also includes the dimension of quality in goods or services or their attributes, measured through factors such as timeliness and accessibility. It also covers the sustainability of the results. It thus includes indicators of output, intermediate results and outcomes.

The concept of efficiency covers the relationship between resources and products, focusing on unit costs of production, use of inputs and levels of activity, and management costs. It also

includes identification of non-essential activities or those susceptible to outsourcing, and the level of competence in these processes, among other aspects.

The concept of economy refers to the program's capacity to generate and mobilize financial resources satisfactorily, including aspects such as capabilities in budget execution, loan recuperation and income generation, when these do not interfere with the program objective.

Based on the analysis of program design, organization and management, and results or performance, the evaluation also includes a judgment of the program's sustainability, in terms of the agency's capabilities, its continuity (taking into account the evolution from the initial diagnosis), and a set of recommendations to correct any problems identified and/or improve results.

1.2.2. Impact Evaluation

Unlike logical framework evaluations, Impact Evaluations require more research in the field, the use of primary data-gathering tools, the processing and analysis of a larger set of program data, and the use of more complex analytical models.

A central methodological element consists of separating out from the observed benefits all those effects on the target group which derive from factors external to the program and which would have occurred without it, as a result of normal developments in the environment or the action of other public or private programs. It is thus not sufficient to quantify the impact of the program on the beneficiary group by comparing the situation "before and after". Instead it requires a comparison of the final program outcome for the beneficiaries against a control group of non-beneficiaries with similar characteristics²⁵.

All these factors make Impact Evaluations lengthier and more expensive. For these reasons, they are used in the case of programs that have already been evaluated without producing conclusions on their outcomes or impact, or that have not been evaluated and have been allocated substantial resources.

Depending on the evaluative levels included in the impact evaluations, these are defined as either In-depth Impact Evaluations or Impact Evaluation Modules. The choice of one or the other depends on the complexity of the program, the presence of prior evaluative data, and the information needs.

1.2.2.1. In-depth Impact Evaluation

The aim of in-depth evaluations is to use rigorous tools and methodologies for data collection and analysis in order to integrate the evaluation of results (effectiveness) - understood as short, medium and long terms benefits (impacts) as appropriate - with the evaluation of efficiency and

²⁵ A control group is basically a segment of non-beneficiaries who form part of the target population, sharing the same social, economic, educational and other characteristics. The only difference between the individuals in the two groups is their participation, or not, in the program.

economy in the use of resources, and with aspects relative to the management of internal processes.

The aspects involved in an In-depth Impact Evaluation are as follows²⁶:

- a) Processing and analyzing quantitative and qualitative data which will show whether the program has achieved output results for each of its components.
- b) Developing and using both quantitative and qualitative evaluation methodologies which will show whether the program has achieved the desired intermediate results and outcome, or impact.
- c) Evaluating the program's capacity to manage budget resources satisfactorily, and analyze alternatives to recover costs or receive third party contributions.
- d) Analyzing institutional and management aspects.
- e) Making recommendations aimed at improving institutional, programmatic and management (operational) aspects of the program.

1.2.2.2. Impact Module

The impact module focuses mainly on evaluating the effectiveness of the program, i.e. its results in terms of outputs and outcomes for the beneficiaries, and the main aspects of efficiency and use of resources. Coverage with this method is the same as in the case of In-depth Evaluations, excluding only the investigations into institutional and management aspects. The methodological elements are thus also similar.

Since it forms a sub-set of an In-depth Evaluation, the Impact Module takes relatively less time than the former and is less costly.

1.2.3. Comprehensive Spending Review²⁷

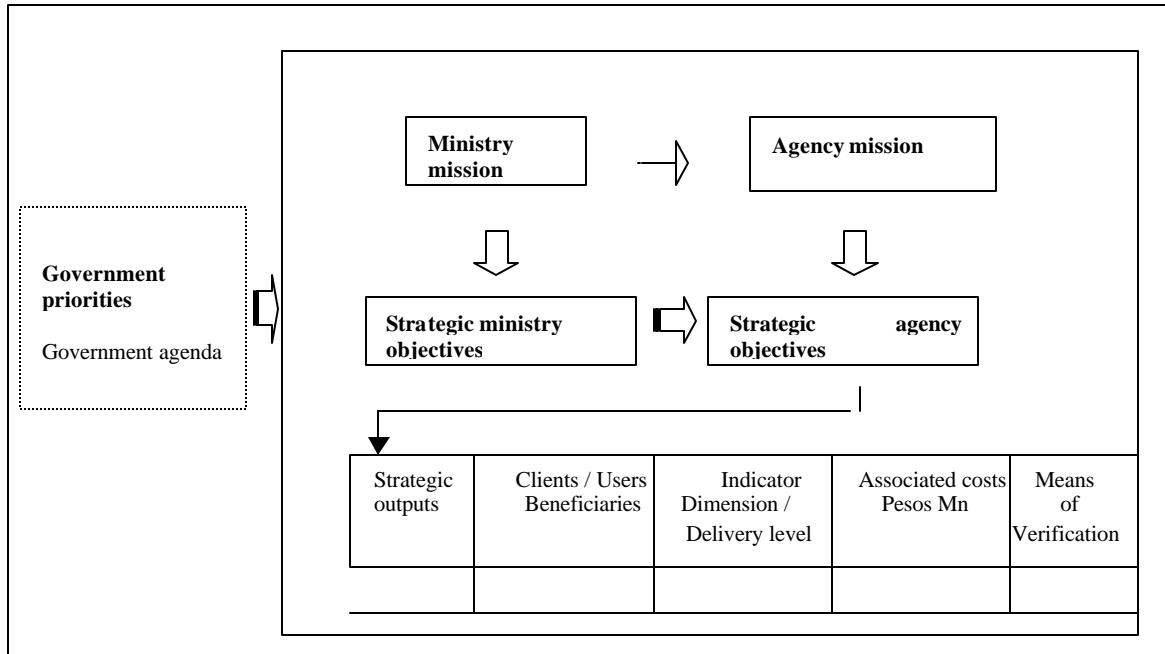
The basic information for the Comprehensive Spending Review consists of: government priorities; the mission statement of the ministry or agency under evaluation and its strategic objectives; the strategic objectives of the different agencies or work units which form part of it; the relevant outputs related to each stated objective; the beneficiaries/users/clients for each of the relevant outputs; the performance indicators for the production of each stated good and service; and the expenditure associated with providing them.

²⁶ For more details of the evaluation aspects mentioned here, see *Términos Técnicos de Referencia, Evaluación en Profundidad Programa Red Educacional Enlaces, Ministerio de Educación* on web site www.dipres.cl, in Management Control, Impact Evaluation.

²⁷ See web page www.dipres.cl on management control, Comprehensive Spending Review.

The basic information is incorporated in a matrix, shown below, and on the basis of which the following aspects are evaluated:

Box 10
Matrix for Comprehensive Spending Reviews



a) Institutional design. Each agency or work unit evaluates the internal consistency of government priorities, mission, strategic outputs (offer of goods and services), and beneficiaries. On this basis the rationality of the agency structure is reviewed along with the distribution of functions among the agencies in a ministry, or work units within an agency.

b) Institutional Management. The institution’s capabilities are evaluated (including professional, technological and organizational) as well as management mechanisms or procedures, such as: mechanisms for coordination and allocation of responsibilities; for allocating and transferring resources, and methods of payment; for auditing, reporting and transparency in the use of resources; monitoring and evaluation review activities and tools; and focalization criteria and/or selection of beneficiaries.

c) Results and use of resources. The results in strategic outputs are evaluated, taking into account the delivery levels and performance dimensions defined by the performance indicators (see Section II), and relating them to the resources allocated for providing them (cost-effectiveness).

1.3. Institutional Framework, Actors involved and Functions

1.3.1. Institutional Framework

Since the various evaluation lines were created they have formed part of the protocol agreement signed between the Congress and the Ministry of Finance in the approval of the Budget Bill each year.

1.3.2. Actors and Functions

a) Inter-ministerial committee. An inter-ministerial committee oversees the evaluations, to ensure their development is consistent with government policies, that the conclusions made are passed on to the agencies involved, and that the necessary technical support and coordination is available. The members of the committee represent the Presidency, the Ministry of Planning and Ministry of Finance. The latter is represented by the National Budget Office, which chairs the meetings.

b) Ministry of Finance. The National Budget Office is responsible for the execution and functioning of all lines of evaluation. It defines: the methodological and operational designs; the provision of resources for their operation; the operational management; the analysis and approval of preliminary and final reports, along with any observations it thinks appropriate; the reception and dispatch of evaluation reports to the respective authority (executive power and Congress); and the integration of evaluation results into the budget cycle.

c) Evaluators. The Evaluation of Government Programs (EGP) works with evaluation panels made up of three professionals chosen by public bidding. In the case of Impact Evaluations and Comprehensive Spending Reviews, which are more complex and require technical and management organization by the evaluating team, the work is done by universities or private consultants, who are also chosen by public bidding. In both cases the technical evaluations must be carried out in line with the procedures defined by the Ministry of Finance.

d) Agencies evaluated. The agencies responsible for the programs or themselves under evaluation are brought into the process through the following activities:

i) By providing specific data from the program to be passed to the evaluating team at the beginning of the process, and any other information which becomes available or necessary during the evaluation process.

ii) In the case of the Evaluation of Government Programs, by preparing the preliminary logical framework matrix for the evaluating panel, as a basic input. For a Comprehensive Spending Review, they prepare a preliminary evaluation matrix.

iii) By taking part in all meetings requested by the evaluators and the Ministry of Finance to analyze specific aspects during the evaluation process.

iv) By analyzing and commenting on the intermediate and final evaluation reports; their comments are passed on to the evaluators by the Ministry of Finance

v) By analyzing and commenting on the recommendations and, since 2002 onwards, taking part in the process of agreeing agency commitments for improvements on the basis of the recommendations, a process described below.

vi) By informing on compliance with agency commitments.

e) Congress. Congress receives the evaluation reports for use in the debate and approval of the Budget Bill.

1.4. Recommendations and Follow Up

1.4.1. Program Evaluation.

As previously noted, evaluation of each program includes a final stage when recommendations are presented, referring to the weaknesses or deficiencies identified in the process.

These recommendations may take the following forms:

a) To eliminate the program, either because it is no longer justified, or because its components, while justified, are not helping to achieve the objective, or its aim.

b) To eliminate components because they are no longer justified, or while justified are not helping achieve the objective or its aim.

c) To modifying components substantially to adjust to changes of diagnosis (initial justification) or to comply better in achieving the aim and purpose.

d) To make minor modifications to the components (modifying activities) to adjust to the changed diagnosis (initial justification) or to comply better in achieving the aim and purpose.

e) To add new components in place of those eliminated or incorporate a specific new objective (component objective) which will allow better achievement of the aim and purpose.

f) To introducing changes, independently or complementarily, in aspects of management or organization, to improve the achievement of the aim and purpose.

In practice, from the point of view of resources the recommendations can be incorporated into the framework of the program's disposable resources, in some cases by substituting components and/or activities, in others, with savings from greater efficiency in execution. In this case the aim is to improve the performance of resources already allocated to the program. If these situations do not occur, incorporating the recommendations will depend on the availability of new resources.

But the recommendations may also be incorporated using resources allocated to the agency or ministry, beyond those allocated directly to the program. In these cases a broader review of available finance and resource use is needed, which is beyond the scope of an evaluation panel. The evaluation comments in this case are thus not conclusive but a proposal to be examined further.

Since 2000 onwards the evaluators' recommendations have been examined by the Ministry of Finance jointly with the agency running the program, to specify how and when they will be incorporated, to identify the institutional instances involved (agency, ministry, other public body), and any possible legal or resource restrictions²⁸. The final output is the agency's formal pledge to incorporate the recommendations in each evaluation program. Such pledges form the basis for performance follow up.

At the follow up stage, the aim is to collect information on how the recommendations have been incorporated in practice and how program performance has evolved. This data should enrich the analysis of public resource allocation. Follow up should not be an administrative or bureaucratic activity but an opportunity to reflect and analyze the relationship between results and resources. With this in mind, the process takes place at two moments, related to the timing of the budget cycle. The first moment runs to 31 December of each year, and the agency includes the information in its Comprehensive Management Report (see Section VI). The second occurs in July with the presentation of the budget proposal by each agency.

In parallel, since 2001 the performance indicators in the programs under evaluation have been improved. The aim is to evaluate them through more permanent follow up, and incorporate them in preparing and debating the Budget Bill.

1.4.2. Comprehensive Spending Review

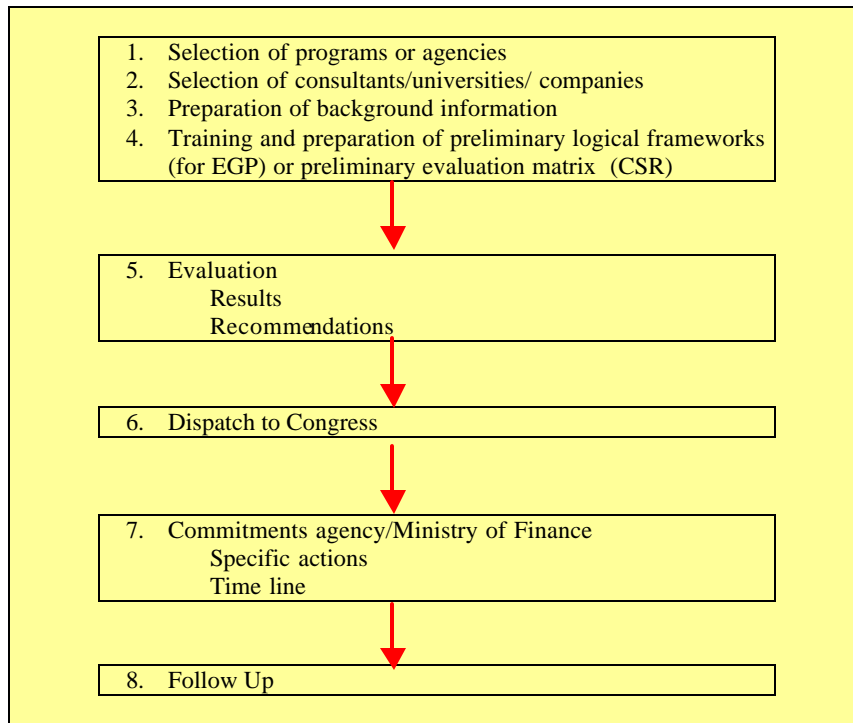
The recommendations process will follow the same lines as the evaluation of programs.

²⁸ The process of recommendation reviews with the agencies began in 1999, but was only partial and did not establish formal agency commitments.

1.5. Operating Design

The design process consists of eight stages, shown in Box 11 and described below.

Box 11 Operating Design



i) Selection of programs or agencies. The evaluation process begins with the selection of the programs or agencies, depending on whether it is a program or an agency review (Comprehensive Spending Review). The choice is made together with Congress on the basis of a proposal by the Ministry of Finance. The proposal draws on different sources of information, from the Ministry or other public agencies, to assess the need for evaluation.

ii) Selection of consultants. Once the programs and agencies have been chosen, consultants or consulting companies are selected by public bidding. For the EGPs, evaluation panels are formed.

iii) Preparation of information. In parallel with the selection of evaluators, the ministries and agencies to be evaluated are advised that the process is starting and they are asked to prepare the information that serves as the basis for the evaluation.

iv) Training and preparation of frameworks. For the Evaluation of Government Programs (EGP), before the evaluation begins there are training sessions in the methodology and basic aspects of the logical framework for both the panel of evaluators and the staff in the units responsible for the programs. The staff begin preliminary preparation of the frameworks for each program. For the

Impact Evaluations and the Comprehensive Spending Reviews, the basic methodological aspects being used are shared with the staff, and the preliminary evaluation framework is drawn up.

v) Evaluation. The available data forms the basis to begin the evaluation. During the process progress reports and the final report are prepared and commented by the agency under review and the Ministry of Finance. Evaluations last four months, in the case of EGPs, between six and eight months in the case of Impact Evaluations, and between eight and ten in the case of Comprehensive Spending Reviews.

vi) Dispatch to Congress. Congress officially receives the final report of the consultants' evaluations, an executive report by the Ministry of Finance based on the final report, and the final comments on the evaluation by the agency under review.

vii) Formalizing commitments. On the basis of the evaluators' recommendations, the agency under review and the National Budget Office agree on commitments.

viii) Follow up. The follow up on commitments in relation to the recommendations is carried out up to 31 December and 30 June of each year.

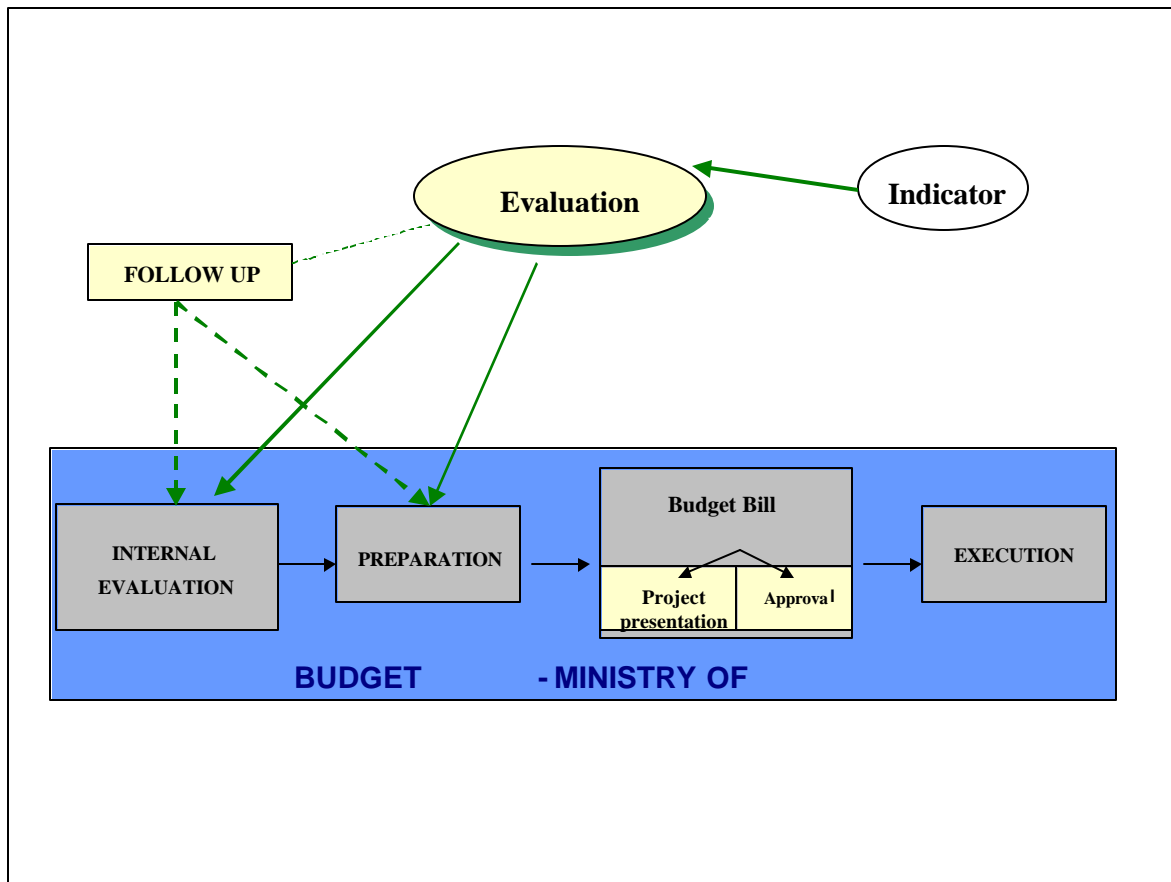
1.6. Integration in the Budget Cycle

The objective of the evaluation in relation to resource allocation does not necessarily imply an immediate, mechanical allocation of more or fewer resources depending on the results of the evaluation in the relevant period. In some cases of unsatisfactory results, it may be better to propose or demand better performance rather than harming the interests of the beneficiaries with substantial budget cuts. New performance conditions can be established in the Budget Law or in the process of defining agency commitments to improvements, as already described. The decision can then be reviewed on the basis of subsequent performance, following these modifications. On the other hand, programs which perform well may not require more resources if their existing appropriation covers their needs. In these cases the evaluation results may be used to justify maintaining the current allocation. Results must thus be used prudently, whether as arguments or as conditions for financial decisions.

The Comprehensive Spending Review works on the same principles, since it evaluates the entirety of an agency's programs and activities.

Integration in the budget cycle, as shown in Diagram 4, is done within the process of budget preparation, through the analysis of the evaluation results and compliance with the recommendations. This includes presentation of the results to the congressional finance committees and budget sub-committees.

**Diagram 4
Integration in the Budget Cycle**



Since 2000 the performance information from the program evaluations are discussed in meetings of the Budget Director with analysts from the Management Control Division and the Budget Sectors of the Budget Office. This data becomes the basis for Budget framework definitions and the Budget preparation. In some cases it may affect appropriations directly, or it may generate conditions on spending execution (Budget Footnotes).

The final reports are also sent to Congress in advance of the annual Budget Bill, together with the observations on the evaluation results by the agencies responsible for the programs. These reports allow the agency formally to express its agreements and discrepancies with the final evaluative judgments from the panel, as the external evaluator.

Since 2000 the summary reports of the evaluations and the comments of the agencies responsible for the programs have also been included in the appendices to the Budget Bill, which are presented to the congressional Budget sub-committees.

Since 2001, finally, the information on evaluation results and follow up on agency commitments, with progress reports on compliance actions, has also been used in the budget cycle, specifically in the Internal Evaluation stage already mentioned (see Box 5).

The Comprehensive Spending Review will follow the same lines as the program evaluations.

2. Reviewing the Experience. Main Advances

Program evaluations have now been going on for seven years, and including the 2002 cycle, 138 programs have been evaluated²⁹. Improvements have been made to different aspects during this period, based on the experience of the technical staff in charge, and on data from the different lines of evaluation.

These conclusions will concentrate especially on the program evaluations. The Comprehensive Spending Reviews (CSR) will not be covered here, as they have not yet finished a first cycle.

2.1. Systematizing the Experience

In the seven years during which the EGP has been developed and used, the basic principles on which it was created have been maintained, and act as guidelines for reviews and analysis, for improvements, and as the basis for the design of the second and third lines - the Impact Evaluations and the CSR. This has made for stability in the overall evaluation process and strengthened its development.

2.2. Effectiveness

A total of 138 programs have been evaluated, of which 132 were EGPs and six were Impact Evaluations (three in depth and three impact modules). The annual resources invested in these programs total 1.709.194 millions de pesos, of which 90% was used for social programs, as shown in Chart 9.

²⁹ In January 2003, two 2002 Impact Evaluations had reached their final stage.

Chart 9
Programs Evaluated 1997 – 2002

FUNCTIONS	ACCUMULATED TOTAL 1997 – 2002 (2002 pesos, millions)	(%)
A. General	37.060	2,2%
B. Social	1.523.716	89,1%
C. Economic	148.418	8,7%
TOTAL	1.709.194	100,0%

Note: Classified according to the Functional Classification of Expenditure, Finance Statistics, National Budget Office.

Covers the program budget for the year in which it was evaluated. For re-evaluated programs, from 2001 onwards, covers the budget for the year of the last evaluation.

For programs with dollar budgets, the exchange rate is calculated at (er) = \$680.

Annual resources involved in the Comprehensive Spending Review for the Agriculture Ministry represent an additional 202.198 million pesos.

Given the varying needs for evaluation, the other evaluative tools in the management control system, particularly the performance indicators, and the national resources available for this effect, the combination of the various lines appears to be satisfactory.

2.3. Institutional Development

- a) The protocols of agreement with Congress and the inter-ministerial committee have been maintained.
- b) The evaluative function of the Ministry of Finance has been strengthened with the formal creation of a technical unit responsible for these activities and the incorporation of this area into the institutional definitions of the National Budget Office.
- c) Work and coordination procedures have been consolidated with the agencies involved, and procedures have been developed that guarantee due competence of external evaluators, through public bidding³⁰.

³⁰ For EGPs the make-up of the panels were initially formed with evaluators from the staffs of the Ministries of Planning, Finance and the Presidency, but are now made up entirely by external consultants. In the case of Impact Evaluations, evaluators are chosen by public instead of private bidding process (as was previously the case), and for the Comprehensive Spending Reviews, by public bidding process rather than the previous evaluation panels.

2.4. Quality

2.4.1. Consolidation of Methodology

2.4.1.1. Evaluations of Government Programs (EGP)

In the case of the EGP, the methodology is judged appropriate, and essential elements have been incorporated into a standard format for funding requests for new initiatives and extensions or substantial reformulations of existing programs (see Section IV).

In 2000 and 2001 in particular, modifications were made to define more precisely the areas and scope of the evaluation, which produced changes in the forms and technical guidelines for the evaluation panels³¹.

2.4.1.2. Impact Evaluation

Impact Evaluations required a more rigorous methodology, which was developed and applied in each case in line with the nature of the programs and the viability of collecting or recording data. After the first year's experience the central elements were systematized more completely, facilitating the technical job of the consultants and the Ministry of Finance's counterpart function.

In both lines (EGP and Impact) the preparation of indicators has been improved. Once the evaluations have finished, the improvements will make for better program performance follow up, and will help stimulate work with the agencies to guide and advance the development of information systems for new and better measurements.

Finally, a paper, *Notas Técnicas*³², gives more detail on some topics and concepts in the area of program evaluations (both EGP and Impact). This will make it possible to develop uniform technical criteria and define conventions to be applied during evaluation development.

2.4.2. Creating Evaluation Competence

A significant number of consultants have taken part in the evaluation panels. From the creation of the EGP up to 2002, 59 panelists have participated in two or more review processes. More than 180 staff from the agencies and ministries in charge of initiatives under evaluation have been trained and later taken part in the evaluation process, giving them the opportunity to reflect and analyze the program for which they are responsible.

In the Impact Evaluations, including the 2002 cycle, four universities and one consultancy have taken part, and the technical exchange with them has been very productive.

³¹ See Guzmán (2001).

³² See the web page www.dipres.cl, in Management Control, Publications.

These factors all represent a contribution to the formation of a human capital, which is specialized in public sector programs and evaluation, and in turn it helps continue strengthening this public function.

2.5 Feedback in Decision-making

2.5.1. Quality of Recommendations

In recent years improved evaluation processes have generated more relevant recommendations, consistent with the problems and the results achieved, and which identify more precisely the main technical aspects to consider in modifying the program. This has improved information use both in allocating resources and in defining agency commitments.

In the EGP line, 52 programs have been evaluated between 2000 and 2002, of which 21% have been drastically restructured, 38% have undergone substantial changes to their components design and/or internal management processes, and 29% have had to improve their information systems and make minor changes to management processes. A further 12% were eliminated in the light of their results and/or because their objectives no longer responded to new requirements.

The programs, which underwent in-depth evaluations in 2001, have also had to make significant changes to their components design and/or internal management processes.

The boxes below show the results and recommendations for the programs reviewed in 2002 in the EGP line, and in 2001-2002 in the Impact Evaluation line.

Box 12
Programs Evaluated, 2002
Recommendations – Implications

Situations	Programs
<p><i>Improvement of information systems</i></p> <p>Programs requiring information system design and implementation, for better results monitoring.</p>	<ul style="list-style-type: none"> - Skills training in poor areas - Program establishing and developing a global vision on cultural policy towards the world - <i>Chile Barrio</i> (neighborhood improvement program)
<p><i>Minor modifications</i></p> <p>Programs requiring minor adjustments, e.g. improvements to information, follow up and monitoring systems, and fine-tuning some aspects of design and/or internal management processes.</p>	<ul style="list-style-type: none"> - Specific activities abroad - Educational reforms program - Explora program
<p><i>Design modifications of some components and/or internal management procedures</i></p> <p>Programs needing mainly design modifications to some components or internal management processes and/or activities, principally: review of focalization criteria or methodological tools; improvements to information and monitoring systems; improved internal and/or external coordination among agency staff involved; and improved management procedures in relation to financial resource transfers.</p>	<ul style="list-style-type: none"> - Regional transport subsidy - Technical aid - <i>Chile Compras</i> (state procurement and hiring) - Non-industrial fishing development fund
<p><i>Major reformulations in design or lines of action</i></p> <p>Programs needing substantial re-shaping in design and internal management processes, to ensure more coherence and better integration among lines of action.</p>	<ul style="list-style-type: none"> - Mental health
<p><i>Agency re-location</i></p> <p>Programs needing to relocate to other agencies, where a different framework allows management changes.</p>	<ul style="list-style-type: none"> - Industrial loans and credits program - National Board for Protection of the Elderly
<p><i>Program Cuts</i></p> <p>Programs which have finished their allotted task, or whose results no longer justify their budgets</p>	<ul style="list-style-type: none"> - Basic Teaching program - ProRural (rural development program)

Box 13
Impact Evaluations
Programs Evaluated, 2001
Recommendations – Implications

Situations	Programs
<i>Design modifications to some components and/or internal management procedures</i>	
Program must improve actions coordinated with and complemented among FTAI components, and between these and other CONADI programs; define the program's potential and target population; generate procedures and mechanisms to record, supervise and follow up actions in regional and local units, with the corresponding design and introduction of an information system; improve internal management control of FTAI's outsourced functions; and improve the system of land acquisitions.	Peoples' Land and Water Fund Program (FTAI) – CONADI / MIDEPLAN
Program must: reinforce coordination among tasks performed centrally by units and departments of IND, and the regional coordinators; create an integrated information system; review the focalization criteria defined in the programs; and improve methods of transferring funds to operators or beneficiaries.	Sports promotion programs – Instituto Nacional del Deporte (IND)

2.5.2. Information Timeliness and Integration in Budget Cycle

The information from evaluation results is available in a timely fashion and is included in the budget process. As noted, since 2000 the evaluation results in the EGP line carried out during the year are reviewed in meetings with the Budget Director and staff from the Management Control Division and Budget Sectors of the National Budget Office, prior to the preparation of the Budget Bill.

In the case of Impact Evaluations, the results are included in the budget process immediately they are completed, under the same procedure.

This allows the data to be used in preparing the Budgets, sometimes with a direct effect on appropriations, or giving rise to conditions on spending execution (Budget Footnotes). The information has thus contributed to the objectives of the Budget system of efficient allocation of resources and operational efficiency.

As noted, since 2000 the evaluation data also forms part of the Reports, which accompany the Budget Bill, to be presented in the Budget sub-committees.

2.5.3. Incorporating a Regular Procedure for Defining Commitments and Follow Up

Since 2000 the recommendations produced from the evaluations have been reviewed by the staff members responsible for the program evaluated and staff from the Ministry of Finance. The end output is the commitments pledged between each agency and the Ministry to incorporate changes in the programs. The commitments specify the ways and means and the timetable for correcting the problems or deficiencies identified.

This work forms the basis for a more precise, regular and rigorous follow -up, which makes it possible to monitor the inclusion of the agreed measures. In 2001 and 2002 the data resulting from the follow up made for greater precision in the Ministry of Finance's work during the Budget cycle. Since 2002 the follow up has been carried out through a website form, which helps interaction with the agencies.

The results of the follow up on commitments for programs reviewed in previous years (1999-2001)³³ show that in a universe of 53 program which currently have follow up, the respective agencies have fully complied with 53% of their commitments, partially complied in 34% of cases, and not complied in 13%³⁴.

As a complementary measure, improvements continue to be made in constructing the logical frameworks and performance indicators in each program under evaluation in the past two years. The aim is to advance towards more and better measurements, which will allow more permanent follow up of future performance.

2.5.4. Program Design and Availability of Data for Evaluation

Evaluations have in some cases been impeded by inadequate definitions of the program and components objectives, due to the lack of an initial logical framework and of data on baseline conditions and on subsequent performance. This has made it hard to reach accurate evaluative judgments.

In response, a new procedure has been incorporated, from Budget preparation 2001 onwards, for new, extended or reformulated programs. This requires such initiatives to be presented to a competitive financing fund, known as the Bidding Fund, in a standard form, which includes basic data on the programs from the evaluation formats, for example, the logical framework used in the EGP. The aim is for the programs to organize themselves and their information better for internal monitoring and evaluation. (see Section IV).

³³ The follow up information of program evaluated prior 1999 does not allow to do this type of analysis.

³⁴ Covers commitments up to 30 June 2002.

3. Aspects Pending and Solutions

3.1. Improving Program Design and Information Availability for Evaluation

Since a basic aspect of the evaluation is to identify the design elements of the program to be evaluated (in the case of EGPs, to reconstruct the logical framework), the procedure for Budget submissions will continue to be strengthened, with standard forms, based on the logical framework, for all new, extended or reformulated programs (see Section IV).

It is thus crucially important, particularly for the programs chosen for funding, to make more progress in identifying the initial conditions (baselines) to be modified. Progress also needs to be made on designing or improving existing information systems, taking account of different delivery levels and performance dimensions.

3.2. Consolidating Performance Follow-up in Evaluated Programs and Improving Information Use by Agencies.

Work will continue on improving indicator preparation and measurement so that, once evaluations are completed, the programs will have constructed a logical framework matrix and performance indicators. Together with and subsequent to follow-up on agency commitments, this will allow permanent follow-up and monitoring, both in the agency and in the Ministry of Finance. The Ministry will focus on aggregate aspects of performance and the intermediate results and outcomes.

Simultaneously, agencies will be encouraged to use information from evaluations and follow-up in management and budget proposals.

3.3. Improving Information Systems in Programs Evaluated

Information systems in the programs evaluated will be improved to provide easily accessible databases. This makes the information from evaluation results and effects, agency commitments and follow-up easier to use.

3.4. Consolidating Integration in the Legislative Debate

Congress will continue to receive the evaluations results, both at the evaluation stage of Budget execution, prior to the submission of the Budget Bill, and at the time of its submission.

3.5. Supporting Public Policy Reviews and Decision-making

In addition to bringing the results of the evaluations and the follow-ups on agency commitments to the review of resource allocations for specific programs, it is also possible to contribute, on the basis of accumulated data, to public policy review and decision-making. Thematic analysis can be made at an aggregate level, or a sectoral or inter-sectoral level.

IV. Central Fund for Government Priorities. Presentation of New, Amplified or Reformulated Programs

1. Start-up and Development

1.1 Objectives and Requirements

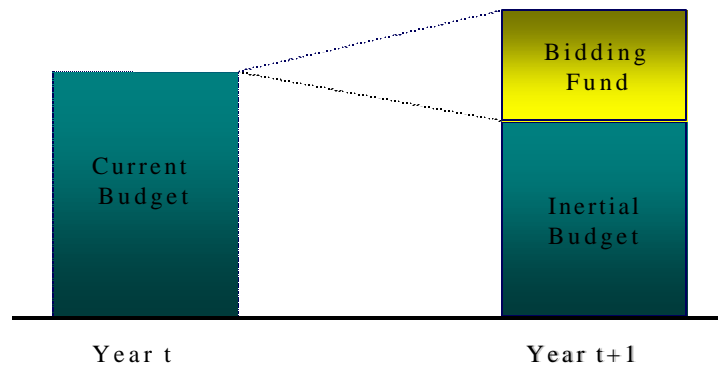
From Budget cycle 2001 onwards, a new procedure was incorporated which differed substantially from that of previous years. The aim was to reduce inertia in the Budget by obtaining better information during the Budget process and improving resource allocation to new, amplified or reformulated programs.

The new procedure has two central features:

First, Ministries begin preparing budget proposals with data from a budget framework related to their inertial spending (set by law, medium and long term commitments, and so on). For all new programs, and existing programs which have been substantially extended or reformulated and are not included in the budget framework, they can apply to a central fund for government priorities - the Bidding Fund (see Diagram 5).

Second, all projects applying to the Fund must use a standard form, which includes a set of basic data for analyzing the need for and relevance of the project. The concepts used in the form are mainly those used in the logical framework of the Evaluation of Government Programs (EGP), and are the basis for analyzing and choosing the projects to be financed.

Diagram 5
Bidding Fund



1.2. Dimensions and Aspects of Methodology

As noted, the concepts in the standard form for program applications are mainly those used in the logical framework methodology. The agency presents its proposals on a program application form, one of the set of budget proposal forms for public sector bodies³⁵. The main elements required on the form are:

- Strategic objective and output of the agency to which the proposal relates
- Rationale for the program
- Target and beneficiary population
- Budget information, spending and budget request
- Aim and purpose of the program
- Description of components
- Indicators and means of verification

1.3 Institutional Framework, Actors Involved and Functions

1.3.1 Institutional Framework

Program presentations are made in the framework of the budget preparation instructions, for which the Ministry of Finance is responsible through the National Budget Office. The programs chosen become part of the Budget Bill to be debated and approved by Congress.

1.3.2. Actors and Functions

a) Ministry of Planning (MIDEPLAN). Since the Budget preparation process of 2002, program proposals are presented to MIDEPLAN³⁶ for review and grading. This information forms the basis for analysis and decision-making in preparing the Budget Bill.

b) Ministry of Finance. The National Budget Office is responsible for technical and procedural definitions, which are prepared with support from MIDEPLAN. Since it is responsible for budget preparation, the Budget Office incorporates the data on the program proposals and their grading into this process. The final selection of the programs to be financed by the Fund is made in meetings with the President of the Republic, when the Ministry of Finance presents the complete public sector budget.

c) Agencies. The agencies participate directly, since they are responsible for presenting the program proposals. They are advised to make use of the staff who have been trained in the logical framework methodology, for technical support in drawing up proposals for the Fund.

³⁵ Form E in the Budget preparation process for 2003, from the Ministry of Finance.

³⁶ The first year this tool was used, the projects were presented to the National Budget Office and reviewed with MIDEPLAN's help.

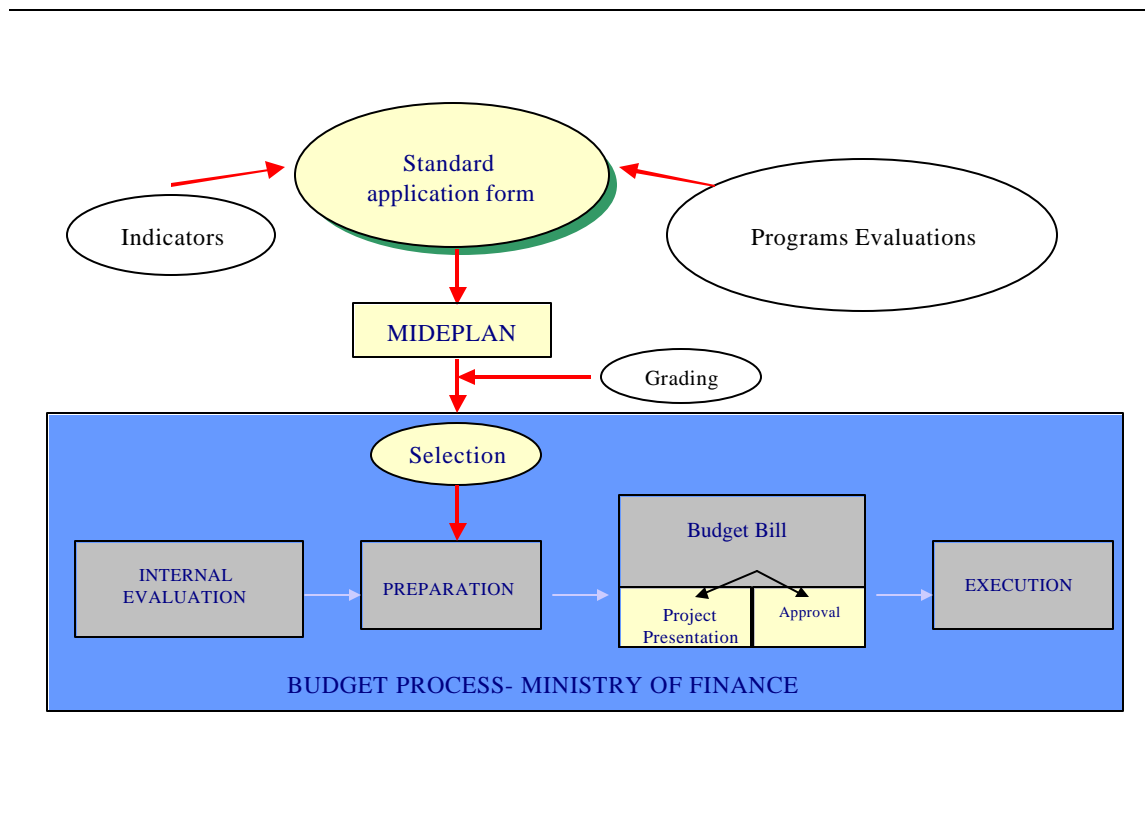
1.4. Follow-up

Annual follow-up of the programs chosen and incorporated into the Budget must be carried out, as relevant, on the basis of defined performance indicators (see Section II.1.4.). The programs will also be included in future program evaluations.

1.5. Integration in the Budget Cycle

The Bidding Fund is a tool for allocating resources. It forms part of the formal preparation of the Budget, and application to the Fund through a standard form is the procedure defined for this effect. Integration into the Budget cycle is illustrated in Diagram 6.

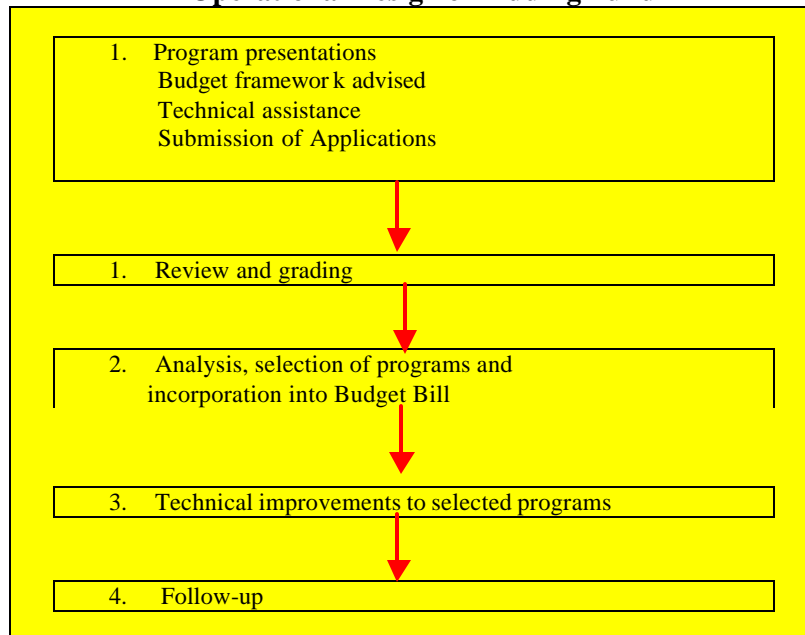
Diagram 6
Integration in the Budget Cycle



1.6. Operational Design

The operational design of the Fund procedures consists of five stages, which are shown in the following box and then described.

Box 14
Operational Design of Bidding Fund



i) Presentation of programs. The process begins at the same time as the Budget preparation, as soon as the agency has received its budget framework from the Ministry of Finance. Applications must be made to MIDEPLAN using the specific form, as part of the budget process. At this stage there is support and technical assistance from MIDEPLAN.

ii) Review and grading. This is carried out by MIDEPLAN. Only after they have been through this process can the programs be included in the ministry's formal budget proposal to the Ministry of Finance.

iii) Review, selection and incorporation in the Budget Bill. Based on the review and grading information, and also including other information on performance, relevance and government priorities, the Ministry of Finance makes a short-list of programs in line with the availability of resources. The short-list is presented to the President of the Republic, who makes the final selection.

Once the programs have been chosen for financing by the Fund, they are included in the Budget Bill, for debate and approval in Congress.

iv) Technical improvement. The programs selected may undergo design improvements or re-designs if these were found unsatisfactory, and must then be re-presented to MIDEPLAN.

v) Follow-up. Must be carried out each year on the basis of performance indicators.

2. Reviewing the Experience: Main Advances and Results.

2.1 Systematizing the Experience.

Since the Fund began operating, the agencies have met its demands with increasing success. Many managers have commented on the greater technical rigor imposed by the process.

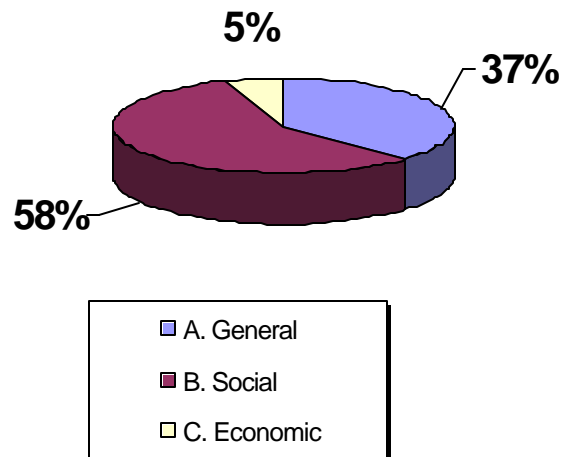
Changes made on the basis of the experience, particularly after the first year of operation, have reinforced rather than modified the objectives and the main elements of the methodology. Continuity in this line of work in preparing future Budgets will help consolidate it.

2.2 Effectiveness

Although it has only been operating for a short time, the Fund's standard application form and procedures has helped the program selection process by providing better quality and better-ordered information for review and analysis. This has reduced the inertia factor in Budget preparation, so that additional resources can be allocated to the best new initiatives and extended versions of the best existing programs.

In the 2003 process, 116 programs were selected for a total 92.8 billion pesos. Of these, 90% were existing programs, which had to justify themselves and compete with new or existing

Diagram 7
Distribution of the Central Resource Fund, by Functions



programs. More than 50% were social programs.

2.3. Institutional Development

From the 2002 Budget process onwards, an inter-agency work mode has been established, with MIDEPLAN participating in the activities indicated in IV.1.6. This mode has meant carrying out technical work between MIDEPLAN and the Ministry of Finance, particularly on the standard program application form, and its evaluation checklist and technical report. During the same year, procedures and responsibility for each agency were set out more clearly. Both lines of work have improved the use of the tool.

The form, checklist and technical report have helped institutionalize the procedure in the agencies, which should have an impact in future in improving their internal budget preparation process.

2.4. Quality

2.4.1 Consolidating the Methodology

Before the start of the 2002 and the 2003 budget cycles, the Ministry of Finance and MIDEPLAN gave workshops for agencies that requested them, to present the main methodological aspects of the format. In addition, there was training in the context of program evaluations, technical assistance from MIDEPLAN for program applications, a simplified form, and the agencies' experience of previous applications, all of which is helping to consolidate the methodology, and is reflected in better quality applications.

It should be noted that since the 2002 Budget Bill preparation process, the National Budget Office has incorporated a gender focus more fully into the program presentations to the Fund³⁷, by including gender focus in the standard application form (see Box 15).

Box 15 Incorporation of a Gender Perspective in Project Applications for the Bidding Fund

Gender analysis can be introduced at various stages of program preparation; hence the standard application form for the Bidding Fund includes it in the diagnosis, identification of beneficiaries, aim and purposes of the program, component definitions, and indicators.

At the components level (goods and/or services) in particular, applicants are asked to identify precisely the differences, which must be considered in defining the components, depending on whether the beneficiaries are men, women or both, so that the purpose or objective of the program can be achieved. The differences may correspond to the characteristics of the goods and/or services, to their means of access or supply, and/or to related processes.

Finally, a gender analysis requires that the indicators should measure the effects or results of the program and its components in the situation of men and women.

³⁷ This occurred in the framework of the pledges made by the Ministry of Finance in its Equal Opportunities Plan, and had the collaboration of the National Agency for Women (SERNAM).

2.4.2 Generating Competencies in Program Design and Monitoring

The progress described and the agencies' own experience of the process of preparing applications has clearly helped to generate basic competency in designing and re-designing programs, starting with the rationale and the more exact identification of the results at the level of aim and purpose.

2.5. Integration in the Budget Cycle

The Bidding Fund and its standard application form are part of the formal Budget preparation process. The project applications and their grading data have been analyzed at each stage, which helps decision-making. Since the process begins with a tight initial budget framework, the Bidding Fund has provided a way not only for channeling new resources but also for transferring financing from old to new priorities, and from less to more productive uses, thus contributing to more efficient resource allocation.

3. Aspects Pending and Solutions

Despite the progress described, there are still problems with technical aspects related to indicator definitions and measurements. The identification of baseline conditions and the definition of expected results, in particular, need to be improved. Though these are common problems in performance measurements, work will continue on these areas, through the following lines of action:

- a) The Ministry of Finance and MIDEPLAN will make the necessary changes to the Fund's technical tools, to make indicator definition more rigorous.
- b) MIDEPLAN will continue to provide and extend its technical assistance to the agencies, to cover a larger number, and go in more depth into the technical aspects of the application form. This to be done prior to the start of the Budget process.
- c) The Ministry of Finance will use the established procedures for program evaluations and performance indicators (see Sections II and III) to go in greater depth into the conceptual and methodological elements which are common to the standard application form. The preparation requirements for indicators in the budgets for these programs will also be tightened, to improve follow up on Fund-financed programs.

V. Management Improvement Program

1. Program Start-up and Development

1.1 Objectives and Requirements

The government began to develop the Management Improvement Programs (MIP) for public agencies in 1998 under Law 19,553,³⁸ which gives employees a financial incentive to meet management objectives.

Under this law, compliance with the management objectives in an annual MIP gives agency employees the right to a 3% salary increase the following year, provided the agency has met at least 90% of the annual objectives. The increase is 1.5% if compliance is between 75% and 90%.

During the program's first years of operation, the management objectives were expressed in indicators. A high percentage of these related to the agencies' routine activities, were based on processes, and set low targets. This approach also meant that commitments were not comparable in terms of relevance to the agency's mission or the level of demand required to meet them. Unequal degrees of effort were thus rewarded equally, which is undesirable in the case of a financial incentive.

The previous results are due, among other factors, to an uneven level of management within the agencies, and to inadequate technical work in setting and verifying commitments.

After three years in operation the MIP program was modified. The preparation and application phases incorporated the criticisms mentioned and the lessons learned from past experience, and the focus was sharpened so that the program would contribute to developing strategic areas for public management, starting in 2001.

The modifications focused on the adequate operation of areas and systems to guarantee better overall management. The guiding principles behind the changes are as follows:

Pertinence : The areas of improvement making up the MIP should respond to the management improvement priorities.

Simplicity and comprehensibility: Given that the MIP program is used in public agencies, the management areas and objectives it includes must be limited to a number that the agencies involved can reasonably deal with, at the different stages of the process, and they must adequately understand the areas and objectives.

Level of demand and comparability: The objectives in the MIP should guarantee the development and improvement of the areas they cover. The areas and objectives of all agencies must be comparable, so that compliance evaluation and bonus award are fair.

³⁸Law 19,553 passed in February 1998 and Decree 475, in May 1998.

Participation: Employees should take part in defining objectives and their priorities through appropriate work teams and other types of coordination. The agency as a whole must be informed of the objectives, and on the results of the follow up and final compliance.

Flexibility: The process of designing the MIP should take the necessary exceptions into account, bearing in mind the differences in each agency's functions.

Verifiability: Compliance with management objectives must be verified by specified means available to evaluators.

1.2. Program Dimensions and Methodological Elements

1.2.1 Areas of Improvement

The preparation of the MIPs by the agencies is part of a group of management improvement areas common to all public sector agencies, known as the Framework Program.

The Framework Program consists of systems originating in policy definitions that form part of the modernization of public sector management, and of initiatives begun before 2000 but whose development was insufficient and uneven from one agency to the next.

All the systems had some previous background, and some had regulations or technical processes for their development, including laws, decrees, presidential instructions, technical papers, methodological guides, and so on. The various systems are listed below.

Table 10
Management Improvement Program 2003
Areas, Systems and Objectives by Area

Area	System	Objective
HUMAN RESOURCES	Training	Improve, develop and strengthen main factors in human resources: training, work environments and staff performance evaluation mechanisms.
	Workplace conditions	
	Staff performance evaluation	
CUSTOMER SERVICE	Information and complaints management	Provide integrated systems for supplying information and fielding complaints, and provide forms on line and/or a single window using IT
	Cutting paperwork	
MANAGEMENT PLANNING/ CONTROL	Management planning/ control	Design and install management information systems to make performance data available to support decision -making and public disclosure of results.
INTERNAL AUDITING	Internal auditing	Provide regular control and audit mechanisms in the agencies, with a preventive and management support function
FINANCIAL MANAGEMENT	Procurement and hiring system	Strengthen financial management in public agencies by improved procedures, improving access and timeliness with more and better information.
	Accounting	
GENDER FOCUS	Gender focus	Incorporate a gender perspective into agency outputs.

The Framework Program includes the developments possible for each of the management systems indicated above. Each stage is defined by specific content and demands, so once the final stage is complete, the system is fully operative in terms of its basic characteristics and requirements.

Recognizing the uneven levels of management among the agencies, the Framework Program incorporates four or more stages of sequential development. They consist of a logical organization for the development of each system, starting at the most basic level and incorporating processes that provide technical unity at each stage. The definition of stages ensures gradual progress, but is flexible enough to allow the agency to shorten the stages if it makes faster progress.

For each stage, technical requirements have been defined, categorized in terms of contents and demands, thus establishing an accreditation model. The aim is to ensure the proper development of each stage and secure the conditions for the next. This makes for sustainable development in the management systems being introduced.

The MIP is designed to allow the introduction of new areas or systems and new standards for the existing systems, as technical or technological developments or policy definitions may require.

1.2.2. Methodological Considerations for Preparing MIPs.

Preparing the MIP for each agency means identifying the stage of development it proposes to reach in each area of the Framework Program, based on the stages set out in the program.

For each area and system, and on an annual basis, the agency must identify the stage it has reached, and accordingly propose as a management objective the stage it will have reached by the end of the following year.³⁹ In this way, the agencies make gradual progress from their baseline but aiming always at the final stage (see Appendix 1).

The agency must define the priority of the objectives and their corresponding weighting, expressed in percentages, which must add up to 100%. But the Framework Program can set a system or systems as high priority or as low priority, through the weightings.

The management objectives and their priorities thus make up each agency's proposal. Once it is approved, it is formalized in a decree, signed by the corresponding Minister, and the Minister of Finance, Presidency and Interior. Compliance with each management objective implies full completion of the stage involved.⁴⁰

The management objectives or stages must be compatible with available resources, so the MIP proposal is submitted together with the agency's annual budget.

Although the Framework Program applies to all agencies, there are some exceptional situations in the preparation of MIPs:

- a) Some areas or systems may not be applicable to all agencies, depending on their mission or functions.
- b) An agency's particular characteristics may mean it completes the stage agreed in the management objective slightly differently, but equally satisfactorily, from the way defined in the Framework Program.

³⁹ Note that in the first year the baseline of each agency's systems was identified. For the following years, the situation during the previous year became the base level.

⁴⁰ With defined development stages for each system, partial fulfilment of sub-stages is not recognized. In practice, this would set up multiple stages and defeat the purpose of accreditation, which refers to completion of a stage. It would also significantly increase the administrative complexity of the Program, since each defined stage would be fractioned.

These situations must be noted and justified in the MIP proposal, so they can be analyzed and incorporated once the agency program is approved.

1.3. Institutional Framework, Actors and Functions.

1.3.1 Institutional Framework

Law 19,553 created the MIPs and set their objectives, general guidelines and institutional coverage. MIPs are currently being applied in 86 centralized and 89 decentralized agencies. Another seven agencies are carrying out MIPs but their institutional incentive mechanism is governed by other laws.

1.3.2 Actors and Functions

a) Agencies. Agencies are responsible for formulating or preparing their MIPs and carrying out all the activities defined for each stage involved. Their responsibility in terms of preparation consists of annually identifying and proposing the stage they must reach by the end of the following year, for each area and system. To facilitate internal and external coordination of this task, MIP coordinators have been named in each agency.

The program stipulates that the head of each agency must apply a participatory process for preparing MIPs, informing staff at all levels of the proposal and also on how objectives are being met. Specifically, the regulations require the head of the agency to hold working sessions for information and consultation with employee associations, to gather suggestions and comments for both preparation and evaluation of the MIP.

b) Inter-ministerial Committee. Its function is to ensure the coherence, technical quality and level of demand for the agreed management objectives. Its members are from the Ministry of Interior, Finance and Presidency.

The Committee approves the Framework Program and approves each agency's MIP preparation and completion. These are submitted by the National Budget Office, after it has reviewed them according to technical criteria and the agencies have incorporated its observations.

c) Ministry of Finance. The National Budget Office, a member of the Committee, is responsible for developing the program technically and operationally and coordinating all the activities it requires.

d) Specialists' Network. The program has a network of specialists made up of agency staff involved with the systems being incorporated or directly responsible for them. The role of the network is to provide technical support to the National Budget Office in preparing the agencies' MIPs. Its members also ensure the technical requirements of the management objectives are met in the systems for which they are responsible.

e) Government General Internal Auditing Council. The Council plays an important role at the verification stage, working with ministerial and agency auditors. The task of the agencies' own

auditors is to check and confirm the fulfillment of management objectives included in the MIPs, based on defined means of verification.⁴¹

1.4. Follow-up and Evaluation

Since 2001 the program has used the following tools and procedures to improve its evaluation of MIP completion, and to meet the objective of verifiable commitments:

(a) Definition of the means of verification for completion of each stipulated stage, for each of the systems incorporated into the Framework Program. The definition is documented and all agencies advised of it.

(b) Verification of compliance of the MIPs as a government-auditing objective, in accordance with the definition of the Government General Internal Auditing Council⁴². This process is included in the annual program of each institutional auditing unit.

As noted, the function of each agency's internal auditor is to verify that the management objectives of the MIP are being achieved, a process, which is done on the basis of defined means of verification.

In the case of the Internal Auditing system incorporated in the MIP to meet the requirement for independence during the verification process, the CAIGG ruled that ministerial auditors would verify the fulfillment of commitments in each agency. The Under-Secretariats in each Ministry, which are responsible for the Internal Auditing, are audited by the CAIGG itself.

(c) The use of existing information systems has been integrated into the process of evaluating compliance of management objectives⁴³.

These three actions make for a better evaluation of commitment compliance, making the management tool fairer and more credible.

1.5. Integration into the Budgetary Cycle and Links to Other Tools for Improving Transparency and the Procedures of the Budget Debate.

The MIPs must be consistent with the financial resources allocated in each agency's budget. Each year the agencies thus submit their MIP proposal to the Ministry of Finance jointly with their proposed budget. The process is finalized when the objectives are established definitively in October, after the Budget Bill has been sent to Congress.

⁴¹ These include certifying fulfillment of technical requirements, done by members of the specialists' network.

⁴² The Objectives of Governmental Auditing are transversal, applying to all public agencies, on the instructions of the President of the Republic.

⁴³ These information systems form part of normal operations in the agency in which they function: public information on training (SISPUBLI- Ministry of Labor), government procurement and hiring – *Chile Comprás* (Ministry of Finance), budget management (SIAP-Ministry of Finance).

Since the 2001 budget cycle, the definition of objectives must be consistent with the framework budget given to the agencies when they begin preparing their budget proposal.

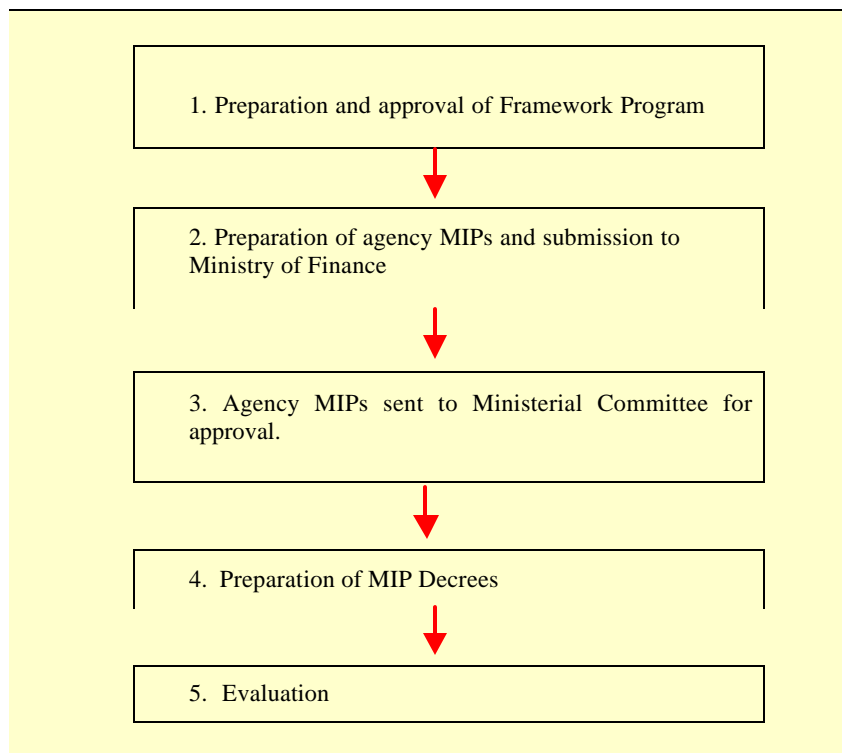
Information on annual compliance with MIPs is also used in the budget cycle in the internal evaluation stage (see Box 5). Data analyzed includes effective fulfillment of management objective commitments made in the previous year, and the stages agreed for the current year.

The MIPs also seek to improve strategic and financial data, and information on the results for products and services, for use in preparing and debating the Budget Bill. This is being done through the systems of planning and control, accounting and gender focus.

1.6 Operational Design

The operational design consists of five stages, shown in Box 16, and described below.

Box 16
Operational Design. Management Improvement Program (MIP)



i) Preparation and approval of Framework Program. Preparation begins with a proposal of strategic areas, systems and/or new development stages for current systems, written by the Ministry of Finance with support from the specialists' network. The proposal is submitted to the MIP Ministerial Committee for review and approval.

Once the Framework Program is approved for the following year, all the agencies are advised, through a set of specific instructions that form part of the budget preparation process.

ii) Preparation of agency MIP and submission to the Ministry of Finance. Once submitted, it is reviewed with the specialists' network, and their observations sent to the agencies to be included in the MIP proposal to be submitted to ministerial committee.

iii) Submission of agency MIPs to ministerial committee, and approval. The agency MIPs are submitted formally to the ministerial committee for approval. The committee reviews each proposal and approves or rejects the agency's proposed commitments. In the latter case, the agencies must incorporate the committee's observations.

iv) Preparation of decrees. Once the ministerial committee has approved the MIP, the agencies draft a decree that establishes their new commitments, in detail. The decree is then issued by the corresponding Minister and also ratified by the member ministers of the committee.

v) Evaluation. This is done on the basis of the information in the agency's MIP compliance report, which is a detailed account of the fulfillment of each management objective proposed. The report is also certified by the MIP specialists' network, and audited by the CAIGG.

2. Reviewing the Experience. Main Advances⁴⁴

2.1. Systematizing Experience

Including the 2003 cycle, the current design of these programs has now been in use for three consecutive years. Although this is a still short period of time, it has given the agencies a primary learning experience in both preparation and application, and allowed the National Budget Office and the specialists' network to improve the working procedures and tools to support them.

2.2. Effectiveness

2.2.1. Preparation Process, 2002

The redesign of the MIPs has led to a major change in the preparation process, and has been evaluated positively in terms of content relevance.

Alongside the 2002-2003 preparation processes, public information and technical support activities focused on four tools, designed as part of the Framework Program. They consist of:

a) Providing relevant available information, through an interactive space of FAQs (frequently asked questions).

⁴⁴ Since the 2003 preparation process ended on 31 December 2002 and the 2002 compliance evaluation finished in January, it was not possible to include information on those years in the analysis of each of the aspects developed here.

b) Creating an inter-agency network of specialists in different systems. Working together with the National Budget Office the network can provide precise definitions for the Framework Program and respond appropriately to agency doubts and questions.

c) Creating a methodology of support and technical assistance for agencies during the process. A direct, more personalized relationship with the National Budget Office has made it possible to go in greater depth into specific aspects, both conceptual and operational, for drafting and carrying out proposals.

d) Providing automated MIP preparation tools on-line on the National Budget Office web page, which simplifies the process and reduces the number of documents.⁴⁵

These four tools and processes have facilitated preparation, and there were no major difficulties during the proposal writing process.

Nevertheless, the 2002 preparation process of MIPs, analyzed below, was more difficult in the regional governments, the *Intendencias* (the senior regional authorities) and the provincial governors' offices. The greater difficulties were due to their more complex institutional structures and complex internal procedures in some of their systems, and detailed adjustments had to be made to the system while respecting the aims of the Framework Program. The difficulties of coordination between central and local levels also made the 2002 preparation process more difficult for these agencies.

Agencies have opted out of commitments to certain systems in only a minority of cases. For the year 2002, systems pledges averaged 80%, with 91% for centralized agencies and 70% for decentralized agencies (see Tables 11, 12 and 13). This shows that the systems included in the Framework Program are mostly applicable in all public agencies, which makes it possible to align their development in the areas considered key for management and necessary for applying more intensive modernization and reform processes.

⁴⁵ Starting with the 2002 preparation process.

Table 11
Management Improvement Programs 2002
Agencies with Management Objectives Pledged, per system

Systems	Year 2002	
	Percentage of agencies pledged to system	No. of agencies excluded
Training	99%	1
Workplace Conditions	100%	0
Staff performance evaluation	99%	1
Information and Complaints Management	84%	28
Cutting Paperwork	78%	38
Management Planning/Control	98%	2
Internal Auditing	99%	2
Decentralization Commitments 2000-2002	63%	64
Procurement and Hiring	71%	51
Accounting	64%	63
Gender focus	97%	6
Average percentage, 2002	80%	
Average percentage, 2001	79%	

Table 12
Management Improvement Programs 2002
Agencies with Management Objectives Pledged, per system
Centralized Public Agencies⁴⁶

Systems	Year 2002	
	Percentage of agencies pledged	No. of agencies excluded
Training	99%	1
Workplace Conditions	100%	0
Staff Performance evaluation	99%	1
Information and Complaints Management	83%	15
Cutting Paperwork	71%	25
Management Planning/Control	98%	2
Internal Auditing	99%	1
Decentralization Commitments 2000-2002	59%	35
Procurement and Hiring	99%	1
Accounting	100%	0
Gender focus	93%	6
Average percentage, 2002	91%	
Average percentage, 2001	91%	

⁴⁶ Includes 86 centralized public agencies. These do not include provincial governments, *Intendencias*, regional governments and regional housing offices (SERVIU).

Box 17
Exclusions among Centralized Agencies

Opting out in the area of human resources occurs where the agency's small staff does not justify or legally require the central processes of the systems.

In the case of customer service, agencies that do not directly serve end-users are excluded.

In the area of management planning and control, exclusions were made in one case due to the classified nature of the management, and in the other because the small number of staff made it impossible to establish centers of responsibility.

In the case of internal auditing, the agency was excluded due to the classified nature of its management, and in accordance with the law that regulates it.

Opting out occurs in the case of decentralization where the agency has no regional offices and is therefore not committed to decentralizing, or because it has no faculties susceptible to decentralization.

In the procurement and hiring system, the agency excluded is legally permitted to opt out of the system regulations.

Finally, in the case of gender focus, exclusions occur where the agency does not offer products where a gender issue is relevant.

Table 13
Management Improvement Programs 2002
Agencies with Management Objectives Committed, per System
Decentralized Public Agencies

System	Percentage of agencies committed to objectives	No. of agencies excluded
Regional Housing Agency (SERVIU)		
Training	100%	0
Workplace Conditions	100%	0
Staff Performance Evaluations	100%	0
Information and Complaints Management	100%	0
Cutting Paperwork	100%	0
Management Planning / Control	100%	0
Internal Auditing	100%	0
Decentralization Commitments 2000 – 2002	0%	13
Procurement and Hiring	100%	0
Accounting	100%	0
Gender Focus	100%	0
Regional Governments		
Training	100%	0
Workplace Conditions	100%	0
Staff Performance Evaluation	100%	0
Information and Complaints Management	0%	13
Cutting Paperwork	0%	13
Management Planning / Control	100%	0
Internal Auditing	100%	0
Decentralization Commitments 2000 – 2002	0%	13
Procurement and Hiring	100%	0
Accounting	100%	0
Gender Focus	100%	0

System	Percentage of agencies committed to objectives	No. of agencies excluded
Provincial Governments and <i>Intendencias</i>		
Training	100%	0
Workplace Conditions	100%	0
Staff Performance Evaluation	100%	0
Information and Complaints Management	100%	0
Cutting Paperwork	100%	0
Management Planning/Control	100%	0
Internal Auditing	0%	63
Decentralization Commitments 2000 – 2002	0%	63
Procurement and hiring	21%	50
Accounting	0%	63
Gender Focus	100%	0
Average Percentage⁴⁷ (MIP 2002)	70%	
Average Percentage (MIP 2001)	67%	

Box 18 Exclusions of Decentralized Agencies

In the area of customer service, only regional governments are exempt, as they do not directly serve end users.

For internal auditing, the Intendencias and provincial governments are exempt as the Control Department of the Under-Secretary of the Interior Ministry is responsible for that function.

In the case of decentralization commitments, all decentralized agencies are exempt since they are regional agencies and the system thus does not apply to them.

In procurement and hiring, provincial governments are exempt due to their low level of technology and of purchases.

In accounting, the Intendencias and provincial governments are exempt since this information is centralized in the Interior Ministry and is sent from thereto the National Budget Office and the Comptroller General's Office.

It is worth noting that agencies governed by other laws on bonus-linked management objectives have asked to be included wholly or partially in this system. This has happened with the National Supply Center, the Public Health Institute, the National Health Care Fund (FONASA), the Environmental Health Agency, the Under-Secretary for Health, the Superintendent of Sanitary Services, and the Chilean Nuclear Energy Commission.⁴⁸

⁴⁷ The universe of 89 agencies on which the calculation of the percentages of agencies committed to systems in 2002 is based is the same as in 2001. The average has only been affected by the incorporation of gender focus.

⁴⁸ These are agencies whose incentive systems were created before the law that created the MIP.

2.2.2. Main Results

2.2.2.1. Compliance with MIP Objectives 2001

The evaluation of MIP compliances in 2001⁴⁹ concluded that 66% of the agencies achieved 90-100% of the objectives they had pledged to, while 17% achieved 75-89% . The agencies with the lowest results were decentralized agencies such as provincial governments, *Intendencias* and regional governments, which achieved an average 72% of objectives⁵⁰ (see Tables 14 and 15).

Table 14
Management Improvement Programs 2001
General Summary of Compliance

Bonus Allocation for Agency Performance %	Compliance %	Agencies		Personnel	
		No.	Participation %	No.	Participation %
3.0%	90% -100%	116	66%	52,857	96%
1.5%	75% - 89%	29	17%	1,577	3%
0%	< 75%	30	17%	820	1%
Total		175	100%	55,254	100%

Source: National Budget Office, Department of Public Rationalization, Report on Public Sector Personnel 1999.

Table 15
Management Improvement Programs 2001
Summary of Fulfillment for Decentralized⁵¹ and Centralized⁵² Agencies

Bonus Allocation for Agency Performance %	Compliance %	Decentralized Agencies		Centralized Agencies	
		No.	Participation %	No.	Participation %
3%	90% - 100%	40	45%	76	88%
1.5%	75% - 89%	18	20%	9	11%
0%	< 75%	31	35%	1	1%
Total		89	100%	86	100%

⁴⁹ The MIP 2001 compliance evaluation process was carried out using automatized tools available on the National Budget Office web page, which simplified the process and reduced the volume of documents.

⁵⁰ In general, these are agencies with low staffing levels .

⁵¹ The de-concentrated and decentralized agencies are regional governments, SERVIUs, *Intendencias* and provincial governments.

⁵² The centralized agencies are Under -Secretariats and other non-deconcentrated services.

Overall compliance with objectives reached 88%. The analysis of results per system shows that the systems with the highest degree of compliance were decentralization commitments, internal auditing and staff evaluation. The systems with the lowest degree of compliance were information and complaints management, and cutting paperwork (see Table 16).

Table 16
Management Improvement Programs 2001
Percentage of Agencies Pledged to Systems, and Compliance

System	Agencies committing to system %	No. of agencies excluded	Agencies committing to system and meeting objectives %	No. of agencies meeting objectives
Training	99%	1	81%	141
Workplace Conditions	100%	0	87%	153
Staff Performance Evaluation	99%	1	97%	168
Information and Complaints Management	83%	29	77%	112
Cutting Paperwork	78%	38	74%	102
Management Planning/ Control	99%	2	90%	156
Internal Auditing	63%	64	100%	111
Decentralization Commitments 2000 – 2002	29%	124	100%	51
Procurement and hiring	71%	51	94%	117
Accounting	64%	63	83%	93
Systems average %	79%		(*) 88%	

(*) average percentage of systems where agencies met commitments, versus total commitments

These results mean that in January 2002 the agencies had achieved a level of systems development equivalent to an average of 1.7 stages of a total of 4 for the Framework Program that year (see Table 17).

Table 17
Management Improvement Programs 2001
Average Compliance with Stages per System, %

System	Average Stage Pledged	Average Stage Fulfilled	Fulfillment Percentage of Average Stage Pledged
Training	1.9	1.6	84%
Workplace Conditions	2.0	1.8	90%
Staff performance evaluation	2.3	2.2	96%
Information and Complaints Management	2.1	1.6	76%
Cutting Paperwork	1.9	1.5	79%
Management Planning/Control	1.6	1.4	88%
Internal Auditing	2.1	2.1	100%
Decentralization Commitments 2000–2002	1.4	1.4	100%
Procurement and hiring	1.9	1.7	89%
Accounting	2.7	2.2	81%
Average Percentage of Systems	1.9	1.7	88%

2.2.2.2. Preparation of Commitments MIP 2002

The commitments established in the MIPs for 2002 are the results expected for that year for each system and each agency. Comparisons show some agencies will achieve significant development by the end of 2002. These include: Telecommunications Under-Secretariat, the National Consumer Agency, the Office of Libraries and Museums, the Office of Agrarian Policy and Studies, the Foreign Relations Under-Secretariat, the Transport Under-Secretariat, and the National Bankruptcy Attorney's Office. These agencies pledged to achieving stage 4 for most of their systems.

Among the agencies with low goals, at stage 2 or 3, which will achieve lower levels of development in 2002, are the National Mint, the National Statistics Institute, the National Television Council, the Isolated Areas Supply Company, the Under-Secretary for Welfare, the regional governments of Valparaíso, greater Santiago and Los Lagos, and the provincial governments and *Intendencias*.

At the level of development expected in each system for all centralized agencies, the systems with the highest level of pledges are staff evaluation and accounting, as shown below. On the first, 56.5% of agencies are committed to reaching stage 4, and on the second, 71%. The systems to which the lowest level of commitments have been made, excluding decentralization commitments⁵³ and gender focus,⁵⁴ are management planning and control, and procurement and hiring, where 71% and 80% of agencies, respectively, are between stages 2 and 3 (see Table 18).

⁵³ This is due to the gradual nature of the design of the decentralization commitments, which is not altered by the MIP and establishes that this process must finish by end-2002.

⁵⁴ Due to the fact that this system is in its first year of operation.

Decentralized agencies, especially regional governments, provincial governments and *Intendencias*, commit to lower levels of development than centralized agencies, which is evident in Table 19.

SERVIUs commit to the highest level of development for the systems of cutting paperwork, staff performance evaluation, and procurement and hiring.

Regional governments generally commit to reaching between stages 2 and 3, and accounting is the system to which they commit most strongly. Provincial governments and *Intendencias* have committed to an even lower level of development.

The expected results listed below, expressed as an average, are equivalent to a stage 3 in development for all agencies, and break down as 3.2 and 2.8 for centralized and decentralized agencies respectively (see Tables 18, 19 and 20).

Table 18
Management Improvement Programs 2002. Commitments by Stage and System
(% of agencies)

System	Stages				Average stage	Total agencies ⁵⁵
	1	2	3	4		
Training	0	20.7	51.7	27.6	3.1	174
Workplace Conditions	0	13.1	61.1	25.7	3.1	175
Staff Performance Evaluation	0	9.8	53.4	36.8	3.3	174
Information and Complaints Management	0.7	19.7	42.2	37.4	3.2	147
Cutting Paperwork	0	29.9	32.8	37.2	3.1	137
Management Planning/Control	0	39.3	46.8	13.9	2.7	173
Internal Auditing	0	5.4	61.3	33.3	3.3	111
Decentralization Commitments 2000 - 2002	0	0	0	100	4	51
Procurement and Hiring	0	19.4	56.5	24.2	3	124
Accounting	0	1.8	38.4	59.8	3.6	112
Gender Focus	91.7	6.5	1.8	0	1.1	169
Average Percentage	8.4	15.1	40.5	36	3	

⁵⁵ Covers agencies that committed to systems in accordance with the Framework Program (excluding those in exceptional situations).

Table 19
Management Improvement Programs 2002.
Commitments by Stage and System
Centralized Public Agencies⁵⁶
(% of agencies)

System	Stages				Average stage	Total agencies ⁵⁷
	1	2	3	4		
Training	0	20	36.5	43.5	3.2	85
Workplace Conditions	0	9.3	52.3	38.4	3.3	86
Staff performance evaluation	0	18.8	24.7	56.5	3.4	85
Information and Complaints Management	1.4	14.1	36.6	47.9	3.3	71
Cutting Paperwork	0	21.3	24.6	54.1	3.3	61
Management Planning/Control	0	8.3	63.1	28.6	3.2	84
Internal Auditing	0	10.6	47.1	42.4	3.3	85
Decentralization Commitments 2000- 2002	0	0	0	100	4	51
Procurement and hiring	0	23.5	56.5	20	3	85
Accounting	0	2.3	26.7	70.9	3.7	86
Gender Focus	81.3	15	3.8	0	1.2	80
Average Percentage	7.5	13	33.8	45.7	3.2	

⁵⁶ Includes 87 concentrated public agencies. Centralized agencies do not include provincial governments, Intendencias, regional governments or regional SERVIUs.

⁵⁷ Includes agencies that committed to systems in accordance with the Framework Program (excluding those in exceptional situations).

Table 20
Management Improvement Programs 2002.
Commitments by Stage and System
Decentralized Public Agencies⁵⁸
(% agencies)

System	Stages				Average Stage	Total Agencies
	1	2	3	4		
Regional Housing Agency (SERVIU)						
Training	0	0	84.6	15.4	3.2	13
Workplace Conditions	0	0	76.9	23.1	3.2	13
Staff performance evaluation	0	0	0	100	4	13
Information and Complaints Management	0	0	30.8	69.2	3.7	13
Cutting Paperwork	0	0	0	100	4	13
Management Planning/Control	0	0	100	0	3	13
Internal Auditing	0	0	100	0	3	13
Decentralization Commitments 2002 – 2002						0
Procurement and hiring	0	0	0	100	4	13
Accounting	0	0	100	0	3	13
Gender Focus	100	0	0	0	1	13
SERVIU Average	10	0	49.2	40.8	3.2	
Regional Governments						
Training	0	15.4	61.5	23.1	3.1	13
Workplace Conditions	0	15.4	69.2	15.4	3	13
Staff performance evaluation	0	7.7	69.2	23.1	3.2	13
Information and Complaints Management						0
Cutting Paperwork						0
Management Preparation/Control	0	30.8	69.2	0	2.7	13
Internal Auditing	0	0	92.3	7.7	3.1	13
Decentralization Commitments 2000 – 2002						0
Procurement and hiring	0	46.2	53.8	0	2.5	13
Accounting	0	0	53.8	46.2	3.5	13
Gender Focus	100	0	0	0	1	13
Regional Governments Average	12.5	14.4	58.7	14.4	2.8	

⁵⁸ Includes 13 regional SERVIUs, 13 regional governments, 50 provincial governments and 13 regional *Intendencias*.

System	Stages				Average Stage	Total Agencies
	1	2	3	4		
Provincial Governments and Intendencias						
Training	0	27	63.5	9.5	2.8	63
Workplace Conditions	0	20.6	68.3	11.1	2.9	63
Staff Performance Evaluation	0	0	100	0	3	63
Information and Complaints Management	0	33.3	49.2	17.5	2.8	63
Cutting Paperwork	0	52.4	42.9	4.8	2.5	63
Management Planning/Control	0	92.1	7.9	0	2.1	63
Internal Auditing						0
Decentralization Commitments 2000 – 2002						0
Procurement and Hiring	0	92.3	7.7	0	2.1	13
Accounting						0
Gender Focus	100	0	0	0	1	63
<i>Provincial Governments and Intendencias, average</i>	12.5	39.7	42.4	5.4	2.4	
Average Percentage (Weighted)	12.1	30.2	45.8	11.9	2.8	

2.3. Institutional Development

Over the past three years and using the current design of the MIPs, significant improvements have been made in institutional aspects. Of these, it is worth mentioning:

- a) The creation and steady consolidation of the specialists' network, which has become a key actor in the MIP due to its responsibility for technical definitions and compliance certification.
- b) The evolution of the role of the staff members responsible for MIPs within agencies, many of whom at the beginning held a weak or ambiguous institutional position but who over time and with the consolidation of the program have become increasingly involved at decision-making levels.
- c) The role of the inter-ministerial committee, which has become an instance for reviewing and informing on the results of the MIPs and approving the Framework Program every year, keeping them consistent with management priorities and developments in other areas of government.
- d) The institutionalization of this area of work in the National Budget Office, with the formal creation of a technical unit responsible for its activities, and also with the incorporation of this area into its strategic institutional definitions.

2.4 Quality

2.4.1 Methodological Consolidation

The methodological design responds to defined requirements related to the design of the tool. First, preparation and compliance evaluation has shown that the tool is simple and comprehensible. Second, the Framework Program and the characterization of the development stages of systems has made it possible (i.) to compare the agencies objectively and provide fair

rewards in relation to achievements, and (ii) to achieve relevance and raise the requirements for commitment compliance and system developments. Finally, the flexibilities mentioned have made it possible to apply the programs satisfactorily in all agencies.

Consolidation of the Framework Program as the main methodological element has encouraged agencies to include themselves voluntarily in this incentive mechanism, as described in section V.2.2.1. New stages have also been incorporated, updating in line with new management requirements. The preparation of MIPs for 2003 eliminates the decentralization system, and adds new stages to four of the existing systems.

Development of the decentralization system reached stage 4 at the end of 2002. Further definitions in this area are under review, and are likely to be incorporated as a new system in the future.

Modifications were made in the Systems of Customer Services Management, Cutting Paperwork, Management Planning and Control, and Procurement and Hiring. In the first case, two new stages were added to the four current stages. The main objectives are to improve standards and promote more comprehensive and homogeneous institutional development. In the second case, the Cutting Paperwork System also added two further stages, with definitions for simplifying inter-agency bureaucracy.

The Management Planning and Control System also added two new stages. The objective is to reinforce target and goal fulfillment by using performance indicators that form part of the system. Compliance with these target and goals, which must relate directly to the objectives and strategic outputs defined in the agency mission, will make better information available for decision-making and public disclosure of results.

The Procurement and Hiring System is also undergoing major changes as a result of a new stage. The changes mainly relate to the new legal framework in which it will begin to operate in the coming months. Two new stages bring in additional operational requirements, to adapt regulations and operational procedures for purchasing to incorporate them into the state purchases platform.

2.4.2 Generating Competencies

The preparation and fulfillment of MIPs has generated competencies that ensure the quality of systems in the Framework Plan in line with the objectives pledged by the agencies. The Ministry of Finance backed by the specialists' network has contributed with seminars, workshops, meetings, videoconferences and transactions through the web page.

2.5. Feed-back in Decision Making

2.5.1. Quality of information on MIP Compliance

The first MIP cycle in its current design was completed at the beginning of 2002. From the start, the program has defined technical requirements and means of verification for each stage or management objective of the Framework Program. These have helped follow-up as the program was applied in the agencies, and have made rigorous and timely compliance evaluations possible,

including technical certification and auditing. This means the information on fulfillment of management commitments is good enough to be used for management decisions in other areas.

2.5.2. Integration in the Budget Cycle

Information on compliance with management objectives, along with other performance information, is used by the Ministry of Finance in its Budget preparation process. After the first MIP cycle closed at the beginning of 2002, the data was incorporated in the internal evaluation of that year (see Box 5).

Changes in the financial accounting system of the Framework Program have also improved information in this area, and contributed to financial management quality in the Ministry of Finance.

2.5.3 Integration in the Management Decision Making Process

Through the concept of the Framework Program and institutions like the inter-ministerial committee and the specialists' network, the MIPs have proved a useful tool for integrating government priorities, and feeding back, through results and experience, into management decision-making. Proof of this is the incorporation of the gender focus system in 2002, and the new development stages for some of the systems in the 2003 Framework Program, as described in section V.2.4.1.

Other recent significant changes, incorporating incentives for employee and agency performance, now form part of the MIP tool. These include collective incentive mechanisms in the bill for new personnel policy in the civil service, currently being debated in Congress.

3. Aspects Pending

3.1. Linking Management Objective Compliance with other Institutional Incentive Systems

The MIP management tool has not only reinforced the incentives for more effective and transparent management, but also forms a base from which to extend these efforts. In the short term, progress in meeting basic management system targets gives staff a financial bonus. In the medium term agencies meeting comprehensive targets or standards can then ensure a level of management responsibility, which could give them differentiated institutional status. The Ministry of Finance is considering eliminating other kinds of controls of a financial-operational nature, like the pre-established regulation on cash surplus transfers, and integrating budget sub-items for operational expenses, to allow agencies to reallocate resources autonomously within the authorized overall appropriations.

One requirement to achieve this status would be for agencies to finish developing their systems up to stage 4 of MIP 2001 (the first year of the current program). The evaluation of MIP 2002 will determine which agencies have met this requirement.

3.2. Progress in Socializing and Internalizing MIPs within each Agency.

Work must continue on reviewing aspects of establishing MIPs in each agency, and encouraging participation in, diffusion to and comprehension of the program by employees and different managerial levels.

VI. Comprehensive Management Report (CMR)

1. Start Up and Development of CMR

1.1. Objectives y Requirements

Since 1997 the Budget Law has required all agencies governed by Title II of Law 18,575 (Central Government) to provide information on their objectives, management targets and results. For this purpose, Ministry of Finance Decree 47 (1999) and subsequent modifications created the Comprehensive Management Reports (CMR), through which these results are publicly reported to Congress.

1.2. Dimensions and Methodological Elements

The CMR from each agency is a management report presented in a standard format. The main aspects are as follows:

- a) Letter from the agency director or chief. A brief presentation of the agency's performance in the previous year by its most senior authority, noting the internal and external factors or circumstances which affected performance, and the challenges for the current year.
- b) Identification of the Agency. Includes all relevant information to identify the institution to public opinion, analysts, other agencies and Congress. Includes: laws and regulations which govern the agency; (ii) organization chart (iii) strategic definitions (iv) geographical distribution of offices (v) human resources; and (vi) financial resources.
- c) Management results. A presentation of management results in the agency in the previous year including i) public disclosure of results (ii) fulfillment of specific agency commitments (iii) progress in management processes (iv) draft laws (v) investment projects (vi) transfers.
- d) Challenges for current year. The main tasks the agency faces in the year following the report, consistent with its budget resources for that year.

The basic concepts in the form are mainly those used in the regulations and procedures for financial accounting management and the tools of the management control system, including the strategic definitions used by the latter. This is particularly important because the CMRs are global annual reports, so it is crucial that the presentation and review use the same conceptual elements being applied to procedures and tools of financial management and performance.

1.3. Institutional Framework, Actors Involved and Functions

1.3.1. Institutional Framework

The CMRs were set up by Decree 47 of the Ministry of Finance and subsequent modifications, which defined their objective, main requirements and institutional responsibilities.

1.3.2. Actors y Functions

a) Agencies: The Reports are prepared by the agencies according to instructions from the Ministry of Finance.

b) The Ministry of the Presidency. Instructions for preparing CMRs are sent jointly by the Ministries of Finance and the Presidency. The latter evaluates the information submitted by the agencies in its areas of competence.

c) Ministry of Finance. The National Budget Office is responsible for the technical and operational definitions related to the preparation of the CMRs, including preparation of the standard form, instructions and methodological guidelines, technical assistance, evaluation and final reception. It also sends the Reports to Congress.

d) Congress: Receives the CMRs from all the agencies for its institutional purposes.

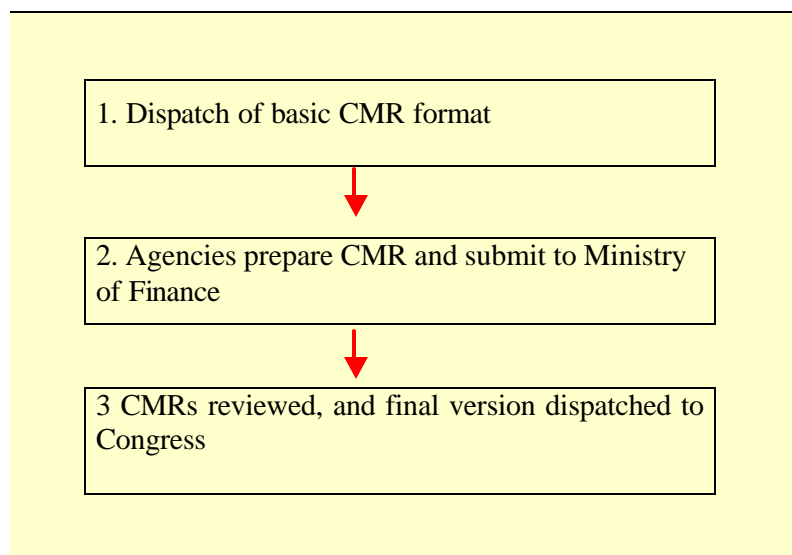
1.4. Integration in the Budget Cycle

From 2001 onwards, information from the CMRs has been used in the Internal Evaluation process carried out by the National Budget Office (see Box 5), prior to the Budget preparation.

1.5. Operational Design

The operational design of the CMRs consists of three stages, shown in Box 19 and described below.

Box 19
Operational Design. Comprehensive Management Report (CMR)



i) Dispatch of basic format. The basic CMR format is sent to all agencies with instructions and methodological guidelines for its preparation. Information is also provided on the web site of the National Budget Office, and technical meetings are also held if necessary with the agencies.

ii) Preparation of CMRs and submission to the Ministry of Finance. The agencies draw up CMRs and submit them to the Ministry of Finance via the web site.

iii) Review of CMRs and dispatch of final versions to Congress. The CMRs are evaluated by the budget and management areas of the National Budget Office, and by the Ministry of the Presidency in relation to government programming, for which this Ministry is responsible. Once their observations have been incorporated, the agencies send their final versions to the Ministry of Finance, which sends them to Congress.

2. Reviewing the Experience. Main Advances.

2.1. Systematizing the Experience

CMRs have been produced since 1998. After the experience of the first years, substantial changes were made, in 2000, to technical aspects and working procedures. Systematic experience with these reports has allowed steady improvements and this process will continue, to ensure they accomplish their objectives ever more effectively.

2.2. Effectiveness

All agencies have met their obligation to submit CMRs and these have been sent to Congress on their due dates.

In recent years the agencies have been encouraged to make the CMR their single public disclosure report, so the technical teams and the authorities focus on improving them.

2.3. Institutional Development

The years of preparing the CMR, particularly the past three years with the current design, have brought real progress in institutional aspects, of which the main ones are:

a) Development of the role of staff members responsible for the CMRs within the agencies. Initially their position was often weak or ambiguous, but over time and as CMRs begin to be used in decision making processes, they have come hold positions more in keeping with the competences and responsibilities the Report requires.

b) Institutionalization of this area of work in the National Budget Office, through the formal creation of a technical unit responsible for it, and its inclusion in the Office's strategic institutional definitions.

2.4. Quality

2.4.1 Methodological Consolidation

Substantial changes were made to CMR preparation in 2000, to improve design and content and ensure better information on overall management results. Subsequently, and with the experience using information from the reports, smaller changes were made with the same aim, particularly to make the reports more relevant and easier to read.

2.4.2. Generation of Competences.

The conceptual elements for CMR preparation were generally drawn from other tools and work procedures in use, such as the management control and financial accounting systems. Generating competence in these areas created synergies to reinforce the same process in CMR preparation. Competence generation in management control tools has been specifically noted in this document.

The agencies were already familiar with specific aspects of the format and work procedures for electronic media, through the web site.

2.5. Public Disclosure and Feed-back in Decision-making

2.5.1. Public Disclosure

CMRs are sent to Congress as a public disclosure report; they are published on the web site of the National Budget Office and of each agency; and a copy of each report is available in the Ministry of Finance library.

2.5.2. Quality and Feedback in Decision-making

CMR information has shown major improvements in quality, partly as a result of the measures mentioned.

Thus CMR information can now be used in the Internal Evaluation process carried out by the National Budget Office (see Box 5). The reports also provide general information and form the basis for the Ministry of Finance's program and agency evaluations.

The reports also provide information on performance indicator compliance, and on agency commitments related to program evaluations, and are a source for the respective follow-ups.

3. Aspects Pending and Solutions

3.1 Continuing to Improve Report Quality

Despite improvements in recent years the reports still need enhancement, particularly on performance information, to stress the presentation of achievements and setbacks, and give a precise account of external and internal circumstances, which may have affected performance.

3.2 Strengthening Public Disclosure

As well as improving performance data, other areas of information must be added in future, such as the results of auditing reports on the agency during the year.

VII. ACRONYMS

CAIGG	: Government General Internal Auditing Council (<i>Consejo de Auditoria Interna General de Gobierno</i>)
CMR	: Comprehensive Management Report (Balance de Gestión Integral, BGI)
CSR	: Comprehensive Spending Review (Evaluación Comprehensiva del Gasto)
EGP	: Evaluation of Government Programs (Evaluación de Programas Gubernamentales (EPG))
IDB	: InterAmerican Development Bank
MIDEPLAN	: Ministry of Planning (Ministerio de Planificación Nacional)
MIP	: Management Improvement Program (Programa de Mejoramiento de Gestion (PMG))
SIGFE	: State Financial Management Information System (Sistema Información de Gestión Financiera del Estado)

VIII. APPENDIX 1

Scheme for Preparation of MIP in line with Framework Program

AREAS AND SYSTEMS OF IMPROVEMENT	STAGES OR STATES OF PROGRESS					
	I	II	III	IV	V	VI
Human Resources - Training - Workplace conditions - Staff performance evaluation		Management Objective 2002 → Management Objective 2002	Management Objective 2002 → Management Objective 2003	Management Objective 2003 → Management Objective 2003		
Customer Service - Information and Complaints Management - Cutting Paperwork Management Planning/ Control - Management Planning/Control			Management Objective 2002 → Management Objective 2002	Management Objective 2002 → Management Objective 2002	Management Objective 2003 → Management Objective 2003	Management Objective 2003
Internal Auditing - Internal Auditing			Management Objective 2002 →	Management Objective 2003		
Financial Management - Procurement and hiring - Accounting			Management Objective 2002 → Management Objective 2002	Management Objective 2002 → Management Objective 2003	Management Objective 2003	
Gender focus -Gender focus	Management Objective 2002 →	Management Objective 2003				

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