

BUREAUCRATIC AND BUDGETARY MANAGEMENT RELATED TO RESULTS: INTERNACIONAL EXPERIENCE

Workshop on Result-
Oriented Intensive
Management of
Strategic Projects
IIRSA

Rio de Janeiro, August
9th-10th, 2006

Mario Marcel, Politeia Soluciones Publicas

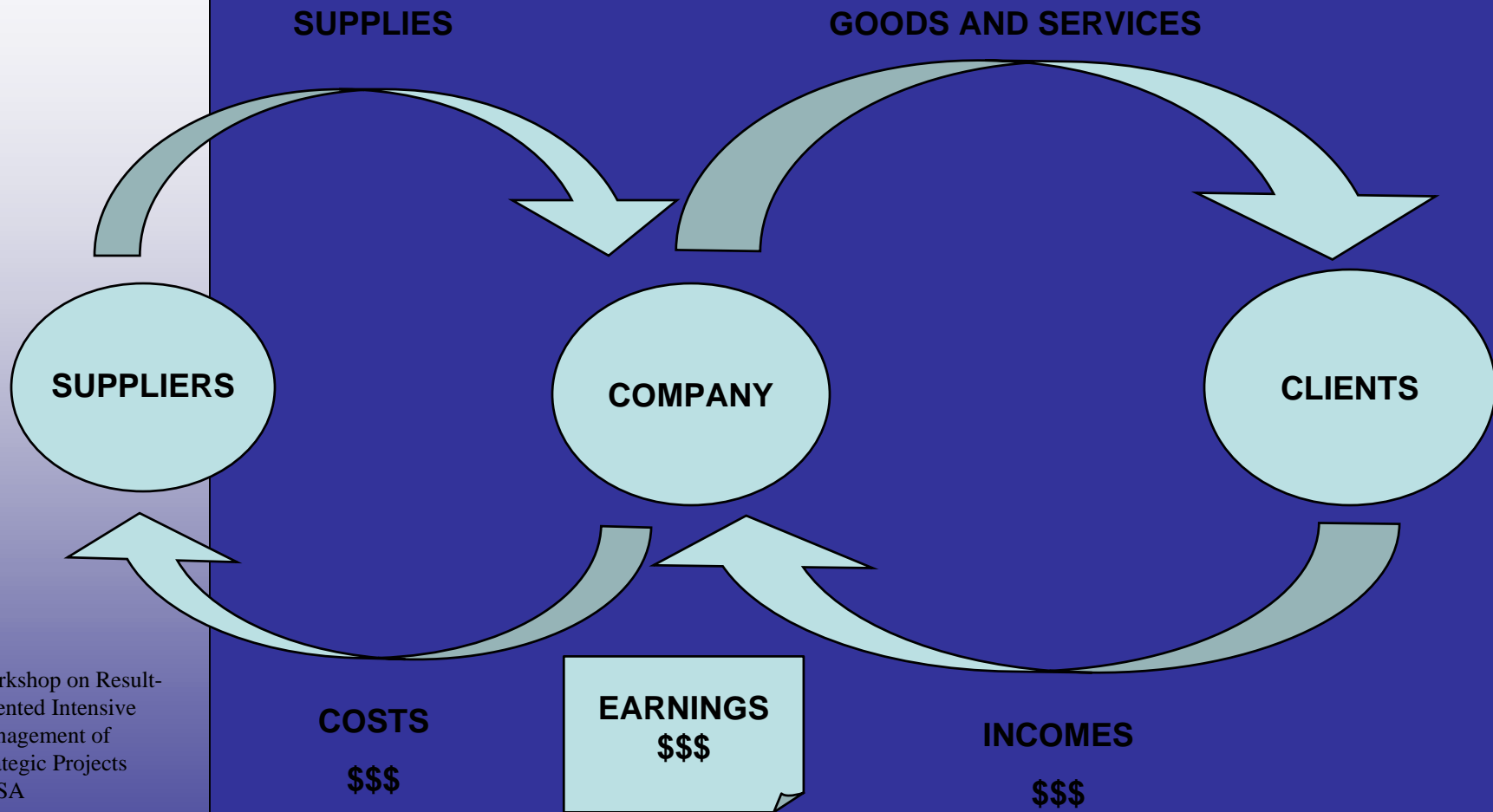
PUBLIC MANAGEMENT CONCEPT

- How the State organizes itself, gets and mobilizes its resources in order to reach certain politically set purposes
- Said purposes are nowadays very wide:
 - Classic public assets: free consumption, non-excluding
 - Merit goods
 - Regulation and market failures

PUBLIC MANAGEMENT SPECIFICATIONS

- Creation of value
 - Citizens' individual transactions
 - Selection of public activities and programs - social values and preferences
 - Provision and regulation
 - Generation of response capacity, control of the environment
 - Political-administrative process: transparency, equity, non-discrimination, legality
 - Cost
- Difficulty to measure the value created
 - Lack of price
 - Products, result, impact
 - Relationship among supplies, products and impact

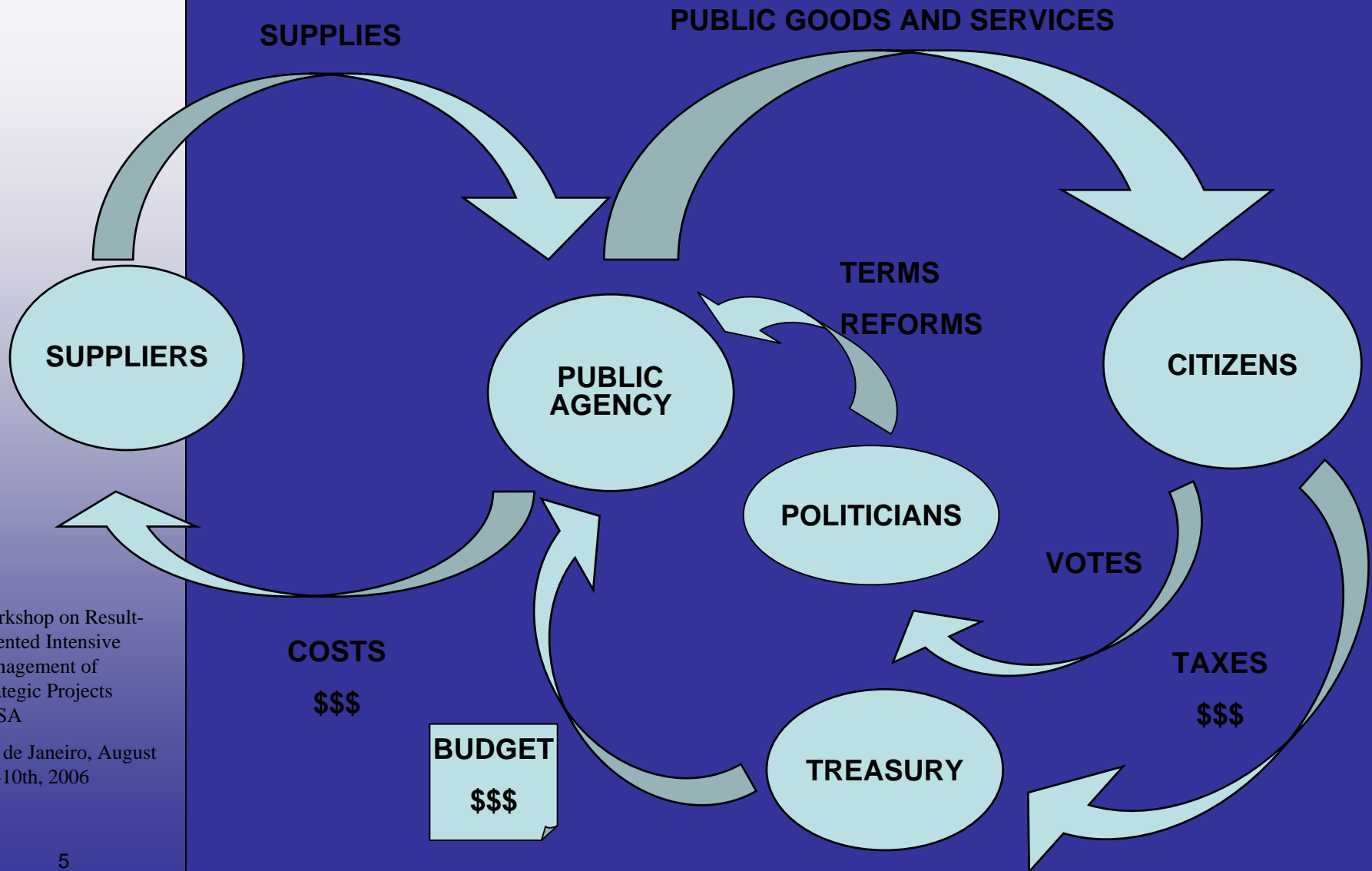
FINANCING AND RESULTS: PRIVATE COMPANY



Workshop on Result-Oriented Intensive Management of Strategic Projects IIRSA

Rio de Janeiro, August 9th-10th, 2006

FINANCING AND RESULTS: PUBLIC AGENCIES



Workshop on Result-Oriented Intensive Management of Strategic Projects IIRSA

Rio de Janeiro, August 9th-10th, 2006

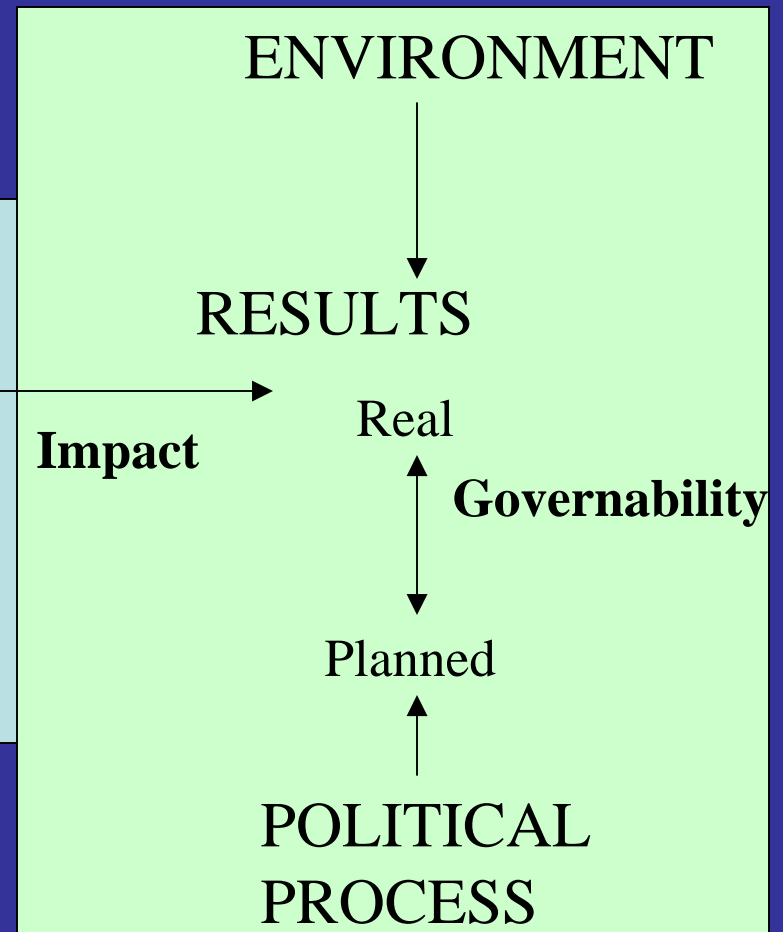
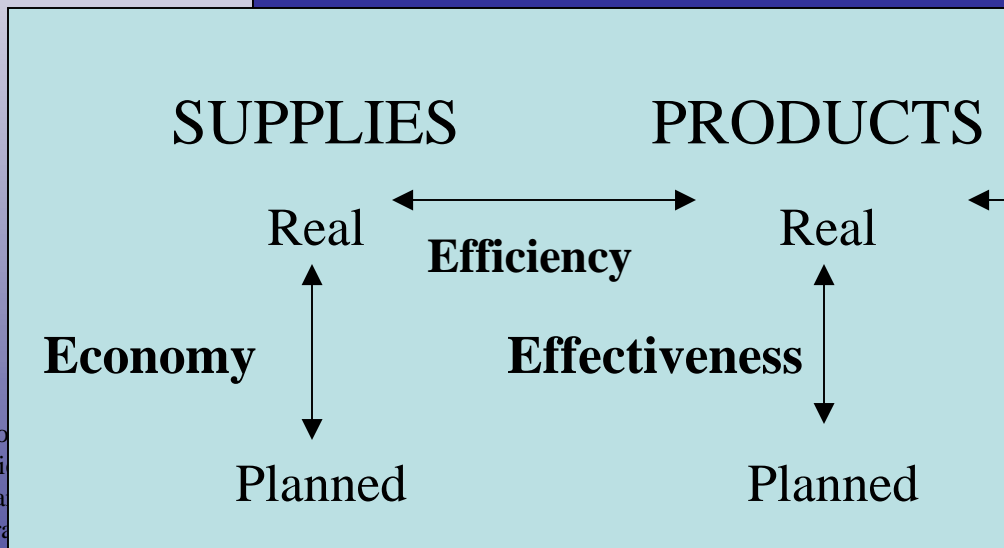
MANAGEMENT OF PUBLIC AND PRIVATE ORGANIZATIONS

PRIVATE	PUBLIC
Unique targets	Multiple, complex and diffuse targets
Targets generated by the organization itself	Targets generated from the outside due to political orders, laws and plans
Targets specific to the organization	Targets from the public sector, shared with other organizations
Coordination through markets	Coordination through structures

FROM PRIVATE MANAGEMENT TO PUBLIC MANAGEMENT

PUBLIC SECTOR

INDIVIDUAL ORGANIZATION



COORDINATION AND MANAGEMENT MODELS

- An organization is defined based on two characteristics: a target and the division of work
- In an organization with multiple orders, which involve many units, the problem of coordination is fundamental
- The problem of coordination is solved taking some basic processes as a base, which involve the many parts of the organization and oblige them to interact among themselves
- The management models differ in the way in which they operate those processes

PUBLIC MANAGEMENT AND PROCESSES

- Basic organizational processes in the public sector:
 - Generation of institutional orders
 - Institutional structuring
 - Rendering of services
 - Budgets
 - Human resources management
 - Control

MANAGEMENT MODELS

BUREAUCRATIC MODEL	NEW PUBLIC MANAGEMENT
Public functions derive from explicit political terms, generally restrictive.	Public functions are associated to general orders, focused on impact targets.
In the Executive Power, each function is defined by specific delegation of authority. Hierarchy and the gathering of work departments rule the management of the organizational units.	In the structure of the Executive Power, functions related to policy formulation are organically separated from the ones related to the Executive. Relationships among organizations are regulated through contracts or competence.
In the exercise of the public power, officials must apply rules and procedures in a standardized way, limiting discretion drastically. The users of the public services must be equally treated.	The performance of the organizations is focused on result achievement. Senior directors have wide powers and flexibility to achieve explicit targets, defined beforehand. Users are considered to be clients, with heterogeneous characteristics and needs.

MANAGEMENT MODELS

BUREAUCRATIC MODEL	NEW PUBLIC MANAGEMENT
Organizations are structured under a functional or matrix logics, where the main services provide administrative support associated to acquisitions, human resources, finance, etc.	Organizations are structured according to products, returning responsibilities from the senior level to the line in order to move resources related to the achievement of targets and results.
Financial management focused on the fulfillment of terms, budget restrictions and central regulations. Budgets structured around supplies.	Financial management focused on the achievement of results. Budget with higher levels of aggregation to generate flexibility, ideally organized around products, targets or results.
Control systems focused on the fulfillment of rules.	Control systems focused on results.

THE BUDGET

- The budget is for the public sector what the market is for the private sector
- The budget is the product of the interaction among a set of parties, which is regulated by political institutions
- So, the budget fulfills many functions:
 - Political-institutional function
 - Economic function
 - Managerial function

POLITICAL-INSTITUTIONAL FUNCTION

- Insofar as the State gets its incomes from a legal power to collect taxes, it is necessary to have also a legal instrument that authorizes the distribution of said resources and serves as a base to supervise their use
- Decision-making process that links the Executive Power and the Parliament
- The interactions among the parties of the budgetary process are determined by the highest-level institutional rules

MANAGERIAL FUNCTION

- The budget department establishes a resources base for the operation of public institutions
- Financial limits to management
- Incentive
- The budget preparation requires plans, programs, products, commitments, obligations: substitute for the market role
- In general:
 - Financial base for management programming
 - System of mutual obligations and incentives

ECONOMIC FUNCTION

- It is fundamental for the definition of the macroeconomic fiscal policy
- However, there are two items:
 - Contextual, exogenous
 - Politics
- Allocation of resources

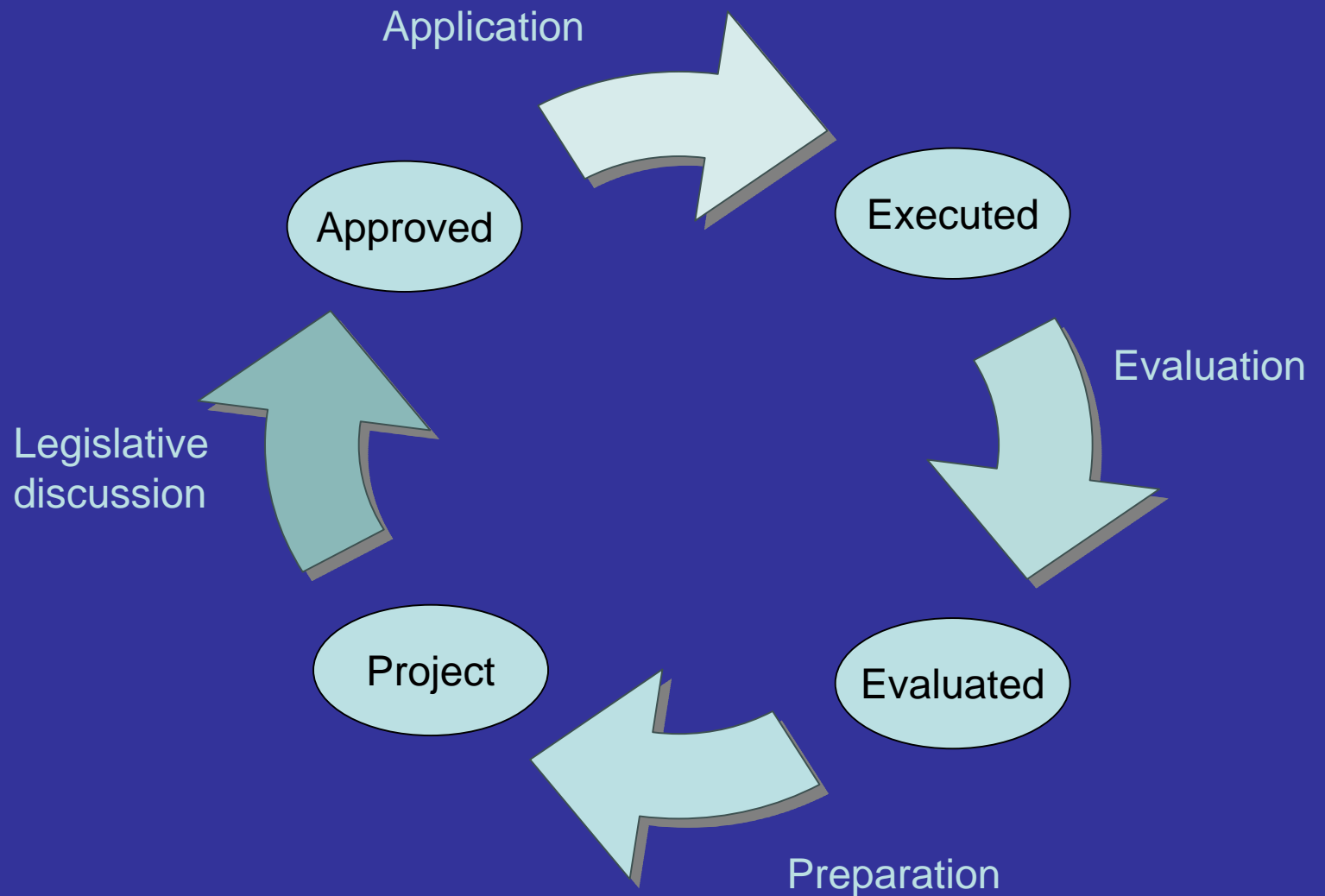
TRADE OFFS

- Conflicts among public powers
- Budgetary inflexibility
 - Affectation of taxes
 - Expenditure minimums
 - Excessive des-aggregation of allocations
- Recurrent budgeting
- Fiscal governability:
 - Balance among the three functions of the budget
 - Capacity of the governments to perform a fiscal policy in a sustainable and credible way, with the minimum possible cost for the rest of the public policy areas

COMPONENTS OF A GOOD PUBLIC FINANCIAL MANAGEMENT

- Macro effectiveness: fulfill the targets of the fiscal policy
- Efficiency in the allocation of the resources
- Efficiency in the use of the resources
- Transparency in the generation and application of the public resources

THE BUDGETARY CYCLE



BUDGET RELATED TO RESULTS

- Budgetary system and processes that are able to integrate considerations on results to the decision-making process
 - Formulation: What is going to be done with the resources?
 - Approval: ¿What targets are involved?
 - Execution: To what orders or compromises does the program respond?
 - Evaluation: How is the program working? What justifies its continuity? Could the targets be achieved in a different way? With lower costs?

BUDGET RELATED TO RESULTS

- Above all, PPR demands a strong link among the four stages of the budgetary cycle
- How to link budget to results:
 - Information: indicators (how are we doing it?); evaluations (is it worth?)
 - Contracts: performance agreements; sunset clauses
 - Incentives: remuneration according to performance
 - External pressure: accountability report
- Budget according to results does not mean conditioning mechanically the allocation of resources; having a budgetary debate including information on results is enough
- The concept of results may be applied to the entire process of value generation

BUDGET RELATED TO RESULTS

- Contrast with other budgetary practices
 - Incrementalism: debate on budgetary allocations in relation to themselves
 - Budget related to programs: allocations according to produced volume/service levels
 - Base-zero budget: periodical reformulation related to programs

MANAGEMENT RELATED TO RESULTS IN DEVELOPED COUNTRIES

- Developed countries experienced an important expansion of the State during much of the XX century
- In the decade of 1970, a fiscal crisis emerges, which limits the expansion of the tax burden
- However, society demand increases as it turns more complex
- A crisis of the bureaucratic state is generated. In the public sector, the application of models of private management are promoted, the new public management emerges
- The management related to results has strongly developed in the last 15 years

MANAGEMENT RELATED TO RESULTS IN DEVELOPED COUNTRIES

- Movement lead by countries of British institutional origin (Great Britain, Australia, New Zealand, Canada)
- The budget related to results emerges as a central component of this movement at the beginning of the 90's
- The most radical reforms emerge as part of fiscal settlements and involve:
 - Generation of data on performance and impact of public programs
 - Re-structuring of budgetary processes to incorporate data on performance
 - Creation of executive agencies and development of semi-contractual mechanisms
 - Return of managerial power to public directors
 - Development of governmental accounting on earned basis

MANAGEMENT RELATED TO RESULTS IN LATIN AMERICA

- The majority of the Latin American countries have been able to improve significantly their macro fiscal position, but they are still facing big demands related to resources, which oblige them to increase efficiency
- Management control, transparency, reporting as a fundamental part of reform processes (Chile), laws on fiscal responsibility (Brazil), also, constitutional rules (Colombia)
- Legislation is previous to enforcement, tendency to design comprehensive systems (Bolivia)
- Most of the countries have been able to generate some data on performance (Guatemala, El Salvador); in some cases, it seems there is an excess of information (Mexico), but very few countries incorporate it to the decision-making process (Costa Rica) and to the allocation of resources (Peru)
- Experts propose solving first some basic questions related to budgetary management (Schick)

TWO MODELS



KEYS TO DIRECT NATIONAL SYSTEMS

- To start from the basis: updated information, stable budgets, structured decision-making processes
- To focus efforts around decision-making: the information that is not used is useless
- Responsibility and fiscal discipline
- To avoid pricing with instruments
- To develop gradual systems
- To avoid targets that cannot be achieved
- To inform the legislative power and the society without expecting immediate responses

BUDGET RELATED TO RESULTS AND PUBLIC INVESTMENT

- The public investment is a fundamental part of the budget, it must also be part of the system of budget related to results
- The development of standardize techniques for the social evaluation of investment makes the process easier
- Too many countries tried to create national investment systems and then they did not finish them
- The methodologies for evaluation must also be applied to indirect public investment (public-private associations, Pidiregas, trusts, investment through public companies)
- The *ex post* evaluation must be a complement for the *ex ante* evaluation
- The methodologies for evaluation must be updated to incorporate new realities: investment programs, bi-national projects, etc.