Chapter 3

Evidence-based decision making in Colombia

This chapter assesses the extent to which Colombia's central government could improve its decision-making practices by building on its impressive achievements in whole-of-government performance-assessment, linking budgeting to strategy-implementation, and in whole-of-government audit and control to fight corruption. The chapter addresses the need for Colombia to enhance its strategic-foresight capacity by harnessing evidence on emerging challenges and trends over a ten to twenty-year planning horizon to inform its four-year development plans. It assesses Colombia's capacity related to performance assessment, regulation and rule-making, and audit and control, highlighting recent successes at reform and suggesting that the central government build on these and build capacity in these areas sub-nationally.

Introduction

OECD experience suggests that whole-of-government evidence-based decision-making leads to greater effectiveness and efficiencies in achieving strategic outcomes (see Box 3.1). Evidence-based policy analysis is clearly informing important policy decisions being taken by the government of Colombia, notably in relation to the implementation of its National Development Plan. The National Planning Department's SINERGIA, Colombia's national system to monitor and evaluate public-management performance, is an elaborate and well-designed tool that is used systematically by the government to assess the performance of key Plan-related public policies and programmes; this system provides performance information on whether and how public-policy objectives are being reached. SISMEG, its monitoring component, is a tool of exceptional quality that has been developed to exacting standards.

That said the government of Colombia faces a series of issues relating to the use of sound evidence in making decisions with respect to strategy-setting, implementation and performance-monitoring that this chapter will address:

- The ability of Colombia's Centre-of-Government (CoG) institutions (see Chapter 2) to enhance the exercise of what the OECD terms "strategic foresight" or the ability to anticipate and prepare for long-term (e.g. beyond a four-year planning horizon) foreseeable and disruptive trends and meet the resulting demands on the government's policy and fiscal capacity successfully;
- The fact that to date, as found in the OECD's Regulatory Reform Review of Colombia (2013, forthcoming), the government of Colombia does not formally and systematically ensure the compulsory use of regulatory-impact assessment in making decisions about regulating – notably *ex ante* the decision to pass legislation or otherwise impose a rule;
- Challenges related to linking the performance of the National Development Plan to spending-performance under the National Budget, given the split between the Planning Department, which manages the capital-investment components of the Budget to implement the Plan, and the ministry of Finance which manages the government's operating budget; and
- Colombia's Audit and Control system, which presents challenges related to functional overlaps between central-government control institutions, weaknesses and capacity challenges in its internal controls, and significant challenges in this area at the territorial level.

Strategic insight

As illustrated in this Review's first two chapters, the government of Colombia is focussing on the pressing need to address persistent poverty, low labour productivity, acute income inequality, security and regional disparities, while adapting successfully to an increasingly complex globalised environment. To meet these challenges successfully, the government has implemented successive reforms to develop a public administration that is flexible, responsive and strategically agile. Strategic agility in a public sector context entails capacity for, and commitment to, strategic insight, collective engagement and resource flexibility (see Box 3.2). In a fast-changing world, the public sector needs to be able to change policy directions quickly and effectively as circumstances demand. This also means being able to distinguish when action is most appropriate at a whole-of-government level, requiring central action or co-ordination, and when agility is best obtained at a devolved level in order to achieve greater responsiveness.

Box 3.1. **OECD experience regarding evidence-based decision-making**

Evidence-based policy analysis allows for decisions aimed at implementing and steering strategy to be taken in the country's medium- and long-term interests, based on evidence derived from strategic foresight and environmental scanning that correctly identifies domestic and international short- and long-term challenges and opportunities, on performance assessment that allows for judicious prioritisation of expenditures to achieve the best results with the least resources, and on individual issues being analysed within a broader strategic framework.

Throughout the OECD, good-governance practice suggests that policy should be based on sound evidence derived from rigourous analysis of the available facts on the issue the policy is supposed to address. Governance practices determine how evidence contributes to identifying policy options and how rules are made. This evidence needs to be available at the right time and be seen by the right people. OECD practice suggests that the following major ingredients are needed to obtain and use the "right evidence":

- A sound methodology that allows for proper consideration of the immediate and long-term nature of the issue and of the rationale supporting different options for policy intervention (including doing nothing);
- Good data for analysis;
- Public access to the data, assumptions and methodologies used to frame the issue and identify options to address it, so that scrutiny can be brought to bear and the analysis replicated independently;
- Time to carry out this analysis properly and to consult the general public on its results;
- A capable and skilled public service including people skilled in quantitative methods;
- A "receptive policy-making" environment – that is political leaders who are willing and able to decide on the basis of the evidence presented.

Source: OECD (2013), *Public Governance Review of Poland: Implementing Strategic-State Capability*, OECD Publishing, Paris (forthcoming).

Box 3.2. **Building strategic agility: Some key concepts**

Today's dynamic world and society require governments to be able to change policy directions quickly and effectively as circumstances demand. **Strategic agility** is the ability of the government and public administration to anticipate and flexibly respond to increasingly complex policy challenges, and to determine at what level action is needed (i.e. at a whole-of-government level or at a devolved local or sector level).

The OECD has adapted the work of Doz and Kosonen (2008) for use in a public sector context in order to identify three necessary components for developing strategic agility:

- **Strategic insight** is the ability to understand and balance government values, societal preferences, current and future costs and benefits, and expert knowledge and analysis, and to use this understanding coherently for planning, objective setting, decision making and prioritisation.
- **Collective commitment** is adherence and commitment to a common vision and set of overall objectives, and their use to guide public actors' individual work, as well as co-ordination and collaboration with other actors (both inside and outside of government and across levels of government) as needed to achieve goals collectively.
- **Resource flexibility** is the ability to move resources (personnel and financial) to changing priorities if and as needed; to identify and promote innovative ways to maximise the results of resources used; and to increase efficiencies and productivity for both fiscal consolidation and re-investment in more effective public policies and services.

Source: OECD (2010), *Public Governance Review: Finland*, OECD Publishing, Paris..

Strategic insight as a prerequisite for CoG strategic agility

A key element to achieving strategic agility is governments' and public administrations' capacity for strategic insight. In the public sector context, strategic insight requires the capacity and capability to conduct dynamic and inter-related long- and short-term strategic planning, based on a whole-of-government vision, understanding and knowledge. Achieving strategic insight therefore depends on the government's ability to actively seek and consolidate the experience and expertise of multiple stakeholders in developing a strategic vision and operationalising it through strategic planning frameworks.

Strategic insight requires planning and decision-making based on flexible and continuously updated data, analysis and consultation. It is important to determine the type of planning and/or decision making required in order to select the most appropriate input for achieving strategic insight. Identifying long- and medium-term priorities, for example, can benefit from citizen engagement and data analysis, but very long-term events may be unpredictable and "discontinuous" (i.e. not based on historical patterns), and so require other types of scenario planning. In addition, consultation may not always be appropriate for short-term decision making because of the need for rapid responses or because of the sensitivity of the topic at hand. In such cases, however, it is all the more important that decision-makers have general information on hand about citizen preferences (see Box 3.3).

Box 3.3. **Analysis horizons: Strategic decision-making needs by planning timeframes**

Analytical needs	Characteristics	Requirements	Examples
Foresight (Long-term: beyond 10 years)	Anticipation of, and preparation for, both foreseeable and disruptive/discontinuous trends and capacity needs; including future costs in today's decisions	Continuous scanning and consultation; pattern recognition; analysis of "weak signals"; futures studies; consensual views	Futures Reporting; horizon scanning; long-term budget estimates; scenario planning
Strategic Planning (Medium-term: 3 to 10 years)	Anticipation of, and preparation for, foreseeable changes and capacity needs; prioritisation; including future costs in today's decisions; risk management	Analysis of historical and trend data; comparable information and analysis across government; consultation on values and choices	Government Programme; medium-term budget frameworks; workforce planning; spatial and capital investment planning; innovation strategies
Decision making (Short-term: 1-2 years)	Responsiveness; rapidity; accountability; ability to determine at what level decisions need to be taken	Quick access to relevant information and analysis; capacity for re-allocation; overview of stakeholder preferences	Executive action; annual and mid-term budgets; crisis response

Source: OECD (2010), *Public Governance Review: Finland*, OECD Publishing, Paris.

Strong strategic insight is a key element in achieving strategic agility. In the public sector, strategic insight requires the capacity and capability to conduct dynamic (rather than static) and inter-related long- and short-term strategic planning based on whole-of-government visioning, understanding and knowledge. To achieve strategic insight, governments must actively seek and draw upon the experience and expertise of multiple stakeholders in developing a strategic vision and then operationalise that vision through the development of strategic planning frameworks.

Capacity for strategic insight will be critical to Colombia's ability to implement strategies to achieve the policy outcomes it has identified in its National Development Plan. The rest of this section will address key areas of strategic insight where capacity could be increased, notably by embedding evidence-based decision-making in policy development and implementation, broadening the scope of foresight reporting and using strategic insight to create a long-term strategic vision for the country.

Embedding evidence-based decision-making in policy development and implementation

Evidence-based decision-making is a key tool by which governments gain strategic insight through examining and measuring the likely benefits, costs and effects of their decisions. After undertaking wide consultation and research, and ensuring that all possible scenarios have been taken into consideration, governments can use this information to increase the transparency of their decision making processes. This also provides a "reality check" on the cost of realising government objectives, and gives governments the tools to prioritise competing objectives.

An increased interest in the general efficiency and effectiveness of public administration across OECD countries has led to a rise in evidence-based decision-making. As the complexity of policy challenges increases, so has their use of evidence-based approaches. The key to evidence-based decision and policy making in public administration is using knowledge produced through multiple sets of data and analysis to inform and influence policy, rather than determine it. These multiple sets of evidence enable a fuller appreciation of complex policy challenges. Cross-portfolio and inter-linked policy issues require the involvement of multiple actors within society; seeking this broad participation has opened network approaches to policy processes such as citizen and stakeholder consultation and engagement. Effective policy design, implementation and evaluation depend on several evidentiary bases.

The government's role in evidence-based decision making is to find, consult and engage with actors proactively in key knowledge areas, and analyse and package that knowledge to inform government decision-making. In order to engage in evidence-based decision-making, the public administration must commit to this process and put in place the structures and resources to undertake such work. This includes: a framework and tools for collecting knowledge; the capacity to undertake research and analysis; good quality data; sufficient time and resources to collect, analyse and test the data; transparency and openness in the collection and use of the knowledge; and evaluation and adjustment (see Box 3.4).

Box 3.4. **Pillars of evidence-based decision-making**

Analytical frameworks and structures for collecting and analysing knowledge for decision-making
(e.g. *Regulatory Impact Analysis; Benefits Realisation)*

Capacity and capability to undertake research and analysis
(e.g. *public sector skills; sufficient resources to collect, analyse and test data; and a receptive policy environment)*

Access to quality data
(e.g. *political; professional and practical; research and analytical and citizenry; high quality and interoperable datasets)*

Transparency and openness in the collection and use of knowledge
(e.g. *consultation, participation; engagement; information; and communication)*

Evaluation and adjustment
(e.g. *ex post evaluation; value for money evaluations; capability reviews)*

Source: OECD (2010), *Public Governance Review: Finland*, OECD Publishing, Paris.

Colombia has frameworks in place that contribute to an evidence-based decision-making culture such as the National Planning Department and DANE, the central government's national statistical agency. It conducts consultation with public stakeholders. It has developed its government-wide systems to measure policy performance – SISMEG and SINERGIA (see Chapter 2) – based on exacting standards. However, these practices do not necessarily translate into the systematic use of evidence-based decision-making that is ingrained in the working life of the public administration. For instance, the government has yet to implement a government-wide system of compulsory regulatory and policy impact analysis (see next section).

Beyond policy and regulatory-impact analysis, a key aspect of evidence-based decision-making is access to good data (itself central to sound RIA systems as well as to performance-assessment capability). Access to quality data is fundamental to the development of data- and knowledge-bases, whether for strategy-setting, strategy-implementation and performance-monitoring purposes. Data quality is an essential element of proper analysis, and is recognised as one of the most challenging aspects of evidence-based decision making. It can consume time and resources, and requires a systematic and functional approach. The usefulness of evidence-based decision making depends on the quality of data fed into the decision making process. And the challenge facing many governments is sustaining the ability government-wide to generate good data, turn this data into evidence, use this evidence effectively in making decisions, and harness sound evidence to mobilise internal and external public and private actors to set, and implement strategy coherently.

Data or knowledge used in evidence-based decision making must be collected from numerous areas to ensure that it is comprehensive. This is particularly important as the complexity of policies increases, requiring consultation with a wide array of involved stakeholders and consultation networks. Evidence-based decision making in public administration provides the methodology for strategic insight. By harnessing multiple evidence bases across a variety of actors, governments inform the decision-making and policy-making processes.

This is particularly important in Colombia given the government's priorities related to decentralisation as a means to achieve equity and regional-disparity strategic outcomes. As Chapter 4 suggests, sound data on sub-national performance in Colombia is difficult to obtain on a systematic basis, yet it is as crucial for sound policy development to achieve these strategic objectives as it is to assess policy performance to measure results against them.

The aim of evidence-based decision-making is to allow governments to harness and analyse information collected from various sources for consideration within their decision-making process. However, to achieve strategic agility, governments must be able to identify and target the relevant evidence-base required for different types of decisions. For example, to answer complex policy questions, the broadest possible group of stakeholders and knowledge-bases should be consulted. Similarly, a smaller group of stakeholders and evidence-bases may be consulted or engaged in relation to urgent/time-critical policy issues which require immediate decisions. It is also important to match the type of evidence-base with the planning timeframe (see Box 3.4). For example, foresight issues which will be considered for more than 10 years may require a different level of evidence collection than short-term decision making within a one-to-two-year time horizon.

Strategic foresight

The policy environment faced by governments is no longer dominated by predictability. It has become ever more complex, unpredictable and immediate, with multiple actors taking concurrent action both domestically and internationally. Such an environment requires governments to be proactive in scanning, gathering and analysing information to guide decision-making and priority-setting. Strategic foresight reporting helps governments look ahead to identify future risks and opportunities as a means of prioritising and focusing government policies; it is an essential component of achieving strategic insight. Indeed, many OECD countries have been undertaking strategic foresight activities for many years.

For example, the systematic launching of efforts to foresee societal development, emerging risks and opportunities started in Finland's universities in the late 1970s. However, it was not until the 1990s that the Finnish government, Parliament and ministries became more engaged in futures reporting. Government foresight reporting has been in practice in Finland since 1993, when the first horizontal Government Foresight Report, titled Finland's Options, was tabled in Parliament. This initial report presented views on major future developments and optional scenarios for Finland posited in the context of future research and the then-government's priorities; it also provided a plan for the kind of future society that the government was seeking to create through its actions in office. Subsequent reports published in the 1990s and 2000s assessed Finland's development issues using a ten to fifteen-year time horizon – in particular *Finland 2015: Balanced Development*, published in 2001.

Indeed, in an increasingly complex and globalised policy environment, governments alone do not have all the answers. In order for countries to continue to thrive into the future, they will need to draw on the expertise, experience and ideas in the broader community. This function must be embedded as part of everyday working. Colombia might consider the experience of Australia in this area, which held a summit in 2008 – The *Australia 2020* Summit – that brought together a wide range of individuals from different backgrounds and with different expertise and experience, to brainstorm the long-term challenges affecting the country's future (see Box 3.5).

Box 3.5. **The *Australia 2020* Summit**

In April 2008, the Australian government convened the *Australia 2020* Summit to foster a national conversation on Australia's long-term future. The Summit aimed to harness the best ideas for building a modern Australia ready for the challenges of the 21st century. The Summit brought together 1 000 participants – "some of the best and brightest brains from across the country" – to think about long-term challenges confronting Australia's future, requiring responses at a national level beyond the usual electoral cycle period.

The Summit, held in Canberra, the nation's capital, generated more than 900 ideas over two days. Participants debated and developed long-term options for Australia across 10 critical areas:

- The productivity agenda – education, skills, training, science and innovation;
- the future of the Australian economy;
- population, sustainability, climate change and water;
- future directions for rural industries and rural communities;
- a long-term national health strategy – including the challenges of preventative health, workforce planning and the ageing population;

Box 3.5. **The *Australia 2020* Summit** *(continued)*

- strengthening communities, supporting families and social inclusion;
- options for the future of Aboriginal and Torres Strait Islanders;
- towards a creative Australia: the future of the arts, film and design;
- the future of Australian governance, renewed democracy, a more open government (including the role of the media), the structure of the Federation and the rights and responsibilities of citizens; and
- Australia's future security and prosperity in a rapidly changing region and world. The Summit was co-chaired by Australian Prime Minister Kevin Rudd and Vice Chancellor of the University of Melbourne, Professor Glyn Davis.

Summit participants were invited by a 10-member non-government Steering Committee, which asked up to 100 participants in each of the Summit areas to attend in a voluntary capacity. The participants were drawn from business, academia, community and industrial organisations and the media, and included a number of eminent Australians. Summit participants were invited in their own right rather than as institutional representatives from any particular organisation. Each of the 10 Summit areas was co-chaired by a Federal Australian Government Minister and a member of the Steering Committee. The Leader of the Federal Opposition, together with State Premiers, Chief Ministers and their Opposition counterparts, were also invited to participate in the Summit. All Australians were invited to make submissions on the 10 future challenges, and 8 800 of these were presented to participants.

The Summit had the following objectives:

- to harness the best ideas across the nation;
- to apply those ideas to the 10 core challenges for Australia identified by the government in order to secure the long-term future of Australia through 2020;
- to provide a forum for free and open public debate in which there were no pre-determined "right" or "wrong" answers;
- to produce options for consideration by the government for each of the Summit's 10 areas following the meeting;
- to allow the Australian government to produce a public response to these options with a view to shaping the nation's long-term direction from 2009 and beyond.

The Department of the Prime Minister and Cabinet provided the secretariat for the Summit and was responsible for co-ordinating the development of the Summit report and the Australian government's response to the Summit, as well as the implementation of forthcoming policies and programmes.

Source: www.australia2020.gov.au.

In Colombia as in other countries, the central government cannot tackle the more complex policy challenges of the future without expertise and buy-in from the sub-national level. It therefore needs to consult genuinely with municipal and regional authorities and encourage their participation in the selection of foresight topics, and in the report preparation and implementation. Chapter 4 highlights the fact that the current government has adopted a range of key multi-level governance tools to co-ordinate everything from policy-planning to service-delivery. The government could consider using these tools to engage sub-national authorities in dialogue on long-term foresight activities and vision-based policy objectives.

Strategic foresight to generate a long-term vision for the country

The use of evidence-based decision-making and medium- and long-term planning and foresight reporting provides governments with the information needed to achieve strategic insight, incorporating both present and future concerns and contexts. From these efforts, governments can be in a better position to articulate a strategic vision for the country and for the government's plans to implement it – based on available information and input from citizens, businesses and civil society, and mindful of future opportunities and risks. A strategic vision thus works on two levels at once: a shared whole-of-society vision for the future of the country, and the government's agenda for its term in office on how to move the country along the path to achieving it.

A strategic vision is the expression of a government's desired or intended future for the country. Where do political leaders see their country going? What do they want their country to look like in ten, twenty or thirty years' time? What are the top two or three meta-outcomes political leaders wish to pursue for their country and their fellow citizens on their behalf? If communicated effectively, the answers to this type of question, articulated as a national vision, it can be a powerful tool for providing clear strategic direction for the government if it receives buy-in from key public, private and civil-society stakeholders. Indeed ideally, a strategic vision is developed in consultation with appropriate stakeholders and takes account of foresight reporting and domestic and international horizon-scanning.

Long-term strategic visions can thus serve to mobilise national debates on the country's future. They can constitute powerful tools to engage the Legislative branch, civil-society groups and citizens on their country's future and on their role in shaping it.

Embedding the National Development Plan within a long-term national vision

Of course, Colombia already engages in broad and deep medium-term planning. However, the ultimate success of planning in Colombia depends on the relative continuity of policies beyond the NDP's four-year time horizon. The Planning Department, notwithstanding its role as the technical body supporting the President in implementing his/her political strategy (upon which he/she campaigns as a candidate for the Presidency) whose time-frame for implementation is defined by the term of office, has in fact managed to ensure a certain degree of continuity between successive four-year plans judging by their priority policy focus (Table 3.1), despite the absence of a long-term planning horizon. This should be strengthened in order to ensure a clear, shared, national long-term vision.

Colombia already engages in certain forms of foresight activities that can inform the development of strategic visioning on the country's future:

- The ministry of Finance maintains a ten-year macroeconomic fiscal projection of debt-to-GDP performance in the context of managing expenditures under the government's fiscal rule (see next section and Chapter 1 and 2). This medium-term fiscal framework can constitute a valuable planning tool on which to build vision-based strategic objectives for the country, since it signals the medium-term fiscal room that the government will be able to use to implement capital investments and programming expenditures in future National Development Plans;

Table 3.1. **Thematic list of National Development Plans**

1961-2010

Thematic focus of the NDP	President in charge	Years of implementation
Economic and Social Development	Alberto Lleras Camargo	1961-70
Plans and Programs for Development	Carlos Lleras Restrepo	1969-72
The Four Strategies	Misael Pastrana Borrero	1970-74
To Close the Gap	Alfonso López Michelsen	1974-78
National Integration	Julio César Turbay Ayala	1978-82
Change with Equity	Belisario Betancur Cuartas	1982-86
Social Economy	Virgilio Barco Vargas	1986-90
The Peaceful Revolution	César Gaviria Trujillo	1990-94
The Social Jump	Ernesto Samper Pizano	1994-98
Change to Build Peace	Andrés Pastrana Arango	1998-2002
Towards a Social State	Álvaro Uribe Vélez	2002-06
Social State: Development for All	Álvaro Uribe Vélez	2006-10
Prosperity For All	Juan Manuel Santos Calderón	2010-14

Source: Colombian Government (2013), PGR Background Report (unpublished working paper).

- The current National Development Plan already embeds four-year strategic, programme-level and performance indicators within a longer time-frame: under its follow-up systems, the Plan anticipates results out to 2032. For example, the 2010-14 Plan suggests that from a 2010 baseline GDP-per-capita output of over USD 5 100 the country will generate USD 6 200 of GDP per capita in 2014 and USD 20 000 in 2032. This means that the National Planning Department gives thought to long-term objectives (using a twenty-year planning horizon in this case). That said the identification of performance targets to be achieved under the Plan in the Plan appears to be restricted to the 2010-14 timeframe.
- The National Development Plan also makes reference to a strategy entitled "Vision Colombia 2019" (in reference to the two-hundredth anniversary of the country's independence); however, apart from security and defence, it does not appear that the vision articulated in this strategy has influenced the contents of the 2010-14 Plan.

Hence, it does not appear that the central government uses vision-based long-term foresight as a matter of course to inform the strategic objectives articulated in the National Development Plan. Yet in an increasingly complex globalised policy environment fraught with uncertainty, the ability of governments to anticipate future trends beyond a single electoral cycle and their possible impact on national development becomes more important. Moreover, in countries that engage in the degree of planning that Colombia does, the ability to craft medium-term objectives against a longer-term strategic vision, or at least ensure that medium-term strategy takes fully into account evidence of emerging internal and external challenges whose impact will only be felt beyond the end of the electoral cycle can add a degree of stability and continuity to strategy-setting and implementation that otherwise might not be available if development plans are restricted to an electoral-cycle-defined planning horizon.

Many Convergence countries[1] within the European Union and the OECD engage in central-government planning to varying degrees. Most, however, seek to embed annual or short-term plans within medium and long-term strategic objectives. Poland, Romania, Bulgaria, Slovakia and the Czech Republic are cases in point. In the case of Poland, for instance, the key national, long-term development strategy for the country is articulated in *Poland 2030: The third wave of modernity – A long-term national development strategy* (see Box 3.6). This strategy identifies key domestic and international challenges that are affecting Poland's development. It then presents a comprehensive long-term vision for Poland's national development that takes into account the country's social, economic, environmental, territorial and institutional dimensions. This vision for the country focuses on three national performance "pillars" (OECD 2013):

- The *innovation* (modernisation) pillar: building a new competitive advantage for Poland based on increased intellectual capital (human, social, relational and structural) and the use of digital technology to increase the competitiveness of the Polish economy and society;
- The *diffusion* (balance) pillar: pursuing balanced spatial development and social cohesion to optimise Poland's development potential;
- The *effectiveness* pillar: making the state more effective in becoming citizen-friendly and helpful by avoiding exercising responsibility in undesirable areas of national life, but by acting effectively in those areas in which it does intervene.

Box 3.6. **Poland's thirty-year vision and ten-year integrated strategies to implement it**

Initiative category	Time horizon	Profile
Long-term national development strategy entitled: *Poland 2030. The third wave of modernity. A Long-term national development strategy.*	At last a 15-year (long-term) implementation perspective – a horizontal, comprehensive strategic framework	Specifies the main trends and challenges that arise from the internal development of Poland as well as changes in its external environment. Includes a comprehensive idea of national social and economic development viewed from a long-term perspective in consideration of its social, economic, environmental, territorial and institutional dimensions.
National Spatial Development Concept	20-year perspective (long-term)	The most important document dealing with Poland's spatial management. Its strategic objective is to use the available space effectively in consideration of its differentiated development potential in order to improve: competitiveness, employment rate, effectiveness of the state, social, economic and spatial cohesion in a long-term perspective.
National Spatial Development Plan	In accordance with the National Land Use Development Perspective	An operational plan of spatial development formulated in accordance with the National Spatial Development Concept
Medium-Term National Development Strategy	4-10-year development perspective – a horizontal and comprehensive document, includes provisions of the Long-Term National Development Strategy	Specifies the fundamental determinants, objectives and directions for national development along the social, economic, regional and land-use dimensions implemented via the development strategies with the aid of development programmes. The medium-term perspective permits the formulation of more specific objectives as well as tools for their implementation

Box 3.6. Poland's thirty-year vision and ten-year integrated strategies to implement it *(continued)*

Initiative category	Time horizon	Profile
Other development strategies	Usually with a 4-10-year implementation perspective, but not longer than the implementation perspective of the Medium-Term National Development Strategy Related to the areas indicated in the Medium-Term National Development Strategy. Subject to concordance evaluation with the Medium-Term National Development Strategy. The category includes: • 9 integrated development strategies, • a supra-regional strategy, • voivodship development strategies.	
National Strategic Reference Framework (National Cohesion Strategy)	Corresponds to the EU programming period (medium-term)	Determines development activities to be undertaken in order to achieve strategic objectives of European Cohesion Policy. It is as the guidelines for using Structural Funds and the Cohesion Fund and provides framework for the preparation of operational programmes.
Operational programmes	Implementation of the EU Cohesion Policy	Developed and implemented at national and regional level in order to utilize the EU Structural Funds and the Cohesion Fund. Operational programmes achieve the objectives set by the National Cohesion Strategy and development strategies. Operational programmes include: • national operational programmes, • regional operational programmes.
Programmes	Pursuant to national legislation	Operational documents for the development strategies, including: • multi-year programmes, • voivodship programmes.

Source: OECD (2013), *Public Governance Review of Poland: Implementing Strategic-State Capability*, OECD Publishing, Paris (forthcoming).

How the government intends to implement this vision is presented in its key medium-term strategic framework entitled *The Medium-Term National Development Strategy 2020* (NDS), focusing on a ten-year time-horizon. This medium-term implementation framework integrates the European Union's policy objectives under its *Europe 2020* strategy for growth. Indeed the European Commission also engages in strategic visioning under a ten-year planning horizon (see Box 3.7 – presented here simply to illustrate the point). The NDS identifies the fundamental policy drivers, objectives and directions for national development under its socio-economic, regional and land-use dimensions. It focuses on achieving an effective and efficient state, a more competitive economy and greater social and territorial cohesion.

Poland's ten-year planning framework is to be implemented through the application of a set of integrated development strategies that focus on innovation and the efficiency of the economy; the development of human capital; the development of transport; energy security and the environment; the effective state; the development of social capital; regional development; national security; and sustainable development of rural areas and agriculture. Taken together, these integrated strategies present similarities to the National Development Plan, save for the planning horizon: Poland's is ten years, while Colombia's is four. But

Box 3.7. **Europe 2020**

Europe 2020 is the European Union's growth strategy for the period up to 2020. It is based on five objectives, each with concrete targets for the EU as a whole:

- *Employment*: 70% of 20-64 year olds to be employed
- *Innovation*: 3% of EU GDP (public and private combined) to be invested in R&D/innovation
- *Education*: Reducing school drop-out rates to below 10%; at least 40% of 30-34 year olds completing tertiary education
- *Poverty/Social exclusion:* At least 20 million less people in or at risk of poverty and social exclusion
- *Climate/Energy:* Greenhouse gas emissions 20% (or even 30% if the conditions are right) lower than in 1990. 20% of energy from renewables; 20% increase in energy efficiency

EU-level targets are translated into national targets for each member state. Each member state has adopted its own national targets in each of these areas. Achieving the goals of the Europe 2020 strategy requires reinforced surveillance to address key macro-economic challenges, and a thematic approach to speed up growth-enhancing structural reforms. Monitoring by the European Commission and Council is organised around the so-called "European Semester". This starts with the publication of the Annual Growth Survey. The Spring meeting of the European Council, based on the Annual Growth Survey, takes stock of the overall macro economic situation; progress towards the five EU level targets; and progress under the flagship initiatives. It provides policy orientations covering fiscal, macro-economic and structural reform and growth enhancing areas, and advises on linkages between them. Member states then present their medium-term budgetary strategies in their Stability and Convergence Programmes and set out actions to be undertaken (e.g. in employment, research, innovation, energy and social inclusion) in their National Reform Programmes. In April these two documents are sent to the Commission for assessment. Based on the Commission's assessment, the Council issues country specific guidance to member states in June/July. This means that policy advice is given to member states before they start to finalise their draft budgets for the following year. Where recommendations are not acted on within the given time frame, policy warnings can be issued. There is also an option for enforcement through incentives and sanctions in the case of excessive macro economic and budgetary imbalances. The EU monitors developments on three fronts: macro-economic factors; growth-enhancing reforms; and public finances.

Source: European Commission (n.d.), "Europe 2020", European Union, Brussels. http://ec.europa.eu/europe2020/index_en.htm.

the methodological approach in the setting and implementation of Poland's medium term strategies is not that dissimilar to that followed for Colombia's Development Plan.

The government of Colombia could therefore consider building on its existing toolkit – in particular the multi-year fiscal framework of the Ministry of Finance and the National Planning Department's performance-assessment framework – to identify emerging domestic and international policy challenges and long-term trends to enable it to define long-term strategic objectives, both sector-based and multi-sector, within which the Development Plan's four-year goals could be embedded. Doing this effectively could require building capacity within the central government to engage systematically in strategic-foresight activities and long-term visioning to a greater extent than it does now, *inter alia* by engaging key central-government, sub-national and civil-society stakeholders in this process on an on-going basis.

This capacity should logically be located within the National Planning Department. A strategic foresight and planning unit could be given a mandate to consult widely and regularly, and share the results of these consultations broadly in an effort to ensure that the resulting national vision clearly reflects input from these key actors. In addition, it could work closely and on an on-going basis with all key central-government actors in this process, from the DANE to the key ministries and administrative departments involved in all key social, economic and environmental policies supporting the country's development, as well as with their counterparts across sub-national governments and with key civil-society actors.

The strategic foresight and planning work would of course have to reflect the political agendas and campaign platforms of incoming national leaders – starting with the President – which heightens the need to ensure that this unit is well-attuned and capable of reflecting and integrating the key political, policy and fiscal elements of the country's domestic and external environment that will determine its development trajectory over the long-term planning horizon defined in the visioning work.

Regulation and regulatory impact analysis

Underpinning the implementation of vision-based strategies – no matter the length of their planning horizon – is the efficiency and effectiveness with which governments develop and implement rules to give effect to policy decisions designed to implement national development strategy. Rule-making and regulatory-impact analysis are first and foremost a responsibility of CoG institutions. Effective strategic whole-of-government oversight by the CoG over rule-making is central to enhancing strategic-state capability, which explains why this issue is raised here, even though a separate Regulatory Reform Review was recently conducted by the OECD at the behest of the government of Colombia. The Regulatory Review identified key issues that the government of Colombia will need to address to strengthen *inter alia* its commitment to an explicit, coherent whole-of-government policy for regulatory quality by providing active, on-going oversight of regulatory procedures to implement effective and efficient regulatory policy based on the use of evidence, including cost-benefit analyses against clearly defined policy goals, thereby sustaining high regulatory quality. Since these issues fall under the purview of CoG institutions, indeed lie at the heart of their mandate, they are being summarised here.

Regulating, along with spending and taxing, is a key tool of government:

- It is of particularly high importance for implementing strategy: evidence-based rules tend to help governments achieve policy goals, while poorly-designed ones tend to undermine the operation of the economy and impede people's lives. Ill-conceived regulation can stifle innovation and entrepreneurship, reduce welfare and slow growth.
- Whether a rule is well or badly designed depends to a large extent on the quality and use of evidence in the rule-making process. Indeed, evidence-based regulation can be advanced by the implementation of tools such as consultation and Regulatory Impact Analysis (RIA).

As Chapter 2 pointed out, the 1991 Constitution signalled a change in the role of the State in regulating economic activity. The State abandoned its interventionist role as the sole service-provider and opened the economy to private-sector participation. In so doing, the State:

- Adopted administrative reforms to establish more predictable, coherent and transparent regulatory frameworks to encourage private participation in economic activities, accompanied by the creation of regulatory agencies, called Regulatory

Commissions (*Comisiones de Regulación*) along with a separate supervisory function through the establishment of *Superintendencias*.[2]

- Pursued administrative-simplification efforts whose main goal has been to streamline and simplify regulatory formalities (*trámites*) affecting businesses and citizens.
  - In this connection, the current government has been pursuing an aggressive administrative-simplification agenda with the overarching goal of streamlining formalities that affect businesses and citizens. This agenda focuses on eliminating unnecessary regulatory burden, simplifying those formalities that have significant impact, automating those with a wide scope at the national level, and implementing interoperability to guarantee access to public services and standardise procedures. The current government has been successful in advancing one-stop shops to streamline specific business procedures (e.g. for launching a business, registering property, engaging in foreign trade operations) and in setting up participatory mechanisms, such as the Competitive Regulation programme.
- Introduced principles and tools to improve the quality of regulations, mainly to improve legal drafting; and, more recently
- Has engaged in enhancing the effectiveness of internal government operations. The government has recently adopted a model for total quality in public management, based on 2003 legislation and implemented by decree in 2004, which establishes technical norms for quality in public management. These efforts have helped deregulate and simplify procedures based on the principle of administrative effectiveness.
  - Additional high-impact strategies are being pursued by the current government based on a 2012 Presidential Directive, such as the recognition of good practices to eliminate internal formalities and procedures and the development of annual plans for administrative efficiency. Most recently, the DAFP, the High Presidential Advisor for Good Government and Administrative Efficiency and the MINTIC[3] jointly led an initiative called "Challenge for administrative efficiency", which focuses on identifying internal procedures and formalities that limit value-added and the administration's capacity to perform efficiently. This initiative generated a considerable number of proposals by public servants and government suppliers, which will be evaluated on the basis of impact, cost-benefit balance, ease of implementation, and their degree of innovation.

This section reviews how current rule-making processes support the application of core principles of good regulation and evidence-based decision-making. In so doing, it summarises key findings set out in the OECD 2013 Regulatory Reform Review of Colombia.

The preparation of new regulations

Regulation is prepared at the national level through laws, decrees, resolutions and circulars (see Figure 2.2 for the description of their hierarchy). At the sub-national level, regulation is issued by Departments through ordinances (*ordenanzas*) and by municipalities through agreements (*acuerdos*). In Colombia, there is no single procedure to prepare regulations that can be commonly applicable across the entire national administration, even if some institutions, such as regulatory commissions, have managed to establish procedures that have improved over time. In the last few years, some institutions have introduced specific requirements, such as the need to consult with affected parties or initial efforts to conduct impact assessments, to ensure that quality controls, improvements and transparent mechanisms are used in the design and preparation of regulations.

Regulatory proposals are initiated in the institution whose mandate relates to addressing the issue to be solved. All institutions have a legal department that tracks the preparation of the proposal and ensures that it meets the relevant legal requirements. Co-ordination among other institutions in a given sector is promoted, as well as consultation with affected stakeholders, even though specific consultation procedures differ. With the exemption of the competition authority, the *Superintendencia* of Industry and Commerce (*Superintendencia de Industria y Comercio*, SIC), no other institution comments on regulatory proposals in a compulsory way, and even this occurs at the discretion of other institutions, depending on whether they send their proposals to the SIC for review.

Administrative transparency and predictability

Transparency and openness are basic elements of a normative system that consistently regulates based on evidence. Regulatory transparency is essential to establishing a stable and accessible regulatory environment that promotes competition, trade and investment, and helps insure against undue influence. Transparency reinforces the legitimacy and fairness of the regulatory system. Transparency thus serves to make rules easy to locate and understand, and contributes to easing implementation and to the consistency and predictability of the appeals processes. A transparent procedure to produce regulation, taking advantage of tools such as forward planning or plain language, also opens up the opportunity for stakeholders to provide information on which authorities can rely to collect evidence and take decisions, first, whether regulation is the best choice to address a public policy problem and, if this is the case, to design the regulatory intervention based on such evidence.

Several OECD countries have established mechanisms for publishing details of the regulation they plan to prepare in the future. Forward or anticipatory planning has proven to be useful to improve transparency, predictability and the co-ordination of regulations. It fosters the participation of interested parties as early as possible in the regulatory process and it can reduce transaction costs through giving more extended notice of forthcoming regulations.

In Colombia there is no systematic use of forward planning concerning regulatory agendas. However, some institutions, such as ministries, establish regulatory objectives with the help of their planning units and these have to be in accordance with their sector-based plans that flow from the National Development Plan. Furthermore, regulatory commissions are required to define an annual regulatory agenda in which they set out the projects and the studies that will be conducted over the following year.[4] The Commissions are required to consult on their regulatory agendas with their respective sectors and to incorporate comments from other institutions into their final plans. The *Superintendencias* also establish planning programmes with support of their internal planning offices.

Governments need to ensure that the general public can readily understand regulatory goals, strategies, and requirements. This is essential for maintaining public confidence in the need and appropriateness of regulation, and an important element to ensure compliance. Fundamentally this requires that legal texts be clear and readily understandable, even to non-legal experts. Although technical language may be appropriate and even necessary for some stakeholders, it is important that citizens without specific sector-related expertise are able to understand the basic features of a given regulatory proposal.

In Colombia, Decree 1345 of 2010 provides guidelines for the publication of regulations and it clearly states in its article 14 that “draft proposals should be characterised by clarity, precision, plain language and coherence, in order to avoid ambiguity or contradictions.” However, the appropriate use of these guidelines depends on the discretion of legal drafters, as there is no single entity monitoring their application.

The use of consultation for dialogue with affected groups

Effective consultation is key to ensuring that the interests of citizens and business are taken into account in the development and design of regulation. It improves the effectiveness of regulation by drawing on the information that regulated entities have about the likely impacts of regulation. The positive effect of increased transparency and stakeholder-engagement is not just confined to regulation, but also enhances policy and programme development and delivery.

In Colombia, several instruments promote public consultation on regulation-making (Chapter 2 presented the more general cluster of consultations mechanisms used by Colombia). The 2011 legal Code of Administrative Procedure and Contentious Administration establishes that each institution is obliged to make public "the specific regulatory proposals and the information that gives them ground, in order to get opinions, suggestions and alternative proposals. Institutions should indicate the deadline for submitting such observations, which must be included in the public register." The Code, however, gives discretion to institutions on the ways and means to conduct public consultation. Consequently, and contrasting sharply with the experience of OECD countries, there is no single, systematic and compulsory requirement to conduct public consultation on regulatory matters within a given timeframe, nor is there homogeneity in the way public consultations are conducted in Colombia.

Choice of policy instruments: regulation and its alternatives

The first response by governments to a perceived policy issue is often to make a rule, but it is appropriate to ask whether traditional regulation is the optimal course of action. In many situations there may be a range of options available other than traditional "command and control" regulation. The alternatives to traditional regulation fall into three main categories: market-based instruments, self-regulation and co-regulation approaches, and information and education schemes.

Critical to good regulation is the capacity to choose the most efficient and effective tool, whether regulatory or non-regulatory, to meet a policy objective. This choice should always be made based on evidence. Typically, however, there are disincentives for public servants to be innovative: the use of untried methods carries risks and bureaucracies can be inherently conservative. Reform authorities must take a clear leading role in supporting and promoting alternatives to traditional regulatory approaches if innovative choices are to be developed and implemented.

There is no systematic consideration of alternatives in the process of preparing new regulations in Colombia, mostly due to the lack of training in the use of such alternatives and a legalistic approach towards problem solving, in addition to the lack of a systematic use of impact analysis to collect and analyse evidence. The use of alternatives depends on the topic that is subject to analysis and the technical capacities of the experts who are dealing with the issue.

Potential for the use of Regulatory Impact Analysis (RIA)

Among the various tools for managing regulations based on evidence, the use of RIA has particular prominence in OECD countries as a systemic mechanism to assess the benefits of regulatory proposals *ex ante*, and evaluate whether the estimated benefits of proposed regulation exceed the estimated costs. The OECD has been a long standing advocate of the use of RIA for this purpose. The 2012 *OECD Recommendation of the Council on Regulatory Policy and Governance*[5] advises governments to integrate RIA into the early stages of the policy process for the formulation of new regulatory proposals; to clearly identify policy goals, and evaluate if regulation is necessary and how it can be most effective and efficient in achieving those goals; to consider means other than regulation; and to identify the trade-offs of the different approaches analysed to select the best one.

RIA represents an essential core tool for ensuring the quality of new regulations through a rigorous, evidence-based process for decision making. A well-functioning RIA system can assist in promoting policy coherence by making transparent the trade-offs inherent in regulatory proposals, identifying who is likely to benefit from the distribution of impacts from regulation, and how risk reduction in one area may create risks for another area of government policy. RIA improves the use of evidence in policy making and reduces the incidence of regulatory failure arising from regulating when there is no case for doing so, or failing to regulate when there is a clear need.

RIA is fundamental to consolidate a comprehensive regulatory approach since it is a tool that provides objective elements and evidence, such as costs, benefits and options, for decision-making. A RIA system can only be consolidated and improved over time. In Colombia there is no mandatory requirement to conduct RIA, even though there are several pilot initiatives to explore the feasibility of adopting the systematic use of RIA. To develop, implement and fine-tune such a system, OECD experience points to a cluster of good practices that have worked in OECD countries and that the government of Colombia could consider taking into account as it proceeds:

- ***Maximising political commitment to RIA.*** OECD experience shows that the use of RIA should be endorsed at the highest levels of government. RIA has to be supported by a legal instrument that makes it compulsory for entities inside the administration to use it. Political commitment can be expressed in various forms, but the most common one is a clear recognition of the obligation to conduct RIA, its role in decision-making, and of the way the tool contributes to promote regulatory quality in the country. Such political commitment is necessary to embed a culture of regulatory improvement throughout the public administration and create a "receptive policy-making" environment (see Box 3.4, OECD experience regarding evidence-based decision making).
- ***Allocating responsibility for RIA programme elements carefully.*** Experience in OECD countries shows that RIA will fail if left entirely to regulators, but will also fail if it is too centralised. To ensure ownership by regulators while at the same time establishing quality control and consistency government-wide, responsibilities for RIA are often shared between ministries and a central quality control unit.
- ***Training the regulators.*** Regulators must have the skills to prepare high quality economic assessments, including an understanding of the role of RIA in assuring regulatory quality and an understanding of methodological requirements and data collection strategies. All complex decision-making tools, such as producing adequate RIA, require a learning process.
- ***Using a consistent but flexible analytical method.*** The OECD recommends as a key principle that regulations should "produce benefits that justify costs, considering the distribution of effects across society." A cost-benefit analysis is the preferred method for considering regulatory impacts because it aims at producing public policy that meets the criterion of maximising welfare.
- ***Targeting RIA efforts.*** RIA is a difficult process that is often opposed by ministries unfamiliar with external review or under time and resource constraints. The preparation of an adequate RIA is a resource intensive task for drafters of regulations.

Experience shows that central oversight units can be swamped by large numbers of RIA concerning trivial or low impact regulations. Hence, it is a good practice to target RIA efforts on those regulations with significant impacts on the economy.

- ***Develop and implement data-collection strategies.*** Key to evidence-based decision-making is access to good data. The usefulness of a RIA depends on the quality of the data used to evaluate impact. An impact assessment confined to qualitative analysis means less accountability on the part of regulators for their proposals. Since data issues are among the most consistently problematic aspects of conducting assessments, the development of strategies and guidance for ministries is essential for a successful programme of quantitative RIA.
- ***Integrating RIA into the policy-making process, beginning as early as possible.*** Integrating RIA into the policy making process will, over time, ensure that the disciplines of weighing costs and benefits, identifying and considering alternatives, and choosing policy in accordance with evidence and its ability to meet objectives, become routine in policy development. If RIA is not integrated into policy-making, impact assessment becomes simply an *ex post* justification of decisions already taken, and contributes little to improving regulatory quality. Integration is a long-term process, which often implies significant cultural changes within regulatory ministries. Early integration of RIA in the policy process would require stronger incentives and possible sanctions for non-compliance.
- ***Communicate the results.*** The assumptions and data used in RIA can be improved if they are tested through public disclosure and consultation. Releasing RIA along with draft regulatory texts as part of the consultation procedure is a powerful way to improve the quality of the information available on new regulations and, in so doing, improve the quality of the regulation itself.
- ***Involving the public extensively.*** The public, and especially those affected by regulations, can constitute cost-effective sources of the data and evidence needed to complete high quality RIA. Consultation can also provide important checks on the feasibility of proposals, the range of alternatives considered, and the degree of acceptance of the proposed regulation by affected parties. The challenge is to use this information in a structured and critical way, avoiding the promotion of interests of particular stakeholders.
- ***Applying RIA to existing as well as new regulation.*** RIA is equally useful in reviewing existing regulation as it is in assessing new normative measures. Periodic evaluations and reviews are needed to assess the impact of regulations and whether the desired outcomes are being accomplished. Reviewing the stock of regulations is a complement to *ex ante* regulatory controls, as the former corrects problems and the latter avoids them. In fact, reviewing existing regulation involves fewer data problems, so the quality of the resulting analysis is potentially higher. Consistently applying RIA to existing regulation is a key priority.

A possible roadmap for Colombia

The following summarises the advice on capacities to develop new regulations contained in the OECD Regulatory Reform Review mentioned at the beginning of this section. The government of Colombia could consider:

- Improving administrative standards and requirements to prepare regulations making them compulsory

  - Adopt a comprehensive approach for transparency, predictability and communication in the preparation of regulations, as part of a strategy for high-quality regulation.
  - Integrate key principles of good regulatory practice in the preparation of new regulations in a comprehensive way using a whole-of-government approach.
- Improving and standardising the use of public consultations
  - Consider making consultations compulsory for all institutions in the national administration, establishing clear methodological criteria and deadlines for accepting comments, and ensuring that public consultation is accompanied not only by the draft proposal, but by supportive documents that give information on the decision under discussion and stimulate participation, such as *ex ante* impact assessments.
  - Consultation should be made early enough in the rule-making process to ensure that it contributes to the improvement of draft laws and regulations and comments from the public are properly heard.
- Integrating the systematic use of Regulatory Impact Analysis (RIA) in the regulatory process
  - Consider promoting the use of RIA as a key tool to improve the quality of new regulations, taking into account administrative, economic, political and cultural features, while reflecting good international practice.

Linking budget to strategy to optimise performance in Colombia: An assessment

Improving the quality of public-finance management as a means to optimise the achievement of strategic national development objectives is a key challenge in Colombia, as it is in many countries. Indeed in the European Union, the EU Commission instituted an EU-wide working group within the Commission's Economic Policy Committee to examine the quality of public finances, which testifies to the importance of exploring the links between the quality of public finances and growth and tackling the main challenges affecting EU members' public finances.

Colombia has implemented several reforms in this field, most notably its impressive new Fiscal Rule to manage the country's structural deficit (which can serve as a good practice meeting OECD standards), and the *regalías* reform implementing the new royalties system (see Chapter 4) to manage the distribution of revenues from natural-resource exploitation more effectively. By improving budgetary processes and institutions, the quality of public finances is boosted. Efficiency, effectiveness and transparency are three basic objectives of modern budgeting. Fiscal rules, medium-term frameworks and performance budgeting have proved effective in achieving these objectives. This section assesses how Colombia has implemented these tools, focusing on the efforts to link planning to budget expenditures and management.

Using the budget to implement strategy

The budget is a key strategic decision-making tool. It needs to be comprehensive, covering all government revenue and expenditures, so that the necessary trade-offs between policy-options can be assessed based on hard evidence against the parameters of the government's fiscal framework. The budget supplies critical information that constitutes a *sine qua non* condition for implementing strategic decisions rationally. This is in the nature of the strategic tools governments use to affect change. Lacking a modern, responsive, transparent and outcome-focused budget process thus severely restricts a government's ability to perform and deliver strategic results to citizens and businesses in a rapidly-changing environment fraught with uncertainty.

The purpose of introducing performance-informed or performance-based budgeting (PBB) is to improve policy delivery to citizens by improving strategy implementation through managing the country's public finances in a way that enables the government to assess whether spending is achieving strategic outcomes. PBB strengthens allocative and operational efficiency, multi-year fiscal planning capacity and transparency and accountability. PBB is a methodology that seeks to focus on the *results* attained through public-sector spending, rather than on how much is spent on a particular government programme. This increases transparency and accountability, because spending *results* can then be assessed against spending *objectives* and *targets*, and discrepancies or disconnects can then be adjusted (and savings or reallocations can be made by discontinuing dysfunctional or low-priority spending).

While the use of performance budgeting varies greatly, almost all OECD countries now use non-financial performance targets/measures[6] in their budgeting methodology. This usually involves a government developing a framework through which objectives can be set and performance indicators can document results. In some countries objectives and indicators are developed as part of an overall strategic plan for the government; in others objectives and indicators will be set and monitored according to priorities in a particular policy area. In practice this means a number of things. This information can be used to gain insight into how different programmes contribute to the achievement of the government's policy goals. Depending on the type of performance information, this can also help explain why some programmes work and whether they represent value-for-money. Used in policy and budget formulation, this information can inform the design of better programmes. In order to implement an overall approach to performance assessment, there are different types of evaluations: operating and results evaluation, institutional evaluations, outcome evaluations, and so on. As performance management has evolved, outcomes-based evaluations have gained more importance (in OECD countries).

Performance measurement and evaluation are integral to budget decision-making

Performance management requires a collaborative, horizontal approach to be successful. Consequently there need to be incentives for civil servants to embrace such a system. In addition, key skills regarding performance budgeting need to be provided through extensive training. These incentives could partly come in the form of positive recognition from the minister and senior management and partly through a greater transparency about implementing performance-measurement as part of civil servants' annual performance evaluation that would affect pay and promotion.

Beyond the budget, performance-measurement and evaluation tools can be integrated into any and all *ex-ante* and *ex-post* regulatory impact-assessment mechanisms (see previous section) – these tools are critical to evaluate policies to identify success and failures, and to improve policies accordingly. The process of performance measurement includes the definition of concrete and measurable objectives and the evaluation of whether these have been achieved. It helps to ensure that strategies inform daily decision-making, to enhance accountability and credibility and to communicate progress.

OECD experience suggests that performance-measurement works best if it builds on clear objectives, good-quality data and is embedded in a culture of constant learning and improvement. If indicators are not complemented with more in-depth qualitative analysis, or if they end up being imprecisely related to the policy objective the programme is being implemented to achieve, there is a risk that these indicators lead to a situation in which reward is given to programming that is not achieving its intended result, or is achieving perverse outcomes. Moreover, an exclusive focus on "what is measurable" leads to the discounting or non-measurement of other important performance objectives. The OECD has developed a methodology to assist countries in the development of performance measurements (see Box 3.8).

Box 3.8. **From setting objectives to measuring results: A 7-step process**

Performance-measurement and evaluation need to be integrated into all major policy initiatives both *ex-ante* and *ex-post* – these tools are critical to evaluate policies to identify success and failures, and to improve policies accordingly. The process of performance measurements includes the definition of concrete and measurable objectives and the evaluation of whether they have been achieved. It helps to ensure that strategies inform daily decision-making, to enhance accountability and credibility and to communicate progress. Performance measurements work best if they build on clear objectives, good-quality data and are embedded in a culture of constant learning and improvement.

There are risks, however: If measurements are not complemented with more in-depth qualitative analysis these indicators lead to a situation in which reward is given to programming that is not achieving its intended result, or is achieving perverse outcomes. Moreover, an exclusive focus on "what is measurable" leads to the discounting or non-measurement of other important performance objectives.

The OECD has developed a 7 step methodology to help policy makers set objectives for their policies and assess whether they have been achieved. The figure on the next page provides a concrete illustration of the application of the seven step method to a policy on strengthening the enforcement of traffic regulation to reduce traffic causalities.

Step 1: Establish priority policies

For indicators to provide valuable information, they must be properly rooted in policy itself. At the same time, it is unrealistic, and perhaps undesirable, to link indicators to all policy initiatives. Thus, policies need to be prioritised according to their ability to help government meet its strategic objectives. A priority policy should be articulated as a consistent course of action expressed as a causal and concrete statement (see example below).

Step 2: Define the targets

A target is a concrete goal that states the degree or level of achievement expected with respect to its associated priority policy. Targets are most directly linked to results indicators, and the degree or level of achievement that a target measures can be based on a variety of comparative parameters, depending on the base comparator and the results being sought.

Step 3: Identify key activities

An activity is a specific programme, initiative or project that clearly supports reaching a target. Activities must be systematically and clearly linked to targets and should be expressed as action verbs. Thus, "train", "implement", and "build" all work well to lead an "activity statement" but "improve", "strengthen" or "enhance" for example, do not.

Step 4: Build output indicators

An output indicators measure progress with an activity, and thus these two components should be clearly linked. A well-constructed output indicator is measurable. Thus, it must be

Box 3.8. **From setting objectives to measuring results: A 7-step process** *(continued)*

quantitative (i.e. expressed in physical or monetary units) and time bound (i.e. limited to the lifetime of the corresponding activity). One key question to ask when establishing an output indicator is what will be produced by the activity being measured?

Step 5: Build results indicators

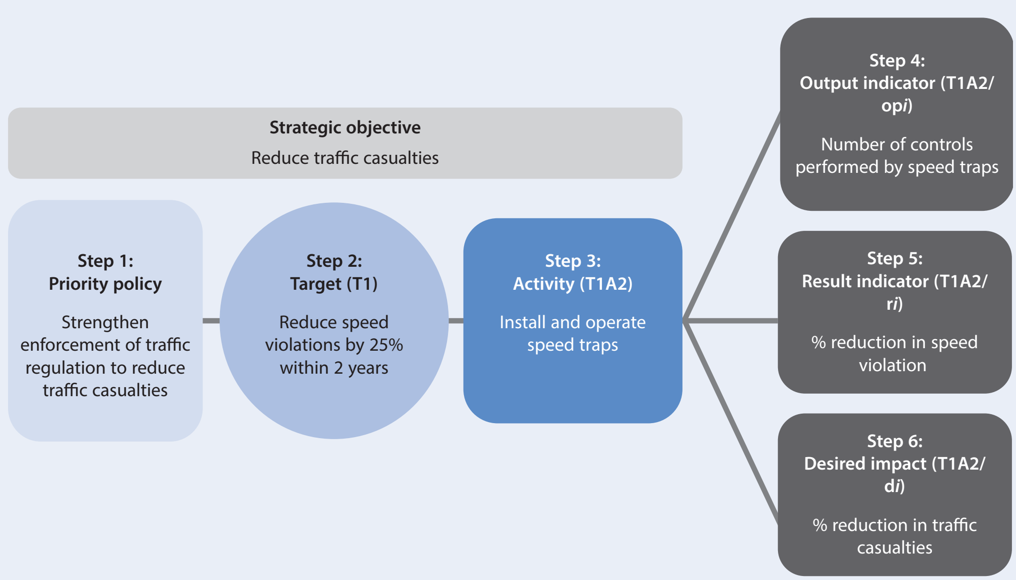
A results indicator measures the results of activities in terms of their contribution to corresponding targets. Thus, they are closely associated with targets.

Step 6: Identify the desired impact

An impact indicator sets a longer term perspective and provides insights on the effect that one or more key activities have on the Priority Policy, and ultimately on the strategic objective. Impact invdicators are particularly difficult to develop because attribution or causality is hard to establish – i.e. making a direct and complete link between the activity's impact and policy objective can be difficult. This is because other factors, often not within the control of government, may be involved with meeting a strategic or policy objective. Thus, it may be more rewarding and appropriate to identify desired impact – the desired impact of an activity on a Priority Policy, and more fundamentally the desired impact of a Priority Policy on a strategic objective. Such a conversation can *a)* help focus policy thinking by providing a framework or an orientation within which other decisions can be made; *b)* inspire extended institutional and individual effort (OECD 2009).

Step 7: Identify appropriate qualitative research methods

There are many approaches to determining the effectiveness of activities and/or Priority Policies. Output, result and impact indicators may signal problems and trigger governments to "dig deeper" to find the causes of the problem and identify the appropriate actions. Qualitative research methods can add value to the indicators and an understanding of policy effectiveness. Such research methods can include case studies, focus groups, interviews, and reviews (e.g. OECD peer reviews).



Source: OECD (2011, 2012), information taken from internal training material.

Colombia's policy and budget performance-management and monitoring tool: SINERGIA

For over twenty years Colombia has been developing information-management tools to implement performance-based budgeting and budget-management. The genesis of performance-management in Colombia is the 1991 Constitution, which established the obligation to monitor and evaluate public policy. At the beginning of the 1990s, to comply with this constitutional obligation, the government developed and implemented SINERGIA (see Box 3.9), the set of tools designed to monitor and evaluate performance (*Sistema Nacional de Evaluación de Resultados de la Gestión Pública* – National system to evaluate public management results). The National Planning Department is in charge of managing SINERGIA. The Department provides technical support for managing the system since it is also responsible for the medium-term planning, programming, monitoring and evaluating public policies and programmes.[7]

Box 3.9. **SINERGIA**

- Colombia has developed and refined a comprehensive system of information to monitor and evaluate the country is reaching its main goals. This system, inspired by international experiences such as the Delivery Unit in the UK and the While House Dashboards, has allowed the country to discuss the priorities as well as identify the biggest challenges. Through it, Colombia has integrated all of the information from the different entities and sectors, with diverse indicators, clear guidelines and targets. Through a complete set of indicators we have developed user-friendly dashboards and traffic lights to display the information.
- The Colombian Constitution requires that all public policies are monitored and evaluated, and SINERGIA is the national system responsible for these tasks. SINERGIA is led by the Direction of Public Policy Monitoring and Evaluation within the National Planning Department and the Presidency of the Republic. A system of monitoring and evaluation of development plans must be implemented by all the sub-national governments, with the aim of aligning municipal and departmental policy interventions and investment agendas with those of the National Development Plan (this monitoring component is called SINERGIA TERRITORIAL). SINERGIA measures the progress and goals of the projects included in the National Development Plan through three main tools:

  1. *SINERGIA Seguimiento*: a set of performance indicators which measures policy outputs and outcomes as identified by the National Development Plan. The system is built following a pyramidal structure with three main levels: strategic, sector and management. Strategic indicators are at the top and are related to the main government pillars as stated in the National Development Plan. These are followed up by the President and the Council of Ministers. Sector indicators describe sector-specific goals and are monitored by the President and each Minister in bilateral meetings and within each Ministry. Finally, Management indicators are standard indicators that are measured for all of the entities to track institutional efficiency.
  2. *SINERGIA Evaluations*: a system to evaluate the outcomes of the main public policies and programmes implemented within the framework of the National Development Plan. Every year, the policies that will be evaluated are elected by a Committee of the DNP and approved by the CONPES. Policies are evaluated by a recognised, experienced third party (consultancy) so as to guarantee objectivity and transparency in the process. *Sinergia evaluations* has increased significantly, reaching 102 evaluations hired or supported in 2013.

Box 3.9. **SINERGIA** *(continued)*

3. Perception surveys: The National Development Plan Perception Surveys are conducted periodically so as to compare public perception and government results. The results of the polls are public and are found in the SISDEVAL website. Surveys measure perception of the way the government is achieving the goals set.

- In the beginning, SINERGIA focused on central-government management only; in 2004, its scope was broadened to include technical assistance for monitoring and evaluating sub-national governments' development plans. It now provides information on the overall performance of the national development plan at all levels of government in Colombia. However, at the territorial level, performance-management implementation remains relatively underdeveloped. In 2011, methodological guidelines were approved focusing on performance management at the sub-national level; a network of regional officials was created to encourage the exchange of best-practices in the field of performance management.
- Through SINERGIA, follow-up is readily available. The Presidency, the Government and citizens can follow up the government's performance. It is an essential tool for building trust in government.

Source : Colombian Government (2013), PGR Background Report (unpublished working paper)..

This system is, by Latin-American and OECD standards, one of the most advanced whole-of-government performance-monitoring systems used in the world today. The system tracks policy performance government-wide using an elaborate series of performance-based indicators covering the entire spectrum of activity related to the implementation of the NDP. Over the years, SINERGIA has evolved, with its main weakness addressed. It is now a sophisticated information system. Indeed Colombia has made significant progress in an area in which OECD countries are still struggling: systematically measuring, and reporting on, budget performance in achieving national strategic objectives. While not perfect, it is considerably more advanced than in most OECD countries.

All Ministries and Administrative Departments set their policies, plans, programmes and projects according to the National Development Plan. In so doing, they are required to contribute regular performance information on the basis of formal indicators systematically recorded in the government's systems that monitor and evaluate performance in the pursuit of government goals. Through SINERGIA, the central government conducts the evaluation and monitoring of key national policy and programming performance. This system aims to provide performance information to assess whether the objectives envisaged by public policies and the budgets allocated to implement them have been achieved.

SINERGIA's tool to *monitor* the government's performance in the pursuit of its social and economic development policy goals – known by its Spanish acronym SISMEG (*Sistema de Seguimiento a Metas de Gobierno),* represents an innovative whole-of-government effort to co-ordinate initiatives and follow up on the performance of the different ministries and agencies contributing to the implementation of their contribution to advancing the goals set out in the National Development Plan:

- *SINERGIA-Seguimiento* is used by the President to support dialogues with Ministers and by government officials.

- *SINERGIA-Seguimiento* records general government objectives and individual Ministry and Administrative-Department goals stemming from the strategic plans approved by the President.
- Performance indicators can be product or results-oriented and are defined according to a periodicity that allows for adequate follow-up (monthly in many cases).
- For indicators that can't be defined within the desired periodicity (due to lack of information or budget constrains), proxy indicators are used to generate evidence on performance.

Each government unit is given a scorecard for its principal strategic goals complete with relevant performance indicators. It is filled out on a monthly basis and graded using a traffic-light notation. These scorecards (based on the US White House Dashboards) are reviewed by the National Planning Department, the office of the High Commissioner for Good Governance in the Presidency, and then by the President. They can be presented at Cabinet meetings and are used for discussion by the President with Ministers and Directors. Scorecards have been designed for key government priorities, including Employment, Poverty Reduction, Security, Environment and Innovation).

These scorecards are fundamental for co-ordinating policy roll-out between government units as they measure individual performance in relation to the pursuit of a common, multi-sector policy goal. All units that participate actively in the accomplishment of policy goals related to the government's economic and social development priorities have specific goals that are then reflected in the general government goals. SINERGIA is updated every month and all performance information is recorded in an information system that is made available to all government units and the general public.

In order to implement fully a performance budget system, budgetary structures and procedures should be adapted in order to integrate performance information in all the phases of the budgetary cycle. In Colombia, the General National Budget is presented based on a functional classification,[8] that is, expenditures are categorised according to the objective pursued. The functional classification is similar to the one used by the International Monetary Fund, so it is simple to make international comparisons.

The National Development Plan which presents the government's key medium-term objectives has recently been enriched with three budget tools which have helped improve strategic planning in Colombia:

- The government's recently-approved Fiscal Rule (see next section);
- The government's medium-term fiscal framework (MFMP), which is integrated into the Development Plan and presents the projections for the major fiscal and economic variables, framing the "fiscal context" to design public policies (see previous and next sections);
- The Plan's programming phase has been reinforced with a top-down budgeting system, meaning:
  - The draft budget law fixes the total amount of the budget resources available to the government;
  - The approved resource-ceiling enables discussion on resource-allocation government-wide.

By using a top-down approach, line ministries are forced to rank their priorities and budgetary programmes. During the stage of budgetary programming, performance information is used not only to determine budget allocations but to reformulate programmes and to enhance the definition of policies.

One challenge in implementing performance-budgeting in many OECD countries is determining who establishes the objectives for budgetary expenditures. If these objectives are established by the technical entity responsible for achieving them (the line ministry, say), there is the possibility that an institutional bias will influence the nature and quality of the objectives being establishes because the entity will wish to define easy-to-achieve objectives in the interest of maximising their budget allocation. On the other hand, if these objectives are fixed by the budgetary authority, there is a risk that the objectives could be unreachable, because the budgetary authority tends not to possess the technical knowledge required to set realistic ones. In Colombia this challenge seems to have been addressed: the Planning Department is an institution with a vast technical knowledge that is closely linked both to the Ministry of Finance and line ministries.

When executing the national budget, it is essential that budgetary managers have clear objectives. This requirement is clearly fulfilled in Colombia due to the fact that each programme of SINERGIA is linked with a manager who is responsible for achieving the specific targets identified for this programme. Other important issue during budget-execution is to have timely and accurate information. This is another strength of the Colombian system, as SINERGIA is a powerful mechanism that provides appropriate information during budget-implementation. This information can be extremely useful for budgetary amendments.

Possible improvements to Colombia's budget-implementation and performance-assessment system

In Colombia the framework for planning is anchored in the Constitution. This is positive, of course, as it makes the exercise of planning more robust and stable. However, there is a risk of making the process too rigid. Many efforts have focused on regulating every procedure in detail, including the methodology to obtain information, define objectives, carry out the evaluations, and so on.

The concept of performance-oriented management is also anchored in the Constitution. Moreover, it benefits from strong political support (for instance, the *SINERGIA-seguimiento* scorecards used regularly by the President himself). As Colombia has spent three decades developing performance management tools, the design of the system has been improving over the years, based on learning from its own experiences and from international practice. The Planning Department has played a key role in the implementation of the system. The performance system is directly connected to the National Developing Plan. Thus, it is closely in line with the political and medium-term strategy. This is an excellent framework to develop performance management and to keep on building a performance budgeting system. Indeed Colombia, according to the PRODEV index, is well above the rest of Latin America in using performance information. Moreover, this information is public and accessible online, which is a fundamentally positive way to improve economic transparency.

So, the key challenge is how to integrate performance information more systematically into the budget process and how to use this information to inform and guide the preparation and execution of subsequent budgets. During budget-setting, performance information could be promoted not only when the government is preparing the budget but in Congress as well. During budget-execution, performance information could be used when the budget is amended, and could guide the preparation of subsequent budgets.

This assessment of the Colombian budgetary process and institutions has identified the following hurdles to overcome if performance budgeting is to be fully applied successfully:

- Many budgetary resources are allocated by formula, especially transfers for sub-central administrations (e.g. under the "*Sistema General de Participaciones*" – see Chapter 4). In these cases, there is little room to apply performance information.
- Budget management is shared between two institutions: the National Planning Department is in charge of the Investment Budget and the Directorate General for the Budget in the Ministry of Finance manages the Operational Budget.[9] Responsibility for evaluation is also split between these two institutions. While it is not the intent of this Review to recommend a change in these institutional arrangements, such a split, in the absence of closer and more ongoing co-ordination and information-sharing between these two key institutions, could complicate the use of common performance-budgeting information to guide the setting and execution of both the operational and capital-investment components of the Budget. The use of performance information is mainly used by the National Planning Department only.
- The end use of a high percentage of public resources is fixed by law. Although this practice is broadly used in Latin America, it can be a challenge for implementing performance-assessment capacity effectively. That said measuring the performance of funding in key spending areas safeguarded by law is still possible; while cutting poor spending cannot occur without legislative change, much can still be achieved to improve spending performance in these instances.
- Evaluations are a supplementary information tool that complements indicators. Therefore, evaluations may contribute significantly to improve the quality of performance information. So, it is welcome that Colombia has made such efforts over the last few years to boost the number and the quality of the performance-based indicators.
- A key challenge remains the breadth and depth of performance information at the sub-national level to boost performance budgeting at the national and sub-national levels. While this information does exist, over the last few years, the development of performance information has focussed on indicators at the central level, with limited attention paid to enhancing the performance-assessment system in regional and local public administrations. It will be important to move forward to enhance national performance budgeting by broadening and deepening the range and quality of indicators at the regional and local levels.

So, while Colombia has achieved a high degree of implementation of performance budgeting, further improvements could be considered. As performance budgeting constitutes a proven tool to link planning and strategy to budgeting effectively, thus improving the quality of public-resource management, Colombia could consider renewing its efforts to improve the current system. In Latin America, good practices in managing performance-based budgeting can be found in Mexico and Chile. Box 3.10 presents the Chilean experience.

Box 3.10. The Chilean experience in performance-based budgeting

Since the middle of the 1990s **Chile has been gradually developing processes and tools to implement a performance budget system**, reaching a highly advanced system in the 2000s. Nowadays, the system comprises a set of performance information tools and evaluations which are managed by the Budget Office in the Ministry of Finance. In addition, the National Congress and the press are also involved in this process. The most important tools of the system are the following:

- **Performance indicators:** The indicators seek to evaluate performance on different dimensions, including economy, efficiency and effectiveness. They include process, output, intermediate outcomes and outcomes indicators.
- **Evaluations:** The evaluations of public policies and programmes are key elements of the system. They are conducted by expert panels and independent consultants, who applied common methodologies for developing them. Currently, there are different types of evaluations: desk evaluations, impact evaluations and comprehensive spending reviews. Since 1997, when the evaluations were established, 370 programme evaluations have been conducted and 48 evaluations in institutions.

Taking into account **the recommendations of the evaluations**, the management units made commitments to improve their performance. Significant improvements in both the programmes' design and their management have been achieved thanks to this evaluation system, improving the quality of public finances.

Apart from the above-mentioned evaluations, all the **investment programmes** are subjected to **evaluations, formally known as the National Investment System.** Only those projects which achieve a minimum technical threshold in these evaluations are eligible to be funded by the public budget.

- **Management Improvement Programme**: this is an original benchmarking system which associates management objectives with monetary "bonus".
- **Comprehensive Management Reports:** All the institutions of the central government have to present a report with the financial and non-financial results achieved. With this mechanism accountability is boosted among the public institutions.

In comparison to other OECD member countries, the **Chilean system has combined successfully the integration of performance information in the budget with the sensible use of this information in the decision making,** and therefore, avoiding a direct link between performance and funding. To institutionalise the use of performance information in budget negotiations, Chile has created a **special evaluation unit** which supplies performance information to budget examiners, who are in charge of negotiating budget allocations with the line ministries.

Source: Blöndal, J. and T. Curristine (2004), "Budgeting in Chile", *OECD Journal on Budgeting*, Vol. 4(2), www.oecd.org/chile/40139802.pdf.

Consider reducing rigidities and enhancing contingency-funding

The government could also develop a strategy to reduce rigidities in the budget system caused by the allocation of significant resources by formula. This could facilitate the broader implementation of performance budgeting.

Identifying explicitly in each annual National Budget a national contingency fund could help avoid budget deviations during budget execution. While the Ministry of Finance currently has flexibility to use contingency-funding arrangements, it might make sense to consolidate them and explicitly define their use: including an explicit, National contingency fund in the National Budget to address non-discretionary spending could reinforce programming and budget-execution. It could help manage unexpected situations, such us natural disasters, in a more transparent fashion without affecting either the Development-Plan-related programming or maintaining the country's fiscal balance under the Fiscal Rule. Indeed the Spanish experience (see Box 3.11) suggests that contingency-fund planning could be also included in the budgets of Departments and Municipalities.

Many OECD countries have included an explicit contingency fund in their budgets, with positive experiences. In Latin America there are experiences in this field in Chile, Mexico and Peru, for instance. In many countries the amount of this fund is a small percentage of the total amount of the budget, for instance 1% or 2%. To avoid abuses, rules could be defined governing when the contingency fund may be used.

Box 3.11. **Spain's contingency fund**

Since 2001, when the first fiscal rule was enacted in Spain, a contingency fund has been included in the budget to attend non-discretional and unforeseen needs that may arise during the budget execution. The amount of this fund is the 2% of the spending limit fixed for the state.

The results in using this contingency fund over the last decade have been extremely satisfactory, as it helped to avoid the deviations between the budget approved and the budget executed. In other words, it was a useful instrument to discipline the public finances.

Taking into account the positive experience in using a contingency fund in the State Budget, the new fiscal rule obliges the Autonomous Communities and the Municipalities to include a contingency fund their budgets.

Source: Government of Spain (2013), Prime Minister's Office.

Consider streamlining SINERGIA and enhancing it sub-nationally

Colombia could focus its efforts on streamlining the application of SINERGIA, as opposed to adding continuously to the stock of regulations governing its use. Efforts could focus on applying the current system government-wide and sub-nationally and on addressing whatever weaknesses still exist in order to make it more efficient. Indeed if the system follows the pattern of its implementation over the last few years, there is a risk of "bureaucratising" the process through too many rules-based minutiae that will render it unmanageable – and ineffective. Moreover, simplifying the process could rationalise costs.

Colombia could focus on sustaining improvements to the monitoring system of policy implementation and performance on a continuous basis. For instance, the number of indicators within SINERGIA, at 700, seems excessive. The dashboards used by the President and members of the Council of Ministers present 150 indicators, which also seems high. A concerted effort could be made to assess all indicators with a view to reducing their number, while focusing on enhancing their relevance to measuring performance, including to achieving value-for-money, and by ensuring that they are outcomes-based (when possible).

The central government is already aware, of course, of the need to link expenditures to outcomes more systematically. For instance, the Ministry of Information Technology and Communications is already focusing on this issue in its own government online strategies. Annex C on e-government issues highlights recent experience in this area in

Denmark as a means to assist the Colombian ministry in this area, where the government of Denmark has adopted a business-case model approach to making decisions regarding public investments in ICTs (see Box C.3 in Annex C). And obviously this is not an issue only faced by Colombia – determining an appropriate number of performance indicators is a key issue faced by many OECD countries that are developing performance information.

To implement performance budgeting in sub-national administrations, the government of Colombia could consider defining methodological guidelines to move forward, establishing a mixed working group with staff from the Planning Department and territorial administrations and focus on enhancing capacity to implement information system and databases at the local level within a regional approach to gathering and presenting performance data (see Chapter 4). In this regard, the Planning Department, through its Territorial Development Directorate and using the SINERGIA TERRITORIAL performance-assessment tool, is focusing on improving sub-national institutional capacity to formulate regional development plans and follow-up on regional development goals.

Consider introducing strategic expenditure reviews to define fiscal room for emerging priorities

According to OECD experience, it is easier to link budget with strategy if there is a medium-term planning framework in place and applied government-wide. In Colombia, several medium-term frameworks coexist in the Colombian budgetary system: the medium-term fiscal framework, the medium-term budgetary framework and the multiannual investment budget (which in practice is a medium-term framework for investment):

- The medium-term fiscal framework (MTFF[10]) includes the key fiscal estimations and targets for the current year and the subsequent *ten years* (this is the framework highlighted in the section above on strategic foresight). It was introduced in Colombia in 2003 when the Fiscal Responsibility Law was passed and the initial objective was to reduce the public debt and to guarantee its sustainability in the medium-term. However, with the implementation of this tool, the MTFF also has been proved as a tactical tool to reinforce strategic planning and boost transparency.
- Since 2006 Colombia uses a medium-term expenditure framework (MTEF) which contains the spending ceilings and priorities distributed by the sectors and spending categories listed in the National Budget for a revolving horizon of *four years* (annually revised). This framework uses a strategic process to plan and prioritise spending decisions, guaranteeing that annual budget decisions are in line with political priorities and complies with the medium-term budgetary constraints.
- A specific four-year investment budget is included in the National Development Plan, which contains the main investment programmes of the Republic. Within this multiannual framework, each year an Annual Investment Plan (*Plan Operativo Annual de Inversiones*) is approved with the main investment programmes classified by sectors, administrative units and programmes. The Annual Investment Plan is in principle consistent with the medium-term fiscal framework and the medium-term budget framework; once it is approved by CONFIS and CONPES, it constitutes the basis for the government's Annual Investment Budget.

Medium-term expenditure frameworks are extremely useful for multi-year strategic planning and budgeting. The existence of parallel budget-setting and implementation processes in Colombia, a consequence of the Colombian budgetary framework in which responsibility is shared between the Ministry of Finance and the Planning Department, while certainly not an obstacle to setting and implementing government-wide, integrated MTEFs, implies the need for ongoing, robust co-ordination between the two institutions to guarantee their coherence over the course of planning period – whether this be the four-year electoral cycle or a longer-term planning horizon.

Several countries have introduced MTEFs and performance budgeting as part of the same reform package – for example Austria, France and Korea.[11] The Swedish experience (see Box 3.12) shows the importance of institutionalising a medium-term expenditure framework so that all actors are aware that government is committed to it.

Box 3.12. **Medium-term framework and expenditure ceiling in Sweden**

In Sweden the Parliament sets an expenditure ceiling for the next three years at the same time as it decides the limit for total central government expenditure for the coming budget year. The ceiling applies to all expenditure in the central government budget as well as the old-age pension system – only interest on national debt is excluded. Importantly, this includes transfers and other mandatory expenditures. The expenditure ceiling is given in nominal terms and works on a rolling basis based on proposals from government.

The total expenditure ceiling contains a "budgeting margin" for unforeseen expenditures and parliament has full discretion to revise the ceiling. These are elements of flexibility, but also elements which can undermine the function of the medium term expenditure framework. Thus, the ceiling does not only build on realistic and reliable projections but also on a parliament and government interested in actually restricting their own discretion of annual budget process according to medium term fiscal targets. In other words government and Parliament have to be committed to medium-term objectives, which has been the case in Sweden where the medium-term fiscal targets and the expenditure ceiling have become highly institutionalised.

Performance-based budgeting and performance-measurement frameworks are central to enabling governments to assess periodically whether the policy objectives for which spending was committed are in fact being achieved. And since it takes time for a strategic policy initiative to achieve fundamental outcomes – e.g. to reduce poverty, improve employment for students through enhanced academic credentials, reduce the number of road deaths or increase the environmental health of lakes and rivers, a multiyear perspective is necessary to allow for this analysis to be conducted meaningfully. This kind of performance assessment, based on the analysis of whether spending is achieving the policy objective it was designed to achieve – the quintessence of linking strategy to budget – is usually called a strategic operational review or a strategic expenditure review. It is carried out by the relevant CoG institution to monitor expenditure efficiency and effectiveness government-wide and to identify programme areas that no longer reflect government priorities or whose efficiency could be improved significantly to identify savings:

- The main strategic objective of strategic operational reviews is the identification of fiscal room based on evidence-based performance evaluation to meet emerging programming priorities efficiently without damaging the government's fiscal framework or threatening its capacity to meet its overall fiscal-consolidation goals.
- This takes on added importance given the development challenges Colombia is facing. It could therefore be helpful to introduce reviews of spending areas or programmes using performance information (see Chapter 1).

It appears that current fiscal oversight and performance-management practice in Colombia does not include the regular conduct by the Ministry of Finance (or of the National Planning Department for that matter) of this type of strategic review. SINERGIA – the perfect tool for this kind of analysis – does not seem to be used in this fashion. These CoG institutions could use SINERGIA to work with line ministries to identify programming areas where in-depth analysis that assesses single-sector or cross-sector expenditures against the integrated medium-term strategic objectives targeted by the government can pay off in savings through the elimination of lower-priority spending and improvements to higher-priority expenditures to enhance the achievement of relevant policy outcomes.

The government of Colombia might therefore wish to consider introducing gradually a system of expenditure reviews on a scale that reflects strategic targeting: those programmes deemed to be less of a priority for advancing the government's strategic objectives could be the subject of initial reviews. The reviews could use existing performance-measurement tools for multi-year budgeting and analysis, in particular SINERGIA. These reviews should be broader and more strategic in scope than what the government of Colombia currently conducts – its monthly assessments of the execution of its operating and investment budgets, and its Ministry of Finance initiative on Project Effectiveness and Efficiency of Public Spending are of course useful, but they are not of the order of magnitude nor of the strategic importance of the Strategic Expenditure Reviews referenced here, which tend to be conducted annually, biennially or even every five years on strategic clusters of programming.

The government could first "test" the system by launching a couple of pilot-reviews in programme areas deemed particularly ripe for assessment. Canada has been using such a system since 2007. These reviews could be used to identify multi-year envelopes within the National Development Plan with clear performance targets to be reported and re-evaluated in, say, four years, along the lines of the Canadian and Australian "Strategic Reviews" as discussed in Boxes 3.13 and 3.14. Another source of inspiration, albeit on a smaller scale, could be the British Public Service Agreements (PSAs) based on spending reviews and binding medium-term budget envelopes for line ministries (see Box 3.15).

Box 3.13. **Canada's Expenditure Management System and Strategic Reviews**

The Government of Canada's Expenditure Management System (EMS) guides expenditure planning and decision-making, budget implementation and oversight. In June 2007 a renewed approach to the EMS was announced that ensures all government programmes are focused on results providing value for taxpayers' money and are aligned with the priorities of Canadians and federal responsibilities.

Strategic Reviews are an important element of the EMS: federal Departments and Agencies are required every four years to conduct a Strategic Review to examine their direct programming and operating costs to assess how and whether they are aligned with government priorities and whether they provide value for money. The results of Strategic Reviews are considered by Cabinet as part of Budget planning. Strategic Reviews have two overarching objectives:

- Management Excellence – Strategic Reviews support effective management of the government's resources to achieve results and drive excellence in programme performance and services to Canadians, and
- Fiscal Credibility – Strategic Reviews assist in ensuring that overall spending growth is consistent with the government's commitments in this regard – on average below annual GDP growth.

Box 3.13. **Canada's Expenditure Management System and Strategic Reviews** *(continued)*

Strategic Reviews enable the government to assess on an ongoing basis the relevance and performance of programme spending. To that effect, organisations undertaking a Strategic Review must:

- Comprehensively assess 100% of their direct programme spending and identify areas where programmes and policy adjustments can improve programming performance and relevance; and
- Assess opportunities for savings by identifying their lowest-priority and lowest-performing programming along with potential efficiency-gains in internal services.

To assist in these reviews reduction targets are provided from which funding could be reallocated to meet emerging government priorities. At the start of the review process the Treasury Board Secretariat sends a letter to each Department or Agency conducting a review setting out the scope of the review, including targets for the lowest-priority, lowest-performing programming. In conducting reviews, Ministers and Deputy Heads must provide evidence on the performance of 100% of their programmes and spending, which will allow the Treasury Board Ministers to answer the following key questions:

- Are all programmes and spending effectively aligned with the government's priorities?
- Are all programmes and spending consistent with federal roles and responsibilities?
- Are there other organisations [e.g. federal/provincial, private sector, or not-for-profit sector] better placed to deliver these programmes?
- Are all programmes and spending relevant and still meet the needs of Canadians?
- Are all programmes maximising value for money?
- Are all programmes effectively serving the purposes for which they were created?
- Are adjustments required to improve performance [including efficiency and effectiveness]?
- Can the same results be achieved using less money?
- Does the organisation have the capacity to spend and manage for results effectively?
- Can improvements be made to internal services in order to maximise efficiencies?
- Are there opportunities to reduce overlap and duplication as a means of achieving greater efficiency and savings?

Strategic Reviews use External Advisors to provide the responsible Minister with independent advice and an attestation to Treasury Board Ministers that a comprehensive review has in their opinion been performed.

Source: Government of Canada (2012), Treasury Board Secretariat website, www.tbs-sct.gc.ca/tbs-sct/index-eng.asp.

Box 3.14. **Strategic reviews in Australia**

The Strategic Review Framework was introduced in 2007 to work alongside Australia's decentralised departmental programme evaluation and review frameworks. Strategic Reviews are typically broader than departmental programme (or spending) reviews, take a whole-of-government perspective and provide a greater degree of independent scrutiny.

Strategic Reviews focus on major policy and spending areas across programmes or portfolios and other significant Australian Government initiatives. Reviews can also be targeted and focused on a particular issue of current interest to the Government. A particular feature of Strategic Reviews is that they focus on examining the continuing relevance and performance of on-going programmes and activities and are not necessarily about finding savings. Each Strategic Review operates from a Terms of Reference established for each individual review with the goal of addressing some or all of the Expenditure Review Principles, depending on their relevance. The Expenditure Review Principles address appropriateness, effectiveness, efficiency, integration, performance assessment and strategic policy alignment.

The programme of Strategic Reviews is either by endorsed by the Prime Minister or the Expenditure Review Committee of Cabinet and are reviews for consideration by Cabinet. Strategic Reviews are either led by an independent eminent person or a senior employee of the Department of Finance and Deregulation (Finance), depending on the nature of the review. The review teams vary in size and can include both Finance employees and secondees from relevant line agencies. All reviews are conducted within and managed by Finance. The length of a Strategic Review varies depending on the complexity and size of the policies and programmes being reviewed. However, most Strategic Reviews aim to begin after the budget and to be completed by the end of November, being approximately four to six months in duration with the aim that they report back to Cabinet prior to or as part of the next budget.

Source: Australia Department of Finance and Deregulation, 2013.

Box 3.15. **Spending Reviews and Public Service Agreements in the United Kingdom**

Starting in 1998 the Comprehensive Spending Reviews involved in-depth reviews of departmental aims, objectives and spending plans for each department for a three-year period. The Comprehensive Spending reviews of the first decade focused on combining multi-year spending plans with policy outcome targets for the period. This gave birth to Public Service Agreements (PSAs), which set measurable targets for the government's objectives for public expenditure programmes. Each department had its own PSA (quasi-contract) negotiated with the Treasury to present the outcome delivered according to the funding level for a three year period. Thus, Treasury had a main role both in the development of the PSA performance framework and the departments' actual PSAs as well as in the in the Spending Review process directed at each department.

The PSAs were introduced to ex post measurement of output/outcomes in relation to expenditures but also as an ex ante tool to motivate departments to direct operations to deliver the right results. However, it was also recognised that the PSA performance measures and target setting could not be applied to all government expenditure.

Later Comprehensive Spending Reviews in the previous decade took a deeper approach, turning from allocating incremental increases in expenditure to performing a set of zero-based reviews of involved departments' baseline expenditure. Departmental expenditures were analysed on the background of the government's long-term objectives in order to assess its effectiveness in delivering and fitting expenditure to current priorities.

Box 3.15. **Spending Reviews and Public Service Agreements in the United Kingdom** *(continued)*

The 2010 Spending Review is focused on establishing an encompassing framework for reducing the budget deficit involving budget re-allocation, value for money and targeted savings. PSAs are also evolving from a top down performance management system to "departmental business plans" which will provide information on performance and spending, including each departments:

- vision and priorities to 2014-15;
- structural reform plan, including actions and deadlines for implementing reforms over the next two years; and
- contribution to transparency, including the key indicators against which it will publish data to show the cost and impact of public services and departmental activities. This section will be published for consultation to ensure that the Government agrees the most relevant and robust indicators in time for the beginning of the Spending Review period in April 2011.

Reviews entail the setting of multi-year performance targets for a given policy sector. These targets could be linked to the Development Plan's multi-year financial plan (or better still the framework with the ten-year planning horizon). Indeed, based on recent trends among OECD members, long-term fiscal projections can improve the Colombian fiscal framework as they may help to address long-term challenges. Fiscal projections provide a means to assess fiscal sustainability based on assumptions of current policies, stable taxes, and other key demographic and micro- and macroeconomic parameters.[12] Among other benefits, these projections reinforce strategic planning in the long-run.

Box 3.16. **New EU Requirements for medium-term fiscal frameworks: The Spanish application**

- In order to incorporate the multiannual budgetary perspective of the budgetary surveillance framework of the Union, the regulation of the so-called "six-pack" establishes that the planning of annual budget legislation should be based on multiannual fiscal planning stemming from the medium-term budgetary framework. Thus, the EU members should approve medium-term budgetary frameworks, which should contain, inter alia, projections of each major expenditure and revenue item for the budget year and beyond. (***The Council Directive on requirements for budgetary frameworks of the Member States***).
- Since the beginning of the 2000s, Spain has been approving a 3 year-budgetary framework only for the Central Government. With the approval of the new fiscal rule in Spain, this practice has been extended to subnational administrations (Autonomous Communities and Municipalities) in order to reinforce budgeting techniques at territorial level and guarantee that the budget programming is fully consistent with fiscal and debt targets.
- The fiscal rule establishes the mandatory minimum content for these frameworks in order to assure that the budgetary programming of all levels of the Administration are consistent.

Source: Contribution from the Spanish peer reviewer.

Consider applying medium-term budget frameworks sub-nationally

The government could also consider extending the application of medium-term budget frameworks to territorial administrations, as they it has been proved to be an efficient tool for planning and budgeting, as can be illustrated by experience in the EU and Spain (see Box 3.16).

Colombia's fiscal rule: consider reinforcing it with a spending rule

To reinforce the Colombian budgetary framework and enhance fiscal discipline, the government of Colombia adopted a new fiscal rule in June 2011 (see Box 3.17). This constituted a major improvement, as this fiscal rule enhances discipline in the management of the country's public finances and helps lessen the budgetary volatility associated with the impact of changes in international commodity markets (see Chapter 1), while creating a friendly framework for planning. Colombia's new fiscal rule is targeted on the structural balance, following the OECD trends and, in particular, the Chilean experience which has recorded positive results.

Box 3.17. **Colombia's fiscal rule: A snapshot**

The **main objectives** of the Colombian fiscal rule are as follows:

- Buttressing fiscal sustainability by reducing debt.
- Improving the management of revenue windfalls: revenues in excess of structural commodity and non-commodity public revenues will be saved temporarily in the Savings and Stabilisation Fund.
- Enabling counter-cyclical policy, through the Savings and Stabilisation Fund.
- Facilitating the co-ordination of monetary and fiscal policy.

Key principles of the rule:

- The rule applies to the central government which has contributed most to the overall deficit and debt accumulation (87%) of the non-financial public sector in the past.
- The target: the central government's structural deficit should decline to 1% of GDP by 2022 (down from 2.7% in 2011), with intermediate targets aligned with presidential elections: 2.3% of GDP by 2014 and 1.9% in 2018.
- The structural deficit is defined as the difference between structural revenues and structural spending. The former are adjusted for the economic cycle and unexpected or transitory swings in commodity-related revenues (i.e. deviations from long-term prices and quantities). Structural spending is defined as total spending excluding specific counter-cyclical (discretionary) spending programmes.
- The new framework creates a Savings and Stabilisation Fund, to be managed by the Central Bank, where revenue windfalls (i.e. those resulting from a growth rate of the economy or from commodity prices above their long-term level) are to be saved. Up to 10% of the Fund's resources can be spent on counter-cyclical spending programmes.
- The rule includes an escape clause. When the output gap is negative and the expected real output growth rate is at least 2 percentage points lower than the long-term rate (estimated at between 4.3 and 4.8% by the government), a counter-cyclical spending programme can be launched. This counter-cyclical spending should be phased out two years after economic growth has returned to, or is above, its long-term rate.

Box 3.17. **Colombia's fiscal rule: A snapshot** *(continued)*

- Two committees consisting of independent experts are set up to provide estimates for the long-run growth rate of the economy and for commodity revenues. Another committee of independent experts – university teachers, economists and presidents of the Congress Economic Commission – will assess the parameters embodied in the fiscal rule and possible changes proposed by the government. It will also monitor the implementation of the rule.
- Each year the government has to present a report on the implementation of the rule to Congress.

Source: Echeverry Garzón, J.C., R. Suescún Melo and G. Alonso Masmela (2011), "Regla fiscal para Colombia", *Notas Fiscales*, No. 4, Ministerio de Hacienda y Crédito Público, www.minhacienda.gov.co/portal/page/portal/MinHacienda1/haciendapublica/CentroEstudios/publicaciones/notas/Boletin%204%20Regla%20Fiscal.pdf.

The Colombian fiscal rule follows international best practices, adapting them to the specific features of the country. The characteristics of this rule are in line with so-called "post-crisis fiscal rules"[13] or "second generation of fiscal rules". For instance, the fiscal rule is targeted at Colombia's structural deficit, rather than at the overall debt; it allows for counter-cyclical fiscal policy; it is a flexible fiscal rule, and includes an escape clause in the case of economic slowdown. The key challenge is the implementation of the fiscal rule. According to the forecasted macroeconomic data, the first years of the rule will take place in a boom period with significant GDP growth rates. In this context, pressures to lessen the fiscal rule may arise, as happened in the EU with the amendment of the Stability and Growth Pact in 2004.

Fiscal rules are for boom periods; this is one of the lessons learned from the EU crisis. During expansionary periods, fiscal rules help create the fiscal room needed to apply countercyclical policies during recessions. Colombia's fiscal rule is a clear improvement over the situation *ex ante* the rule. However, it could be strengthened further:

- Corrective actions to be taken in case of slippage are not clearly defined. To improve the government's credibility further, a notional "compensation account" or "contingency fund", similar to the Swiss debt brake framework (where deviations from the rule are accumulated with a requirement to adjust in a given time frame), could be created, as mentioned above.
- The coverage of the fiscal rule may need to be broadened as some public enterprises and entities in the financial and health sector, as well as sub-national governments (see Chapter 4), may cause fiscal slippage.
- If implementing the structural fiscal-balance rule is made difficult because setting reference prices and quantities for the commodity sector is not an easy task (as revealed by the Chilean and Mexican experiences), a spending rule could be added to the framework.

Indeed international experience suggests that fiscal rules based on the structural deficit have proved effective in injecting discipline into the management of public finances (i.e. Chile). However, these rules have some disadvantages linked to the degree of uncertainty in calculating the output gap and other factors that may lead to substantial revisions to structural-deficit estimations.

These methodological difficulties are even more complicated in Latin America, where it is necessary to estimate reference prices and quantities for the commodity sector, an important economic driver in Latin American economies. Experience in Chile and Mexico reveals that these calculations engender an even greater degree of uncertainty. These methodological issues may therefore complicate the monitoring of the rule and hamper transparency and accountability. These limitations have been overcome by spending rules, as their target can be directly controlled by the government. Following international experiences, a spending rule could be added to the framework[14] which is easier to implement.

Furthermore, according to EU experience, spending rules have achieved an appropriate balance between budgetary discipline and macroeconomic stabilisation objectives,[15] playing an important role, especially in the boom periods, in controlling public spending. It is based on this rationale that the EU's so-called "Six Pack" – which reformed the Stability and Growth Pact – established the obligation to include spending rules in the EU member's fiscal framework (see Box 3.18 for the Spanish experience in implementing a spending rule).

Box 3.18. **Spain's spending rule**

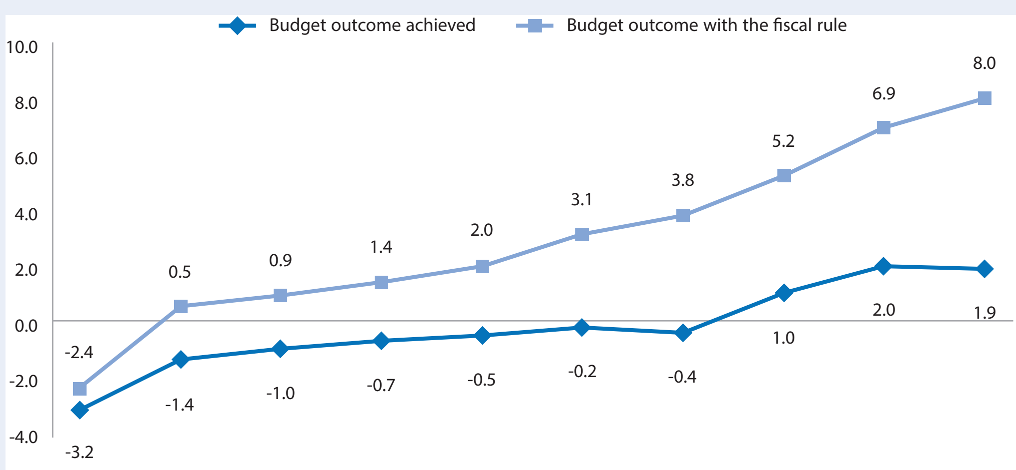
The Organic Law on Budgetary Stability and Financial Sustainability contains a spending rule in line with the requirements of the EU regulation. According to that rule the increase in public spending will not grow over the GDP growth rate. In addition, when the collection of public incomes exceeds the budget estimations, these incomes have to be invested in reducing the public debt instead of financing new spending.

The expenditure rule is a necessary complement of the balance budget rule which help to achieve better fiscal results and address some weaknesses of the latest. For example, during the period 2005-07 Spain recorded three consecutive fiscal surpluses. Although, the fiscal balance targets were achieved, the spending growth rate during this period was well above the GDP growth rate.

According to the Bank of Spain,* if Spain had had a spending rule in force during the expansive period, the fiscal surplus recorded would have been significantly higher (i.e. in 2007 the fiscal surplus should have reached 8% of GDP instead of the 1.9% achieved).

What would have happened if Spain had had a fiscal rule during the booming period?

Budget outcomes as a % of GDP



* Bank of Spain (2011), *La reforma del marco fiscal en España: Los límites constitucionales y la nueva regla del crecimiento del gasto público* [The reform of the budgetary framework in Spain: constitutional limits and the new rule for public expenditure growth], Bank of Spain Publications, www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/11/Sep/Fich/art4.pdf.

The main disadvantage of including expenditure targets in the Colombian fiscal rule is that it will make the rule more complex to implement. In order to address this issue, taking into account that the fiscal rule was only approved recently, the government could consider delaying the introduction of the spending rule two or three years, until all the proceedings and institutions have adjusted to the new fiscal rule.

Consider applying the fiscal rule sub-nationally

The broader the scope of the fiscal rule, the better. The coverage of the fiscal rule should be extended to all the Public Sector, including those public companies and other entities mainly financed with public resources. Some changes may be required in order to apply the fiscal rule to public companies, as some of these companies may have also private incomes. For instance, following the Spanish experience (see Box 3.19), the Stability Law establishes special regulation for public companies different from the rest of the Public Administration. In this sense, public entities have to maintain a fiscal balance position, while they do not have fiscal targets.

Box 3.19. **The Spanish experience in extending the fiscal rule to the sub-national level**

- Spain has one of the highest decentralisation rates in public expenditure: around 45% of the public expenditure is managed by Autonomous Communities and Municipalities.
- The fiscal rules passed in 2001 and 2006 contained special provisions for sub-central governments. However, taking into account the need to boost fiscal discipline and co-ordination at all levels of administration, the new recently approved fiscal rule* – May 2012 – includes a detailed regulation for Autonomous Communities and Municipalities. Just to mention some examples:
  - Deficit and debt targets are fixed for all levels of Governments.
  - Preventive mechanisms were approved at sub-central level to guarantee these achievements of the fiscal targets (early warning mechanisms).
  - Corrective mechanisms were reinforced by establishing a gradual system of sanctions.
  - Economic transparency was enhanced at sub-central level, by increasing the obligations related to providing economic and fiscal information. Schedules to publish this information have been fixed by law.

* Organic Law 2/2012 on Budgetary Stability and Financial Sustainability.

Source: Government of Spain (2013), Prime Minister's Office.

The scope of the fiscal rule could be extended to departments and municipalities in order to create a more robust national fiscal framework. The national rule is only applied at national level based on the assumption that the central government has contributed most to the overall deficit and debt accumulation (87%) by the non-public sector in the past. However, there are several reasons to propose enlarging the scope to sub-national administrations:

- In the past, the sub-central administrations also recorded significant fiscal imbalances.
- The royalty-reform system directly affects sub-national public finances, significantly increasing public revenue for some departments. Discipline mechanisms should be promoted to control all these changes.

- Implementing the fiscal rule at the sub-national level could help manage a common fiscal-discipline framework at all levels of government. Planning at territorial level could also be reinforced.
- Guaranteeing that sub-national rules for public finances are fully in line with the national fiscal one by applying the same fiscal rule to all levels of government can strengthen Colombia's overall framework for managing fiscal discipline.

Auditing, oversight and control: An assessment

Overview

In Colombia the framework governing the public control system is laid down in the Constitution, which establishes external control institutions that are completely independent from the three branches of government. The differentiation between external and internal auditing is also anchored in the Constitution, which sets out the main components of Colombia's control system. At the central level, the control system is made up of the two following bodies:

- The Office of the Comptroller General of the Republic of Colombia (*Contraloría General de la República de Colombia*) is an independent government institution that acts as the highest level of fiscal control in the country (see next section). Its mission is to oversee the proper allocation of public funds (in terms of results achieved through spending and investments) and contributes to the modernisation of the state by means of continuous improvement in fiscal management by various public entities.
- The Office of the Inspector General of Colombia (*Procuraduría General de la Nación*) is an independent public institution overseeing the public conduct of those officials occupying public office and exercising a public mandate, thus overseeing the correct functioning of government institutions and agencies (including the police). The Office of the Inspector General of Colombia is not a judicial institution. The Inspector General is mandated to safeguard the rights of citizens, guarantee human-rights protection and intervene in the name of the people to defend the public interest.

Two other entities – although not being formally part of Colombia's control institutions – also play a key role within the country's control system:

- The Office of the Attorney General of Colombia (*Fiscalía General de la Nación*) was incorporated in 1991 with the enactment of the new Constitution. It belongs to the judicial branch of government and possesses full administrative and budgetary autonomy. Its main purpose is to ensure the efficient and prompt administration of justice for citizens. This includes anti-corruption oversight as well as oversight over the functioning of the public sector as a whole at all levels.
- The Auditor General of Colombia[16] (*Auditoría General de la República*) is an autonomous organ of the state created by the 1991 Constitution to oversee and control audit institutions. As auditor of the Government of Colombia it reports directly to the Office of the Inspector General of Colombia. The Auditor General is thus a second-tier financial supervisory body responsible for monitoring the fiscal management of the country's *Contraloría General* and its sub-national counterparts in departmental and municipal comptrollers' offices, and ensuring that fiscal supervision is conducted in an efficient and effective manner.

At the territorial level external control is carried out by such institutions as the territorial *Contralorías*, the *Veedurías* and the *Personerias*. Internal control is carried out by the Internal Control Offices (ICOs) located in line ministries.

The 1991 Constitution established for the first time the obligation to implement internal control procedures within public entities and shift from *ex-ante* control to selective *ex-post* audits, in line with international trends.[17] Colombian authorities have made significant efforts to implement a solid internal control system, whose main achievement was the definition and implementation of the Standard Internal Control Model in 2005 (*Modelo Estándar de Control Interno* (MECI)). The implementation of this model has occurred at all levels of the public sector.

The development of these control institutions occurred in parallel with the need to fight corruption. This overarching objective led the Colombian authorities to create a significant number of control entities and to expand their powers over time. This explains the current audit and control environment in Colombia: a significant number of control institutions at the national and territorial level operate with broad responsibilities and complex interrelations. This section assesses these control institutions, focusing on their competencies and the horizontal and vertical relations between them.

At its broadest level, this Review finds that Colombia not only possesses proper control institutions, but the enhancements to their collective ability to carry out their mandates since the adoption of the 1991 Constitutions constitute a tribute to Colombia's unflagging policy and political commitment to the fight against corruption. However, co-ordination challenges between these institutions can cause overlaps in mandate-execution, creating inefficiencies in the system. This diagnosis of Colombia's control system thus draws inspiration from that of Mexico, whose control system has just undergone significant reform due to the co-ordination challenges it was facing (see Box 3.20).

Box 3.20. **Mexico's control system and its recent reform**

In México a significant number of control institutions within the public administration exercised internal and external audits: the Public Service Secretary, the Internal Control bodies of the Federal Administration, the State Contraloría, the Supreme Federation Audit Office, the Supreme Local Audit Offices and the Internal Contralorías of the independent constitutional bodies.

However, insufficient co-ordination between these institutions resulted in sub-standard performance. The Supreme Federation Audit Office* confirmed that the opacity and corruption in public resource management had not been curbed due to the atomisation and disparity in effort on the part of the different audit institutions at the three levels of government. The diagnosis was clear: Mexico had proper audit institutions but due to a lack of the co-ordination and a wide range of methodologies, results were not as expected. Key challenges were: *a)* disengagement between institutions; *b)* different legal framework and roles; *c)* the level of independence; *d)* technical aspects regarding the planning of the audits, the methodologies and the different deadline to present the results.

In 2010, Mexico launched a reform called S*istema Nacional de Fiscalización* (SNF)** (the National Auditing System). The reform examined in detail the public management and use of public resources within the control system. The reform was framed by a set of interrelated principles and activities to establish effective co-ordination between all institutions exercising auditing and control functions in Mexico. The key outcomes sought by the reform are:

- Eliminate overlaps, omissions and contradictions.
- Boost the effectiveness and broaden the scope of performance evaluations.

Box 3.20. **Mexico's control system and its recent reform** *(continued)*

The implementation of the SNF seeks to provide certainty to those public entities being audited and to guarantee to citizens that the evaluation of public resources management's is exercised in a more organised, systemic and comprehensive way. The plan to implement the SNF has 6 strategic objectives:

Implementation Plan for the *Sistema Nacional de Fiscalización*

Objective 1: To define standards for the audit's planning, execution and reports.

- To define a common regulation to develop the audits at all levels of Government, in line with the international rules.
- To revise the internal control process through appropriate patterns, highlighting the importance of prevention and early detection of the irregularities.

Objective 2: Personnel trainee

- Through trainee programmes covering all the fiscal institutions and peer reviews, with the aim of improving the professional quality of the public auditors.
- The trainee programme will be based on the areas in which the members of the SNF will be most interested.

Objective 3: Exchange of information and joint work

- To identify common areas to exercise joint audits or co-ordinated audits between the institutions. Based on that, annual programmes of audits will be defined involving all audit institutions.
- To promote internal control in the entities audited, through technical assistance and institutional support.
- A peer review plan to exchange experiences and best practices between the audit institutions part of the system.

Objective 4: Legal framework's changes related to audit

- Survey to identify the necessary changes in the legal framework from the point of view of the members of the system.
- Law and regulation amendments in order to boost continuous improvements in the performance of supreme fiscal audit offices and internal control offices.
- A new Law about the *Sistema Nacional de Fiscalización* to make binding the implementation of principles, methodologies and audit regulation.

Objective 5: Boosting the achievements of the fight against corruption

- To define and approve a common framework with general criteria for prevention, detection, deterrence and punishment regarding corruption behaviours.
- To promote public management transparency and evaluation, incorporating best practices.

Objective 6: Strengthen the role of the audits in the setting of public employees responsibilities

- To define effective disciplinary mechanisms, taking into account the disciplinary competences of each audit institution member of the System.
- Lay down common guidelines about the disciplinary proceedings.

The Mexican reforms are in their early implementation phase. Results cannot yet be assessed. However, a strategy to monitor their impact has been designed in order to evaluate results achieved.

*In Spanish, Auditoría Superior de la Federación.

**On 17 February 2010, during the presentation of the Auditing Results of the Public Accounts belonging to 2008 in the Parliament, the Supreme Auditor of the Federation mentioned for the first time the need to set up a National Auditing System. Later, due to the importance of the implementation a National Auditing System in Mexico, the Supreme Federation Audit Office included that target as one of the Strategic Plan for 2011-17.

Based on the current approach to reforming the public control system in Mexico, the government of Colombia could consider:

- **Enhancing the professionalisation of the public sector in charge of control tasks by establishing a formal, merit-based system and building professional capacity at all levels of the control administration**. This recommendation aims to achieve a double purpose: first, to improve the qualification of the public controllers with a high technical profile and, second, to guarantee their independence from electoral cycles.
- Although the improvement of human resources is a key challenge for the entire Colombian administration, it takes on significant importance in the case of those public employees who are responsible for control and accountability tasks, taking into account the specific country characteristics. In Spain, for instance, there are different competitions for public employees in charge of control tasks, differentiating internal controller's posts from external controller's posts. Besides, the difficulty of the competition increases with the level of the specific post applied to, so there are different exams for senior auditors, accountants, etc.
- **Enhancing the focus by external and internal control institutions on performance-oriented audits, including measuring performance against outcomes and maximising value for money, in line with trends in OECD countries.** Financial and legal audits are important but effectiveness and effective audits should be boosted following the trends of OECD member states[18] especially in the case of external control institutions.
- **Pursuing the implementation of transparency initiatives such as the publication of audit reports and corrective actions.** These transparency initiatives have a deterrence-effect and may be seen as a way to fight corruption.
- **Strengthening co-ordination mechanisms between control institutions in order to achieve broader coverage in the auditing of public resources, both at the national and territorial levels.** The pillars to strengthen this co-ordination are to execute complementary audits and the exchange of timely and accurate information.

The rest of this section assesses the current state of each of Colombia's main control institutions as well as the state of horizontal co-ordination between these institutions at the central level, and the state of vertical co-ordination in this area between the central and sub-national levels.

The Contraloría: consider enhancing its leadership role at the national and sub-national levels

The *Contraloría*[19] is a constitutionally-mandated institution that exercises the highest level of fiscal control in Colombia. Its purpose is to ensure the proper use of public resources and contribute to the modernisation of the State by means of advising on continuous improvements across the public administration. By introducing ITCs in its operations, it acts as a modernising agent,[20] boosting electronic proceedings. Both control reports and warnings are published in the web site of the *Contraloría*. This may be seen as a good transparency initiative that reinforces the framework to fight against corruption.

The 1991 Constitution constituted a turning point in the role of this institution. It shifted from conducting *ex ante*, perceptive controls to *ex post* audits on a selective basis, in line with international trends. However, this new approach also allows for *ex-ante* controls, called “prevention control” or “warning control”. These controls enable the *Contraloría*’s sister institution, the *Procuraduría*, to communicate inconsistencies identified in real-time and recommend corrective measures. The objective of this prevention role is to achieve more efficient and effective institutions. That said these “prevention controls”[21] may in fact be stifling the public service as these preventive actions appear to be excessive: between 1 August 2011 and 13 June 2012, 163 such controls took place.

The most important characteristic of the *Contraloría* is its independence, recognised by the Constitution. Indeed the Constitution specifies that the Head of the *Contraloría* is to be elected by Congress for a period equal to that of the President of the Republic, from a list of three candidates, one nominated by the Constitutional Court, one by the Supreme Court of Justice, and one by the State Council, and may not be reelected. The Constitution also specifies that anyone who has held the office of *Contralor General* may not hold any other public office at the national level, nor present him/herself as a candidate in a popular election until one year following retirement from this office. The *Contralor* cannot be a member of the President’s political party nor the President’s coalition.

The audits developed by the *Contraloría* cover a broad range of activities with various objectives: efficiency, economy, equity and the evaluation of environmental costs. To fulfill these objectives, the *Contraloría* executes three different audits: financial audits, management audits and performance audits. The *Contraloría* plays the traditional role attributed to Supreme Audit Institutions:

- Auditing oversight: To oversee the fiscal management not only of the Public Administration but also of individuals or entities which handle funds or assets belonging to the taxpayer.
- Jurisdictional oversight: To establish where responsibility lies in fiscal management and impose financial sanctions as necessary.

In addition, The *Contraloría* evaluates internal control quality and efficiency[22] and assesses Colombia’s National Accounts,[23] which are kept by the *Contaduría*.[24] The *Contraloría* is entitled to issue warnings regarding these activities to deter serious risk which could jeopardise public funds. Post-audits are subsequently conducted in these cases to verify actions taken.[25] If the *Contraloría* identifies a public-management issue, the entity audited is required to develop an improvement plan. The monitoring of the plan’s implementation is attributed to the entity’s Internal Control Offices. The *Contraloría*, after due process, approves the audit findings.

Depending on the nature of these findings, the reports will be submitted to the following institutions: the *Procuraduría*, in case of a disciplinary finding, or the *Fiscalía* (the Attorney General’s office) in case of a finding resulting in an allegation of illegal activity. The *Contraloría* is entitled to impose sanctions in the case of a fiscal finding. The *Contraloría*, as an external audit institution, has followed international practice in exercising its role as Colombia’s supreme audit institution. Colombia is a member of INTOSAI (International Organization of Supreme Audit Institutions) and, in particular, participates in the regional working group OLACEFS (Organization of Latin American and Caribbean Supreme Audit Institutions).

The assessment has found that the key challenge for the government is to boost co-ordination with other institutions, especially the *Procuradoría*, in order to increase efficiency and remove overlap in activity. To do so, the government could consider:

- **Reinforcing the advisory role of the *Contraloría* and boosting its independence from internal-control bodies.** Currently, the Contraloría is a member of the

Advisory Council which approves internal-control guidelines. Since the *Contraloría* is already in charge of evaluating internal-control proceedings, it cannot carry out this function in an objective fashion if it is also part of the Council that sets internal-control policy. Thus the Contraloría could be accorded the right to speak but not to vote in the Advisory Council.

- **Ensuring that the *Contraloría General* play a leading role in the process of addressing disparities in capacity in the territorial Contralorías.**

The Procuraduría: consider improving its efficiency and rationalising its mandate

The *Procuraduría*[26] *General de la Nación* is a constitutionally mandated institution, whose main functions are:

- To supervise compliance with the Constitution, laws, judicial decisions, and administrative decrees.
- To protect human rights and ensure their effectiveness, with the assistance of the Ombudsman.
- To defend the interests of society and the collective interests, especially the protection of the environment.

As in the case of the *Contraloría*, the *Procuraduría* is an independent institution from the three branches of the State. The Constitution establishes its independence; the Head of the *Procuraduría* (the *Procurador General*) is elected by the Senate for a period of four years from a list of candidates selected by the President of the Republic, the Supreme Court of Justice, and the Council of State.[27] The Constitution identifies three types of actions to be exercised by the *Procuraduría* – preventive, intervention and disciplinary:

- The *preventive* role which is considered the main responsibility of the *Procuraduría*, as this institution is to "prevent before imposing sanctions". The *Procuraduría* supervises public employees' performance and issues warnings if there are facts/behaviour that may violate rules or procedures. Warning will not suspend administrative processes, so the preventive role is exercised in parallel with public management. The execution of these preventive actions does not imply co-management or interference in the management of a file by public entities. Through preventive actions the *Procuraduría* oversees all aspects of public management beyond the control of public funds.
- The *intervention* role enables the *Procuraduría* to intervene in legal proceedings in the presence of the judicial (or administrative) authorities, to defend legal order, the public interest or fundamental human rights.
- Under the disciplinary role, the *Procuraduría* is in charge of initiating, developing and ruling on investigations against public officials or any individual who exercises public functions or manages public resources, in accordance with the *Unique Disciplinary Code*.[28]

The *Procuraduría* executes its disciplinary powers based on actions initiated by the Offices of Internal Disciplinary Control located in line ministries and other public entities. At the sub-national level, the *Procuraduría* execute its disciplinary powers based on actions initiated by the *Personeros* in sub-national entities. The *Procuraduría'*s fiscal management is overseen by the *Contraloría*.

The *Procuraduría* is one of the most appreciated institutions in Colombia. This fact empowers the institution and reinforces its legitimacy. This institution is widely anchored and present at all levels of the Colombian public sector. The scope of its functions is broad, ranging from human rights protection to guaranteeing the transparency principle in public procurement. That said while the *Procuraduría'*s preventive functions in theory take the form of advice, in practice it exercises strong *ex-ante* controls because this institution exercises strong disciplinary responsibilities. Indeed the *Procuraduría'*s preventive role may be slowing down decision-making out of fear on the part of civil servants of inadvertently contravening a rule. In addition, current preventive controls engender overlaps in activity between the *Procuraduría* and the internal control system; this potentially wastes resources in addition to slowing decision-making.

To address these issues, the government could consider **clarifying and communicating widely the processes by which the *Procuraduría* exercises its preventive function, linking them clearly to the objective of fighting corruption within the safeguards of the Constitution.**

Internal control: consider rationalising its operations and providing effective oversight

The current system of internal control[29] is also anchored in the Constitution, which establishes that public-sector entities have to design and implement internal-control methods and procedures. Colombia has followed international references such us COSO[30] and COCO and the International Organization of Supreme Audit Institutions (INTOSAI) to develop its internal control system. The philosophy of these internal-control frameworks is to integrate controls as a part of the public-administration process, by analyzing procedures, identifying risk and defining and implementing controls to mitigate it. Similar internal-control frameworks have been implemented all around the world.

The scope of Colombia's internal-auditing function is the entire public sector at all levels of government, and includes not only the Executive but the Judiciary and the Legislative branches. The Internal Control Standard Model (the MECI) is used, in line with the international trends. This model defines how to implement a control strategy in each public entity, its control management and its evaluation.

Responsibility for establishing and developing an internal-control system lies with the high manager of each public entity. Hence, each public entity has an Internal Control Office (ICO). The ICOs are the cornerstone of the internal control system, as they are in charge of monitoring and evaluating of the system. In particular, their competences are:

- Auditing and supervising the internal control proceedings.
- Advising the senior management of the host entity on implementing control processes and introducing necessary correctives when required to reach the entity's goals and objectives.

The Heads of the National ICOs are appointed by the President of the Republic. While this recent reform is a major step forward in making the internal control system more independent, the heads of the ICOs could in theory be removed by an incoming President. Previously, they were appointed by the host entity's management. The heads of the internal-control offices cannot participate in the entity's administrative proceedings.

Internal co-ordination between the ICO and its host entity is developed through an internal Committee for Internal Control Co-ordination, made up of the head of the ICO and the highest managers of the host entity. Its role is to co-ordinate and advise the legal representatives of the public entity on internal-control issues.

Everything is done to guarantee the independence of the internal control system:

- ICOs are autonomous and self-organised – ICO heads are free to define the nature and scope of their internal evaluations for their host ministry and public entity; they are completely autonomous in proposing an audit plan based on a simple risk-assessment and response matrix, which is to be approved by the Committee of Internal Control Coordination.
- There is no general government-wide plan governing audits; nor is there much in the way of systematic co-ordination among ICOs government-wide. The audit plan is proposed by the internal control head and approved by the Committee for Internal Control Co-ordination. Every year the President of the Republic receives a report summarising audit reports prepared by the ICOs and used as inputs for the *Contraloría* and *Procuraduría*.

Budgets allocated to the ICO are decided by the entity in which the ICO resides. Moreover there is no regulation establishing common provisions for all ICOs regarding wages, personnel, etc. This has led to significant disparities in the structure, staff and wages scales of ICOs across the government. In some cases the number of employees in an ICO bears no relation to the size of the public entity being controlled. Furthermore wages tend to be much higher in public enterprises than in line ministries. Significant differences exist in the technical profile of the staff. For instance, there is no obligation to have an accountant in the staff. In addition, the qualifications of ICO staff are sometimes not appropriate to the role assigned to these offices. Although the *Departamento Administrativo de Función Pública* (DAFP) has made important efforts recently to improve training of public employees in ICOs, more specific training could be developed and delivered (for instance, specific courses on risk-assessment).

Every four months the head of the ICO publishes a detailed report on the internal-control situation in their organisation, which is made available on the website of each public entity. Indeed plenty of information appears on the websites of ministries and public entities regarding the audits that have been carried out; specific regulations ascribe to heads of ICOs specific "transparency" responsibilities such as the obligation to publish a detailed report on the internal-control system in the organisation (non-compliance can lead to disciplinary action against the ICO head). This is a positive finding that highlights transparency.

Each year, an executive report is submitted to the appropriate Minister (or Director) with the major findings from the internal-control evaluation of the host entity, its results and its recommendations to make management more efficient, effective and transparent. This annual executive report is also submitted to the President of the Republic each year. These reports form the basis of the annual whole-of-government executive report submitted to the President with the main results and conclusions of all ICO reports.

These reports are also sent to the government of Colombia's Advisory Council and the DAFP. The DAFP plays a significant role in internal control since it is in charge of training public employees as well as developing guidelines for internal-control policies. For these purposes, the DAFP contains a specific Directorate in charge of the approval of methodological guides and other tools for ICOs. These guides are binding for the entities of the Central Administration and of the territorial level.

While government-wide oversight of audit reporting is non-existent, the internal control system is extensively regulated in Colombia, not only because it is required by the Constitution but because there is a high degree of awareness across the public sector about the need to implement internal controls effectively to fight corruption. Significant efforts have been made to institutionalise and approve internal-control regulation. However, the regulatory framework is atomised across a myriad laws, decrees, presidential directives, etc.

To address these issues and reinforce the ICOs as a key pillar of Colombia's control system, the government could:

- **Develop and implement legislation on the status and functions of the Internal Controller, as a follow-up to proposals of the Institute of Internal Auditors, to regulate the competencies, powers, obligations, responsibilities and other specific issues that directly affect internal auditors, and to establish an Internal Audit Service (see below).** This recommendation could help differentiate the role of the ICOs from that of other control institutions.
- **Establish an Internal Audit Service through legislation, either as a stand-alone technical department or as a unit in the DAFP, that could take over the existing ICO-related competencies currently carried out by such entities us the DAFP, the government of Colombia's Advisory Council and the relevant Ministerial Committees,** to **co-ordinate ICOs and give specific support to them**, perhaps following the example of Chile and the European Commission (see Box 3.21). This Service could:
  - **Develop a strategy to harmonise the structure of ICOs to improve the effectiveness of the system**. For instance, currently, ICOs depend on their host entity for operational support. This Service could focus on developing a wage scale reflective of the complexity of the functions developed; standardise the size of the control team based on the dimension and complexity of the entity controlled and regulate the composition of these offices by establishing the need for accountants, legal specialists, etc (currently the technical profile of the staff is not regulated). In Spain, for instance, the number of public controllers and accountant officers in each ministry and public entity is fixed based on the size of the entity controlled and also on the complexity of the audits. Implementing this strategy could improve the autonomy and the independence of the ICOs.
  - **Supervise ICO performance** with the aim of ensuring the quality and reliability of the ICO actions.
  - **Initiate and oversee audit planning and establish cross-audits within the Public Administration**. By doing so, major weaknesses of the administrative procedures may be identified and, thus, the implementation of risk-management could improve. The initiative to propose the audit plan could be attributed to the ICOs, as they are close to the management and have a deeper knowledge. However, the overall audit plan could be approved by the proposed Internal Audit Service to guarantee that all processes and areas of the public sector are covered.
  - **Support the Advisory Council by acting as its secretariat**.
  - **Design and implement a National Training Plan** for internal controllers.
  - **Address technical matters and define and approve methodological guides** to standardise internal control proceedings according to international rules and the design of the MECI.

- **Boost co-ordination between the Internal Audit Service and the *Contraloría***, and ensure that all the reports of the former are submitted to the latter. Horizontal co-ordination across the central government in this area is an important issue – it is discussed below.

Box 3.21. **The Internal Audit Services in Chile and the EC**

In Chile, there is an Internal Audit Government Board *(Consejo de Auditoría Interna General del Gobierno, CIAGG)*with competences such us: the proposal of a General Plan of Internal Audit focused on the government priorities and key issues of the public management; the approval of the Internal Audit Plan of each Ministry;* the CIAGG may execute audits focused on specific issues, for instance, the audits regarding the administrative integrity in the human resources and public procurement;** and, finally, the CAIGG has competences to co-ordinate the auditors' work and to revise it, proposing recommendations.

In the European Commission the pillar of internal control system is the Internal Audit Service.*** While the internal audit controllers develop their functions in every Directorate General as well as the EU autonomous bodies, the Internal Audit Service is dependent on the Commission Vice-presidency. The competences of the Internal Audit Service are the following: to make recommendations, helping Commission managers provide value for money in the use of resources; to contribute to providing efficiency and effectiveness across the Commission and to help the Commission to control risks, safeguard assets and monitor compliance. Besides, this service has competences to develop specific audits requested by the Vice-presidency.

*See the methodological guide nº 33 about the General Annual Audit Planning 2011.

**See the methodological guide nº 44 about administrative integrity.

***Second independent experts reports regarding the Commission reform: www.europarl.europa.eu/experts/default_es.htm.

Consider encouraging greater horizontal co-ordination at the central level

As in most countries, external and internal control institutions work together to address issues of common concern, share knowledge and support each other's compliance requirements. In Colombia, the relationship between the *Contraloría* and the ICOs is based on the following:

- The *Contraloría* uses ICO reports as the basis to start its own evaluation of a public entity or set of entities.
- When a public entity implements a plan to follow-up on an audit conducted by the *Contraloría*, the entity's ICO assumes responsibility for monitoring the implementation of this plan.
- The *Contraloría* can audit and evaluate a public entity's ICO and the control system it has put in place.

The ICOs and the *Contraloría* are thus each other's regular interlocutors. On the other hand, the *Procuraduría* has no on-going relationship with ICOs beyond their having to transmit to the *Procuraduría* any issues they uncover when exercising their responsibilities in their host entity.

The relationship between the *Procuraduría* and the *Contraloría* is based on two elements:

- The *Procuraduría* has an override right to audit. By using this override, the *Procuraduría* may interrupt the proceedings launched by the *Contraloría*.
- *Ad hoc* collaboration can occur between the *Contraloría* and the *Procuraduría;* it is not institutionalised.[31]

In addition, depending on the results of performance-evaluation or audit of a public entity, one or more of the external control institutions may be required to intervene. Facts could lead to a disciplinary finding, a penal finding or a fiscal finding. If it is a disciplinary responsibility, the *Procuraduría* will be called upon to assess the issue and impose a penalty. If it is a fiscal issue, the *Contraloría* will determine the penalty. If it is a penal-code issue, the *Fiscalía* (the Attorney General's Office) will assess the facts. Indeed the same case could lead to three different procedures at once, which could lead to inefficiencies in the system for sorting out the facts and determining responsibility. Other countries have addressed this issue. Spain, for example, ensures that the penal jurisdiction has priority to analyse the facts that may cause a penal irregularity. Hence, disciplinary and/or fiscal/accounting proceedings are suspended until criminal liability has been determined.

In Colombia, in addition to the external control entities discussed above, the *Comisión Nacional para la Moralización* (National Moralisation Commission), led by the President, was created in 2011 to fight corruption.[32] The *Contralor General*, the *Procurador General* and the Attorney General are members of this Commission. Its main responsibility is to work jointly with the other control entities to fight corruption. Several advisory bodies influence the internal control system as well: The DAFP and several Committees and Councils (ie, the Committee for the Internal Control Coordination or the Advisor Council). These entities can propose regulations to strengthen the internal control system.

Hence, the system's main inefficiency stems from actual or potential overlaps in the exercise of control responsibility, as many procedures happen at the same time. The key challenge is thus to avoid duplication and guarantee the quality of proceedings carried out by the ICOs which then establish the basis for the work by the *Contraloría* in addition to providing reliable input to the government of Colombia's Advisory Council. To address these issues, the government could consider:

- **Clarifying the responsibilities of the control institutions to make the system more effective in its day-to-day operations.** Although in theory the definition of competency is clear, in practice overlaps arise mainly between the *Procuraduría* and *Contraloría* regarding disciplinary and fiscal assessments/audits/controls. To avoid overlap, the government could:
  - Define a performance protocol on how to proceed when a single case involves more than one control institution. The government could decide which issues take precedence in a case involving multiple infractions. Once this hierarchy is defined, each control institution can then proceed in their area of responsibility.
  - To boost co-ordination between the *Contraloría* and the *Procuraduría*, provision could be given to execute joint audits (with a mixed team of *contralores* and *procuradores*); the government could permit the *Procuraduría* to request that the *Contraloría* execute special audits.

- **Renewing the focus on *ex-post* control while reducing *ex ante* controls.** International trends show that all countries are shifting from *ex-ante* control to *ex post* controls as the former slow down public management. *Ex-ante* controls could be limited to specific cases where there is presumption of effective damage.
- **In case it is established, ensure that the Internal Audit Service (see above) and the ICOs communicate their relevant activity to the *Contraloría* in order to facilitate co-ordination between internal and external control units where this makes sense**. In particular, the *Contraloría* could be informed about audit planning and audit results.
- **Define common methodological guidelines to evaluate internal control**. The Contraloría could evaluate common methodologies to execute internal controls and work with the Internal Audit Service, should the government create it, to implement them government-wide.

Consider deepening vertical co-ordination with the sub-national level

At the territorial level, control is exercised by the same institutions as at the central level. At the local level, fiscal supervision is exercised by the territorial *contralorías* (districts, departments and local municipalities) which are autonomous entities. They have a separate budget from the *Contraloría General* and fully autonomy in carrying out their functions.[33] Likewise, the departments, districts and municipalities have autonomy to organise their own internal control systems. So, as at the central level, the size of the ICO does not have to be proportional to the dimension of the host territorial administration. The budget of these institutions is financed by the budget of the territorial entity. The distribution of responsibilities is as follows:

- Territorial *contralorías* are in charge of controlling the resources of the territorial entities ("*territorial resources*"). However, the General *Contraloría* is also entitled to control these same funds.[34]
- Territorial *contralorías* also have responsibility to audit transfers received from the National Budget. It is a shared competency with the General *Contraloría*, which takes precedence in case of conflict.
- For projects financed jointly by territorial and national resources, responsibility to execute the audit is attributed to the *Contraloría* from the level of government with the highest percentage in the project, as a general rule. However, the General *Contraloría* may intervene if it considers it appropriate.[35]

There are 32 Regional *Procuradurías* with competences related to the public employees in Departments and 52 Provincial *Procuradurías* with competences over municipalities. Therefore, at local level there are two additional institutions which carry out the responsibilities of the *Procuraduría* at the territorial level: the *Personeros* and *Veedores*. However, the *Procuraduría* has the right to revise their reports. To fight corruption, Territorial Moralisation Committees, which meet at least once every quarter, support the work of the National commission created in 2011 (see above).

Internal control at the territorial level is weaker than at the central level:

- Considerable effort has been made by the central Administrative Department responsible for the civil service (the DAFP) to define methodological guides at the territorial level and offer training to territorial employees. However, while the criteria of the DAFP are binding on territorial *contralorías*, disparities in sub-national capacity in this area explain their limited application in practice.

- The current distribution of responsibility between the *Contraloría General* and territorial *contralorías* is defined in law. In theory, territorial contralorías are in charge of controlling both territorial resources and national funds invested in their departments/municipalities. However, the *Contraloría General* also has the power to control these resources. In practice, therefore, this distribution of responsibility can lead to confusion and possibly to inefficiencies in the use audit resources.

Control at the territorial level is characterised as follows:

- The territorial public sector tends to be less formalised, with a comparative lack of registers, weaknesses in accountancy, fewer statistics, and so on. This is not an issue specific to the control system but it can affect its efficiency and effectiveness sub-nationally.
- At the territorial level the independence of the control entities is less than at the central level because territorial political authorities appoint the *Contralores* (from lists determined by the relevant administrative tribunals (*Tribunales de lo Contencioso Administrativo*)). Mayors and Governors appoint the heads of the ICOs, albeit for a four-year term that must differ from that of the Mayors and Governors themselves.
- There are significant disparities in size and capacity between regional *Contralorías* and ICOs because there are no regulations establishing minimum capacity requirements. Territorial entities rely on their own budgets to shape the quality of the control institutions. At the territorial level, there is a lack of technical preparation and training of local audit staff – and of the staff training the local auditors.

The key challenge is to ensure that as the decentralisation process proceeds, regional control institutions acquire the capacity to meet their audit and control responsibilities properly as new resources are transferred to sub-national entities – particularly under the *regalías* reform, since it implies a significant increase in public resources for many territories. The decentralisation process should be accompanied by the strengthening of control institutions at the territorial level to guarantee that the resources being expended in departments and municipalities are properly managed and achieve the policy outcomes they were aiming to achieve. Staffing levels in the *Contraloría General* have recently been increased for this purpose.

The recommendations in the previous section on horizontal co-ordination can be applied to the sub-national level. In addition, the government could the following additional recommendations, mindful of the acute disparities in capacity across departments and municipalities that will need to be taken into account if they are implemented:

- **Develop joint audits between the *Contraloría General* and territorial *contralorías* in order to make the system more efficient.** These joint audits could be a good opportunity to share knowledge.
- **Link capacity-building in the territorial control system to the implementation of the *regalías* reform**. As in many departments resources will significantly increase, there is a high risk that current control proceedings at territorial level will not be enough to monitor all the regalías projects. The regalías reform could thus be harnessed to enhance control capacity through financial support at the territorial level, working with the new staff provided for this purpose in the *Contraloría General*.

- **Develop and implement a plan to professionalise the internal-control function at the territorial level, including possibly by centralising the recruitment and training of auditors in a national body**, for instance in the proposed Internal Audit Service, the DAFP, or the *Escuela Superior de Administración Pública.*
- In Spain, for example, internal controllers at the local level have to be recruited on the basis of a national competition to guarantee their independence from their host entity. Training for these public employees is also centralised at national level in the Public Administration National Institute in order to guarantee a certain level technical competence. Municipalities are ranked by category, which determines the size of the internal control office (and the number of internal controllers assigned).
- In February 2013, the Spanish Council of Ministers approved draft legislation on local administrative reform in which the independence of internal controller will be reinforced and the National Budget Law will set the wages for these public employees (currently, a percentage of the salary is fixed by the local authority). In addition, local collaboration with the National Internal Control Authority will be promoted through multi-level agreements.

Conclusion

This chapter focused on the use of sound evidence in decision-making by the central government to implement Colombia's national development strategy. The chapter highlighted strategic foresight, recommending that the government of Colombia consider establishing long-term foresight capacity to embed its four-year medium-term planning within a long-term set of vision-based strategic outcomes for the country as a means to build stability in planning beyond the horizon of the presidential electoral cycle and a more robust degree of continuity in planning to achieve the prosperity objectives the government has identified for the country and its people.

This chapter identified ways to build on an already impressive capacity to measure spending performance against strategic outcomes by addressing rigidities in the budget-implementation system, streamlining the performance-measurement system, enhancing the budget's fiscal rule with a spending rule and implementing capacity to conduct strategic operational reviews to identify fiscal room to meet emerging policy priorities.

This chapter focused on regulatory reform, highlighting the advice contained in the recently-completed OECD Regulatory Reform Review to implement a comprehensive, mandatory Regulatory Impact Analysis system in the government's decision-making processes. Finally, this chapter underscored the need to reinforce the government's already elaborate control system and boost its efficiency without slowing down public-sector decision-making and service-delivery at the central and sub-national levels, particularly as the government proceeds with its decentralisation agenda and its new royalty-distribution system.

The next chapter examines Colombia's approach to multi-level governance.

Notes

1. That is countries whose GDP output is converging on the EU or OECD average.
2. Some ministries and regulatory commissions have implementation and supervisory functions. In most cases this function is reserved to *Superintendencias*.
3. Colombia's Ministry of Technology, Information and Communications.
4. Chapter II of Decree 2696 of 2004.
5. OECD, 2012.
6. OECD, 2007. Budgeting Practices and Procedures Database: Q. 71 "What types of performance information are produced to assess the government's non-financial performance?".
7. The Planning Department also administers other information-management tools, including those to build the National Development Plan's investment budget: the SUIFP (*Sistema Unificado de Inversiones y Finanzas Públicas*) and the SPI (*Seguimiento a Proyectos de Inversión*).
8. Organic and economic classifications are also available.
9. In Colombia the budget is articulated on the basis of a classification that does not coincide with the notion of capital and current expenditure. On the one hand, the Directorate General for the Budget manages more than three quarters of the budget (77% in the National Budget for 2013). This portion includes part of the current and operational expenditures such as acquisition of equipment, maintenance, and personnel, as well as debt service. On the other hand, the National Planning Directorate manages investment spending, including that related to education programmes, as well as health subsidies, military expenditure, fixed capital, and transfers to subnational entities.
10. *Marco Fiscal de Mediano Plazo*.
11. OECD, 2008b.
12. Anderson, 2009.
13. Shick, 2010.
14. OECD, 2013.
15. Ayuso-I-Casals, 2012.
16. Article 274 of the Constitution of Colombia.
17. With the changes in public administration in the last 30 years, there has been a shift in the emphasis from the financial and legal audits to performance control, which evaluates the efficiency and effectiveness of public management.
18. Ruffner and Sevilla, 2005.
19. In English, "the Office of the Comptroller General of the Republic of Colombia" or the "Supreme Audit Institution". In this report, the word *Contraloría* will not be translated in order to be more accurate.
20. Canales Aliende, 2012.
21. The Presidential Directive 02 of 2010 establishes the instructions to carry out and monitor the warning functions.
22. Article 268 of the Constitution of Colombia.
23. *Balance General de la Repúblia*.

24. The *Contaduría General de la Nación* (CGN) is a public institution regulate by the Constitution which is in charge of the preparation of the National Accounts, submitted it to the Contraloría and presented it to the Congress.

25. Article 5.7 Decree 267 of 2000.

26. In English, "the Office of the Inspector General of Colombia". In this report, the word Procuradoría will not be translated in order to be more accurate.

27. Article 276 of the Constitution of Colombia.

28. Law 734 of 2002.

29. Internal controls are defined as the management processes, regulations and structures that assure senior management that the actions being carried out are legal, efficient and cost-effective and comply with the regulations.

30. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a widely used internal control framework originally created in the United States and COCO (Criteria of Control) was first published by the Canadian Institute of Chartered Accountants in 1995.

31. For example, in 2009 la Procuraduría together with the Contraloría, conducted a technical inspection of the pollution of the Manglar Caimanera due to the inappropriate management of the sewage treatment plant at Coveñas, Sucre (management report of the Procuraduría 2009-2012).

32. Decree 1474 of 2011 (article 62).

33. For the smallest municipalities which do not reach a minimum threshold of incomes and population, there aren't territorial contralorías. In these cases the fiscal control is assumed by the departmental contralorías.

34. Law 42 of 1993 (article 26).

35. Organic Resolution 6289 de 2011 approved by the General Contraloría (Article 36).

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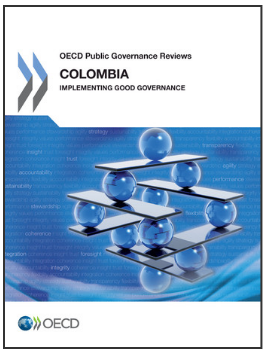

From:

Colombia: Implementing Good Governance

Access the complete publication at:
https://doi.org/10.1787/9789264202177-en

Please cite this chapter as:

OECD (2013), “Evidence-based decision making in Colombia”, in *Colombia: Implementing Good Governance*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264202177-6-en