Japan’s Recent Budget System Reforms

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Toshio Oya
Budget Bureau
The Ministry of Finance of Japan
Japan’s Recent Budget System Reforms

- For more transparent, efficient and effective budget.

- More focus on performance and results, to be inputted into the process of budget examination through improved analytical instruments.
I. More performance information

1. Annual Inspections of Budget Execution

2. Reform of the Settlement Book

3. Self Policy Evaluation
1. Annual Inspections of Budget Execution

- introduced in 2002

- annually more than 60 budget items (e.g. infrastructure projects and subsidies) are inspected on-site by:
  
  • Budget Examiners of Budget Bureau of the Ministry of Finance
  • Officials of Local Finance Bureaus (11 LFBs nationwide)

- start inspections in April, and publish their inspection reports mostly in July before budget requests from line ministries.

Note: Japan’s fiscal year runs from April to March
- Budget Examiners are expected to reflect their findings in the budget examination in autumn, and publish how their findings have been actually taken into account in the budget.

- In case they find the projects are not implemented as effectively and efficiently as previously expected, they take necessary actions:
  ① scrap or reduce the budget for the items; or
  ② review the implementation, check bottlenecks and urge the implementing ministries to take corrective actions for more results.

Notes: • Budget Examiners and LFBs discuss candidate inspection items and select what will have substantial implications for improving effectiveness and efficiency of budget.
• LFBs focus on 1) the items they have found locally and 2) those to be inspected nationwide in many places for extensive data.
• Achievements of the Inspections

<table>
<thead>
<tr>
<th>FY</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td>Number of inspected projects (by Local Finance Bureaus)</td>
<td>46 (3)</td>
<td>53 (2)</td>
<td>59 (6)</td>
<td>57 (4)</td>
<td>68 (11)</td>
<td>62+α (12+α)</td>
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<tr>
<td>Budgetary savings resulting from the inspections (\ 100 million)</td>
<td>189</td>
<td>492</td>
<td>275</td>
<td>260</td>
<td>288</td>
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• Schedule of the Inspections

- Inspections by Budget Examiners
- Inspections by Local Finance Bureaus

Selection and announcement of the inspected projects

Conclusion of inspections and release of the Inspections Reports

Budget Requests from Line Ministries

Budget Examination

Release of Final Inspections Report

Feedbacks

2. Reform of the Settlement Book

- for more data on actual budget disbursement, to be comparable with the budget items in the Budget Book.

- Current:
  - there are no actual disbursement data by Line Items in the Settlement Book (by Budget Accounts only).
  
  Note: There are 603 Budget Accounts and 1,290 Line Items in the General Account. Budget Accounts need to be approved by the Diet.

- Future (FY2008 budget and afterwards):
  - the Settlement Book will include data by Line Items so as to make sure that the budgeted amounts and the actually appropriated/disbursed amounts are comparable on the basis of Line Items.
3. Self Policy Evaluation

- All the ministries started to perform self evaluation in 2001, and each ministry has published “Policy Evaluation Reports” annually.
  
  • Over 550 policy items were evaluated in 2006.
  • Each policy item listed in the Reports refers to intended results and policy targets, more than 50% of which are quantitative, as well as its achievements (and indicators).

- Budget Examiners are expected to make use of the inputs from the Self Evaluation Reports, but have faced some operational difficulties, in particular comparing policy items with budget items.
  
  ⇒ Need to have better analytical instruments.
II. Improving the analytical instruments
- Reform of the Budget Book

- for easier and clearer reference to “results,” and for quick corrective budgetary action

- Current:
  • Budget Accounts and Line Items are not aligned or tied with the Policy Items (PIs) in the Policy Evaluation Report of each ministry. As a result, mutual feedbacks between budget and policy evaluation are difficult.

- Future (FY 2008 budget and afterwards):
  • Both of the items in the Budget Book and the PIs will be reorganized and substantially revised so as to make sure that the scopes and order of the Budget Accounts are aligned with those of PIs and that each Budget Account can be compared with the corresponding PI (See Attachment).

- It would be possible ① for the taxpayers to compare budgeted amount and its performance (evaluation and indicators ) item by item; and ② to make “cost-benefit” analysis on the PIs.
Overview of the Japan’s Budget System Reforms

Ministries
- Self Policy Evaluation (Since 2001)
- Annual Inspections of Budget Execution (Since 2002)

Budget Examiners
- Data on actual disbursement (by Line Items, starting FY 2008 budget)
- Findings by the Board of Audit

More efficient and effective budget
<table>
<thead>
<tr>
<th>PE Items</th>
<th>Budget Accounts</th>
<th>Line Items</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Expenditures for R&amp;D Activities For Global Environment Conservation</td>
<td>Ensuring International Partnerships</td>
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<tr>
<td></td>
<td>Expenditures for Reduction of Carbon dioxide</td>
<td>R&amp;D Activities for Global Environment Conservation</td>
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<tr>
<td>3. Promotion of Waste Management and Recycling</td>
<td>Expenditures for Promotion of Waste Management and Recycling</td>
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<td></td>
<td>Expenditures for Nature Parks</td>
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Note: ① Budget Accounts are submitted to the Diet for approval. ② Each ministry is not allowed to appropriate resources across Budget Accounts.