

OECD ECONOMIC SURVEY OF PORTUGAL 2004:

THE PUBLIC ADMINISTRATION REFORM

*This is an excerpt from the OECD Economic Survey of Portugal, 2004,
from the section on public administration reforms in chapter 3*

Reforms have been launched to improve the quality and efficiency of public services

3.13 The programme of structural reforms to redress public finances includes measures to better control spending and, as importantly, to raise the quality of public services. In 2003, OECD recommended that Portugal adopt a set of measures in order to improve public spending efficiency and effectiveness, to turn input into more output and better outcomes. The public administration reform fits in that context. The government announced in 2003 a major overhaul of the country's large public administration. Increased staff mobility and managerial flexibility, along with a more accurate performance evaluation and personal accountability, are key elements in the reform. Rationalisation efforts have also started in the health and education sectors, aimed at building a more outcome-oriented public sector.

The public administration reform

3.14 Compensation of employees in the general government increased rapidly over the late 1990s and until 2002, then reaching 15.4 per cent of GDP, well above the OECD average (Figure 3.4). The size of government, measured by employment, is close to the OECD average (Figures 3.5).⁶⁹ However, the quality of public administration services is widely considered as poor. In the last two years, the Government has adopted emergency measures to contain expenditure, especially the wage bill (see Box 3.2), and a vast programme of public administration reform was launched.

Box 3.2. Emergency policy measures to contain wage bill growth

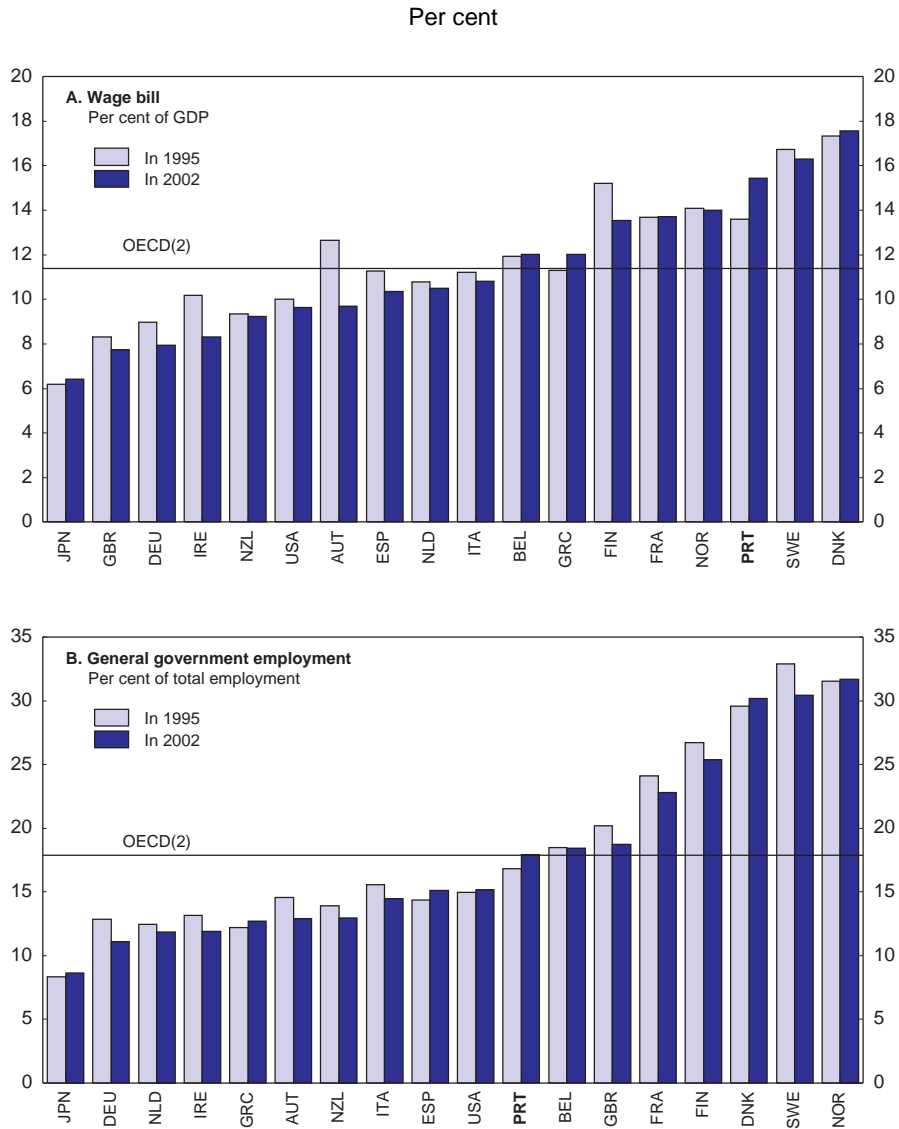
Since mid-2002, the government approved several emergency measures in order to slow public expenditure growth, especially the wage bill. The supplementary budget for 2002, approved in May 2002, froze the renewal of individual contracts and fixed-term contracts¹, with any new hiring requiring special permission from the Minister of Finance. Careers restructuring and reclassifications were also frozen. In the two subsequent years, the recruitment of public servants, as well as career restructuring and reclassifications, continued to be suspended.² Wages above 1 000 euros (1 024 euros in 2004) were frozen and those below that amount were revalued by 1.5 per cent in 2003 and 2 per cent in 2004.

As a result, the number of civil servants, as measured by subscribers to the pension system (*Caixa Geral de Aposentações*, CGA), which had been rising by 4 per cent a year in 1997-2001, increased by only 1 per cent in 2002 and diminished slightly in 2003. The total wage bill diminished by 2.6 per cent, reflecting also accounting changes that followed the transformation of 34 public hospitals into 31 public corporations (see Chapter 4).

1. In the second semester of 2002, the number of fixed-term contracts was reduced by 30 per cent and the number of contracts of provision of services by 26 per cent.

2. This recruitment freeze does not apply to teaching and military staff, and recently set local administration bodies.

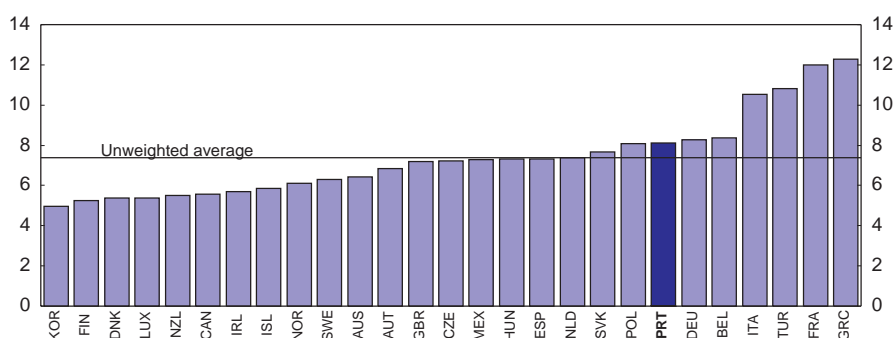
Figure 3.4. General government wage bill and employment in selected OECD countries¹



1. OECD estimates. Excluding public enterprises, except for Japan.
2. Unweighted average.

Source: OECD, *Economic Outlook* No. 75 (June 2004).

Figure 3.5. Public administration employees¹
As a percentage of total employees in 2002 (2)



1. Corresponds to the national accounts industry branch NACE L. It includes such activities as defence, judicial services and police, foreign and economic affairs, administration of tax and social systems, regulatory and general public service activities. Public employees working in other industry branches (especially health and education) are not included.
2. 2001 for Austria; 1999 for Belgium. No data for Japan, Switzerland or the United States.

Source: OECD, *Annual Labour Force Statistics*.

Increasing staff mobility

3.15 In October 2003, a public employment pool was established in order to reduce recruitment outside the public administration and to encourage mobility within the public administration (*Bolsa de Emprego Público*). At the same time, information about the internal demand and supply of public jobs has been made available online to civil servants. In June 2004, the pool included 34 public servants made redundant as a consequence of restructuring processes, who had not yet been transferred and were available for placement. Over the nine months or so since its creation, 1 197 civil servants have put their name down asking explicitly to move to another job within the public administration.

Reorganising the public administration

3.16 Rationalisation of the public administration, including public institutes, was announced as a first step of a deep reform in 2002, immediately after the incoming government took office. The restructuring of the public administration has started to be implemented. So far, this process has resulted in the closing of 10 public institutes, the merging of 19 others, and it has led to the creation of 10 new bodies and the transformation of 31 into corporations. Since 2002, as well, four new public institutes were created with an integrated management of resources and improved coordination of services, so as to benefit from economies of scale.⁷⁰

3.17 In the beginning of 2004, two new framework laws were approved, one defining the organisational model for the functioning of central administration and the other defining the purpose, principles and functioning of public institutes.⁷¹ The new organisational and operating model for the central administration that was established sets the rules for the creation, merging and closing of services and organisations and simplifies legal formalities. Directors' autonomy concerning the design of their services' internal organisation has been increased in order to increase flexibility, and new management practices emulating private sector management models are to be introduced. Concerning public institutes, their existence will have to be economically justified. Currently, the permission to create a new institute already requires a general assessment of the existing ones under the same ministry. All existing public institutes are being reassessed according to the principles established in the new framework law. By strengthening control on the creation and functioning of institutes, the government is seeking to avoid their

proliferation, to prevent the creation of additional special regimes and to avoid redundancies. Productive activities carried out by public institutes will be ruled by commercial law; alternatively these activities would be outsourced to units on public-private partnerships or even privatised. The Ministry of Economy has been pioneer in this restructuring process. It has merged several general directorates and centralised procurement, computer services, human resources and documentation centres. The Ministry of Education itself has already restructured several of its central and regional bodies.

Increasing accountability of managers

3.18 A new statute for directors has also been approved at the start of 2004 with a view to increasing managers' qualification, skills and accountability. Target-based management systems are being introduced in the public sector, whereby promotion of civil servants will be based on merit rather than seniority as has generally been the case in the past. According to the new statute, the length in office is limited to 12 years and the renewal of appointments is contingent upon performance evaluation. Furthermore, a new integrated system of performance evaluation, covering civil servants, intermediate directors and services, based on pre-defined objectives was established in March 2004, to be implemented as from the second half of 2004. The evaluation of civil servants will refer to objectives, behavioural competences and personal attitude; it will be subject to quotas (in order to guarantee merit differentiation), and will require interactions between the evaluator and the evaluated person. The purpose of the exercise is to achieve fairness and coherence in human resource management and to promote merit as a basis for career.

3.19 In order to raise managerial flexibility, it would also be important to bring the labour statute closer to private sector practices. A new law establishing individual labour contracts as a real recruitment alternative in the public administration has been approved, although it will not apply to activities directly related to authority or sovereignty functions. In the context of increased managerial autonomy, directors will be given responsibility for such recruitment. The selection and admission processes will be streamlined; non-fixed-term contracts will only be allowed in the case of vacancy under a service's legal quota for civil servants. It will not be possible to transform fixed-term contracts into permanent ones and compensation will be subject to ceilings.

Concluding remarks

3.20 Summing up, some important legislative steps have already been taken, or are expected to be in the near future, in order to reform public administration and the labour statute of its employees. Some of the measures have already been implemented, while others, such as additional de-bureaucratisation and decentralisation measures, are expected to be fully implemented during 2004. The reforms are critical to the longer-term target of increasing mobility and efficiency within the public administration, thereby reducing the growth of primary expenditure. The direction of the reforms is appropriate and there have been some important achievements. But the speed of implementation should be accelerated. Implementation of such a reform is not an easy task, because of the change of culture that is implied by some of the measures taken, and there is thus a risk that the process could lose political momentum. This is why it is particularly important to advance in this process without delay.

NOTES

69. The number of civil servants, as measured by registration in the social security institute for civil servants (Caixa Geral de Aposentações, CGA) increased by a cumulative 22.1 per cent from 1995 to 2003, with the following pattern: 1995-97 an average increase of 1.3 per cent per year; 1997-2001, 4.2 per cent per year and 2001-03, 0.5 per cent per year only. In 2003, the number of civil servants reached close to 780 000.
70. *Entidade Reguladora da Saúde* (Health Regulatory Entity), *Autoridades Metropolitanas de Transportes de Lisboa e do Porto* (Lisbon and Oporto Metropolitan Transport Authorities) and *Centro Hospitalar de Lisboa -- Zona Central* (Lisbon Hospital Centre -- Central Zone).
71. Law 3/2004 (15th January) and Law 4/2004 (15th January).