

El Salvador: Results-Based Management for Evaluating Public Policy

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Executive Summary

Between 1996 and 2002, the Inter-American Development Bank (IDB) approved two operations to assist the substantial efforts of the Government of El Salvador (GOES) to modernize the management of public sector finances. A fundamental step toward a more effective and efficient public sector was the adoption of a decentralization policy aimed at encouraging more autonomy and greater citizen participation at the municipal level.

The first IDB-funded operation helped to implement an integrated financial management system which enabled the government to better prepare and consolidate budgets, track revenues and expenditures, manage payments, and keep accounts. An appropriate normative and legal framework was established, guidelines and procedures for financial management were introduced, and technical financial management units with trained staff and modern software were set up in all line ministries, public corporations, autonomous entities, and all agencies funded by the central government.

The second operation, approved in November 2001 as a pilot system of management by results, sought to strengthen the Salvadorian government's capacity to monitor the execution of the \$1.3 billion multidonor reconstruction program following the earthquakes of 2001. Its emphasis was to establish a central capacity to coordinate, implement, and monitor the resources devoted to reconstruction, and to match the measurement of physical progress of reconstruction with financial outlays, thus keeping executing agencies, the public, and the donor community informed of the program's execution.

Through this initiative, the government established two principal monitoring systems: one focused on the financial flows necessary to meet the reconstruction plan, producing detailed accounts of the contributions, commitments and disbursements by sources and uses of the funds; the other provided data to monitor the physical progress and identify bottlenecks, delays, and any additional needs of the executing agencies. Together they allowed better overall coordination and effectively addressed execution problems as they arose.

Additional funding made it possible to: (i) design and implement a security system to safeguard the Internet-based database used in the public management-by-results system; (ii) expand access to information on the workings of government while giving the public an avenue for social auditing; (iii) familiarize the Technical Secretariat of the Office of the Presidency and other agencies' technical staff with policy evaluation mechanisms; and (iv) launch a process of standardization of criteria by which to measure results across the agencies that have access to the management-by-results system.

According to a review completed jointly by the IDB and World Bank in June 2004, several aspects of the system still need improvement. The delineation of responsibilities between central and local government is not as clear as it should be, and the legislative capacity to review the budget needs to be strengthened. Nonetheless, the management systems are providing regular reports on the most relevant achievements in terms of institutional management, and they have allowed for effective monitoring of government programs and the performance evaluation of key central government and public sector institutions.

Prerequisites: Building on a Financial Management Framework for Accountability

In the 1990s, El Salvador undertook a substantial investment in modernization of the state. Key elements of the process were decentralizing decision making through a program of "local development" and improving the efficiency and effectiveness of the system of public financial administration. Between 1996 and 2002, with help from the Inter-American Development Bank (IDB), an initial project to establish a national integrated financial management system, (*el*

Sistema de Administración Financiera Integrado - SAFI)⁶ put into place an appropriate normative and legal framework, introduced guidelines and procedures for financial management, and set up technical financial management units with trained staff and modern software in all line ministries, public corporations, autonomous entities, and any agency funded by the central government. The system covered the main

⁶ El Salvador: Technical Cooperation Loan to Support Fiscal Modernization (ES-0105) July 24, 1996



functions of financial management: budgeting, treasury, accounting, budget execution, monitoring, and internal and external control. All financial management units were interconnected by computer; information was managed by each unit in a common data warehouse to which other units had access for informational purposes. The system also covered revenues, tax collection, and debt management.

From Accounting to Participation and Accountability

In 1999, faced with the challenge of reconciling an ambitious development program with the constraints of decelerating economic growth, reduced trade tax revenues, and larger transfers to municipalities, the government sought to maximize the impact of public expenditures on development by agreeing with its constituents to a four-pronged development plan called the “*Nueva Alianza*” which aimed at expanding provision of basic services, generating employment, improving personal security, and rehabilitating the natural environment, all within a framework of sound economic management and expanding political participation. (*Marrakech Principle 1*) The plan was to be actuated through a process of decentralization of the execution functions of the national government; transparent and coordinated formulation, execution, and evaluation of public policy; transparent and effective administration; and continuous, participative strategic planning linking the central government, the line ministries, the local political structures, and the community. Each *Alianza* was to be made operational through the preparation of a *National Program* (Policy), an *Institutional Program* (Strategy) for each line ministry, and *Operational Actions* (Results). The latter were defined in terms of expected outcomes, expressed in a work plan, and linked to a budget item in a programmatic manner. (*Marrakech Principle 2*) In the first iteration of the process, the plan had 54 national programs and policies, 166 institutional programs and strategies, and 3415 operational actions.

Financial administration would remain the remit of the Ministry of Finance (Ministerio de Hacienda - MH) while responsibility for the strategic, participative policy making, execution and evaluation of the national plan would rest with the Technical Secretariat of the Presidency (SETEC). (*Marrakech Principle 2*) The planned bridge between the political and administrative execution of the development plan and the annual budget would be a publicly accessible system of management by results (*Sistema de Gestión por Resultados*) by which the population would help prepare and thus be familiar with the planned improvements for their community. (*Marrakech Principle 3*) The financial and physical progress in implementation of

institutional programs and operational actions would be public knowledge provided by the Ministry of Finance. The program directors and the community would be able to provide feedback to the executing agency and the SETEC if the results diverged from the plans. (*Marrakech Principles 4 and 5*). The institutional, political, and participatory framework for “Management for Results” was also in place.

Design and Implementation: Management for Results and Accountability into Practice

The original request from the Government of El Salvador (GOES) to the IDB in 2000 was for a US\$ 3.5 million operation aimed to improve the effectiveness of most government spending by promoting participation in the management of public resources. By the time this new project was suggested, the country had largely fulfilled the first four of the core requirements for a results-focused public sector management. (*see Box below*) The project also sought to strengthen institutional performance, promote the strategic and transparent use of resources and establish a culture of public service based on the satisfaction of user needs, the evaluation of results and accountability to the citizens.

Core Requirements for Results-Focused Public Sector Management

- A financial management system that permits the identification of expenditures by different criteria: category, purpose or program, source of funds, location, responsible entity and expected outputs, among others
- Budgets that are prepared not only in financial terms but also in terms of physical outputs and expected outcomes
- A long range vision or development plan coupled with the flexibility to make timely changes to the assignation of resources
- A basis for comparison with previous and future plans
- Agreed, appropriate and reliable indicators of outputs and outcomes are defined
- A budget cycle that allows for the evaluation of previous physical outcomes, revision of long- and medium-term plans, and assignation of resources according to agreed needs
- A mechanism in place for providing up-to-date and comprehensible financial and physical monitoring and evaluative information to the public, especially to participants and beneficiaries who are not financial specialists
- A mechanism in place for receiving feedback from participants and beneficiaries
- Security and integrity of data is maintained while giving the appropriate level of access to information.



The earthquake of 2001 required a shift of funding and thus reduced the scope of the initial project to a “pilot first phase” focusing on establishing a capacity to monitor the execution of the government’s \$1.3 billion, multidonor reconstruction program. The emphasis was to establish a central capacity to coordinate, implement, and monitor the resources devoted to reconstruction and to keep executing agencies, the public, and the donor community fully informed of the execution of the program. Grant funding of just over \$1 million from the Government of Japan and the IDB’s Fund for Special Operations (FSO) was used in place of a loan to execute the two key elements of the project: the development of the system of management by results and the provision of a security firewall to protect the integrity of the databases.

The Japanese funds were used to establish two principal monitoring systems. The first system focused on the financial flows necessary for the reconstruction plan, producing detailed accounts of the contributions, commitments and disbursements by sources, and uses of the funds. This facilitated the monitoring of financial agreements with the different donors with the aim of shortening the disbursement period and expediting financial flows to the government. The second system provided data and developed objective indicators to monitor the physical progress and identify bottlenecks, delays, and executing agencies’ needs, in order to allow better overall coordination and effectively address possible execution problems.

The IDB’s FSO funds supported: (i) the design and implementation of an Internet-based electronic security system to safeguard database information used in the public management-by-results system; (ii) improved access to information on the workings of government and gave the public an avenue for social auditing; (iii) familiarized the Technical Secretariat of the Office of the Presidency (SETEC) and other agencies’ technical staff with policy evaluation mechanisms; and (iv) the launching of a process of standardization of criteria between agencies that had access to the public management-by-results system.

Problems in Execution

According to a review completed jointly by the IDB and World Bank in June 2004, the system needs to better delineate the responsibilities between central and local government, improve legislative capacity to review the budget, fully apply objective merit criteria

to human resources, exercise tighter control on overspending and undercollection of revenues, aggregate information regarding municipal budgets, adopt fully recognized international standards of budgeting, improve the analysis of public investments, develop better indicators of budgetary and investment performance, and produce regular consolidated public accounts for full audit to international standards.

As with any system of popular participation, there is the perennial concern of how to make financial information comprehensible to the general public and to develop “financial literacy” among the population. This still represents a major challenge in El Salvador. Another test that the Salvadorian authorities are facing is how to give computer-based access to, and allow feedback from, a poor population with limited access to computers. There were attempts to resolve this issue to some extent by setting up regional “*Info-centers*” with guided access to the systems. A useful precondition was the relatively high level of computer literacy among the young in El Salvador, as a result of the GOES’ investments in computers in schools after 1997 (again with help from the IDB).

Factors Favoring a Propitious Environment for Results-Based Financial Management in El Salvador

- Faced with the challenge of consolidating peace and democracy after the civil war, the country has been actively undertaking a large Modernization of the State program with external support.
 - The establishment of SAFI with IDB helped provide an informational and technological platform on which to build a system of management for results.
 - There exists a strong link between the Ministry of Finance (MH) and the Office of the Presidency (SETEC) in which the hierarchy and role are sufficiently well defined to allow a productive division of labor between policymaking and administration.
 - Computerization in schools provides a wide familiarity with computer systems, even within poor communities.
 - The country has a strong and vociferous civil society who wishes to exercise its rights and is accustomed to fulfilling community obligations.
 - It is a small, densely populated country with a homogenous population where news travels and secrets are hard to keep.
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Results Achieved

Though the Integrated Financial Management System (SAFI) is still a work in progress, the country is now preparing annual budgets within a multiyear planning framework that links development objectives to expenditures and revenues in a manner which is transparent and subject to public scrutiny by the Legislature and its Unit for Analysis and Monitoring of the Budget (UASP). The outcomes of the project are manifest. It has helped speed up all government transactions and promoted greater transparency in the management of public recourses. As a result of these changes, the international rankings of El Salvador in such areas as economic openness and ease of doing business rose substantially in recent years, placing it far ahead of many of its neighbors and creating an administrative climate conducive to trade, investment and development, and putting into place the financial management and planning framework for “Management for Results”.

The second project is now in its third year of execution. The August 2004 progress report by the Office of the Presidency (SETEC) indicated that the system was providing the results expected for the information needs of the government and donors, but that more investment was needed to fully establish the “*info-centers*”.

The project will continue to support the management of the reconstruction program and will be expanded over the next four years with the government’s own resources so that a strategic, programmatic approach with actions, targets, and indicators will be used in the budgets of the government program for 2005–2009. In this development plan, the emphasis will be on security “*Pais Seguro*”. The continuation of the new system bodes well for the long-term sustainability of the program.

Lessons Learned and Considerations for “Replicability”

It may be possible to replicate variations of this project in similar countries of which there are a number, including neighbors of El Salvador. The similarities could include:

- A postconflict / post instability / democratic opening situation
- A similar integrated financial management system
- Economic openness in terms of trade and the flow of labor and ideas
- Strong, established civil society institutions

However, there are some cautionary indicators, and results can take a long time in coming. Most countries

would require a comprehensive revamping of their budgeting and planning processes, including redefinition of the budget in a programmatic format, clear and agreed development goals, and the establishment of objective and agreed indicators.

In other projects, to promote popular participation (Honduras) an additional, simplified, parallel budget “*presupuesto resumido*” for public use will be prepared.

Government has to accept and act upon the feedback it receives if the system is to maintain credibility.

In terms of international rankings, countries adopting such systems may not see much improvement in their placement because public accountability is improving in a wide range of countries through the approval of freedom of information acts and improvements to literacy and technology – maybe it is time to develop some noncomparative indicators.

This is not something which can just be added to a government program to provide “instant accountability”.

Update on Implementaion of theResults Framework

The Sistema de Administración Financiaera Integrado (AFI) is operating well. Steps taken to enhance its effectiveness include the preparation of a Government Strategic Operational Plan (Plan Operativo Estratégico) in which the main objectives, actions, baseline information, indicators of institutional results, as well as the responsible entities are specified. The new Plan also includes a sample of impact indicators that are being developed. In each Ministry, including in the President’s Office, senior and middle level managers were involved in preparing specific inputs for the Plan.

Based on this new Government Strategic Operational Plan, the main government institutions have developed their own Institutional and Operational Strategic Plan with a long-term perspective. In many cases the preparation of the sectoral plans benefited from significant civil society participation. The Ministries’ Plans were formally submitted to the President as a public commitment to ensure their implementation. The main characteristics of these plans are that they include well-defined institutional targets to be achieved over a five-year period, e.g., the “2021 Plan” developed for the Educational Sector benefited from the participation of various experts and other well-respected civil society individuals. The plan presented by the Health Sector was also developed with the wide participation of the entities operating within the sector. Similarly, the Agricultural Sector Plan bene-



fited from the support of several trade associations and unions.

- A network of professionals is responsible for the collection of information on implementation of the Plan towards the achievement of its objectives.
- An Internet-based system is also available for the monitoring of public investments at the municipal level. Detailed information on the nature of the investments, the extent of the progress achieved in their implementation, and the use of financial resources are captured. In addition to the information provided through this computer-based system, the Ministries prepare twice-a-year progress reports.

New innovations introduced as a result of the lessons learned: The original model that preceded the **Strategic Operational Plan** focused more on the processes necessary to achieve the expected results and impacts. Consequently, the model was perceived as being too complex, with too many variables to be monitored. In this new model, the strategic monitoring efforts at the level of the Technical Secretary of the Presidency focus mainly on the institutional results and impacts since the government institutions assume responsibility for the processes and activities required to achieve these objectives. This has allowed the Plan to achieve greater simplicity and functionality. One of the main conclusions to be drawn from the above is that the level of complexity and sophistication of the results-based management models applied in the public sector must be consistent with its absorptive capacity and its overall management capability. It is wise for governments to avoid the introduction of instruments that are too sophisticated compared to their own institutional capacity. The original and the new models are presented hereafter:

Another important lesson relates to the way the political priorities varied from one administration to the other. One of the major challenges in the preparation of this new Strategic Operational Plan was making sure that the proposed plan could be sustainable over time and not vulnerable to the differences in “management styles”.

In designing a new Strategic Operational Plan, the emphasis was on planning and monitoring at the strategic level: a “model plan” with the objective of providing a global direction to the country’s management. Consequently, the instruments proposed were designed taking this into consideration. The absence of a strong link between these instruments and the annual operational management under the previous plan resulted in the creation of a strategic information system rather than a results-based management system. One of the main problems was the weak link between Strategic Operational Plan, Institutional Operational Plans, and Budget.

In light of the above, the current work of the Government of El Salvador is geared toward reinforcing the link between the Strategic Operational Plan and the Annual Operational Plans, along with the strengthening of operational management.

For more information

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