



**BUDGET FOR RESULTS IN SPAIN:
LESSONS LEARNED AFTER TWO DECADES
OF REFORM
BY
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1. Historical background

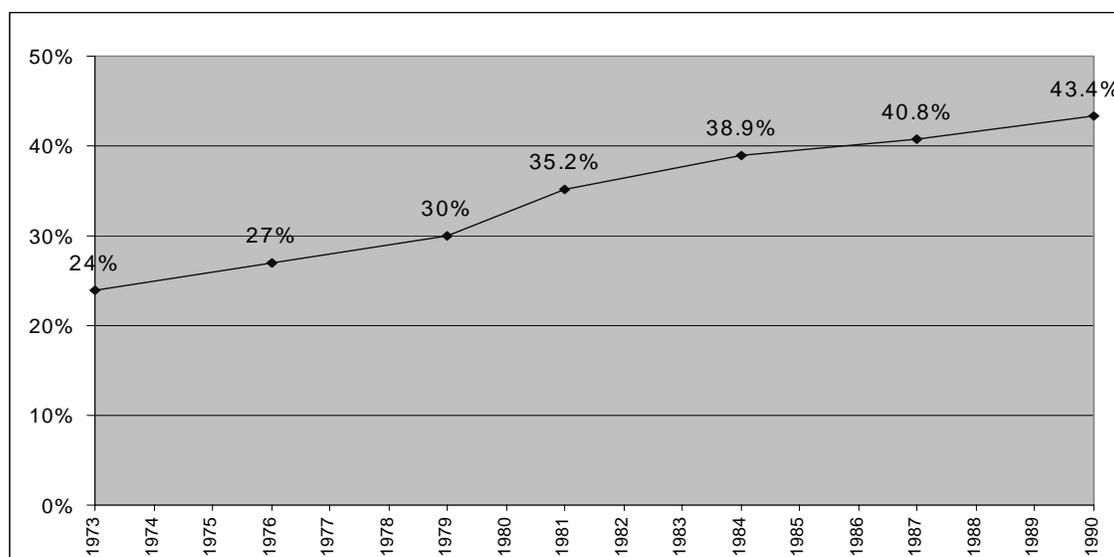
In Spain, as in other continental European countries, the traditional legal perspective has been dominant¹ for the functioning of public administration. Spending officials have been mainly concerned with the legality of spending procedures and compliance “control”. This legal control orientation was reinforced by revenue-driven budgeting. More or less until the approval of the democratic Constitution of 1978, budgeting and financial management corresponded to the so-called “revenue budgeting” practices² although Spain was a relatively wealthy country. Richard Gunther explained this paradox by the unwillingness or inability of the Spanish Government to increase taxation, resulting in the erosion in public investment and determination of expenditure estimates by revenues received. Among other consequences, this type of budgeting provoked rigidity and emphasised tight controls on spending. In “revenue budgeting,” budgetary activity and financial management mainly serve to control bureaucratic behaviour³ appropriate for a limited public sector with relatively low expenditure.

In the 1970s with the inception of *Planes de Desarrollo* (Development Plans), an effort was made to introduce programming and goal-setting. An inter-ministerial commission was created to develop evaluation methodology and co-ordinate other units responsible for the evaluation of investment projects. This constituted a first step toward introducing *ex ante* evaluation or cost-benefit analysis and program budgeting. However, there were several serious limitations to this initiative. The analysis was only applied to capital investments and focused on isolated investment projects. Global effects were not considered. Due to measurement difficulties, it was not feasible to consider projects relating to social issues (health, employment, education). Evaluations were applied only to ministries of a clearly economic/investment nature (those for public works, agriculture, etc.).⁴ Furthermore, there was a lack of correspondence between project costs estimated for the purposes of evaluation and budgetary costs of the line-item budget. Personnel costs were not allocated within the budget according to the department in which civil servants worked, but to the department paying the salaries. On many occasions this was a central unit in each ministry.⁵ There was a lack of motivation and capacity for performing across-the-board evaluations.⁶

From early 1970 until late 1980, public spending as a percentage of GNP in Spain had almost multiplied by two (see Figure 1),⁷ reaching the average spending level of industrialised countries, but budgetary and financial management capacity did not develop so quickly. At the end of the 1970s, budgeting was described as follows:⁸ *i*) allocation of resources was incremental, involving negotiations on additional requests for the following year; *ii*) the main interest of budget holders was in executing or “consuming” their whole budget authorisation, which was essential for being considered an “effective” manager and for

obtaining further credits in the future; *iii*) financial control mainly implied inspection on formal compliance with public accounting rules and financial regulations. The concern of control units was monitoring and avoiding fraud and overspending. The control procedure was based on an extremely detailed and rigid *ex-ante* verification procedure (*visa*) involving every spending proposal; *iv*) parliamentary control of budget execution was based on the role played by the “*Tribunal de Cuentas*” (Court of Auditors). This form of control was legalistic in nature and the final approval of the General Ledger did not generally provoke any interest among parliamentary members.

Figure 1. **Government expenditures**
(percent of GDP)



Source: J. von Hagen (1993).

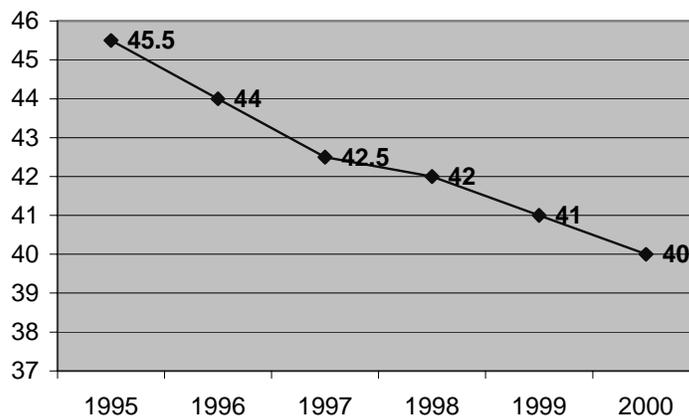
It is clear that until 1980 the Ministry for Finance was concerned with overall expenditure control and mainly emphasised compliance with financial regularity. Budget formulation was largely an exercise in administrative calculations (projections of the amount of spending implied by administrative decisions, new laws, inflation, etc.).⁹ Budgeting and financial control focused almost exclusively on the legality of procedures. Evaluation and policy planning were absent from these budgetary practices.

Since then, Spanish Government has sought to control public deficit and inflation by cutting spending and promoting economy, efficiency and effectiveness in expenditures. In 1977, a new Budget Act (*Ley General Presupuestaria*) set out the main guidelines for budgetary reform; in the 1980s, obliging the government to formulate and apply its budget by objectives and programs. The new democratic Constitution adopted in 1978 laid down the basic frame for the modernisation of government financial management: public service should perform with economy and efficiency (Article 31.2 *Constitución Española*) and effectiveness (Article 103). This may be partially explained by the fact that officials in the Ministry of Finance and experts on public finance in the university had for a long time been asking for these principles to be incorporated into the basic legal framework. Derivated legislation in later years followed these lines and principles for public expenditure management.

After the Socialist Government came to power in 1982, the Ministry for Economy and Finance required departments to formulate their budget by programs.¹⁰ By the end of the 1980s, the emphasis of budgetary reform had shifted from budgetary format to budgetary process. At the beginning of the 1990s, the intention of the Ministry for Economy and Finance was to modify the rules of the budgetary game to encourage budget for results and multi-lateral negotiations and to integrate the roles played by budgeters, auditors, and other actors. Further improvements are currently envisaged (*i.e.* Budget Stability Laws and New General Budget Law).

The recently approved Budget Stability Laws (2001) represent the government’s willingness to consolidate a period of budget discipline started in 1996. So far, the Spanish Government has been successful in controlling public deficit and spending at the aggregate level (see Figure 2).¹¹ The sustainability of sound public finance, once the economic cycle changes, is still in question. Budget Stability Laws are aiming to institutionalise discipline spending behaviour and culture in the budget procedure.

Figure 2. **Government Expenditures (percentage of GDP)**



Source: Internal document of the Ministry of Finance presented at the OECD, Senior Budget Officials meeting in Paris, May 2001.

At a desaggregate budget management level, programming and budget for results are expected to complement these initiatives. These reforms are reviewed in this report, along with offering a general overview of current budgetary process.

2. Budget processes and budgetary changes

2.1. General overview: clear legal procedures for a complex budget reality

The budget formulation is set in a long-term macro-economic scenario within the framework of the Stability and Convergence Program designed for fulfilling the compromise with the Economic and Monetary Union conditions. This program establishes a long-term frame of reference for allocating

resources. These conditions were reinforced in December 2001 with two Budget Stability Laws (one for the general government and another for other levels of government).

These Stability Laws are based around four basic principles:

1. **Stability:** Defined as a budget balance or surplus position. Public sector deficit will always be an exceptional situation requiring a correction plan to come back to budget stability.
2. **Long-term projection:** this introduces a budget vision in line with the idea of continuity and sustainability of the stability concept. On the other hand, it promotes a medium-term focus for overcoming the limitations of annual budgeting.
3. **Transparency:** the budget presentation and annual reports will contain enough and appropriate information to allow the follow-up of compliance with the principle of budget stability. This reinforces Parliament intervention in the process of budget formulation.
4. **Efficiency:** this principle allows the connection of stability at the aggregate budget level with public expenditure management at the disaggregated level.

From the point of view of the budgetary procedure, these laws present two main innovations: *a)* in the first four-month period of the year, the government will set the objectives of budget stability for the following three years, for the whole public sector and also for each level of government; *b)* government will fix the limit of non-financial expenditures of general government budget for the following year, in line with the long-term stability objective. Two percent of this limit will be allocated to a Contingency Fund in order to deal with non-discretionary financial needs, not foreseen in the budget. The objective of this fund is to avoid the expansive tendency to introduce new expenditures through approval of credit modifications during budget execution.

As outlined by law, the government's agreement fixing stability objectives will be sent to the Parliament for debate and approval at the beginning of the year. The government's agreement sent to the Parliament will be also accompanied by long-term macro-economic forecast scenario included in the Stability Program. This legal framework promotes a long-term planning as a frame of reference to elaborate the annual budget. Therefore, previously to the process, and in order to elaborate the general government budget, the Finance Ministry prepares scenarios of long-term revenues and expenses detailing them by each budgetary policy (see Table 1).

The formal budgetary cycle is clear and structured with well-defined phases. Broadly speaking, the budget formulation requires the estimation and allocation of revenue and expenditure according to law and government priorities, and the implementation phase requires the monitoring of budget execution according to established policies and regulations. Before 1 May, spending ministries should assess and present, through their budget offices, their annual requests for funds. The Ministry for Finance through the Directorate-General for the Budget then revises these requests and balances them against revenue estimates according to economic forecasts. The Ministry of Finance should also integrate the programs and projects for public investment within the budget.¹² The draft budget is submitted to the Council of Ministers for discussion and approval and, before 1 October, sent to Parliament as a draft law for approval or rejection. After final approval by Parliament, it becomes law on 1 January.

The Directorate-General of the Budget and the General Audit Office (*Intervención General de la Administración del Estado*), both belonging to the Ministry of Finance, are responsible for the follow-up of budget execution. “At the end of the fiscal year, in order to allow the Directorate-General for the Budget to formulate the expenditure programmes for the following year, the General Audit Office audits budgetary management with the aim of clarifying the value obtained out of resources distributed to goals of each department and the degree of achievement of its objectives.”¹³ At the end of the process, the Court of Auditors, responsible for external audit and control, examines the budget accounts and the quality of budgetary management within the government on behalf of the Parliament.

However, as in many other countries, the process of formulating the budget is much more complex and interactive than the clear-cut methods prescribed by law or suggested in official reports. Let us now take a closer look at the reality of budgetary process reviewing the roles, competencies and relations of main participants, along with financial management reforms undertaken.

2.2. Budgeting within spending departments: complying with procedures and guidelines from government and the Ministry for Finance

The budget procedures starts with the presentation of the main framework and general budget policy by the Ministry of Finance to the Council of Ministers at the beginning of the year. Before the end of January, government objectives on budget stability are agreed and transmitted to regional and local governments through the Council of Fiscal and Financial Policy and the National Council of Local Government. These councils are the forum for discussions and consensus building between central government and sub-central governments. Proposals for budget and stability objectives and limits on spending aggregates are prepared by the Ministry of Finance. Before 15 March, budget objectives and spending limits for each level of government are sent to the Parliament. By the end of April, the Parliament should approve or reject the budget stability objectives (see Table 1). Sub-central governments are independent to organise their budget procedures with the only limitation to comply with the Stability and Convergence Program.

At the central government level, the Ministry of Finance prepares instructions (budget circular) to be sent to spending ministries by early May. One of the main institutions for formulating the draft budget at central government level is the meeting of the Commission for Spending Policy (*Comisión de Políticas de Gasto*). The Minister for Finance is the chairman of this commission. Each ministry is represented by its minister or a main secretary of state. The secretary of state for Budgeting and Spending also participates in this Commission assisting to the Ministry of Finance.

Table 1. **Calendar for the Process of Budget Formulation**
(budget year 2003)

1.	Presentation of main phases and framework of budget formulation to the Council of Ministers	25 Jan
2.	Government Agreement on Budget Stability Objective	
	Transmission of Budget Stability Objective proposal for Regional Governments (<i>Comunidades Autonomas</i>) to the Secretary of the Council of Fiscal and Financial Policy	Before 31 Jan
	Meeting of the Council of Fiscal and Financial Policy and National Council of Local Government (Reporting on Budget Stability Proposal Objective to regional and local governments)	Before 1 Mar
	Proposal of Budget Stability Objective and estimated limit for annual aggregate spending	8 Mar
	Approval of Budget Stability Objective by Council of Ministers and Agreement sent to Parliament	15 Mar
3.	Parliament Debate on approval or rejection of Budget Stability Objective and fix legal limits on spending aggregates	Before 30 Apr
4.	Budget Circular sent to Ministries	3 May
5.	Meetings of the Commission of Spending Policies	May
6.	Approval of Budget Scenarios 2003-2005	June
7.	Round of meetings at the Commissions for Program Analysis and updating budget Scenarios	June-July
8.	Formulation of Draft Budget	Up to 31 July
9.	Debates at the Council of Ministers	2 Aug and 13 Sep
10.	Draft Budget approved and sent to Parliament	Before 1 Oct
11.	Debate and approval of Annual Budget Law	1 Oct-31 Dec

The scope of the meeting is very general. The main objective is that the Ministry of Finance transmits government spending policy to spending departments. For instance, government spending priorities for 2002 were focused on seven policies: investment on infrastructure; education; I+D; pensions and retirement; justice; employment; and defence. At this phase there is not yet a detailed quantification of budget estimates.¹⁴ In general the Commission for Spending Policy set spending prioritisation and a first global distribution of resources within a specific framework of reference or macro-economic scenario that try to make compatible trends in aggregate current expenditures and public investments, with estimated GNP, inflation, etc.

Almost at the same time that this meeting takes place, instructions to formulate the budget are published and sent by the Directorate General of the Budget to each ministry. Budgetary offices within each ministry together with spending units start estimating financial needs for next and the following two years. A process of budget formulation normally begins within each ministry by a meeting among senior officials of the ministry (the under-secretary, director-generals, and the head of the Budget Office of the ministry), at which general instructions, dates and schedules are transmitted. Each budget office gathers and consolidates budget information on program objectives, activities and financial resources used at spending departments. Afterwards, budget negotiations with the General Directorate of Budget take place bilaterally and at commissions for program Analysis (see Section 2.3).

From March to June, the budgetary office in each ministry updates long-term scenarios (already projected at the end of previous year) and formulates preliminary budget scenarios in collaboration with spending units (general directorates and autonomous agencies), usually under the supervision of the under-secretary. The budgetary offices should, according to law, evaluate spending programs. However, in fact these offices cannot do so. Most of their work involves fulfilling the requests by the Ministry of Finance. Within spending departments, budgeting is perceived as a constraint rather than a policy instrument or a management tool. Interest in the budget, as a document or a process, is formalistic and reactive in order to avoid problems and cuts from the Ministry of Finance. Budget offices only possess sufficient resources to carry out operational budgetary routines and to ensure that budget formulation within spending ministries follows the procedures and instructions requested by the Ministry of Finance. However, one important function of a budgetary office is to provide technical support to senior representatives of its ministry during the process of negotiations on budget formulation within the Ministry of Finance. Other units within each department may be involved in in-depth evaluation of plans and sectoral policies that might be used during the budget procedure. Concrete statement on this would require empirical research. In general, evaluations in departments are more professionally oriented than based on a systematic and overall interdisciplinary approach.

2.3. Budgeting within the Ministry of Finance: efforts towards program budgeting and the integration of budgetary actors

Since 1982, the Ministry for Finance has attempted to rationalise the budget system. Financial management and budgetary reforms have focused on the introduction of program budgeting, the computerisation of budgetary procedures and new methods for financial control and auditing. Until 1988, the main advances were the computerisation of procedures and the development of a new system of financial control. There were also relevant changes in budget format and some elements of program budgeting were introduced, such as the definition of objectives, performance measurement, etc. There is widespread recognition that the *new* budget format has now richer data and more relevant information. Performance data and management measures introduced in the budget are mainly focused on outputs rather than outcomes. The budget still offers limited value for decision-making within spending ministries.

Since 1988-89, several innovations have been introduced to modify the budget process itself, and a new system for monitoring and reviewing program execution has been implemented. With regard to the budget process, a main direction of reform at the beginning of the 1990s aimed to shift from bilateral to multilateral budgetary negotiations. To achieve this, the Commissions for Spending Policy were formally institutionalised in 1989. Sectoral policy issues depend in a more direct way on other commissions subordinated to the Commission for Spending Policy referred to as the Commissions for Program Analysis (*Comisiones de Análisis de Programas*). These commissions are of a more technical nature (see Table 1). They start functioning after the budget offices present first figures to the Ministry of Finance. They are chaired by the secretary-general of budgeting and spending. Their task is to distribute budgetary funds among the different spending programs within a general policy sector and to review their objectives according to the spending priorities set by the Commission for Spending Policy. The aim is to allocate resources once the objectives proposed by the ministries and the spending units have been accepted. The intention of the Ministry of Finance in creating these commissions was to make them work on a multi-lateral basis to avoid bilateral confrontation with each spending ministry. It intended to transfer responsibility for reducing expenditure to them. Heads of spending departments should negotiate among themselves and distribute funds among different budgetary programs in a context of “zero-sum

negotiations”. In fact, they are bilateral meetings between the directorate general of the budget and spending departments. Meetings are chaired by the secretary of state for Budgeting and Spending or the General Directorate of the Budget. Spending departments are represented by a secretary of state and the under-secretary and several director-generals.

Regarding the new budget program follow-up system, a sample of budgetary programs is annually selected for a systematic follow-up by delegated auditors at spending ministries (auditors with authority delegated from General Audit Office) examining the extent to which program objectives have been achieved. In addition, the Ministry of Finance has formulated general guidelines to be observed by spending units for the new follow-up system (OM, 11 April 1989). Recent selective experiences in carrying out programs are opening the way for other programs (see Box 1).

Box 1. Budget follow-up of special plans and programs

Every year, the budget law includes a list of specific programs chosen for special follow-up and financial control. This initiative includes not only administrative services but also public enterprises. In the year 2002, the main programs are:

- prisons;
- courts of justice;
- traffic safety;
- social assistance to immigrants and refugees;
- water infrastructure;
- ferrilway transportation infrastructure;
- road transport infrastructure;
- national plan for irrigation;
- plan for R+D.

Furthermore there is a special follow-up of corporative plans of some public enterprises:

- port authorities;
- airports.

The General Audit Office (*Intervención General de la Administración del Estado*) directly or through delegated auditors carries out audits on the selected budgetary programs to evaluate the execution of the budget within the context of the new budget format. The intention of the General Audit Office is to assess the difficulties and limitations inherent in the current system for assessing efficiency and effectiveness of public managers. This mainly involves identifying ambiguities in the objectives defined, the extent to which the performance measures proposed are relevant, the weaknesses of information systems, etc. The innovations proposed also implied that the General Audit Office should participate in the formulation of the draft budget.

...the General Audit Office undertakes the auditing of budgetary management required to determine the adequacy of the human and material resources currently available for achieving the goals of each department.¹⁵

One main aim for this effort of selective follow-up and evaluation of budget programs by the General Audit Office is to provide information useful for reallocating resources. However, this has proved to be more difficult in practice than expected. Although integration between control/evaluation functions and the budgetary functions has improved, this is not yet consolidated. Officials of the General Audit Office participate in meetings with the Directorate-General for the Budget during the formulation of the budget but audit reports do not provide relevant information for budgetary negotiations.

Generally speaking, the formulation of the budget is essentially based on marginal decision-making and following government priority and guidelines. From April to June, budget offices in spending ministries and the Directorate-General for the Budget remain in constant interaction with the aim of reaching agreement as to the final amount to be allocated to each program and budgetary concept. Budget figures are estimated according to the base of the previous budget. Not all requests made by spending ministries are within the limits imposed by the Ministry of Finance. In order to limit requests, officials of the General Directorate for the Budget initially review the requests very broadly and then contact spending ministries. The ensuing negotiations are co-ordinated by one of the different deputy directors within the Directorate-General for the Budget according to the nature of the credits concerned: general affairs, social affairs and/or economic affairs. At the end of July and/or beginning of August, the budget figures and the negotiating positions are nearly in their definitive form, ready for discussions at the Council of Ministers (see Table 1).

2.4. *The process of appeals: solving conflicts through hierarchical arbitration*

Should no agreement be reached between spending departments and the Directorate-General for the Budget, responsibility for the settlement of conflicts is passed on to the secretary of state of budgeting and spending. The appeal process varies according to each case and year. At the first level, the officials of the budget office of spending ministries negotiate directly with the deputy director-generals for the budget at the Ministry of Finance. These deputy director-generals study the proposals in light of reports from their officials. These reports provide an initial review of the documentation. In the case of failure to resolve conflicts at this level, the Director of the Budget participates directly in the negotiations. The requests are then clarified and points of conflict are identified. In general, the Director-General for the Budget may decide or advise regarding the most likely decisions within the next hierarchical stage. Yet positions are normally firmly presented and strongly defended. The emphasis of the debate is mainly placed on requested increments which are beyond the limits and criteria anticipated by the General Directorate for the Budget. The outcome of these discussions is described in reports drawn up for the under-secretary of the spending ministry and the secretary of state for budget and spending and in which the conflicts found and the position of the General Directorate for the Budget are detailed. The director general for the budget and the secretary of state for budget and spending mainly play a technical role, although this is, in itself, fairly important. A number of appeals for the arbitration of most politically sensitive issues are sent for decision by the Minister of Finance. Negotiations are not definitively concluded until the secretary of state for budget and spending, the Minister for Finance or the Council of Ministers approves the decision.

At the beginning of August, the Council of Ministers debates the first detailed version of the budget. It discusses the main lines of the budget and the macro-economic updated proposal from the Ministry for Finance. The Council of Ministers run several debating sessions and approves a draft. This discussion is carried out within the framework of Budget Stability Objectives set at the beginning of the year. During the month of September, meetings are held within the Council of Ministers in order to take into account latest issues concerning changes in the economy (see Table 1).

The Council of Ministers debates and approves the draft budget, but usually by the time proposals are lodged within the Council of Ministers, most solutions have already been anticipated. The Minister of Finance sends a draft budget proposal to the various departments and, if necessary, holds bilateral meetings with each minister before consulting the Council in order to resolve remaining conflicts. If disagreement is passed on to the Council of Ministers, ministers involved present their positions and debate the issue multilaterally. However, in general, agreement is achieved during informal meetings prior to the session of the Council of Ministers according to the interests of all ministers involved and, if necessary, in the presence of the President who has the final decision.

2.5. *Budget debate at the Parliament*

Once approved by the Council of Ministers, the draft budget is sent to the Parliament (*Las Cortes*). Formal parliamentary debate is clear and well structured. The Plenary of the Congress of Deputies (one of the two parliamentary chambers) discusses the amendments to the entire draft budget. If these amendments are accepted, the draft is sent back to the government. If they are rejected, the Budget Commission examines budgetary documentation. A small committee of the commission, the so-called *Ponencia*, prepares a report on the amendments to the draft budget. Afterwards, the commission debates the draft budget on the basis of this report. At this time, there are hearings which high officials are requested to attend. Finally, the plenary debates the draft budget section by section according to the organic (no program) structure. The regulations of the Congress (10 February 1982) demand discussion or debate by sections, which correspond to the organic structure by departments. All amendments implying an increase in expenditure on one budgetary concept (item) must be presented in combination with a parallel decrease in another concept of expenditure in the same section (department). The formal rigidity of the process guarantees the maintenance of control by parliamentary groups over their members, the centralisation of power within the Group of Speakers (*Junta de Portavoces*), and the concentration of jurisdiction relating to the management of the process within the Board of the Congress (*Mesa*). They all serve to assist the majority in maintaining power and also bar the way to any possible concrete debate in the Parliament and even within individual parties.¹⁶ Generally, there is majority or close to majority one party government. Since 1978, Spain has been in a process of political decentralisation. Relevant extra-parliamentary budget debate and agreements are also held and achieved by central and regional governments. All these factors might have been preventing the development of performance debate in Parliament.

On 30 November, the draft budget is sent to the Senate (second Chamber of the Parliament), where it is debated by special urgent procedure for 20 days, including Sundays and holidays. Even before this date, the members of the Senate have been studying the budget and hearing top-level officials. The process is very similar to that in the Congress, although much shorter. Budget discussions in both Chambers of the Parliament are not focused on performance information. By the end of the natural year, the Annual Budget Law is normally approved (see Table 1).

3. Auditing and evaluation

Other financial management functions have also been reoriented for encouraging result-focused management. Since 1982, government has undertaken a series of reforms on auditing and evaluation. Again, let us describe and assess their impact from the perspective of the role played by departments responsible for these function and their main reforms.

3.1. *Auditing and evaluation in spending departments*

Until 1990, there were no internal auditing services under line managers in departments. Spending departments normally had neither financial information systems complementary to those required by the budgetary procedure, nor statistics for the follow-up of performance and for determining the degree of goal achievement. The number of ministries with their own internal audit departments is growing. Internal units for evaluation could also play an important role in policy-making (not particularly in the context of auditing and budgeting) within certain ministries. Some departments of an economic or investment nature have performed in-depth studies and cost-benefit analyses. Although these studies are used in formulating ministerial policy, their influence on budget procedures has not usually been direct.¹⁷ In the 1980s, evaluation methodology was not systematically applied, although some elements were used. Program evaluation of emerging policies has been limited. Before the 1990s, it was only very rarely that program assessments were concerned with social impact.¹⁸ Measuring the productivity and/or the impact of the social services was perceived as difficult and costly. Today, there are qualified personnel within the administration with enough experience to carry out evaluations. However, most of these personnel have a professional orientation rather than a global or programmatic one.

Program evaluation is now mushrooming in Spain. Efforts of evaluations are spread among different policy sectors. This is due to the influence of some important factors: mainly European integration, the regional decentralisation, and increasing demands for affective public services. Budget restrictions have also had an influence on the growing demand for program evaluation. Traditionally, main efforts to develop evaluation and analysis in Spain have been started within government, but the recent role being played by universities and regional and local governments has been essential and is increasing. The external pressure from the European Commission seems to have triggered the race for program evaluation.

Since budgetary offices within each ministry estimate budgetary needs, they could play an important part in program evaluation. But, according to law, the budget office is also responsible for a considerable number of other functions.¹⁹ It has to: *i*) fill in instructions on budgetary forms; *ii*) formulate the draft budget for its department, co-ordinate autonomous agencies' budget requests, consolidate these budgets within the budget of the ministry and then send all this information to the Ministry of Finance; *iii*) formulate objectives setting output targets and performance indicators, and program expenditure, including the drawing-up of multi-annual projections; *iv*) follow up and evaluate programs; *v*) report on and manage the proposals for budgetary modifications taking place during the fiscal period with regard to services and agencies; and *vi*) report on ministerial projects and resolutions which influence public spending.

Spending departments could contract out program evaluation to universities and/or private specialists in this field. Traditionally, however, social and political science departments in Spanish universities have been institutions for teaching rather than for research. Even "scientific achievement" has been perceived in a philosophical and theoretical fashion, allowing empirical research (field work) to appear second rate and

ancillary with little scientific reward.²⁰ In these circumstances, it is easy to understand the late introduction of program evaluation (especially public policy-oriented program evaluation) in curricula and research programs. Nevertheless, by mid-1990, several programs in public administration were offering courses on program evaluation and conducting research in this field.²¹ Although mushrooming, evaluation in Spain is still in an early phase of development.

As in many other countries, even if some kind of evaluation is carried out within departments or in external research centres or universities, the allocation of resources is mainly shaped by negotiations about the additional funds demanded by spending ministries around the base of the previous budget and according to priorities established by government on specific policies as mentioned in previous sections.

3.2. *The General Audit Office: moving towards program audit reporting for budgeting*

The General Audit Office (*Intervención General de la Administración del Estado*) belongs to the Ministry of Finance. It has traditionally carried out the function of *ex ante* control to guarantee compliance with financial rules of every spending decision in all departments. The work of the General Audit Office is based on an extensive network of delegated auditors (*Interventores Delegados*). These are senior officials of the Ministry of Finance located within the spending ministries. They run offices with small teams of financial management experts (mainly with accounting background). The task of delegated auditors is to check all administrative decisions which have financial consequences. His signature is necessary to validate proposals of expenditure and payment. Simultaneously, delegated auditors monitor budget execution in co-ordination with the Directorate-General of the Budget to ensure that spending does not exceed the existing credits and examines the requests for supplementary credits. Until the mid-1980s, the forms of control exercised by delegated auditors emphasised the concern for the financial regularity of the execution of the budget. During the 1990s, new tools and methods (statistical random-sample, audits, *etc.*) were introduced and developed to reduce the heavy workload of delegated auditors and to complement traditional controls. The General Audit Office could provide valuable information for the use of officials of the Directorate-General for the Budget, either based on the experience and knowledge of the delegated auditors working within each ministry or based on the program audits undertaken since 1990. Reports from delegated auditors could be very relevant for officials of the Directorate-General for the Budget when examining the requests from the spending ministry within which the delegated auditors in question work.

Since 1987, the General Audit Office has been mandated to audit budgetary programs so that the appropriateness of the resources in relation to the objectives of each department may be estimated. Its functions include: *i*) examining whether the financial information is presented according to accounting principles (financial auditing); *ii*) reviewing whether the management of public funds respects current law (regularity auditing); *iii*) evaluating whether management has been developed economically and efficiently (efficiency and economy auditing); and *iv*) evaluating the degree of effectiveness and achievement of objectives (auditing of results).²²

Several manuals for program audit, published by the General Audit Office in the late 1980s and early 1990s, set out procedures to allow the assessment of whether “the objectives, policies and procedures of the department under analysis are rational and appropriate, the identification of the reasons for non-continuous and systematic follow-up of programs and objectives, and the identification of the information required for improving the budgetary system”.²³ The General Audit Office also set out the requirements for effectiveness and efficiency auditing. Among other things, the Auditor General declared it necessary that

“objectives are clearly defined...that internal control is adequate for the follow-up of objectives...and that the objectives may be related to resources.”²⁴ Often, these conditions are still not fulfilled. The General Audit Office found it very difficult to complete the reports according to the norms prescribed by this manual.

Later, more comprehensive manuals identify delegated auditors as responsible for budgetary program auditing. Their reports are sent to the General Audit Office and then to the Directorate-General for the Budget. So far, several programs have been selected as pilot cases for budget program audits, but so far the outcome has not been as successful as expected. Several weaknesses in integrating the spending managers with the General Audit Office and the Directorate-General for the Budget make further progress difficult: lack of political support, weak co-operation from spending managers, etc.

It may also be argued that the work to be carried out by delegated auditors is far too extensive and complex. Even if it is assumed that objectives, measurements, and information systems are well designed and functioning, it is very difficult for this work to be carried out only by delegated auditors. They usually run small offices. Questioning, redesigning, and implementing internal information systems for goal achievement, as well as other components of integrated budgeting, require great effort, a large amount of resources, and also demand new know-how and skills. This is particularly so if one considers that, traditionally, inspection procedures in Spain have focused on guaranteeing control rather than organisational design and learning. The new guide entitled: “*Guía de Control Financiero de Programas*” proposes new solutions. Some learning has been achieved and the capacity for integrating the main budgetary actors (budgetary officials, auditors, public managers) is gradually being developed.

3.3. *The General Inspectorate of Services: a push for auditing of administrative procedures*

Since 1987, the General Inspectorate of Services has become another important unit for internal control of administrative procedures. It is located in the Ministry for Public Administration and has traditionally been a unit for the inspection of formal compliance with respect to predominantly personnel and administrative procedures. In the mid-1980s, a study led by the General Inspectorate of Services on Spanish Administration detected several weaknesses, particularly the lack of organisational analysis and evaluation. In response to this problem, the General Inspectorate of Services indicated the need for what was referred to as “*Inspecciones Operativas de Servicios*”. This involves scrutinising and/or auditing standard administrative procedures. These General Inspectorate of Services inspections include making recommendations for improvements within the units analysed. The work is carried out by teams from the Inspection Service and the unit under inspection, which are also responsible for implementation of recommendations. The General Inspectorate of Services does not apply program evaluation proper, but reviews and scrutinises on the dimension of personnel, formal structures, the rationality of procedures, the reduction of red tape, etc.²⁵ The Ministry for Public Administration has recently published a White Book for Administration reform (2000) with proposals for further developments in the field of decentralisation, results focused management and public service quality control.

3.4. *The Court of Auditors: a judicial form of control*

This court carries out traditional external financial control on behalf of Parliament by examining and analysing the General Ledger of the State. At the end of each fiscal year the government sends its accounts to the Court of Auditors for the court to formulate the annual report on the General Ledger of the

Government, which is debated by a Joint Commission of the Congress and the Senate. Should Parliament not approve the report, the Court of Auditors is required to present a new one. However, the utility of this audit of the General Ledger is limited. The court has traditionally carried out such examinations from a judicial and formal perspective without paying attention to the soundness of the management of public sector spending. The members of Parliament have neither the time nor the technical expertise necessary for a real debate, and the time lag between the end of the fiscal year to which the ledger refers and the debate robs the exercise of any interest.

For these reasons, the Court of Auditors is not particularly useful to Parliament in evaluating government performance and debating the formulation of the following year budget. In fact, the Parliament does not approve the spending management of the government, but approves the General Ledger as a formal document, *i.e.* financial regularity. The information presented in the General Ledger is not particularly relevant to the search for efficiency and effectiveness. Since the 1980s, some legal changes were introduced. New laws of 1982 and 1988 relating to the Court of Auditors established efficiency and effectiveness as part of its audit scope. These changes have proved to be insufficient. Even if it was able to carry out efficiency and effectiveness audits, the time taken for its reports to be considered in Parliament would render its work of historical value only.

4. Performance-focused management in decentralised government entities

4.1. General overview

In the last two decades, there has been an increasing number and dispersion of decentralised government entities. To stop the increasing dispersion of decentralised government entities, a review has taken place in accordance with the new Law of Organisation of 1997 (*Ley de Organización y Funcionamiento de la Administración General del Estado*). This law established a more simplified and global classification for most general government entities. They were broken down according to two types: “*Organismos Autonomos*” (OA, autonomous bodies with administrative functions) and “*Entidades Publicas Empresariales*” (public entities providing services or goods susceptible of transactions). The former function under public law and the latter under private law unless exceptions for specific functions are explicitly set by law (*i.e.* on budget regimen, strategic decision making, etc.)

The Law of Organisation (*Ley de Organización y Funcionamiento de la Administración General del Estado*), has reclassified government entities and has set a new general framework of rights and duties for government entities established in past years. If they are not specifically excepted by law, they function under general government regulations. They are created by the Parliament. Their statutes are approved by the Council of Ministers, providing global parameters for their functioning and internal organisation. They are autonomous to operate under the guidance of a ministry. In exchange for this freedom from general government regulations, they are accountable before their ministries for policy implementation and management results.

4.2. *Financial management regime and result focussed management*

The overall financial management legislative framework of government related entities is the General Budget Law (*Ley General Presupuestaria*). This and other specific budget legislation (*Leyes Anuales de Presupuesto, Ley de Contratos*, etc.) cover budgeting, financial control, public procurement and other financial management procedures. This financial framework is generally applicable to decentralised government entities, unless specific exceptions exist approved by the Parliament.

Every year, the Annual Budget Law identifies with necessary detail the entities under general budget rules and those with specific financial management treatment. Autonomous bodies with “administrative” roles are fully ruled as established by the General Budget Law. Other entities are to be managed under their own specific legislation and private law, or by the General Budget Law whenever it is explicitly set by law or, on a supplementary basis, for whatever issues not covered in their own statutes.

Proper decentralisation and autonomy of government entities depends on an effective functioning of this monitoring system that allow the adaptation of management control and accountability systems of government entities. Performance monitoring of spending programs is the basis for reporting on results; setting priorities among alternative spending proposals, and reallocating resources accordingly. All government entities have to submit annual reports to the Council of Ministers, through their “parent” ministry.

Government decentralised entities are also controlled by the General Audit Office (financial controller at the Ministry of Finance) reporting to the Council of Ministers. Financial controls on autonomous bodies are done in the same manner and similar procedures as general government ones. *Ex ante* control on all spending decisions is executed by the General Audit Office representative (delegated auditors) in each autonomous body. Public entities are only subject to *ex post* audit of their financial management performance. They may also be audited by external private firms. Annual information and accounts of these entities are subject to the external control of the Court of Auditors (*Tribunal de Cuentas*), reporting to the Parliament.

In general, performance measurement monitoring systems of government entities have advanced substantially in the last decade but improvements differ depending on each ministry and entity. Further comparative empirical research is needed on this issue. Improvements in the field of performance measurement, assessment and budgeting are demonstrating to be more difficult than expected.

In recent years, Spanish governments have tried to improve the efficiency of its public sector through a more professional civil service and organisational restructuring, legal rationalisation, and privatisation. A recent step forward in Spain has been the approval by law of the obligation of the government to report to the Parliament on the results of budget programs and plans of activities selected to be monitored (*Ley 21/1993*). However, as in other countries, government reorganisation has proven to be longer and more difficult to manage than expected. Although traditionally strong, oversight bodies and central co-ordination mechanisms need to be reinforced to provide the effective result focused feedback for public expenditures management.

5. Conclusions: General assessment and lessons learned for result-focused management improvements

Up to the beginning of the 1980s, the main concern of the Ministry for Finance was the financial regularity of spending. After 1982, budgetary reforms focused on changing the budget format (program structure) and later on the process of resource allocation to move from bilateral to multilateral negotiations and the integration of auditing into budget formulation procedures, paying special attention to performance to be achieved by selected programs. It was not until the beginning of the 1990s that these reforms began to yield some benefits.²⁶ It is widely accepted that the new budget format offers improved reclassification and more information on output performance. However, budgetary process still needs to integrate its main actors (budgeters, auditors, and line managers), and accountability for results are still in a phase of development. Up until now, budgeting reform in Spain has been focused on operative management matters. The concern has been on activities and outputs rather than outcomes planning and policy analysis. There is now a renewed interest on priority-setting for better budgeting and auditing by the General Audit Office, which has introduced efficiency and effectiveness criteria, mainly into the auditing of public enterprises and autonomous agencies.

New efforts need to be made to develop performance monitoring, program evaluation, and financial management capacities within spending departments. In the last few years, due to the pressure from the EU, the capacity to do these functions is gradually improving.

Most organisational conditions for effective co-ordination of budgeting and auditing are already satisfied. The main financial management units belong to the Ministry of Finance: Directorate-General for the Budget and General Audit Office. They are both responsible to the Secretary of State for Budget and Spending. The sources and types of information they use are similar, and the financial data base is the same. Annual budget laws demand the integration of budget formulation and auditing. Furthermore, technical skills of the personnel working in these two units are alike. Officials holding higher positions belong to the same professional group of civil servants and have very similar backgrounds. However, performance follow-up and assessment is not sufficiently linked or used for budgeting.

An explanation of the limited success of the results focused budgeting is the weak or not continuous political support. During the 1980s, there was high-level impulse and willingness within the Ministry of Finance to support the use of result-focused criteria in budgeting. However, this interest has been neither permanent nor shared by government or Parliament. The success of future budgetary reforms, including budget for results, will require highest level political support to guarantee further development. But this will not be enough.

Furthermore, some attention will have to be paid to behavioural and cultural values. It is beyond the scope of this paper to deal comprehensively with the incentive system actually influencing spending behaviour. But future steps for a results-focused budget reform should take into account, among others, the following conditions:

1. *When introducing changes, budgeting should not be assumed to be a neutral and technical exercise of economic/financial prediction and/or a legal requirement.* The reforms have been centralised and tried to be imposed from a technically ideal solution on every one. A non-participative approach to budget reform might build formal compliance, creative budgeting, or even rejection. Budgetary conflict and negotiations are perceived as dysfunctions to be

avoided by applying “objective” analysis and decision-making. Uncertainty and conflictive interdependence are identified as dysfunctions of current budgetary practices rather than a reality to be dealt with. Specifying objectives, measuring performance, and structuring the budget by programs may facilitate stability and predictability in budgeting but may not guarantee it. If budget officials and spending managers do not stick to budgetary objectives, this is mainly interpreted as their failure rather than unavoidable uncertainty in the working environment. By programming, it is assumed that risk would be eliminated and the need for conflict management would be reduced to almost zero. Although these assumptions may be right for some ongoing predictable policies, many other emerging problems and policies, such as environmental and emigration policies, demand a different strategy and approach to apply results-focused budgeting.

2. *Legal tradition should be complemented with the development of performance culture.* There is a general agreement on balancing the concern with legality with more concern with results. Spending departments and the Ministry of Finance are willing to encourage change in this direction. However, it is difficult to apply this perspective to budget reform in itself. Efforts by the Ministry of Finance have been based primarily on new laws and manuals on procedures. New efforts have to be done to assess and improve the impact of the reforms. Efforts for reforms mainly concentrate on redrafting new laws and rules modifying budgeting/accounting and auditing processes. This emphasis is due to both a lack of political support to manage change and a bias towards a normative approach for the reforms.

Spending managers adapt their financial procedures and information system to the requests of the Ministry of Finance but they do not consider them very useful for their own management interest. The main values and elements of the model and strategy of reform are hierarchical relations, assumption of acceptance of the objectives of the reform, reliance on rules and norms, and neutral professionalism. Legalistic and hierarchical traditions are deeply rooted. New norms are proposed in the belief that success may be achieved once the correct norms are formally established and firmly applied. Although the importance of formal responsibility systems should not be underestimated, such systems are not sufficient in themselves to ensure the successful development of budgeting and financial management.

3. *Departmental reform rationality should be subordinated to collective reform rationality.* Co-operation and co-ordination have not been sufficiently considered. It seems that each promoter of a result-focused budget and related financial management initiatives perceives these reforms as its sole responsibility and deserves full credit for it. In practice, the management of interdependence for change has not been fully recognised. Effective integration of new management auditing and budgeting by results initiatives has been seriously constrained by lack of incentives (*i.e.* political support at the highest level) to co-operate.

There appears to be a need for developing inter-organisational capacity for reform. It is very clear to reform promoting departments the model desirable for better budgeting and financial management. However, it is not known how to implement what is desirable: traditional formal links do not facilitate or encourage change by interaction. The failure to integrate line spending managers into the budgetary process limits feedback. There have been many differentiated reforms and no sufficient effort for their co-ordination. In the last two decades

several executive centres at the Ministry of Finance and the Ministry of Public Administration have been trying to modify their functions and working methods towards management and budgeting for results. Yet, many changes have neither been integrated nor had relevant integrative effects. These initiatives represent differentiated initiatives produced in separate departments without a global or collective framework of reference for the reform.

4. *Enhancing learning capacity.* Self-evaluation has not even been considered as a way toward improvement. Budgeting for results represents an ideal budgetary model which facilitates the improvement of management performance. Budgeting for results is perceived as the only solution available and the perfect one for the whole administration. This explains the across-the-board uniform choice of this budgetary and management model. The applicability of this model to various public organisations and contexts has not been questioned. Budget and management by results is perceived as a universally valid model.

This may also explain difficulties for learning about either how to introduce the model or how to make the model fit into a concrete organisational context. The contingencies affecting both the feasibility and appropriateness of this budget by result model needs to be analysed. The strategy used to implement the budget reform needs more political support, even when the organisational context is appropriate. Lack of capacity to manage change and the hierarchical and legal approach to the reform may also explain limited success. This does not mean that the budget model proposed will always be neither useless, nor inappropriate even if the strategy is correct. This type of budgetary model could fit a context of stability and increasing resources.²⁷ It will not be feasible in conditions of uncertainty (*i.e.* emerging policies, ambiguous or conflicting views on objectives, difficult performance measurement, unknown cause-effect relation of program intervention and impacts, etc.)

Steps forward in result-focused management depend on the development of learning capacity and on increasing incentives and political support for reform. For almost two decades we have seen many innovations within management, budgeting and auditing without there having been attempts to assessing real effects and adapting such reforms. Their limited impact is a widely accepted fact. Risk avoidance and fear of exposing failure may have been blocking the way toward further improvements. This has promoted some misdirection and organisational confusion rather than learning. Reformers need to be politically led to interact and departments should be allowed to experience adaptable models. New models of reforms have to be properly assessed and tested.

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