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FOREWORD

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The Role of Fiscal Rules in Budgeting

by

Allen Schick*
Budgeting is a rule-driven process that regulates the raising and spending of public money. Detailed rules govern the submission of bids for resources by spending units, review of these bids by the Finance Ministry or another central organ, compilation of the annual budget, legislative action including the voting of appropriations, expenditure of funds during the financial year, and reporting on financial stocks and flows. Why have many national governments adopted new budget rules when they have a plethora of old ones? The new rules do not replace – although they may modify – existing rules, thereby adding to the complexity of established budget processes, and often adding as well to the time it takes to complete the main steps in the annual budget cycle. Why add to the complications of an already difficult process? If it is because the old rules do not work, why is it expected that new ones will make much of a difference?

Furthermore, the old rules generally empower budget-makers by enabling them to allocate resources according to the preferences of government. Fiscal rules, by contrast, constrain budget-makers, taking away much of their authority to decide aggregate revenue and spending policy. These rules typically prescribe the balance between revenue and spending policy. Every fiscal rule is a limit on the exercise of political will. Why have democracies accepted or imposed fiscal limits on themselves, and why should we expect these limits to be effective when they run counter to the preferences of voters and politicians?

Some fiscal rules have been adopted by national governments on their own initiative; some have been imposed by international agreements such as the European Union’s Stability Pact or by conditionalities dictated by the International Monetary Fund (IMF) and other international financial institutions. Some are embedded in fiscal responsibility laws that require the national government to establish fiscal targets in advance of annual budget work; others arise out of the process of preparing and approving the budget. Although most national governments still operate without pre-set fiscal constraints, the number of countries employing them is likely to increase in the years ahead. Compared to past budget reforms that had little success, the fiscal rules movement has altered budget practices in the countries that have taken the rules seriously.

Fiscal rules are effective only when they are supported by other changes in budgeting including:
- lengthening the time frame from a single year to the medium term;
- baseline projections (or forward estimates) of future budget conditions;
● estimates of the impact of policy changes on future budgets;
● procedures for monitoring budget out-turns and for taking corrective action when necessary; and
● enforcement mechanisms to assure that opportunistic politicians do not breach the rules.

Fiscal rules will not make much of a difference if the budget horizon is limited to a single year, monitoring and enforcement are weak, and future impacts are ignored when budget decisions are made.

Fiscal rules also depend on political leaders who are willing to operate within the constraints, even when they are thereby compelled to take unpleasant actions such as reducing services or boosting taxes. When political will is lacking, as is often the case, compliance will be weak. But if political rules work only when politicians want them to, why have them at all? If political support is forthcoming, rules are unnecessary; if it is not, rules will not work. I will return to this issue later in the paper. For the present, however, it suffices to aver that rules serve to fortify politicians who want to make hard budget choices.

This paper offers a preliminary assessment of fiscal rules. A key question, addressed in the next section, is: why have fiscal rules emerged as an attractive budget innovation? What is it about contemporary public finance that has prepared the ground for this reform? Section 2 inquires whether the type of fiscal rule makes a difference. Some rules are stated in absolute terms, others are indexed to GDP or another measure. Does the type of constraint influence budget outcomes, or is the manner in which it is applied paramount? Section 3 considers the budgetary arrangements that facilitate or impede compliance with fiscal rules. The concluding section assesses fiscal rules in the light of the economic and political conditions under which they operate.

This paper does not address the staying power of fiscal rules. Do they gain legitimacy and strength the longer they are in place, or do rules weaken as claimants for public resources learn how to beat the system? My sense is that fiscal rules have a limited effective life and must be reinvigorated or replaced from time to time. However, because these rules have been applied for barely a decade, more experience is needed before their long-term effects can be evaluated.

1. The age of fiscal rules

Fiscal rules are a response to alleged shortcomings in budgeting that produce outcomes that politicians and voters do not want and would reject if they had a fair opportunity to do so. The shortcomings lead to expansionary
government that consumes a rising share of national wealth, elevates tax and debt burdens, and produces large, chronic budget deficits. Proponents of fiscal rules argue that the fundamental problem is that conventional budgeting is an open-ended process that permits government to accommodate demands by spending more than it has. Fiscal rules aim to counter this tendency by compelling budget-makers to tax and spend within fixed constraints that do not waver with shifts in political sentiment or economic conditions.

Four interlocking lines of reasoning feed into the fiscal rules movement. One is the argument that sound budget procedures often produce unsound budget outcomes. The second is burgeoning evidence that budgeting in democratic countries is inherently biased to produce expansionary outcomes. The third is the realisation that abandonment of strict balanced budget rules has left budget-makers without firm guidance on appropriate fiscal aggregates. The final strand is a body of research which argues that differences in budget outcomes among countries are due to differences in the rules under which governments make tax and spending decisions. These strands have fused together to build a strong case for fiscal constraints to offset the perceived defects of conventional budgeting.

1.1. Good procedures do not assure good budget outcomes

Fiscal rules deal with substantive budget outcomes, in contrast to procedural rules, which deal with how the tasks of budgeting are carried out. Every national government prescribes budget procedures that cover the many steps in the annual cycle. Over time, the procedures have been hardened into routines that are repeated year after year with little or no change. Budget procedures define the roles and relationships of participants in the process, how the various tasks are done, the information required, and deadlines for action. The routines of budgeting ease the tensions and conflicts that are inherent in the competition for scarce resources.

As a set of routines, budgeting differs in some particulars from one venue to another. Each government has distinctive terminology and rules, but the differences tend to be small. Early in the development of budgeting, the basic routines were codified in principles that were recognised as good practice. The most important principles were:

i) comprehensiveness (the budget should include all revenue and expenditure);
ii) accuracy (the budget should accurately record transactions);
iii) annularity (each budget should span a single fiscal year);
iv) authoritativeness (public funds should be spent as authorised in law);
and v) transparency (the government should publish timely information on receipts and expenditures).

The procedures and the principles that underlie them constitute due process in budgeting. The term “due process” connotes that if the procedures are
proper, the outcomes that ensue from them are right. In the same way that the judgment of a court is governed by due process, the legitimacy and soundness of budget decisions are measured by the procedures used, not by substantive objectives or criteria. Whatever results from a budget process that applies proper procedure is correct. If, for example, the budget is comprehensive and all bids for resources are submitted in proper order and are reviewed by the appropriate budget authority, the allocations made to spending units and the budget totals should be deemed correct.

Due process is indifferent to outcomes. It has no preference for more or less spending, balanced or unbalanced budgets, rising or stable public debt burdens, higher or lower taxes, or other budget outcomes. What matters is that the procedures are followed. In this regard, due process in budgeting is analogous to due process in litigation. If proper judicial procedure is applied, the ensuing verdict must be accepted. Due process in budgeting is based on the same premise.

Due process in budgeting is politically neutral. It can accommodate both left and right-of-centre governments, as well as politicians who want to contract or expand government. It is quite common for an incoming government that has a markedly different political agenda than the government it has replaced to retain the inherited budget procedures. Because due process is neutral, actual budget outcomes vary with shifts in political or economic conditions. As these conditions differ from one country or time to another, so, too, do spending decisions and fiscal outcomes. Due process gives politicians free rein to mould budgets according to their preferences. Political will is unconstrained, provided it is exercised through prescribed procedures.

Due process has made budgeting into a self-contained activity, with its peculiar language, rituals and forms. In most countries, budgeting has its own ways of counting money which differ from the accounting principles used for financial statements. In all but very small governments, due process is in the custody of central staff that makes the procedural rules, oversees compliance, and has sufficient institutional memory and administrative authority to maintain due process. Over time, the procedural requirements have accreted, giving budget controllers more things to do and orienting the process more to compliance than to outcomes.

No government can effectively manage its finances if due process is materially impaired. Nevertheless, due process is an inadequate basis for regulating public finance because it generates or permits unwanted, adverse outcomes. The unsatisfactory fiscal performance of many developed and developing countries impels the conclusion that sound budget procedures often produce results at variance with those sought by the government or deemed appropriate by outside experts. For decades, international organisations have
assisted developing countries in installing sound budget systems, but in most cases fiscal outcomes have persistently been sub-par. Most developing countries now have formal budget systems that meet basic standards. What they do not have are disciplined budgets, effective programmes or efficient operations. Improving budget procedures will not suffice to alleviate the deeply rooted problems these countries face.

Budget results generally appear to be more favourable in affluent countries, but the differences may owe more to the abundance of resources than to the quality of budget practices. A fair reading of fiscal trends over the past half-century supports the conclusion that fiscal discipline often has been lax in the developed world. In OECD member countries, public spending now averages 20 percentage points higher relative to GDP than it did in the early 1960s. During this extended period, developed countries have had many more deficits than surpluses, despite the surge in revenues due to economic growth and tax increases. Fiscal imbalances have been more pronounced during periods of economic weakness, but they have regularly occurred during expansionary times as well. Because developed countries generally do not face the capital flight and economic destabilisation that periodically beset poor and emerging market countries, they have been able to finance budget imbalances without much difficulty. Rich countries like to credit their good fortune to fiscal discipline, but the truer explanation may lie in economic plenitude, not in budget rules and procedures.

1.2. Biases and rigidities in budget decisions

Why is it that generally accepted budget practices do not assure disciplined fiscal results? Part of the explanation may lie in biases embedded in budgeting that spur higher spending in excess of available resources. Although budgeting is a process for rationing resources, it invites spending units to demand more money each year. Some governments have rules that limit the amount spenders may request, but most permit them to ask for as much as they want. It is a rare spending unit that requests only as much or less than it obtained for the previous year. The common pattern is for spenders to seek increases, to have a portion of the requested increase denied by the Finance Ministry (or the budget agency), and to get more than it had last year. This arrangement tranquillises the budget process by giving major participants much of what they want. Central budget officials get power and spenders get money. Budget officials get credit for cutting the budget and spending units get money to continue or expand programmes.

It is not only that spenders want more; government leaders and a phalanx of interest groups want to give them more. Little opprobrium attaches to a government that tables a budget with spending increases; this is a normal occurrence, built into the expectations of budgeting and the behaviour of
participants. Government leaders often point to spending increases as evidence of the good they are doing. It is the budget that cuts which stirs political unrest and analytical curiosity, not the one that adds this year’s increases to last year’s and to those of the years before that. In this situation, the budget totals become pliable, accommodating constraints that can be adjusted as needed to fit the spending pressures facing government.

These pressures are unbalanced, and they unbalance the budget. One of the well-known biases of budgeting is that the benefits of expenditure are concentrated while the costs of taxes are dispersed. The more concentrated the benefits, the greater the share that beneficiaries gain, giving them strong incentive to campaign for even more from government. On the other hand, taxes are dispersed among the paying population and each taxpayer’s share is miniscule, leaving each with only a weak incentive to oppose spending demands. Add to this the proliferation and activism of interest groups, and government is exposed to near-irresistible demands for public money.

Everywhere, budgeting is an incremental process that extends the past into the future by focusing on marginal adjustments. Almost all governments format the budget to concentrate on changes from the previous year’s base. The budget and the supporting documents typically show spending for one or more past fiscal years, the year in progress, and the next fiscal year. This structure formalises incrementalism by concentrating budget decisions on the amount by which each programme or account varies from the previous year. Incrementalism undermines fiscal discipline by impelling governments to accommodate fresh demands by spending more, not by substituting new priorities for old ones. Incremental budgeting is a process of allocating increases, not of reallocating money from less to more effective uses. Arguably, if budgeting were less incremental and more open to a review of “base” expenditures, governments and deficits would be smaller.

Attempts to uproot incrementalism through zero-base budgeting and other innovations have been unsuccessful. Incrementalism thrives because it simplifies the process by significantly reducing the number and scope of decisions that have to be made within the constricted timeframe available for compiling the budget, and because it reduces conflict by protecting spenders and groups against deep cuts in existing programmes. When the budget is incremental, conflict normally is confined to small deviations from previous spending levels. But the price of budgetary peace is elevated spending levels.

Budget outcomes also are biased in many countries by the stickiness of public expenditure. In most developed countries, more than half of central government expenditure is mandated by permanent laws that entitle citizens to ongoing payments from government. These entitlements must be paid regardless of the condition of the budget or of other demands for public funds.
In some years, statutory increases in expenditure consume all of the incremental resources available for allocation. Typically, spending on entitlements is driven by demographic and economic trends, such as the age structure of the population and unemployment rates, rather than by annual budget decisions. In countries where benefits are linked to price changes, the government may have no margin for policy initiatives unless it spends more than it takes in.

The spread of entitlements has weakened fiscal discipline and budgetary due process. Typically, entitlements have been enacted without due consideration of downstream budget impacts and without adequate information on their prospective cost. In contrast to standard budget estimates and appropriations that are for fixed amounts, entitlements tend to be open-ended, with expenditure determined by exogenous factors. Much of the procedure of budgeting is irrelevant to statutory entitlements; as they grow in prominence, these pre-determined expenditures transform budgeting from a means of deciding future expenditures to one of accounting for past decisions.

Despite the damage they do to budgetary due process, entitlements can be regulated through the budget. It is not uncommon for financially stressed governments to trim entitlements at the margins in order to generate savings that would reduce the deficit or free up money for other purposes. Less frequently, they make fundamental changes that reduce the long-term impact of entitlements on future budgets. However, the usual course of action at budget time is to leave entitlements in place and to provision resources in the budget for mandated payments.

To sum up this discussion, upward spending biases are grounded in the political imbalance between concentrated benefits and dispersed costs, the sway of interest groups, incrementalism in budget decisions, and sticky expenditure. Unless governments constrain the fiscal aggregates, the budget’s totals will stretch to accommodate spending demands. Good procedures are not an adequate defence against these pressures.

1.3. Changes in fiscal policy

Even where due process reigns, substantive policies often influence budget outcomes. Many governments have formal rules or political understandings that define the acceptable budget balance or constrain either the tax burden or spending levels. International organisations often impose fiscal conditionalities on countries receiving assistance. Political expectations and imposed conditions may be reinforced by substantive budget rules that are not policy neutral but predispose budget outcomes in certain directions. Indeed, the fiscal posture of many developed countries has gone through three distinct
stages – the balanced budget norm, dynamic fiscal management, and currently, fiscal targets. These stages are discussed in the paragraphs that follow.

Prior to World War II, virtually all democratic countries embraced the balanced budget rule, including some that often breached the rule or did not have any legal constraint on unbalanced budgets. The operative norm was that spending during a fiscal year should not exceed that year’s revenue. Governments differed in applying this rule; some applied it only to current revenue and expenditure, others to investment income and expense as well. Some counted money carried over from previous fiscal years, others included cash received during the year. The balanced budget norm did not distinguish between periods of economic growth and stagnation, nor did its time horizon extend beyond a single year to a full economic cycle. Because it was rigid, the balanced budget rule often was breached. Few national governments kept total spending within revenue during wartime or recession; some even had difficulty during good times. But although the norm often was dishonoured in practice, most governments paid homage to it as the right thing to do. Moreover, even when the budget was unbalanced, governments used the norm to constrain spending demands and the size of the deficit.

The balanced budget norm was superseded after World War II by a flexible rule that allowed the totals to accommodate cyclical changes in economic conditions and secular changes in government policy. The new rule came in several versions. One was that government should maintain balance over the course of the economic cycle rather than in each year; another was that government spending should not exceed the revenue that government would take in if the economy were at full (or high) employment. In other words, governments that have cyclical deficit should still have structural surpluses. Governments differed in the extent to which dynamic fiscal response should result from built-in stabilisers (such as the automatic fall in revenue or rise in unemployment payments when the economy weakens), or from discretionary policy changes. Over time, dynamic fiscal policy was applied in various countries to mean that government should act to reduce the gap between actual and potential output.

Even when the economy was strong, however, deficit spending was common in many democratic countries, as was a steady up-drift in the ratio of public expenditure to GDP. With aggregate constraints loosened, claimants had the upper hand in demanding more from government. It was deemed more important to balance the economy than to balance the budget and it was not difficult to make a strong case for additional spending on the ground that it would have beneficial stimulative effects. But whatever its virtues, an accommodating fiscal posture was called into question by the deterioration in economic performance of many industrial countries after the oil shocks in the mid-1970s and early 1980s. High, persistent deficits came to be seen as a
structural problem that does not disappear when the economy recovers. But high
tax burdens and weaker economic growth led governments to conclude that they
could not restore fiscal balance simply by raising taxes, as they had often done
during the post-war years. Instead, they had to exert stronger discipline over the
budget aggregates, especially over total expenditure.

In striving to reassert fiscal discipline, governments had to devise new
approaches that differ from the balanced budget norm and accommodating
fiscal policy. A strict, unyielding balanced budget rule is unworkable because
the budget is highly sensitive to economic fluctuations and cannot be kept in
balance when output falls and unemployment rises. A zero deficit rule would
be violated during most years of an economic cycle, not only during recession,
but also in its aftermath when the country is struggling to regain its economic
strength. But if the balanced budget norm is an unworkable policy guide, so
too is an accommodating fiscal stance. Some governments have come to the
conclusion that active demand management is not a viable option, and that
policy should be oriented to the long-term prospect instead. Many now regard
chronic fiscal imbalance as a drag on the future economic capacity. Almost all
perceive that the once-accepted distinction between structural and cyclical
deficits is misguided because one year's cyclical deficit worsens future structural
imbalance.

1.4. The impact of fiscal institutions on budget outcomes

Faced with the impracticality of a strict balanced budget rule and the
adverse outcomes of accommodating budgets, some countries, international
financial institutions, and the European Community have gravitated to fiscal
targets which permit constrained deficits but are set in advance of budget
decisions by the affected government or outside authorities. Like the balanced
budget rule, the targets are fixed rather than elastic, but unlike this norm, they
permit outcomes that deviate from strict balance. When they work as
intended, the targets constrain the fiscal options available to budget-makers.

Fiscal targets have been propelled by a body of research showing that
institutions – the term used by economists in referring to fiscal rules – affect
budget results. One of the most influential studies was conducted by Jorgen
von Hagen for the European Commission in the early 1990s, but his findings
have been replicated in other regions. Von Hagen classified each EC country in
terms of whether it has centralised or fragmented institutions at each of the
three main stages of budgeting: compilation of the government’s budget,
legislative spending actions, and implementation of the budget. He defined
budgeting as centralised if the Finance Minister has a strong role in setting and
enforcing fiscal targets and in resolving conflicts over spending, the legislature
is barred from amending the budget or increasing aggregate expenditure, and
the Finance Minister has authority to block expenditure and to assure that
actual spending does not exceed authorised levels. Applying this scheme to EU countries, von Hagen found that budgetary arrangements that give the Prime Minister or Finance Minister strategic dominance over sectoral ministers, limit the amending powers of Parliament, and allow little opportunity for modification during implementation are “strongly conducive to fiscal discipline, i.e. relatively small deficits and public debt”. Similar conclusions have been drawn in subsequent studies that used somewhat different variables. Reviewing the findings that emerged from a decade of research, Poterba and von Hagen argued, “Large deficits may be avoided by strategic design of the budget process, that is, by institutions that distribute authority and facilitate agreement on the efficient outcome. Effective institutional design of the budget process to reduce the spending and deficit bias of government promotes a comprehensive view of the costs and benefits of public policies. If centralisation of the budget process relies on delegating power to an individual decision-maker, the key is that this individual be driven by particular spending interests than by the spending ministers. If centralisation relies on common agreements on fiscal targets, the key is that these targets be agreed upon early in the budget process, that the agreement is negotiated by all parties involved, and that the agreement is backed by strong enough punishments to make it binding throughout the budget process.” These conclusions suggest that the type of fiscal rule and the manner in which it is developed and enforced determine its effectiveness. All fiscal rules are not created equally, and all are not equally effective. Determining why some rules work and others do not is a difficult but necessary task.

Research on fiscal rules has had a definite impact on budget practice. It has influenced both the Maastricht Treaty and the Stability Pact. And it was cited by Sweden when the government reformed its budget machinery in the mid-1990s. The notion of fiscal constraints has obvious appeal at a time when national economies are linked to regional and global forces, and when economic growth and budget increments are less robust than they once were. With or without fiscal rules, contemporary governments are operating in a more constrained environment than was the case during the post-war boom. Arming them with rules may make the task of regulating public finance somewhat easier. But having rules is not the same as living with rules. The test of all rules is not whether they are adopted but whether they produce the expected behaviour. In the case of fiscal rules, having a constraint and enforcing it involves different actors and different politico-economic considerations.

2. Variations in fiscal rules

All fiscal rules share a key characteristic: they must be set before the budget is decided. If they are not, the rules cannot constrain revenue and spending actions. Beyond this common feature, fiscal rules branch off in many different
directions. This section considers four sets of issues in formulating and operating fiscal rules:

i) Are they hard or soft constraints?
ii) Who sets and enforces them?
iii) Which fiscal aggregates do they regulate?
iv) What should be the accounting basis applied in making and enforcing rules?

2.1. Hard versus soft constraints

A constraint is hard when it cannot be modified by the government in response to changing economic conditions or political preferences; a soft constraint is one that the government may adjust when it prefers to change fiscal course. There are varying degrees of hardness or softness, but these polar definitions point to basic choices that a government must make in entering a fiscal regime. A parallel issue is whether fiscal rules should be permanent and continue from year to year without having to be readopted, or should be decided anew each year before the budget is adopted. Hard constraints tend to be permanent, soft constraints usually are recalibrated annually or after a change in government. Both types of rules may be prescribed by constitution, statute, international agreement, or some other binding decision. Temporary rules may be set in coalition agreements, medium-term frameworks, fiscal responsibility laws, or the annual budget law.

The Maastricht criteria and the Stability Pact are leading examples of hard, ongoing constraints. Although they have escape clauses, these rules continue in effect from year to year and are intended to be firm constraints on the budget policies of the affected governments. A somewhat more flexible approach is to decide the rules each year (or every few years) and to budget within the newly agreed constraints. Countries that budget within a medium-term expenditure framework (MTEF) generally take the more permissive approach. In Australia, which pioneered the MTEF model, multi-year forward estimates are the starting point for considering departmental bids for resources. These bids must be within the resource framework set by government. In Sweden’s reformed budget process, the totals are decided by government and Parliament each year before work commences on the annual budget. The fiscal responsibility model developed by New Zealand and adopted by a number of developed and developing countries also relies on a soft constraint. Each year, the government presents a policy statement setting forth its medium- and long-term fiscal objectives several months before it tables the annual budget. The fiscal responsibility model does not dictate a particular outcome, but it does require that government be accountable for changes in fiscal course. The central idea is that political leaders should be free to make fiscal choices, but they should do so in an open manner.
Seen in this light, the key issue is not the hardness of the constraint but the extent to which fiscal rules restrict political action. One view is that the very purpose of the rules should be to counter the bias of politicians to act in a fiscally undisciplined manner; the other is that rules are sturdier when they are made and enforced through the working of democratic politics. In practice, the differences between the two approaches may be narrower than the labels suggest. Fixed constraints are rarely as hard as they purport to be, as the Eurocrats monitoring compliance with the Maastricht Treaty and the Stability Pact have come to learn; and politically-set targets can be strong constraints on government, as New Zealand experienced near the end of the 20th century when the coalition government maintained a disciplined fiscal posture despite economic weakness. It may be that politically set targets are effective only when democratic institutions are robust and government is held to account by voters. In countries where accountability is weak, the government may find it expedient to abandon targets set through fiscal responsibility mechanisms.

At first consideration, it may appear that permanent constraints, which do not bend with shifts in political or economic winds, are more effective than annually set ones which may be moulded to suit the preferences of the government of the day. Yet, there may be circumstances where annual constraints have greater impact than permanent ones, as well as instances in which indicative policies carry greater weight than constrictive rules. This argument rests on two premises: first, annually reset policies tend to be more realistic and achievable than permanent rules; second, annually (or periodically) established constraints may have more political support than permanent rules which have not been endorsed by current office-holders. No matter how hard they are, constraints cannot work if they are fundamentally at variance with current economic or budgetary realities, or if they lack political support. When constraints are political orphans, opportunistic politicians may conspire to evade them by delaying payments, devising extra-budgetary arrangements, building up contingent liabilities, and using other bookkeeping tactics.

The choice between constrictive and indicative rules depends on institutions, which differ from country to country. Indicative constraints may suffice to control budget aggregates when institutional arrangements promote fiscal prudence. On the other hand, hard rules may be appropriate in countries that have experienced fiscal laxity. If this generalisation is valid, the designers of fiscal rules must come to grips with an anomaly: when hard constraints are most needed, they may be least workable; and where conditions are most hospitable to fiscal constraints, they may be least needed.
2.2. How are fiscal rules set and enforced?

Ideally, democratic governments should establish and enforce their own fiscal rules, but in at least two prominent situations, they are now set and monitored externally. One is in the European Union, where fiscal rules have been set by treaty and are overseen by Commission staff; the other is in countries that are subject to conditionalities imposed by the IMF or other international organisations. Although a handful of European countries have been found in violation of the Maastricht Treaty and the Stability Pact, it is fair to conclude that the fiscal posture of most EU countries was more disciplined both prior to and since the launch of the Euro than it would likely have been in the absence of external constraints. However, it is an open question whether EU enforcement will be as effective when member countries are pulled by political or economic conditions to go their own way. In the case of developing and emerging market countries, the impact of external conditions may vary with the extent to which they are dependent on external aid or risk capital outflows.

Externally-imposed rules change the balance of political power within affected countries and enable politicians to shift the blame to outsiders for taking unpleasant measures. Nevertheless, external pressure may be a weak substitute for self-discipline. It is the affected government that must act to uphold the rules; if it does not, outside enforcers will not be able to make the rules work. Opportunism and deception are rife when politicians are pressured to act against their self-interest. They have numerous opportunities to conceal the government’s true financial condition. As fiscal rules have become more widespread and stringent, outside enforcement has intensified. EU experts review budget submissions by member countries to assess compliance with the EU’s accounting rules; IMF staff closely oversees financial actions by countries subject to its conditionalities. Nevertheless, even when outside monitors detect budgetary legerdemain, their only viable option may be to let the affected country breach the rules.

Self-imposed rules also are only as effective as the political arrangements, which generate them, permit. The early fiscal rules literature concluded that majoritarian regimes (in which one party controls the government) are more disciplined than coalition governments, which divide power among two or more parties. But contrary to this expectation, coalition regimes sometimes are more disciplined than those run by a single party. For example, the Netherlands, which has never had a single-party government throughout its democratic history, had extraordinary success in the 1990s in fulfilling self-imposed fiscal rules. To explain why coalition governments may be more successful, researchers have distinguished between rules adopted through delegation of power and those developed through political commitment. Governments that
rely on delegation typically empower the Finance Minister to set the fiscal targets and assure that budget estimates and spending results are consistent with them. This arrangement is not suitable for coalition governments where the Finance Minister may come from one party and sectoral ministers from other parties. When, as is likely, the coalition partners have conflicting views on government policies and finances, they will not entrust final budget authority to the Finance Minister. Instead, if they are determined to act in a disciplined manner, they may negotiate a coalition agreement that sets out the boundaries of the budget, including fiscal aggregates, for the life of the government. It is the commitment of the coalition parties to stay within this framework that gives discipline to fiscal rules. During the 1990s, coalition agreements became more detailed in some countries and contributed to their success in regulating the budget. Coalition agreements are effective only when they are credible commitments, that is, the parties to the agreement have a strong incentive to abide by the terms, because if they do not, the government will collapse. Some governments have introduced new budget procedures to assure compliance with the coalition agreement during formulation and execution of the budget. New Zealand, which is a newcomer to coalition government, has established a “fiscal provisions” system for calculating the budgetary impact of policy initiatives and assessing whether they are consistent with the agreement.

A fiscal commitment is worth no more than the willingness of those who make it to comply with its terms. Although the parties to an agreement may pay a political price for violating it – new elections and a potential backlash from voters – politicians may judge it better to break the constraints than to live with them even when they are predisposed to abide by the agreements. One year’s understanding may turn into a future year’s misunderstanding. All budget commitments are at risk of being overtaken by changing conditions such as a weakening economy, shifts in public sentiment, an international crisis, and so on. Arguably, therefore, commitments (like coalition agreements) covering only the three or four years of a government may have a better chance of being honoured than those that span a longer timeframe.

2.3. Which fiscal aggregates are regulated?

In managing public finance, a government produces at least four fiscal results: total revenue, total spending, the deficit (or borrowing requirement), and the public debt. Governments that budget on an obligation basis also report on the total obligations issued or outstanding. Additional aggregates may be calculated for contingent liabilities, and annual changes in total revenue or outlays. Governments that publish consolidated financial statements also report on total assets, liabilities, and net worth. The various aggregates may pertain only to the central government, or may cover other portions of the public sector.
as well – social security, public enterprises, sub-national governments, and extra-budgetary funds. Each aggregate has the potential to be limited in a fiscal rule, but the most common rules pertain to the balance between revenue and expenditure.

The various fiscal aggregates can be targeted in different ways: in absolute terms, as a percentage of the gross domestic product or of another index, in real (inflation adjusted) terms, or as a rate (or amount) of change over a previous fiscal period. Expressing public expenditure or other aggregates as a proportion of GDP facilitates trend analysis and comparison among countries, and recognises that the sustainability of a government’s fiscal position depends on the volume of national output. Nevertheless, focusing only on the deficit (or revenue or expenditure) as a percentage of GDP may bias fiscal outcomes. If government seeks to stabilise revenue or spending as a share of GDP, it may accept real spending increases when the economy is expanding but find it difficult to contract spending when the economy is weak. Over the course of an economic cycle, this pattern may lead to a progressive rise in the fiscal aggregates relative to GDP.

Constraining only a single fiscal aggregate may distort budgetary behaviour. If the deficit were the aggregate targeted, the government might contrive to meet the constraint by selling assets, deferring expenditure, or relying on non-recurring revenue. A broad set of fiscal rules may discourage this type of response, especially if the targets include the government’s net worth, a measure that is not affected by asset sales or by the shift in receipts or payments from one fiscal period to another. Few governments, however, now produce comprehensive financial statements that are sufficiently timely and reliable to provide a basis for fiscal control.

In devising fiscal rules, the key consideration should be the sustainability of the government’s financial position; that is, whether its policies can be continued in the future, especially if economic conditions become adverse. Sustainability has led developed countries to concentrate on the debt to GDP ratio and developing/emerging market countries to focus on the primary balance. In contrast to the deficit that measures financial balance within a single year, the debt ratio signals changes in financial strength over an extended period. A rise in the ratio may indicate that this trend cannot be sustained indefinitely because the debt burden is increasing faster than national output. Maintenance of a minimum primary balance has become a popular fiscal rule for developing and emerging market countries because they need a large surplus to finance external debt and to discourage capital flight.

The specific form the fiscal rule takes may be of less consequence than the manner in which it is adopted and enforced, and the number of years it covers. There is currently no basis for concluding that a rule limiting the deficit is more
or less effective than one limiting the debt or total expenditure. A fiscal rule is effective if it is realistic, enforced and covers several years. A rule that lacks these characteristics will be weak regardless of whether it pertains to one or another of the budget aggregates.

2.4. What should be the accounting basis?

Although the form may not matter, the accounting basis used in applying the rule certainly does. Fiscal rules are vacuous if they are not under-girded by clear accounting standards that determine how the aggregates and the actions that feed into them are calculated. Not surprisingly, the fiscal rules movement has been accompanied by the elaboration of accounting standards for budget documents. While the cash versus accruals issue has received most of the attention, other issues also arise in defining and enforcing fiscal rules. Fiscal rule-makers generally prefer the accrual basis because cash transactions are subject to manipulation. Key differences between cash and accruals, such as the timing of transactions, asset sales and contingent liabilities, affect the aggregates reported in budgets. The cash basis gives politicians wide opportunity to defer or accelerate the recognition of receipts and payment, to sell assets and book the income as current receipts, and to shift from direct to contingent liabilities. To avert these ruses, the EU and IMF have shifted to a modified accrual basis that purportedly enables stricter enforcement of fiscal rules. It should be noted, however, that the accrual basis is not a failsafe mechanism against deception. Accounting scandals in the business sector, where the accrual basis prevails, teach us that all accounting rules are subject to manipulation and evasion. Moreover, the accrual basis may be particularly vulnerable to distortion because it relies on complex, often hidden, assumptions for calculating financial stocks and flows. The most prudent course may be to rely on both cash and accrual measures in devising fiscal rules and monitoring compliance.

Cash versus accruals is related to a second accounting question: should budget aggregates be reported on a gross or net basis? In the gross basis, inflows and outflows are accounted for separately; in the net basis, certain inflows may offset outflows. The debt to GDP basis usually is computed on a gross basis; it measures the total owed by the government. This ratio is not reduced by the amount owed to the government or by other assets held by it. In contrast to the balance sheet which reports net worth (assets minus liabilities), the gross debt measures only liabilities, and only those liabilities that are in the form of debt. Arguably, the net basis is superior because the aggregates would not be affected by the sale of financial assets. Government can lower the gross debt by selling assets, but this transaction would not change the government’s net worth, though it would alter the volume of assets and liabilities.
Grossing versus netting also pertains to rules that constrain total expenditure. Most national governments obtain revenue from user charges, state-owned enterprises, and other commercial-type activities. If it accounts for finances on a gross basis, this money would be booked as revenue. If it uses the net basis, some or all of this income might be budgeted as an offset to expenditure. Netting versus grossing does not affect the reported size of the deficit, but it does affect total revenue and spending; hence, the issue is important when the fiscal rules limit these totals. The net basis is popular in some countries because it gives spending units an incentive to charge users for services. Sweden, however, opted for the gross basis in the 1990s when it established a system to regulate total and sectoral spending. In Sweden’s current system, total spending limits are disaggregated into 27 sectors, each with its own sub-limit. In this arrangement, amounts paid by Sweden to the European Community are budgeted as expenditures and amounts received from the Community appear as revenue. The two flows are not netted out. Sweden selected the net basis because it provides stricter limits on total spending. In the net basis, the limits are elastic because the total spent can be increased by generating offsets.

3. Adjusting budget practices to enforce fiscal rules

Fiscal rules are only as good as their enforcement. Inasmuch as the rules are not self-enforcing, spenders can be expected to stretch or evade them when opportunities are at hand. A key element of enforcement is to empower independent overseers to review budget actions and to point out actual or potential violations. This model is used by both the EU and IMF, as well as by governments that subject fiscal policies and outcomes to independent audit. Enforcement that relies on intervention after the breach has occurred is inherently less effective than arrangements that deter violations before they occur. For this reason, some governments that take fiscal discipline seriously have restructured their budget processes to promote fidelity to the rules.

One of the most prominent adjustments has been to extend the timeframe of budgeting from one year to three or four years. An annual budget process is an invitation to evasion, for it encourages opportunists to defer expenditure until the next year or to accelerate receipts to the current year. It is not difficult for creative budget-makers to dress up one year’s accounts so that they appear more favourable than they really are. When pressured to abide by fiscal constraints, some governments have shortened the fiscal year to 11 months or lengthened it to 13; some have made spending or revenue provisions temporary in order that the current budget fit into the constraints; some have used one-off revenue gains or spending cuts to defer the bad news to the future. These ploys are somewhat more difficult and less attractive when fidelity to the rules is measured over the medium term rather than for a
single year. The medium-term expenditure framework (MTEF) or some similar arrangement has been introduced in various countries to assure that the budget's path is consistent with the rules.

Along with an MTEF, governments have introduced means of measuring the budget impact of policy changes. This capacity is essential because of the tendency to under-estimate future impacts when policy initiatives are taken. Measuring impact is itself a two-step procedure. First, it is necessary to estimate future budget conditions if policies were continued without change; this step entails the use of baselines or forward estimates that project the revenue or spending that will ensue in future years from current policy. Second, the government must have technical skills and procedures to estimate the changes in spending or revenue that may flow from policy changes. This is an exceedingly difficult task, for the estimates must consider behavioural responses in addition to the direct consequences of policy shifts.

Compliance with fiscal rules may be strengthened when government splits the budget process into two separate phases – a framework stage during which the aggregates (and possibly major sectoral allocations) are decided, and an estimates stage when detailed budgets are prepared. When the two tasks are combined, the budget's totals may be hostage to its parts; that is, pressure to accommodate spending demands impels government to set the totals higher than it prefers or the rules allow. By separating the two actions, the government sets the aggregates first without adding up expenditures for each account or spending unit. The totals are decided in a framework that focuses on fiscal rules and conditions, rather than on the amounts needed for each activity financed in the budget. Once the aggregates have been set, detailed estimates are prepared under rules that limit them to the amount provided in the framework.

Fiscal rules have arrived at a time when national legislatures are increasingly independent and active on budget matters. Legislative amendment of the budget submitted by the government is now common, except for countries still operating within the Westminster framework. As legislative changes become more frequent, the risk that the totals will be breached increases. To counter this, a few countries now provide for the legislature to vote the fiscal aggregates, either in tandem with its consideration of the budget or in a separate framework stage. Countries that permit legislative amendment are introducing means of providing parliamentarians with timely information on the future budget impact of these changes. As legislatures enhance their budget role, one of the challenges facing budget architects will be to balance the impulse for independence with the need to be fiscally responsible. The future of legislative-governmental relations will be strongly influenced by the manner in which this balance is maintained.
Strictly-enforced fiscal rules may constrict government’s capacity to respond to new needs and priorities, especially when the economy is sluggish and ample increments are not available for allocation. To counter this tendency, some governments operating under fiscal rules have introduced means of encouraging spending units to reallocate resources from lower to higher priorities. An MTEF is well suited for this purpose, for the framework gives each sector a resource envelope for each of the next several years. Within this envelope, sectoral ministers have scope for shifting resources with low risk that their budgets will be cut. Of course, if proposed reallocations expose spending ministers to cutbacks, they will adjust to this reality by freezing old priorities into the budget.

When they are realistic and are anchored in political commitments and budget procedures, fiscal rules constrain government’s capacity to respond to spending demands. Two prominent types of contemporary spending, however, may be resistant to these constraints. One is entitlements mandated by law, the other is contingent liabilities. Entitlements are essentially a political problem and are discussed in the next section in the context of the political and economic conditions under which fiscal rules are made and implemented. The contingent liabilities problem arises out of the fact that conventional budgets cover only direct liabilities; contingencies enter budget accounts at the point that payment must be made (such as pursuant to default on a guarantee), when it is too late for the budget to effectively control the amount spent. In some cases, governments that appear to have behaved in a fiscally prudent manner face enormous pressure on their budgets because of previously unrecognised contingent liabilities. Apparently, this has recently been the case in Argentina and some other developing and emerging market countries.

Contingent liabilities come in many forms, and every national government has them. Some contingent liabilities are explicit (they are established in law or contract) while others are implicit (they are grounded on expectations of government behaviour). Obviously, government knows less about these implicit risks than about explicit liabilities, but the budget impact may be greater. To maintain fiscal discipline, governments must regulate contingent liabilities. Doing so is difficult because practices have not been standardised and contingent liabilities usually are taken outside the budget process. Several approaches have emerged over the past two decades including: i) setting aside money in the budget for estimated calls on guarantees; ii) limiting the volume of guarantees outstanding or issued during the year; iii) reporting on contingent liabilities in the budget or financial statements; iv) sharing risk with recipients of guarantees by charging fees or other payments; v) reviewing guarantees in tandem with bids for direct expenditure; and vi) budgeting for estimated future cost when the guarantee
is authorised. It is likely that, as fiscal rules are applied more extensively, new tools will be devised for regulating guarantees and bringing them within the ambit of budget control.

Fiscal rules are not simply a matter of adding aggregate targets to the stockpile of budget procedures. Where they work, the rules transform both the formal practices of budgeting and the behaviour of participants in the process. The changes discussed in this section have been introduced in the early years of fiscal rules. For these rules to become fully embedded in budgeting, additional changes will be introduced in the future. While the details of future budget innovations are presently unknown, their direction is clear. Budgeting will adapt to protect the aggregates from pressure to spend or borrow more, to assure that in both preparing and implementing the budget, government operates within pre-set constraints, and to require legislatures to be more disciplined at the same time that their budget role is augmented.

4. The impact of politics and economics on fiscal rules

Fiscal rules operate at the crossroads of politics and economics. The relationship between rules and political and economic conditions is bilateral. Every rule has the potential to redistribute political power, alter budget outcomes and other policies, and influence economic conditions. But the reverse also holds: political and economic conditions influence the effectiveness of budget rules. This concluding section explores a neglected issue in the fiscal rules debate. Can rules be effective when politicians do not want them or when economic conditions are unfavourable? If the answer to this question is “no”, then why have rules at all? The short answer is that although rules cannot ignore political and economic pressures, they may affect the way these pressures are processed in budget decisions. Fiscal rules have effect, even when they are not effective.

Budget rules are political rules; they are made by political leaders and are enforced or breached by them. The effectiveness of fiscal constraints depends on the willingness of politicians to abide by them. When the rules work, it may be because voters and politicians have a preference to be fiscally disciplined; when they do not, it may be because they prefer more spending or lower taxes. Poterba and von Hagen recognise this pattern in noting “that budget rules are not randomly assigned to nations ... but rather are the product of deliberate choice by voters or their elected representatives. This makes it difficult to evaluate observed correlations between budget rules and budget outcomes; perhaps the observed relationships are simply due to a correlation between a third factor, voter preferences, and the observed manifestations of voter preferences”.


Recent work by von Hagen and others recognises the importance of political commitment in regulating budget outcomes, but they define commitment as a key element of fiscal rules rather than as an enabling condition that gives the rules effect. In so doing, their reasoning comes close to being tautological: commitments are budget rules that constrain spending or deficits; when these are not constrained, it is because commitment is lacking. This circular reasoning leads to the conclusion that rules are always effective. A more balanced view is that rules matter when politicians are predisposed to act in a fiscally-disciplined manner by making it easier for them to resist revenue spending or borrowing pressures. The rules fortify politicians who want to be fiscally prudent, but they do not stand in the way of those who are determined to spend more or tax less than the rules allow.

A fiscal commitment is worth no more than the willingness of those who make it to comply with its terms. When commitment wavers, fiscal discipline erodes. It may be the natural fate of such commitments to degrade over time as pent-up pressure for money overwhelms the rules. In the end, all budget rules may be inherently weak and made to be broken, either explicitly or through accounting tricks, and governments therefore have difficulty maintaining a disciplined fiscal posture for an extended period. If this is so, sooner or later, every country faces a need to reinvigorate its fiscal rules.

Case studies of fluctuating budget results indicate the fragility of fiscal rules. In the early 1990s, the United States General Accounting Office examined the experiences of five countries reputed to have moved from large deficits to budgetary balance. The five countries (Australia, Germany, Japan, Mexico and the United Kingdom) restructured their budget rules, established top-down, multi-year limits on aggregate spending, and took steps to curtail the public sector wage bill and some social benefits. A few also reduced payments to sub-national governments or trimmed capital spending. In all of the countries, political leaders actively promoted fiscal discipline by defining the acceptable parameters of fiscal policy and persuaded politicians and voters to accept budgetary austerity. GAO concluded that the experiences of these countries “indicate that eliminating deficit is possible in modern democracies and that leaders can succeed in mounting the case for prompt action before crisis ensues”. But it also found that sustaining the sense of urgency and the fiscal balance over the longer term is difficult. In fact, by the time GAO published its study, four of the five countries had reverted to budget deficits. Recent experience in the United States tracks that of other countries. It moved swiftly from a large budget deficit in the early 1990s to a large surplus at the end of the decade, and back to an even larger deficit a few years later. The shift from deficit to surplus was abetted by fiscal rules that constrained spending increases and tax reductions. But once the surplus arrived, politicians contrived to spend more and tax less than the rules permitted. The
rules remained the same but political behaviour did not. In the American case, political will to live by the rules was broken by surpluses; in other countries it has been broken by deficits. This has been Germany’s fate over the past decade. In the run-up to the Euro, it insisted on tough fiscal rules, but it was the first country to be castigated by the European Commission for breaching the rules. The financial burden of unification and protracted economic weakness broke Germany’s traditional adherence to fiscal discipline.

Sometimes the sequence is reversed and a country that once lacked the political capacity to discipline its finances acquires the will to do so. The Netherlands once was deemed to be hopelessly mired in deficits; it was the nesting ground of the “Dutch Disease”, a term that referred to an affluent country that lives well beyond its means. Over the past decade, however, the country has maintained one of the strongest fiscal positions in Europe and it is now celebrated for the “Dutch Model”, structural reforms that corrected many of the imbalances in the economy and stabilised the government’s finances. For the most part, the Netherlands acted on its own initiative, not because it was pressured by the Maastricht Treaty or Stability Pact rules. As mentioned earlier, the Netherlands perfected the coalition agreement as a powerful means of staying on course during the full term of each government. What mattered was not that each incoming government negotiated a coalition agreement, but that it took the terms seriously and produced annual budgets consistent with the agreed fiscal targets. The government of the day did not relax fiscal discipline during good economic times. It did not use the surge in tax collections to finance programme expansions that would burden future budgets. One can explain the success story of the Netherlands as due to either new fiscal institutions or to political resolve. But the Dutch experience makes it clear that without sustained political commitment, renewed by five consecutive governments over a span of two decades, coalition agreements would have been mere scraps of paper, stringent budget rules would have been violated, and fiscal outcomes would have been much less favourable than they actually were.

Political commitment is especially important in today’s budgetary environment, which differs in at least two critical ways from past conditions. One difference is the prominence of mandatory accounts in national finance; the other is the activism and influence of interest groups. These developments have combined to make it much more difficult to maintain fiscal discipline, regardless of the political orientation of the party (or parties) in power. In the past, politicians had an easier job acting in a disciplined manner because almost all spending was discretionary and budgeting was a closed process in which interest groups had relatively little influence. Politicians did not need explicit fiscal rules to be disciplined; nowadays, they need rules, but the rules may not suffice.
When spending is dominated by entitlements, increases automatically result from demographic and economic trends; they do not require an explicit budget decision. In contrast to traditional budgeting, therefore, in which the normal role of politicians is to allocate increases, a budget of entitlements may require them to allocate cutbacks by disentitling beneficiaries to payments prescribed in law. This is a much more onerous budgetary chore, one that few politicians are temperamentally suited for. Fiscal rules might not ease their plight. However, with entitlement spending rising automatically, it does not suffice for government to resist demands for more money; it must also roll back these increases.

Entitlements make fiscal rules necessary; they may also make them ineffective. The ultimate test of fiscal rules may be their impact on entitlements. If these rules are implemented by political leaders with determination to curtail entitlements, they will be effective. If, however, governments prove unable or unwilling to challenge entitlements, fiscal rules will not make much of a difference.

The political task of bringing entitlements within the ambit of budget control has been greatly complicated by the vigilance of organised groups in protecting their interests. Not only do contemporary democracies have many more active groups than was the case one or two generations ago, but many groups have greater access to budget-makers than they once did. While most national budgets are not yet fully open, they are much more transparent than before, and the process is more exposed to outside influence. Contemporary politicians often are cross-pressured by budget guardians who want them to take the steps necessary to uphold fiscal rules and interest groups that oppose the curtailment of benefits. When the rule enforcers are outside the political system, as in the case in the EU and IMF, they may be insensitive to the political difficulties facing the government. In some countries, the only way for the fiscal rules to survive is for the government to put its own continuation on the line.

4.1. Economic cycles

The political cost of adhering to fiscal rules is largely a function of economic conditions. The task is reasonably easy when the economy co-operates, challenging when it does not. Can government maintain fiscal discipline under adverse economic conditions? Judging from experience in developed countries, the answer is yes and No. Yes, in terms of discretionary fiscal stimulus; no, in terms of the impact of built-in stabilisers on key budget aggregates. During the post-war period, it was common for governments in developed countries to counter economic weakness by cutting taxes or raising expenditures. The enlarged budget deficit was justified on the ground that it would stimulate economic recovery. Developed countries generally do not
actively manage the economy this way anymore. Many have found that the added costs (such as higher interest payments) approved when the economy is weak continue to burden the budget when the economy recovers. Fiscal rules offer additional deterrence against undertaking stimulative budget action when the deficit is rising because of economic weakness.

But if governments’ enthusiasm for discretionary policy has been dampened, built-in stabilisers still register on budget outcomes. An automatic drop in revenue or rise in social benefits can produce large, unplanned deficits in excess of the levels permitted by fiscal rules. A government can try to stay on fiscal course by raising taxes or trimming payments, but it generally is inopportune to do so when the economy is stagnant. Governments that stick to fiscal rules in these circumstances may unwittingly deepen or prolong the recession and still fall short of what is demanded by the rules. Developing and transitional countries also face unstable budgets during economic difficulty, but it is during these times that they are most dependent on external aid and may therefore be subject to conditionalities imposed by international organisations. These countries also risk capital flight, illiquid financial institutions, and political instability. To the extent they are dependent on capital inflows to stabilise or develop their economies, these countries may be compelled to constrain public spending or raise taxes in the hope that fiscal discipline will be rewarded by long-term improvement in economic conditions.

The status of fiscal rules when the economy is weak has roiled the European Union. Several countries have been cautioned by Brussels that their budget path violates the Maastricht criteria and the Stability Pact and that corrective policy changes are necessary to bring the deficit within acceptable limits. At one point, the President of the European Commission was quoted as characterising the EU’s rigid rules as “stupid” because they do not adequately allow for slippage when the economy is weak. Some member countries have suggested that a review of the EU’s fiscal rules would be appropriate. The issue has not yet been resolved, and member countries may have difficulty devising a substitute rule that is both disciplined and accommodating. Moreover, the problem of what to do during unfavourable economic times will not go away even if the rules are relaxed. The only fiscal rules that do not generate economic problems are those that have no teeth. But rules that do constrain government action – which, after all, is the purpose of having rules – can neither be ignored nor fulfilled during bad times.

4.2. Economic shocks

Shocks are far more destabilising than cyclical downturns, for they jar government off its fiscal course and the after-effects linger for an extended period. When the shock is truly severe, government may never have the option
of restoring the status quo, and it may face pressure for fundamental political or economic change. Although the line between shocks and cyclical disturbances is difficult to draw, the distinction between the two is useful, for there is no prospect of a country upholding fiscal norms when the underpinnings of the economy have been uprooted. Shocks may be due to war or the collapse of political order, or to any other event that causes profound, lasting transformation in a country's economic structure. Arguably, the drive to unify the country has been a shock for Germany, for though it began as a bold decision to fully integrate the Eastern states into national economic and political systems, the effort has been far more difficult, costly and time-consuming than had been expected at the outset. Large deficits, mountains of public debt, and the uprooting of Germany’s fiscal prudence have been legacies of unification.

Shocks are much more prevalent in developing and emerging market countries that have inadequate slack to counter economic adversity. In developing countries, a steep drop in commodity prices or exchange rates or sudden capital flight can unhinge the government's fiscal plans. Yet, it is when budget deficits are spiralling out of control that these countries are most in need of the discipline that fiscal rules bring. It is when things are falling apart that a disciplined approach to public finance is most urgent. In these circumstances, constraining expenditures and generating more tax revenue will not produce fiscal balance, nor will these moves assure that the government achieves pre-shock targets. But they may moderate and shorten the after-effects on political and economic order.

In dealing with shocks or cyclical problems, it is essential to distinguish between fiscal balance and fiscal discipline. Losing the former may be unavoidable, but holding on to the latter is feasible, even under stressful conditions. It is in this predicament that well-developed fiscal rules that focus on sustainability of the country's fiscal position may be most valuable. But while the feasibility of rules usually is raised in periods of economic weakness, this writer is persuaded that the true test of rules occurs in good times when economic plenitude spurs voters and interest groups to demand more of government and politicians respond with tax cuts or spending increases. The seeds of most fiscal collapses are sown during good times when the possibility that resources will not be as plentiful in the future and that the government’s fiscal path is not sustainable is crowded out by the exuberant expectation that economic growth, buoyant tax collections, and other favourable conditions will continue endlessly. When they do not, the revenue forgone and the spending commitments made during spurts of growth generate fiscal turmoil when the government’s coffers are empty and it lacks the means to fulfil its promises.

Some governments try to assure that they will be able to make it through periods of weakness by setting aside money in stabilisation or “rainy day”
funds when their economy is strong. These funds rarely accumulate sufficient resources to cover shortfalls due to recession or shock. The reason for this is that government decides how much to set aside in these funds in terms of what is left over after taxes have been cut or programmes expanded. The amount is inadequate because it is determined in the context of today’s politics, not tomorrow’s need. In other words, stabilisation funds are not sufficiently counter-cyclical, nor do they take account of the sustainability of the government’s financial policy.

Counter-cyclical policy is an old concept that has not been heard much in recent times. This concept is worth reviving, if only because fiscal rules may strongly encourage pro-cyclical behaviour. The Maastricht criteria and the Stability Pact rules open the door for government to tax less and spend more in good times and to do the reverse when the economy weakens. Even though the rules permit the fiscal imbalance to widen when the economy is weak, the adjustment is too small to accommodate the fiscal swings resulting from cyclical changes in economic performance. To put the matter bluntly, a government that is permitted to run a 1-3% deficit when the economy is strong will not be able to hold the line at 3% when the economy weakens. A government that wants to live by the rules through all the ups and downs of an economic cycle must have rules that produce surpluses when the economy is strong.

How big should the surplus be? Or to put the question differently, how much of a projected surplus should be surrendered through tax cuts or spending increases that will persist when the surplus vanishes? Here’s where the concept of sustainability can contribute to counter-cyclical policy. Government should not increase spending or reduce revenue in good times that it will not be able to afford in bad times. In measuring sustainability, government should engage in sensitivity or risk analysis by estimating whether it would be able to afford the loss of revenue or the higher expenditures under adverse economic scenarios. In my view, fiscal rules should be set with this counter-cyclical, sustainable objective in mind.

This approach would counter the pro-cyclical, expansionary bias in fiscal rules and put public finance on a prudent, sustainable course. Fiscal rules should have most of their bite when the economy is strong; if they do not, they may do much harm and little good when the economy is weak.

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A Comparison Between Two Public Expenditure Management Systems in Africa

by

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1. Introduction

Many African countries are benefiting from reductions in their external debt. One important objective is to redirect the budgetary resources released from servicing external debt towards poverty-reducing expenditures. Several questions arise in this context. First, are the public expenditure management (PEM) systems of African countries robust enough to allow specific poverty-reducing expenditures to be identified in annual budgets and tracked in countries’ accounting systems? Second, does the expenditure control system allow poverty-reducing expenditures to be protected from cuts should there be unforeseen shortfalls in revenues? Third, are internal and external audit mechanisms effective, so as to ensure the integrity of expenditure reports, both in-year and annually? To answer these and other questions, an assessment of the entire PEM system is required in each country.

Such a study has already been prepared. During 2001, the PEM systems of 24 low-income countries were assessed based on a common set of 15 questions in the areas of budget preparation, budget execution, and fiscal reporting. Figure 1 shows the results for two regions of Africa (Anglophone countries and Francophone countries) – well below what is required to meet the objectives of effective PEM systems (both regions attained only about 40% of the required benchmarks).

This paper focuses on one question: “Are there features of a specific PEM system in Africa that consistently performs better than other systems?” Since most countries in Africa have inherited either a French-based or a British-based PEM system, the comparison is limited to these two systems. Other studies have documented the common weaknesses of the Anglophone and Francophone PEM systems, respectively. This paper complements this research by conducting a comparative analysis. Sections 2 to 5 review the major features of these two PEM systems. The key differences between the two systems in each of these regions are identified. Section 6 discusses the advantages and disadvantages of one system over the other. It is concluded in Section 7 that any potential advantages of one system are nullified by the way that the systems are operated.

A paper of this nature necessarily includes generalisations: countries within the two zones have experienced different developments of their PEM systems since independence from the colonial powers. This paper is also based on the countries that have benefited from IMF technical assistance over
the past decade. The emphasis is therefore on describing or evaluating how PEM systems actually operate, rather than how they ought to operate, on the basis of each system’s regulatory framework.

2. Budget preparation

This section first examines the legislative framework for budget-making, as it provides the foundation of the budget preparation system.

2.1. Legislative basis for budget preparation

Constitutions in Francophone countries typically include a statement that the annual budget law (loi de finances) determines the resources and expenses of the state. They also include provisions on the timing of the presentation of the loi de finances to Parliament (often in October for a budget year that begins on 1st January) and permissible actions by the executive branch when the annual budget is not adopted on time by Parliament. Typically, governments may begin executing the new budget on the basis of monthly authorisations equal to one-twelfth of the previous year’s budget.

Constitutions of Anglophone countries vary considerably in their provisions for the budget process. Some countries may have very few, if any, articles on budgeting in constitutions (e.g. Uganda). Others may have considerably more detail than Francophone countries (e.g. Nigeria). A typical
constitutional requirement is that money may not be withdrawn from the consolidated fund unless appropriated or provided for by another law (e.g. a public debt law).

In the French-based system, organic budget laws spell out five well-known principles for budget preparation: annual basis, unity, universality, specificity, and equilibrium (balance). In Francophone Africa, organic budget laws are based largely on the one adopted in France in 1959. They typically define or specify: i) current and capital expenditures, and loans/advances; ii) the broad categories of the economic classification of expenditures; iii) the nature of documents to be submitted to Parliament; and iv) procedures for preparing and adopting the annual loi de finances.

Budget laws in Anglophone countries are dissimilar to those of the Francophone countries. The closest equivalent to an “organic budget law” in Anglophone countries are “Finance and Audit Acts”. Although these may have a chapter on budget preparation, there is strong emphasis on budget execution and ex post audit. In both regions, Ministries of Finance (MOFs) provide guidance for budget preparation, through budget circulars or other administrative notices.

2.2. Common features of budget preparation in the two regions

The processes involved in budget preparation are similar (Box 1).

Since the abandonment of national planning,8 budgets have traditionally only been annual, at least for current expenditures. Few countries have developed functioning medium-term budget frameworks (MTBFs). Nonetheless, in recent years, a beginning has been made in this direction,

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Box 1. Common features of budget preparation systems in Francophone and Anglophone Africa

- Annual basis for the budget, but no medium-term expenditure framework.
- One budget for current expenditures and another budget for investments.
- Detailed line-item budgeting.
- The budget is generally limited to central government, plus a few autonomous funds. Local governments and extra-budgetary funds are excluded.
- A process of decentralisation of budgeting to lower levels of government is underway.
- Unrealistic costings of expenditures: some line items are underprovisioned.
- Timing – budget preparation allows little time for parliamentary discussion.
- An absence of focus on results or effectiveness of government programmes.
especially in the Anglophone countries (e.g. Ghana, Tanzania, Uganda). In the case of Uganda, a Budget Act was adopted in 2000, which, inter alia, provides legal underpinning for the MTBFs that were elaborated in the 1990s.

In Francophone countries, multi-year budget provisioning for capital expenditures is provided for in organic budget laws. Multi-year budget appropriations (autorisations de programme) allow ministries to commit expenditures for capital projects for periods exceeding one year. Accompanying these appropriations are limits on annual payments (crédits de paiements), which are included in the annual loi de finances. At year-end, any unspent crédits de paiements can be carried over to the new fiscal year. In contrast, in Anglophone countries, unspent appropriations are cancelled at year-end and re-appropriated in the following year’s budget.

Donors dominate the size of investment budgets and public investment programmes (PIPs). In both sets of countries, donors finance most investment spending. Although projects in the PIPs should be prioritised according to objective criteria, in practice donor preferences have heavily influenced the composition of investment budgets. In particular, donors have inserted into national budgets projects which may have served the donor country’s interests as much as those of the African country.

Dual budgeting has been widespread. Separate budgets are often prepared for current expenditures and “investment” expenditures. The latter – sometimes called “development budgets” – often contain considerable recurrent expenditures. The absence of MTBFs and non-integrated budgets also results in the failure to appreciate the recurrent expenditure implications of investment projects. It is now recognised that, in both sets of countries, “dual budgeting may well be the most important culprit in the failure to link planning, policy and budgeting” – see Box 3.11 of World Bank (1998).

The budget has traditionally been prepared mainly on a detailed line-item basis. In both regions, the main budget document may run into hundreds of pages. Such detail complicates budgetary management. Budget classification is generally similar: the budget is adopted by organisational classification (e.g. ministry, administrative unit, province) and by economic classification (e.g. salaries, current goods and services, transfers, capital spending – proxied in the “development budget”). It is rare in both regions to classify expenditures by programme or by function. In both regions the rules for virement – reallocation between budget lines – are well defined, although in practice, they are not always respected.

In both sets of countries, the budget adopted is generally limited to central government. In the annual budget, Parliament approves central government transfers to lower levels of government. Estimates of the revenues of sub-national governments are usually not provided as background
information. Revenues collected and retained by autonomous agencies (e.g. hospitals) dependent upon budget transfers for their main source of income are often not shown transparently in the budget.

In both regions, semi-autonomous budgets, extra-budgetary funds, and off-budget activities are important. In the Francophone countries, although organic budget laws refer to the principle of unity of spending from one common fund and universality (all spending should be in the budget), in practice there are several exceptions. In particular, there are budget annexes and special Treasury accounts of various types. Although these are presented to Parliament for adoption and are subject to public accounting rules, in practice, poor accounting records are maintained. In Anglophone countries, off-budget “below-the-line” funds have caused problems in budget execution in several countries (e.g. The Gambia, Zimbabwe). Road funds are usually integrated with the budget preparation process, but they are managed autonomously. Social security or pension funds are generally outside the budget preparation process in both regions.

There are often unrealistic projections for revenues and specific expenditures. Revenue projections have often proven to be too optimistic, resulting in shortfalls in resources available to finance budgeted expenditure programmes. In addition, specific expenditures are under-estimated in the budget. This problem is often acute for budget provisions for utilities (electricity, telephone, water) or other expenditures whose commitment cannot be postponed (e.g. food for the army and for prisoners). In both regions, the data for ministry-specific unit costs and consumption volumes of these items are often of poor quality.

Spending ministries do not comply fully with the budget department’s budget circulars to provide well-justified estimates for all expenditures. At the same time, budget departments of MOFs often do not critically examine the expenditure estimates. Reasons for this include a lack of staff qualified to provide a “challenge” function and a very tight timetable for bilateral budget discussions at technical level.

Following agreement of the budget at technical level, important political decisions affecting spending may be made late in the budget cycle prior to the budget’s adoption by Parliament. Also, political authorities – not necessarily the Minister of Finance – may make decisions during the budget year that weaken the capacity of the MOF to finance the expenditures already approved in the budget adopted by Parliament.

One specific feature of Francophone countries is the distinction between existing and new policies. As early as the 1960s, the annual budgets of several Francophone countries showed, for each line-item, a split between existing policies (services votés) and new measures (mesures nouvelles). However, the
quality of the estimates was often not high, as these were often largely based on extrapolations of previous-year budget projections. Nonetheless, a formal distinction between existing and new policies was not part of the system adopted in Anglophone Africa.

Budgets are often adopted late in both groups of countries. Although in Francophone countries constitutions and/or organic budget laws lay out the key dates for budget presentation and adoption by Parliament, these are not always respected. For example, in the Ivory Coast, the budget for 2001 covering January-December was adopted in July 2001. Similarly, in Anglophone countries, where budget preparation calendars are also clearly spelled out, the budget may be presented to Parliament just before the beginning of a new fiscal year (e.g. Kenya, Tanzania, Uganda), and not adopted until the second or third month of the new fiscal year [see Fölscher (2002) for a five-country survey]. As a consequence, a mid-year review of the budget is not carried out by Parliament.

The budget is usually not discussed extensively by Parliament. In the United Kingdom and France, parliamentary budget commissions have traditionally played an active role in examining the budget prior to its formal adoption by Parliament. This has not been the case in Africa, reflecting lack of capacity and inadequate attention to the role of Parliament in the budget process. However, parliamentary budget sub-committees are becoming active in a few Francophone countries and several Anglophone countries (e.g. Mali, Tanzania, and Uganda), in line with greater democratisation.

Performance-oriented budgeting is beginning in both regions (e.g. Mali, Uganda). This is necessitated by the challenge of implementing country-owned poverty-reduction strategies that link specific objectives – especially in education and health – with budgeted expenditures needed to achieve the desired changes. However, the capacity to administer the additional data and analytical requirements of output/outcome budgeting is often lacking. Moreover, where they exist, “programmes” are not well conceived; they are often simply a provisioning of present organisational structures within ministries.

3. Budget execution

In contrast to the considerable similarities of the two PEM systems for budget preparation, when it comes to budget execution, there are some important differences. The key contrasts between the two systems revolve around the degree of (de)centralisation of responsibility for budget management to spending ministries. These differences are elaborated below and in successive sections.
3.1. **Key actors in the expenditure process and their respective roles**

The British approach can be characterised as one of decentralised management – spending ministries are mainly responsible for budget execution. In contrast, the French-based system is one in which the central MOF plays an important role at each step of the spending process. The balance of powers and key players are illustrated in Figure 2.

Figure 2. **Influence of the Ministry of Finance and spending ministries in budget execution**

![Diagram illustrating the influence of the Ministry of Finance and spending ministries in budget execution.]

1. Accountants report to the accounting officer of the ministry or agency, but are usually posted to the unit by the accountant general of the MOF, who sets professional standards.

In Anglophone countries, officials in spending ministries are charged with initiating and authorising each step of the expenditure process, from commitment to payment. Following adoption of the budget, the Minister of Finance issues quarterly or annual warrants to “accounting officers” (AOs), who are generally the heads (“permanent secretaries”) of spending ministries and have extensive responsibilities (Box 2). The warrants convey the legal authority to authorise expenditure of public funds. Accounting officers, in turn, may delegate disbursement authority to officers in their ministry, including those in regional cost centres.

In the Francophone system, such wide-ranging responsibilities are not provided to spending ministries. On the contrary, the closest equivalent to AOs
gestionnaires de crédit) have a rather limited role – mainly that of initiating expenditures at the commitment stage, within the budget provision. They do not have authority to issue payment orders (ordonnancement).

Various departments of the Ministry of Finance of Francophone countries play all the important roles in budget execution. The key players are: financial controllers (contrôleurs financiers), who are generally under the Budget Department of the MOF; payment authorising officers (ordonnateurs) who approve the issuance of payment orders to the Treasury; and public accountants (comptables publics) in the Treasury.

Box 2. Responsibilities of accounting officers (AOs) in spending ministries of Anglophone countries

- Preparing budget projections for their ministry.
- Ensuring that no head of expenditure is exceeded and that no subhead or item is exceeded without proper authority.*
- Delegating authority to spend to authorised officers in his/her ministry – sub-warrant holders – and ensuring that delegated officers do not overspend.
- Endorsing the annual accounts of the ministry and defending the ministry’s budget outcome before the Public Accounts Committee of Parliament.

* Accounting officers can generally reallocate funds from one subhead to another within current budgets (but not capital budgets). However, they are not authorised to transfer budget allocations for salaries to non-salary current expenditures or vice versa.

A key principle of the Francophone PEM system is the separation of the payment authorising officer and the Treasury officer responsible for payment. Since both of these functions are centralised in the MOF, financial management in spending ministries is diluted. In most countries, the Minister of Finance is the sole authorising officer (ordonnateur unique). However, the Minister of Finance is also the overseer of the functioning of the Treasury and of public accountants. Thus, despite the principle of the separation of the ordonnateur and the comptable, the Minister of Finance is both the principal ordonnateur and “chief of staff” of all comptables.

As a consequence, the Minister of Finance has unique powers in expenditure management, without parallel in the Anglophone system. The system in Africa is even more centralised than in France, where both Cabinet ministers and central government representatives at local level (préfets) are ordonnateurs. The system in Francophone Africa therefore confers virtually no responsibility for effective
financial management on government ministers or the heads of spending ministries.

3.2. Expenditure control

In the Anglophone system, expenditure control is largely exercised by the warrant system. In principle, the MOF can control the issuance of warrants for non-statutory expenditures. For example, annual warrants can be provided for salaries, and quarterly or monthly warrants for other current expenditures. Warrant control is a major instrument of expenditure control in some countries (e.g. Kenya, Lesotho). In principle, accounting officers record expenditure commitments in their “Vote Books” and should report these to the MOF. This allows for commitments to be controlled. However, in several countries (e.g. Malawi, Zambia), ministries’ reports on expenditure commitments are incomplete and received late by the MOF; as a consequence, the MOF has been unable to exercise control over expenditure commitments.

“Cash budgeting” arrangements were introduced in a number of Anglophone countries, especially during the 1990s (e.g. Kenya, Tanzania, Zambia), mainly because expenditure control was not being exercised. Under this system, cash allocations to ministries are limited by cash availability, i.e. the amount that ministries are authorised to spend is subject to cash limits. In practice, since the cash limits were often below the warrant limits – and the latter are consistent with the annual budget appropriations – AOs often did not ensure that expenditure commitments were contained within the cash limits. As a result, expenditure arrears – overdue unpaid invoices – became a pervasive problem in many Anglophone African countries.

The expenditure control system in Francophone countries is quite different, with formal controls at each stage of the expenditure process: commitment, payment order issuance (ordonnancement), and payment (see Figure 3). However, the formal duties exercised by financial controllers and the Treasury are limited largely to compliance with budget appropriations: they seldom take into consideration the amount of cash available for expenditure.

In the Francophone countries, controls overlap, and at no stage in the expenditure process is it questioned whether or not the expenditure should take place. The Treasury’s “control” of expenditures is limited to checks of the conformity of expenditure payment requests with existing financial regulations. Such checks have already been done twice by the financial controller. Also, although the Treasury may provide a visa “good for payment” (vu bon à payer) on payment vouchers, the Treasury’s coffers may be empty and payment arrears arise. This is largely because, in most Francophone countries, monthly cash management systems, if developed at all, are poorly integrated with Treasury procedures.
Some expenditures in Francophone countries do not require formal controls at every stage. Payments for salaries and debt servicing are examples. For such payments, there are special expenditure control arrangements, usually executed by special centralised agencies. For example, control over salary payments is conferred mainly to a special division of the MOF (la Solde), which, in collaboration with the Civil Service Ministry and the Treasury, should make salary payments only to civil servants whose existence is verified. In practice, due to the lack of maintenance of, and/or integration with, personnel records, salary control is often weak. As a result, salaries have been paid to nonexistent or “ghost” workers. A similar problem has arisen in Anglophone African countries (Lienert and Modi, 1997).

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**Figure 3. Key differences in budget execution and expenditure control**

<table>
<thead>
<tr>
<th>Anglophone Africa</th>
<th>Francophone Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spending ministry</strong></td>
<td><strong>Stage of spending process</strong></td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>Budget Department and/or financial controller</td>
</tr>
<tr>
<td>Warrants issued by MOF to spending ministries</td>
<td>Allocation of annual appropriations</td>
</tr>
<tr>
<td>Orders placed by ministries</td>
<td>Commitment (government liable for future payment)</td>
</tr>
<tr>
<td>Orders placed</td>
<td></td>
</tr>
<tr>
<td>Goods and invoices received</td>
<td>Accrual (goods/services received and debt incurred)</td>
</tr>
<tr>
<td>Prepares payment voucher</td>
<td>Payment order issuance</td>
</tr>
<tr>
<td>Pays invoice (when decentralised payment)</td>
<td></td>
</tr>
<tr>
<td>Pays invoice (when centralised payment)</td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td></td>
</tr>
</tbody>
</table>
Special debt agencies, responsible for orderly debt payments, have been established in some Francophone countries. These agencies – Caisses autonomes d’amortissement (CAAs) – were set up (and later abandoned in some countries) largely to assure that external debt was serviced, as the Treasury was not always able to perform this function effectively. Despite the setting up of CAAs, payment arrears on debt, especially external, occurred in several Francophone countries – a reflection of poor internal control and management, and/or lack of co-ordination with the MOF (notably with the Trésor).

3.3. Payment

In Anglophone countries, payment is either centralised or decentralised. The basic model at independence was a centralised payments system, with sub-treasuries for regional payments. However, in some countries, both payment authorisation and actual payment were devolved to spending ministries or units. Such is the case in Malawi and Zambia. In others, payment remains centralised (e.g. The Gambia, Lesotho, Tanzania). In the case of Tanzania, the re-centralisation of payments in 1996 facilitated the installation of an integrated computerised accounting and payment system.

In Francophone countries, it would be inconceivable for payment to be made outside the Treasury. Consistent with its inheritance and the strong centralised role played by the Treasury in France, all payments are effected by the Treasury.

3.4. Internal control and internal audit

In Anglophone countries, internal control is semi-decentralised. In several countries, the officers who perform the internal control function in spending ministries are employees of the internal audit department of the MOF (e.g. in The Gambia, Kenya, Malawi, Uganda). These officers are outposted to spending ministries to ensure compliance with financial regulations issued by the MOF and are viewed by AOs as agents of the MOF, as they report principally to the MOF with copies of reports addressed to AOs. In a few countries (e.g. Ghana until recently), spending ministries recruit and manage their own internal auditors to assist the AO in financial management. In such countries, internal auditor reports are prepared principally for the AOs, with copies for the internal audit department of the MOF.

Ministries of Finance of Francophone countries have a strong system of centralised internal control. At the expenditure commitment stage, the contrôleur financier, who may be outposted to the spending ministry, checks the regularity and conformity of the commitment against budget appropriations. Theordonnateur issues a payment order to the Treasury, for which a second visa (approval) is required from the contrôleur financier. A third control is made
by the Treasury accountant, who makes the payment. Internal control is therefore highly centralised, as all of the above are MOF staff.

In addition to an elaborate system of internal control, most Francophone countries have established an internal audit unit – l’Inspection des finances. These units are also located in the MOF, but they are highly placed, generally attached to the Minister of Finance’s office (Cabinet du ministre). The inspectorates have broad responsibilities for internal audit, as opposed to the internal control activities of contrôleurs financiers andordonnateurs who perform routine checking. The inspectorates not only audit the financial management units located in the MOF (tax/customs administrations, budget department, Treasury), but they can audit any public sector entity. These inspectorates generally report directly to the Minister of Finance. Some Anglophone countries (e.g. Uganda) also have an inspectorate division in the MOF, with functions similar to those of l’Inspection des finances.

In some Francophone countries, an even higher-level agency (Contrôle général d’État), with investigative powers and responsibilities broader than finance inspectorates, has been established. These high-level inspectorates perform audits internal to the executive branch. The closest equivalent agencies in Anglophone countries are the Anti-Corruption Offices/Commissions that have been established in several countries (e.g. Kenya, Nigeria, Uganda).

4. Government accounting, banking and fiscal reporting

This section examines the similarities and differences in the accounting systems, summarised in Box 3. It then discusses the common problem of not producing timely accounts in both regions. Banking arrangements are also reviewed.

4.1. Accounting framework

The accounting system of Francophone countries is typically specified formally by decree, or even law. These decrees/laws are modelled largely on the Public Accounting Decree adopted in France in 1962 (which is under revision given the intention of France to move to accrual accounting). In contrast, Accounting Regulations in Anglophone countries are prepared by the MOF, and hence can be modified more easily.

The French-based accounting system is more complete, incorporating some accrual information. Although cash accounting, as opposed to accrual accounting, is used in both PEM systems, in the Anglophone countries, a single-entry accounting system is followed. In particular, the accounting system does not require regular reporting of financial assets and liabilities within the year (although external and domestic debt are usually recorded,
Box 3. **Similarities and differences in accounting and banking arrangements**

**Similarities:**
- Cash basis for accounting.
- Poorly maintained accounting records that often lack reconciliation with bank records.
- Annual accounts not available within statutory deadlines.

**Differences:**

Francophone countries have:
- A more formal and complex accounting framework, with Treasury balances an integral part of the system.
- Accounting centralised in the MOF.
- A complementary accounting period for accounts closure.
- A single Treasury account (with some exceptions).

Anglophone countries have:
- An obligation on spending ministries to prepare annual accounts and to provide in-year accounting reports to the MOF.
- A multiplicity of government bank accounts (some countries).

with varying degrees of quality). In contrast, in Francophone countries, as from the *ordonnancement* stage – for expenditures, this means after payment orders are received in the Treasury – the accounting system becomes double-entry. Both revenues and expenditures, as well as financial assets and liabilities, are recorded according to a well-specified chart of accounts. \(^{21}\) This allows identification of bills that have been sent to the Treasury for payment, but have not been paid. Such information is not obtainable from the accounting system of the Anglophone African countries, although special recording arrangements have been put in place (e.g. in Malawi, Uganda, Zambia) to capture information missing from the accounting system.

Spending ministries in Francophone countries are not responsible for preparing accounts, which are centralised in the MOF. Nonetheless, the *gestionnaires de crédits* in line ministries should maintain accounting records of expenditures at the commitment (*engagement*) and verification (*liquidation*) stages; their records for commitments should be cross-checked with the “master” records held in the MOF, usually by the budget department (or its financial controllers). In practice, the quality of accounting information at the
pre-payment stage is variable in Francophone African countries, although it is often better than Treasury information.

### 4.2. Annual accounts

In the Anglophone countries, one of the responsibilities of accounting officers is to prepare and submit annual accounts to the Accountant General (AG). The main account is the “appropriation account” which shows actual expenditures against expenditures appropriated by Parliament. The AOs also have to prepare statements on: i) the annual revenues collected by their ministry; ii) the amounts outstanding for loans for which the AOs are responsible; iii) other statements, as specified by the Accountant General. The Accountant General consolidates all departmental accounts into the annual accounts of government. These are forwarded to the Auditor General for independent external audit (see Section 5). The MOF’s Financial Regulations reiterate the statutory deadline for submission by the Accountant General of the annual accounts to the Auditor General. Although the prescribed period for completing the accounts is usually six months, in practice long delays are experienced in some countries.

Spending ministries in Francophone countries are absolved of the responsibility of preparing annual accounts. The preparation of annual accounts by the MOF is a more complex process: a double set of accounts is prepared. First, the comptes administratifs, providing details of revenues and expenditures up until, and including, ordonnancement need to be prepared. This task is generally delegated to the budget department. Second, the Treasury’s accounts – les comptes de gestion – show the account balances and transactions at the cashing stage for revenues and at the cash payment stage for expenditures. In the comptes de gestion, there should be a reconciliation of stocks and flows: opening Treasury balances for a new fiscal year should be equal to opening Treasury balances of the previous fiscal year, plus all flows during the previous fiscal year. Any discrepancies between closing balances from one year and opening balances of a new fiscal year should be fully explained. However, such reconciliations are seldom performed, as the administrative capacity and/or willingness to operate the accounting system as prescribed in regulations is often lacking.

There are important differences concerning the delays for closing of annual accounts. In the Anglophone countries, accounts are generally closed on the final day of the fiscal year; in practice, a few days may be allowed for processing transactions that have occurred at the end of the year. In contrast, for the Francophone countries, there is a relatively long complementary period for closing the accounts. Payment orders may be issued up until the final day of the fiscal year. To allow actual payments to be made after the end of the fiscal year, a complementary period of two to three months is
authorised (payments for the preceding year can be made after 31 December but recorded as if they had taken place before 1st January of the new year). Long complementary periods have the inconvenience of keeping two books of accounts open for the early months of a new fiscal year. In some countries (e.g. Togo), extensions to the mandated complementary period are made. As a result, the processing of transactions relating to the previous fiscal year continues for several months after the end of the fiscal year.

Both regions have suffered from a common problem of non-availability of annual accounts. One minimum standard of the IMF’s Code of Good Practices in Fiscal Transparency is that final accounts should be presented to Parliament within 12 months of the end of the fiscal year. This implies that accounts must be presented to the external audit agency six to nine months after the end of a fiscal year. There are very few African countries that meet this deadline: in a sample of 17 Francophone and Anglophone countries, only two countries (Chad and Uganda) presented their annual accounts to Parliament within this deadline. In some Anglophone countries (e.g. The Gambia and Lesotho) the delay has been five to ten years, whereas some Francophone countries have not produced a coherent set of annual accounts for many years, if at all (e.g. Madagascar, Mauritania). However, since the late 1990s, a number of Francophone countries have begun to prepare annual accounts (e.g. Benin, Burkina Faso, Cameroon, Guinea, Ivory Coast, Niger, and Senegal), after years of neglect in some cases.

4.3. In-year reporting

In Anglophone Africa, regular reporting by the spending ministries to the MOF is critical for preparing in-year fiscal reports. The managers of spending agencies are required to ensure that Vote Books are kept up to date. These should be sent to the Accountant General’s office for recording in the government general ledger. Spending ministries’ Vote Books should be reconciled with the data maintained in the Accountant General’s office. In countries with manual recording systems, expenditure commitments are often poorly recorded and monthly expenditure reports are either not received in a timely fashion or are of poor quality. Only in a few countries have recording systems been computerised; these provide online data simultaneously in spending ministries and the MOF (e.g. Tanzania).

In Francophone countries, in-year reporting is centralised in the Ministry of Finance. Upstream accounting – for expenditure commitments and payment order issuance – is the responsibility of the budget department (ordonnateur or contrôleur financier). Downstream accounting records – expenditure payments (as well as revenues) – are maintained by the Treasury. However, at the payment stage, transactions are not necessarily posted to final accounts with the same nomenclature as the budget, as the accounting
nomenclature (at the Treasury) is not necessarily identical to the budgetary nomenclature of the budget department. As a result, it is often difficult to track payments of specific budgetary expenditures.

Comprehensive reconciliation of accounting ledger data with bank account records is not always undertaken systematically, thereby undermining the reliability of monthly fiscal reports of both regions. Non-reconciliation of data appears to be more acute in Anglophone countries, especially those with a multiplicity of bank accounts (see Section 4.4). This is despite the provisions of financial regulations, which lay down the need for regular reconciliation.

4.4. Government banking arrangements

In principle, a Treasury Single Account (TSA), held at the central bank, is an integral component of both systems. In practice, there are a number of “special” accounts outside the TSA, for which cash balances are not available for general government spending. In both regions, donors – who finance much of the capital expenditure – typically require that a separate bank account be opened, usually in a commercial bank, as they are distrustful of payments being effected by local treasuries.

In the Anglophone countries that have decentralised the payment function, the number of government bank accounts may exceed a thousand (e.g. Zambia). In such countries, each ministry may have a separate account for each type of spending. Accounts have been opened in a multiple number of commercial banks, in addition to those opened at the central bank. Commercial banks are not used this way in Francophone countries. The Treasuries of Francophone countries ensure that funds are pooled – not only those of central government, but also those of local governments, semi-autonomous agencies, and public enterprises. In principle, this helps to manage cash balances more effectively.

Dedicated funds, each with a separate bank account, are commonplace in both regions. Specific laws may have set up autonomous agencies which receive earmarked government revenues for dedicated spending. For example, Road Funds managed by boards independent of the MOF have been set up (Potter, 1997). Off-budget funds for receiving oil revenues were, in the past, a source of non-transparency in oil producing countries in both regions (e.g. Cameroon, Nigeria). In the Francophone countries, there may be separate bank accounts associated with “budget annexes” or “special Treasury accounts” (e.g. Senegal). The existence of many special accounts, whose balances are not pooled, results in ineffective cash management, as unremunerated deposit balances may build up, and, at the same time, the government borrows at high interest rates. This is especially the case in Anglophone countries, where
Treasury bill markets are relatively well-developed, and where the central banks rather than the MOFs play a central role in issuing Treasury bills.

5. External audit and parliamentary control

The external audit agencies reflect the historical inheritance from the corresponding institutions in the United Kingdom and France. In the Anglophone African countries, Offices of the Auditor General have been set up. A major task of the Auditor General is to prepare an annual report on the government’s accounts for review by the Public Accounts Committee of Parliament. The Auditor General is usually appointed by the country’s President, conjointly with Parliament. In most Francophone countries, Chambers of Accounts (Chambres des comptes) have been set up (e.g. Benin, Chad, Guinea, Madagascar, Mali); in a few there is no external audit agency. The inherited external audit institution in Francophone countries is seen as part of a triple set of controls: administrative, jurisdictional, and parliamentary.

Unlike the British-based system, the Chambers of Accounts of Francophone countries are legally independent of both the executive and the legislative. They are under the judiciary branch of government, being presided by a magistrate. However, as in France, the president of the Chamber of Accounts is appointed solely by the executive branch. The Chamber of Account’s annual report is normally transmitted to Parliament, as well as to the President of the country. In some countries, Parliament does not receive the entire external audit report.

Auditor Generals have financial independence, whereas Chambers of Accounts are dependent on the Supreme Court for their annual budgets. In Anglophone countries, the Auditor General’s salary is a statutory expenditure – Parliament cannot alter its amount. As the accounting officer for his/her office, the Auditor General oversees the preparation of the annual budget for the office, and submits it to the MOF (which may cut it). After year-end, the Auditor General defends his budget outcome in Parliament. A different situation prevails in most Francophone countries: since the Chamber of Accounts is only one of several chambers of the Supreme Court, its annual budget is not determined exclusively by its president. For this reason, some countries (e.g. Burkino Faso, Senegal) have set up financially independent Courts of Accounts and the WAEMU Commission is encouraging the other six member countries to transform Chambers of Accounts into independent Courts of Accounts. However, the case of Burkino Faso illustrates that this is not an easy process: the Constitution needed to be changed in 2001 to establish an independent court. Mali, for instance, decided in 2001 to postpone the required constitutional change needed to transform its Section des comptes (of the Supreme Court) into an independent Court of Accounts.
In the Francophone system, the Chamber of Accounts is required to issue a certificate of conformity that indicates that, in the annual accounts, payment orders received by the Treasury are identical to payment orders issued. The usefulness of such a requirement is questionable, since, in principle, the comptes de gestion should already correspond to the comptes administratifs, as the Treasury is supposed to have verified the consistency between payment orders received and actual payments.

In Francophone countries, Parliaments verify – or should verify – the annual accounts by a formal law. The Budget Execution Law or Loi de règlement (LdeR) records the out-turns for revenues and expenditures and compares these with the budget estimates, inclusive of any modifications to the original budget – either via virement or by supplementary estimates. In principle, the LdeR can only be presented to Parliament once the Chamber (Court) of Accounts has certified that the comptes des gestion and comptes administratifs are fully compatible. In practice, LdeR may not be adopted at all (because annual accounts are unavailable), or may be adopted without verification by the Chamber (Court) of Accounts (because it has low administrative capacity).

In both regions, the follow-up mechanisms for implementing the recommendations of annual reports of the external audit agencies are inadequate. This is not so much a problem of the system design, but rather the lack of material and human resources devoted to the external audit function. In Anglophone countries, when (if) the Auditor General’s report is presented to the legislative branch, it may be reported in the media, but then quickly forgotten. Although AOs are required to follow up on the recommendations of the Auditor General by presenting written reports to the Public Accounts Committee of Parliament on the actions taken to address concerns raised, enforcement of such provisions is weak. The MOF is also supposed to report action taken to implement the Auditor General’s recommendations, but this is seldom done.

In the Francophone countries, the focus is on the accuracy of the accounts and the approval by Parliament of any difference between the original budget and the actual out-turn. Although the Chamber (Court) of Accounts has authority to hold public accountants personally responsible for any deliberate misreporting, there is seldom any prosecution. If misdemeanours are made by ordonnateurs – those who commit government to pay – the Chamber of Accounts has no authority to initiate actions against them. In France, there is a second body, the Court of Budget and Financial Discipline, to deal with non-Treasury officials who inappropriately manipulate funds. In Africa, such courts have not been set up (Senegal is the only exception – such a court has been established under the independent Court of Accounts).
6. Is one PEM system superior?

The previous sections show that the main differences in the two PEM systems are in budget execution, fiscal reporting, and audit. For budget preparation, similarities dominate, although it could be argued that, with respect to investment spending, the Francophone system has a favourable feature – it allows carryovers of unspent commitments and facilitates better forward planning of investment expenditures.

This section examines more closely the distinctive features of the “British-” and “French-based” PEM systems, and discusses whether they contribute to better financial management. It then compares the common weaknesses of the two PEM systems and suggests that there may be additional factors at play that dominate the mediocre performance of the systems in both regions.

6.1. Potential strengths of the individual PEM systems

The key distinctive features of the two systems are summarised in Table 1. In the discussion below, it is argued that the French-based PEM system should, in principle, give better results for achieving macroeconomic stability, an important objective for any PEM system. Neither PEM system is geared for obtaining efficiency objectives. Discussion of results-oriented budgeting is beyond the scope of this paper, as performance-oriented budgeting is yet to be tested in most African countries.

6.1.1. Expenditure control and payment arrears

It could be argued that the centralised French-based system, with a priori controls by the MOF at each stage of the expenditure process, results in better expenditure control. In the French-based system, the MOF takes a lead role in controlling expenditures at the prepayment stage, and in theory, it is able to integrate information on expenditure commitments into the cash planning process. Such strong central surveillance could be considered necessary to counteract weak administrative capacity and limited accountability of budget managers in line ministries.

In view of this, expenditure commitment control systems are being put in place in various Anglophone African countries (e.g. Malawi, Tanzania, Uganda, Zambia). However, there has been mixed success in effectively controlling expenditure commitments and, especially, in preventing expenditure payment arrears, which is a pervasive problem in several Anglophone countries. This reflects the generalised lack of financial discipline. In principle, expenditures could be controlled by warrant withdrawal. In practice, this instrument is rarely used.

In some Francophone countries, when revenues fall short of projections, expenditure commitments are closed earlier than usual. Should it become
evident during the fiscal year that there is insufficient cash for meeting all payments, the budget department of the MOF can instruct ministries to no longer commit expenditures after a certain date (e.g., mid-November instead of end-November). Similarly, the MOF can stop payment order issuance (ordonnancement) before the close of the fiscal year (e.g., mid-December).

Although these tools have been used in several Francophone countries, their effectiveness has been limited because only a small proportion of discretionary expenditures is postponable, important exceptions are accorded, and the instructions are not always fully enforced. Worse, in several countries, there is not an awareness of the need to freeze commitments, due to defective cash management procedures, poor accounting information, or a lack of willingness to firmly control expenditures.

The problem of expenditure payment arrears is also pervasive in several Francophone countries. Whereas in a few countries, nearly all government invoices are paid on time (e.g., Benin, Mali, Mauritania), in other countries, the
size of expenditure arrears has surpassed the worst-case Anglophone countries, even exceeding 10% of GDP in Djibouti and Togo. This suggests that there are other important factors at play in Francophone countries that are preventing effective control of expenditure commitments.

In several Francophone countries, expenditure arrears are partly caused by the bypassing of the normal expenditure control procedures. The system of a priori control by the MOF on expenditure at both the commitment stage and the payment order stage (ordonnancement) is complex, contains redundancies, and is slow to permit payment for goods or services; thus, Francophone countries have introduced, or overexploited, “simplified” expenditure procedures that bypass the central controls (Box 4).

The lack of feedback from the Treasury to the budget department and spending ministries is a particularly acute problem in Francophone countries. The split between ordonnateur and comptable has an unfortunate consequence. The budget department considers that its work is complete when it sends documents to the Treasury for payment. The “lack of resources” problem is perceived by the budget department to be the Treasury’s problem alone. There

Box 4. Exceptional expenditure procedures in Francophone countries

Direct payment by the Treasury (ordres de paiement), under which the Treasury is directed to make payment prior to the a priori controls on commitments and payment order issuance.

- Imprest accounts (caisse d’avances) which are usually reserved for small or specific expenditures, under tightly defined rules. In some countries, ministries use this procedure for many expenditures of a particular type (e.g. all defence expenditures in Madagascar).

- Special accounts/funds, used for payments that do not require prior approval at the payment order stage.

The main objective of these procedures is to accelerate payment, since the “normal” procedure for expenditure approval and control is burdensome. For transactions conducted by these “exceptional” procedures, regularisation of accounting is supposed to be rapid. In practice, such expenditures may never be recorded with clarity. In some countries, the “exceptional” procedures have become the standard way of executing non-salary expenditure. Moreover, when arrears arise, the Treasury director has discretion as to which bills should be paid first, which is an open door to corruption in the payment process.

* For example, a World Bank mission to Benin found that a considerable portion of non-salary expenditures were executed this way.
is no feedback from the Treasury to the budget department. When there are shortfalls in cash revenues, instead of examining ways by which the rate of approval of expenditures at the commitment stage could be slowed, the budget department disavows responsibility for unpaid bills. In these circumstances, unpaid suppliers approach the Treasury directly to hasten payment, perhaps with some added incentives to ensure prompt writing of the necessary Treasury cheque. The lack of feedback between the Accountant General’s department and budget department is also a problem in Anglophone countries. In both regions, budget departments fail to provide good guidance to the Treasury concerning future payments in the pipeline.

Ineffective cash management also contributes to the arrears problem. Even in the relatively well-managed Francophone countries, expenditure commitment “control” is simply a check against annual budget appropriations. With the possible exception of closing commitments earlier than usual at year-end, budgeted expenditure commitments are not adjusted downward during the year should cash not be available. This is partly due to inadequate co-ordination between the budget department and the Treasury.

6.1.2. Internal audit

It could be argued that the centralised internal control and internal audit systems of the Francophone countries result in better financial management than the decentralised systems in Anglophone countries. First, the internal control mechanisms associated with expenditure control are very well implanted in the Francophone countries: a body of financial controllers, under the budget department of the MOF, is an essential part of the expenditure control system in all countries. In contrast, internal audit divisions of MOFs – which provide internal auditors to spending ministries of Anglophone countries – are usually a less prominent part of the PEM system. Second, in the Francophone countries that have established Inspections des finances, there is potential for investigating and reporting on malpractices in the PEM system as a whole. Few Anglophone countries have such inspectorates. Third, when human capacity is weak in spending ministries, and the rule of law/regulations is not respected, strong central control is needed – decentralisation of the internal audit function requires well-trained teams of auditors, with effective oversight from the management of spending ministries. This is usually lacking in Anglophone countries.

However, there is little evidence to suggest that Francophone countries have more effective internal audit. According to surveys conducted in 10 Francophone countries, only one was deemed to have effective internal audit. In part the result for Francophone countries is because financial controllers may lack the necessary independence and/or willingness to enforce financial regulations. For example, it is well known that not all goods
or services are delivered according to contractual conditions, suggesting that financial controllers may collude with gestionnaires de crédit, suppliers, and/or receiving officers (comptables matières) who certify that goods or services have been delivered, when in fact full delivery has not taken place. There may also be little effective control over over-invoicing. Concerning l’Inspection des finances, these bodies may not have been provided with sufficient financial, material, or human resources, or may often lack the necessary dynamism, to carry out their functions fully.

6.1.3. Accounting system and fiscal reporting

It could be argued that the accounting system of Francophone countries contributes to better financial management. In principle, the French-based accounting system is capable of providing budget managers with richer and more consistent information for financial management. First, the accounting framework is laid out comprehensively in accounting regulations and a formal chart of accounts (very similar to the chart of accounts used in France). The accounting system includes some accruals-based information, with financial assets and liabilities identified in accounts. Cash flow statements are, in principle, reconciled with Treasury balances. In Anglophone countries, accounting instructions and charts of accounts also exist, but the partial accrual information is missing. Second, in the Francophone system, expenditure is recorded and reported in at least three stages: commitment, ordonnancement, and payment. In addition, spending ministries hold records at the accrual stage (liquidation) – when economic transfer takes place. In the Anglophone countries, at best, commitments and payments are recorded. Third, the Francophone accounting system is double-entry for Treasury transactions, enabling accounts payable at the Treasury to be identified. It is impossible to obtain data on expenditure arrears from traditional Anglophone accounting systems. Fourth, since accounting is centralised, timely fiscal reporting should be easier.

The potential advantages of the accounting systems of Francophone countries are not exploited, mainly because it has proven difficult to operate and maintain solid accounts. The complexity of the accounting system, operated in most countries on a manual basis (until recently), has resulted in very poor accounting records being kept in most Francophone countries. A particular problem is the artificial split between ordonnateur and comptable, which has resulted in fragmentation, and even inconsistencies, in accounting information. In most countries, budget departments maintain the expenditure records for commitments and ordonnancements, although some countries have institutional fragmentation even at this level. While Treasuries maintain – or should maintain – the “downstream” accounting records, including the general ledger from which fiscal reports should be generated, in many countries, timely and consistent Treasury balance information is unavailable. Additionally,
because several Francophone countries have maintained different classification systems for the “upstream” and “downstream” expenditure records,\textsuperscript{32} it is extremely difficult to track expenditure at each stage.

Besides the fragmentation of responsibilities within the MOF, the non-involvement of spending ministries in maintaining the primary records deprives the MOF of maintaining expenditure records at the crucial accrual stage (\textit{liquidation}). If Francophone countries begin to move towards implementing full accrual accounting, it will be a challenge – not only in Francophone Africa, but also in France\textsuperscript{33} – to change institutional arrangements so that accounting is devolved to spending ministries, as is presently the case in Anglophone countries.

Implementation of the sanction system is deficient in both regions. In the Francophone countries, Treasury accountants (\textit{comptables publics}) have “pecuniary and personal responsibility” to produce timely, verifiable, and comprehensive accounts, as well as to make payments in accordance with financial regulations. In practice, there is very little sanctioning of Treasury accountants who abuse the rules. Similarly, in Anglophone countries, there are provisions for sanctioning accountants, but implementation of relevant provisions is often lacking.

The Francophone sanction system has a flaw: the entire responsibility for preventing abuse in financial management rests on the shoulders of the \textit{comptables publics}, whose accounts are judged by an independent agency – the Chamber (Court) of Accounts – to detect any malpractices. Since public accountants are responsible for checking the validity of prepayment documents received in the Treasury, they alone bear “pecuniary and personal responsibility”. In contrast, the regulations usually impose no sanctions on the upstream players – especially the \textit{ordonnateurs} of the MOF’s budget department or of spending ministries (in the few cases where \textit{ordonnancement} has been decentralised). In contrast, the accounting officers in Anglophone countries are, in principle, responsible for preventing overspending (Box 2). Although there may be some sanctions in financial regulations, such as the preparation of a written report to the Minister of Finance when overspending occurs, such provisions are often not enforced. In many Anglophone countries, the President of the country appoints the accounting officers, and, should abuses occur, AOs are understandably reluctant to report.

\textbf{6.1.4. Banking arrangements}

The centralisation of all bank accounts at the central bank, with no payments being made directly by spending ministries, appears to be another advantage of the PEM system in Francophone countries. Some Anglophone countries too, have reinstituted a central payment system from a TSA, as this
contributes to more effective cash management and reduces the scope for maintaining unutilised balances in multiple bank accounts. Despite this advantage, both Anglophone and Francophone countries abandon this principle for donor-financed expenditures, for which commercial bank accounts controlled by donors, not Treasuries, are used. Also, in Francophone countries, public enterprises are often obliged to deposit any surplus funds at the Treasury; to the extent that the Treasury allows enterprise deposit accounts to go into overdraft, the government is lending to these enterprises in a non-transparent manner.34

6.1.5. Fiscal rules

A unique feature of the Francophone countries is the very strict limit on government borrowing from the central bank, in order to support the fixed exchange rate vis-à-vis the French franc and, since 1999, against the euro. Until 2000, the total government borrowing limit from the two regional central banks of the CFA franc zone was fixed at 20% of tax revenues; since then, government borrowing from the central banks is prohibited. In fact, WAEMU countries are now obliged to repay outstanding government credits. This policy contributed to the low inflation rates in Francophone countries. Whereas this fiscal rule has had a favourable impact on macroeconomic stability, it has resulted in cash shortages and banking crises in Francophone Africa, as formal rules were bypassed in an indirect way.35 In contrast, some Anglophone countries experienced bouts of high inflation in the early 1990s, due to central bank financing of unplanned fiscal deficits; at that time, it was relatively easy to exceed any limits on “ways and means” advances from central banks.

6.1.6. External audit and parliamentary control

It could be argued that the system of external audit and parliamentary control in Anglophone countries produces better PEM management. First, the Auditor General’s offices have had a long tradition of preparing annual reports. In contrast, the Chambers of Accounts in Francophone countries are more recent creations. Second, the Chambers of Accounts concentrate very heavily on the legality of expenditures and compliance with financial rules, and review of the draft LdeR. Third, Public Accounts Committees (Commissions des finances) of Parliaments – which are essential for follow up of external auditors’ recommendations – have been more active in the democratic Anglophone countries than their counterparts in Francophone countries.

In practice, in both regions, the external audit function has not been accorded the priority it deserves. In both regions, external audit offices are often deprived of the necessary financial, human and material resources for carrying out their mandates. Very few African countries are able to present audited annual accounts to Parliament within 12 months (see IMF, 2002).
Finally, when reports become available, they are not acted upon with the seriousness they deserve.

### 6.2. Common weaknesses of PEM under both systems

The PEM systems of Francophone countries appear to have performed slightly better in attaining benchmarks for budget preparation, about the same for budget execution, and considerably worse for fiscal reporting. However, differences are not significant: statistical tests indicate that one cannot confirm (at standard confidence levels) the hypothesis that the Francophone and Anglophone countries’ averages shown in each panel of Figure 1 are dissimilar.

Thus, any unique and favourable features of the Francophone countries’ PEM systems have not contributed to a consistently better performance. The main area where Francophone countries were slightly better than Anglophone countries was for budget preparation. There are potentially two areas where the Francophone countries’ PEM systems are, *a priori*, advantageous. First, there is a distinction between existing and new policies, and second, there is a requirement for medium-term investment projections. However, the “better” results for budget preparation shown in Figure 1 are largely due to the Francophone countries having relatively lesser recourse to extra-budgetary funds, and fuller integration of donor-financed expenditures into the budget, which typically have more complete budget classification systems. These differences, however, pale compared with the generalised weaknesses of budget preparation: both regions share the common problems of budgets not being comprehensive, inadequate classification systems, poor costing of specific expenditures, and an absence of MTBFs since the abandonment of national planning.

For budget execution, the two regions have broadly similar weaknesses, which are widespread. The Francophone countries only showed more regular reconciliation of accounting and banking information. Again, both regions share common problems of poor expenditure control (with considerable variation in each zone), weak internal auditing systems, and incomplete reconciliation of accounting and banking data.

At first sight, it appears paradoxical that the Francophone countries perform worse for fiscal reporting than the Anglophone countries. It is argued above that, in principle, the French-based accounting and reporting system has several advantages over the British-based one. However, there appears to be a large gap between theory and practice. The poor overall performance of the Francophone countries suggests that the accounting system may be too complex and archaic to operate and/or the rules are flouted. Francophone countries have had a particularly severe problem of not producing comprehensive and timely monthly
and annual accounts. As a consequence, external audit institutions are unable to perform financial audits of annual accounts, let alone use more modern techniques, such as value-for-money audits.

7. Conclusions

This paper analyses the differences between the PEM systems of Anglophone and Francophone Africa. Concerning the budget process, it may be concluded that:

- Budget preparation in the two regions is broadly similar, although there are two features of the Francophone countries’ system that arguably are advantageous relative to the system of the Anglophone countries.
- There are significant differences in budget execution procedures between the two systems, centering particularly around the role and powers of the MOF and the degree of delegation of financial management to spending agencies.
- The Francophone countries have the advantage of possessing a formal system of recording and controlling expenditures at the prepayment stages.
- Greater centralisation of fiscal management in Francophone countries should, in principle, produce better results for macroeconomic control, since throughout Africa, institutional capacity for operating budget execution and accounting arrangements in spending ministries is even more limited than at central (Ministry of Finance) level. On the other hand, for efficiency in budget management – resource allocation and obtaining results from budgetary programmes – it could be argued that the Anglophone countries’ decentralised systems are conducive to better performance.
- The accounting system in the Francophone countries also has some potential advantages, as it should produce more comprehensive information for fiscal management.
- The Anglophone countries have inherited external audit arrangements that play a relatively more important role in the budget process than in Francophone countries. In principle, supreme audit agencies in Anglophone countries provide Parliament and the public with timely information on budget execution and the integrity of annual accounts.

Although the Francophone countries’ budget execution and government accounting systems have a number of potential advantages, these advantages do not appear to be fully exploited. The desirable distinctive features of the Francophone PEM system are not accompanied by better aggregate expenditure control, as expenditure arrears in some Francophone countries are higher than worst-case Anglophone countries. Nor have the desirable
features of the Francophone accounting system – its greater centralisation in the MOF and production of partial accrual accounting information (Treasury balances) – resulted in better fiscal reporting. On the contrary, when it comes to producing quality and timely in-year fiscal reports and annual accounts, the Francophone African countries appear to have had severe problems.

Thus, any distinctive strengths of the individual PEM systems do not appear to have influenced the performance of the system as a whole. In both regions, common weaknesses dominate. These weaknesses are widespread at every phase of the budget cycle. At the preparation stage, budgets need to be made more comprehensive, by incorporating all foreign-financed projects and extra-budgetary activities into an integrated national budget that has been formulated with firm expenditure ceilings derived from a medium-term budget framework. Expenditure control needs improving in nearly all countries, so as to prevent arrears.

An improvement in data quality appears to be a top priority. Full reconciliation of accounting and banking data, and more effective internal audit arrangements, are crucial. In both regions, the production of in-year fiscal reports and annual accounts is particularly weak. Although external audit bodies are constituted in nearly all countries, they have had a limited impact on improving PEM systems.

To counter these weaknesses, it is essential that budget discipline is imposed at each stage of the budget process, otherwise expenditure overruns, the non-production of timely and comprehensive accounts, and ineffective internal and external audit activities will continue.

Since there are big variations within the Francophone or Anglophone groupings, it can be concluded that the disappointing features observed are due not to the PEM systems themselves, but to the way they operate. Thus, even if budget legislation and implementation instructions are clarified, in the absence of attitudinal changes by all players of the budget process – in the executive, legislative, and judicial branches of government – it is unlikely that significant improvements will occur. Critical actions will be those directed towards enhancing budget discipline and improving accountability of all those responsible for budget preparation, execution, reporting, and evaluation.

Strong political willingness to ensure that the existing rules are enforced with rigour and that sanctions are applied where necessary will be necessary to bring about lasting improvements in the PEM system in both Anglophone and Francophone Africa. Although this is largely a domestic issue, the international community can contribute to durable solutions by not only understanding more fully the actual operation of PEM systems, but also by withholding assistance to those countries which persistently fail to provide their taxpayers with adequate accountability mechanisms.
Notes


2. Lusophone countries inherited a Portuguese-based system and the Democratic Republic of the Congo, Rwanda and Burundi inherited a Belgian PEM system (it differs somewhat from the French-based system).

3. For example, see Lienert and Sarraf (2001) for weaknesses in Anglophone African countries, and Bouley et al. (2002) and Moussa (2003) for weaknesses in Francophone African countries.

4. These are the 16 countries listed in Figure 1, plus Ivory Coast, Kenya, Lesotho, Nigeria, Togo and Zimbabwe. South Africa is excluded since it is more advanced in budget management than a typical African country.

5. Attiogbe (1999) recalls these principles for the case of Togo. These principles were developed during the 3rd and 4th French Republics, 1871-1958 – see Chapter 1 of Lord (1973).


7. See for example, Directive No. 05/97/CM/WAEMU concerning budget laws, www.umo.int (West African Economic and Monetary Union).

8. In the initial years after independence, many countries prepared national development plans. However, these were poorly linked with annual budgets and policy debates.

9. Central government investment budgets are usually a subset of PIPs, as the latter cover all public investment projects, including those executed by local governments and public enterprises.

10. In most Francophone countries, the revenues and expenditures of the Post and Telecommunications Offices are presented as a budget annex to the Loi de finances. The budgets for the National Pension Funds, the Debt Management Agency, and the Social Security Office are not systematically included in the budget.

11. One exception is the pension funds for retired civil servants and the military.


13. Traditionally, this was done via the “Paymaster-General,” a high-ranking official of the MOF appointed by the minister for controlling the issue of public moneys to accounting officers.

14. In some countries sous-ordonnateurs exist for authorising payment orders at the regional level (e.g. Madagascar) or in specific ministries (e.g. Ministry of Defense, Mauritania). However, such delegated officers are still under the authority of the ordonnateur principal, usually the Minister of Finance.

15. The directives by the West African Economic and Monetary Union (WAEMU) to the eight West African Francophone countries contain such a provision. This system dates from the time when there was a single Governor of France in the colony. Upon independence, the governors’ powers were transferred to the Ministers of Finance.

16. Statutory expenditures are those which must be paid, irrespective of budget projections, because another law requires it. Included are debt servicing, salaries of certain high officials (e.g. Auditor General), etc. A similar category of budget appropriations exists in Francophone countries (credits évaluatifs).
17. There were both revenue shortfalls and expenditure over-runs. To deal with the former, warrant authority can be withdrawn under the British system. However, in Africa, warrant withdrawal was extremely rare.

18. See Box 5 of Bouley et al. (2003).

19. For fuller details on the operation of internal control and internal audit in Africa, see Diamond (2002). For a distinction between internal control and internal audit, see Chapter 10 of OECD (2001).

20. In Mali, besides a decree, an accounting law as been adopted.

21. There are nine to ten standard “classes” of accounts, based on the system still used in France.

22. A further three months is generally prescribed for their auditing.

23. In some cases, ordonnancement may be closed earlier, e.g. 15 December, rather than 31 December.


25. Practices vary in the countries where the financial control function is not under the MOF. For example, in Madagascar, the most reliable source of information on commitments is from the financial control unit under the presidency, although the data are not fully reconciled with the records of the Budget Ministry (there is also a Ministry of Finance in Madagascar). In contrast, in Mauritania, the financial control entity, under the presidency, relies on the computerised records of the budget department of the MOF.

26. For example in Cameroon, although an external audit agency is now envisaged.

27. For example in Mauritania, only parts of the annual report are required to be sent to Parliament.

28. In Tanzania, expenditure commitment control are computerised. In the other three countries, manual systems have been, or are being, put in place to control expenditure commitments.

29. Financial regulations of Anglophone countries usually provide that the unspent balance of any warrant may, at any time, by withdrawn by the Minister of Finance. Once a withdrawal warrant has been issued, the accounting officer may not permit expenditure to exceed the remaining balance.

30. In the same survey, only one out of six Anglophone countries had effective internal audit. Internal audit was found to be one of the areas of the PEM system of HIPC countries that needed the most upgrading. See item 9 of Figure 2 of IMF (2002).

31. In some countries, an Ordonnancement (or “Finance”) Department has been established, separate from the budget department (e.g. Togo). Also, Financial Controllers in some countries are outside the MOF (e.g. under the Presidency), and may keep independent accounting records.

32. The lack of consistency between the budget and the accounting nomenclatures can be traced to the system used in France until recently.

33. The respective roles of the MOF and spending ministries in implementing accrual accounting in France, following adoption of a new Organic Budget Law in August 2001, are still being clarified.

34. See Bouley et al. (2003) for a fuller discussion of “le circuit du trésor”.
35. Masson and Pattillo (2001) describe the indirect deficit financing in CFA franc zone countries: “Much activity was initially kept off the fiscal accounts, as governments pushed state-owned banks to make loans to public enterprises.” These banks were able to obtain refinancing from the BCEAO at concessional rates.

Bibliography


Chapter 1

The Role of Evaluations in Political and Administrative Learning and the Role of Learning in Evaluation Praxis

by

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* Jan-Eric Furubo, who at the time when this article was written was the Head of the Secretariat for Strategic Analysis within the Swedish National Audit Office, has worked with questions related to building of evaluation capacity and evaluation strategies since the 1980s. He has published several articles and publications in the field of evaluations and budgetary questions. He was co-editor of The International Atlas of Evaluation published in 2002 and has served as Secretary General and board member of the European Evaluation Society.
The writing of this paper is in reference to my contribution in *Can Governments Learn?*, one of the books published by the International Evaluation Research Group. My immediate and first reaction was that it is of course always very nice to be asked to contribute for a distinguished audience. My second reaction was to ask myself when my essay in *Can Governments Learn?* was really written and what questions it dealt with; and perhaps even more, what was the answer to the question which constitutes the title of the book. The need to ask the latter questions had of course something to do with the answer to the first question, namely that the essay was written about 10 years ago.

It was therefore obvious that the discussion in this book in a more technical sense had to be updated, but also had to take into account both some new empirical material and the discussion within a couple of intellectual fields.

The title of this current paper implies several questions: to what degree politicians and administrators learn from evaluations, and also to what degree learning takes place among the evaluators themselves. These questions create a sort of strategic problem. Am I going to give the answer at the beginning of my paper or perhaps later? But perhaps I will compromise: I will start with a short version of the answer now, but elaborate on the answer later.

The brief answer, given a Swedish perspective, is: no, evaluations do not seem to matter very much when it comes to more politically significant changes in policies. It seems that only in exceptional cases do evaluations appear to play a part in significant changes in the orientation of policies. However, in relation to the ongoing implementation of a given programme the situation is different. It seems here that evaluations are able to play a substantial role, at least sometimes. And regarding the producers of evaluations themselves, it seems that they are not learning so very much. They tend to carry out the same evaluations with the same questions year after year.

For some this can seem a bit controversial, and I guess that for others it might seem like a confirmation of what they have long suspected. However, I assume that both groups expect some elaboration on these statements and also some explanations. So I will continue by talking about three things. First, I will say something about why this question of political and administrative learning in relation to evaluations is more important today than it was 10 years ago. Second, I will give a more elaborate answer to the question about
what we actually know about the use of and learning from evaluations. Third, and this is the most lengthy part, I will discuss why the decision-makers so seldom use evaluative information in relation to significant changes in policies, and why it seems different when it comes to fine-tuning and the implementation of policies.

The fundamental question which was addressed in Can Governments Learn? in 1994 and of course also in the chapter about the Swedish experience was: under what circumstances do governments learn through evaluations? This question is of course even more relevant today, almost 10 years later. The reason is that the diffusion of evaluation praxis and culture has taken place to a great extent after the publication of the book.

The International Atlas of Evaluation (“The Atlas”), one of the very few studies about the international development of evaluation, highlights the relevance of this question. One of the main conclusions in this book partly contradicts earlier discussions in this field. The earlier perception was that the evaluative praxis at a national level, since the 1970s, spread to more and more countries starting in a handful of pioneer countries which adopted such praxis as early as the 1960s; in other words more and more countries adopted an evaluative praxis in each period of time (paraphrase Rogers, 1995, page 23).

The Atlas shows that quite a different scenario seems to be more likely. For a rather long time – perhaps a couple of decades – no evaluative culture or praxis had developed beyond more than a handful of western countries. Then in the 1990s, a sizeable group of countries entered the evaluation era. The main difference between these two groups of countries, if we simplify things a bit, has something to do with internal and external forces. The first group, the handful of early adopters so to say, brought about an evaluative praxis due to internal forces that created a pressure and a need for conducting and using evaluations. Those countries, which adopted an evaluation praxis in the 1990s had been forced to do so, as a result of external pressure from institutions such as the European Union, the World Bank and to some extent certainly, also the OECD.

However, I am not going to discuss the implications of this difference nor what consequences it will produce. The important thing is that these external forces have led to a diffusion of evaluation praxis to more countries than ever. So the questions about the use of evaluations and political and administrative learning are certainly even more relevant today than they were 10 years ago.

Do evaluations lead to learning among:

- politicians?
- administrators?
- and under what circumstances?
These questions can be discussed in different intellectual contexts. A great deal of effort has been put into studies and discussion about different forms of utilisation and the influence of evaluations. At the same time, and partly in other intellectual circles we find discussions about organisational learning, and more specifically about learning in political environments – governmental or political learning.

But when we discuss these questions we soon find that we cannot do it at a general level. We all know that the political and administrative systems at the national level produce many different forms of decisions, and we can guess that the discussion of our questions is not quite the same when it comes to a decision about a fundamental change in policy or a minor fine-tuning manoeuvre. I will therefore distinguish between three kinds of decisions:

- fundamental policy reassessments;
- middle range decisions or “maintenance decisions”;
- operative decisions.

There are undoubtedly other terms, but there are also weaknesses in categorisations like this. How we place different decisions in such a categorisation is of course always a bit arbitrary, and what is placed in one category one day is put in another category next week or next year.

Perhaps it is also more realistic to talk about a scale which, at one end, has more fundamental policy reassessments at a rather aggregated policy level – decisions which can question the mere existence of a governmental policy, its basic goals and its principal means. At the opposite end of the scale,

Figure 1. A scale of decisions

![A scale of decisions](image-url)
there is pure and simple technique, e.g. operative decisions which are part of the ongoing implementation of an intervention or a programme.

Between these points we can find a lot of other types of decisions, which perhaps can be labelled as a sort of policy maintenance. These decisions are related to more disaggregated goals and the use of instruments at a lower level in the end hierarchy of means available. Even if these kinds of categorisations are relative and unstable, I think they can in any case be fruitful for our discussion.

Another thing can be said about these kinds of categorisations which may be relevant for the use, non-use and perhaps the misuse of evaluations: we often meet different players involved in the decision-making process depending upon the category to which the decision belongs. In a country like Sweden it can even be said, at least on a text-book level, that the division between the ministerial structure and the different agencies, numbering about 300, reflects these categorisations. Somewhere, a borderline has been drawn between politics and implementation. On one side of the borderline we have what is regarded as implementation – the task of the agencies – and on the other side, what is regarded as policy or politics.

In Sweden it can also be said that there is a very elaborate structure for the production of evaluative information in relation to different kinds of decisions. Internal evaluations are to some extent the task of all agencies. They have to report back on an ongoing basis about their activities, and this creates a stream of evaluative information. Some agencies also contribute with special evaluations. Several bodies, research institutes, governmental commissions and so on produce evaluations of an ad hoc character. This structure of producers of evaluative information generates of course a lot of different information, and it is also obvious, as I will explain further, that the different kinds of decisions have to be fed with different forms of evaluative information.1

However, even if this kind of categorisation presents some difficulties, the real problems will of course appear when we continue to the more empirical questions about what we actually know about the role of evaluations in different kinds of decisions.

1. Few empirical studies

The reason that the empirical questions are difficult is of course that we have very few empirical studies in Sweden about the use of evaluations and governmental learning in relation to evaluations. So, to a great extent, what can actually be said in this field has a hypothetical character.

This is certainly the situation at the endpoint of our scale, where we are going to start, namely fundamental policy reassessments. Studies about how
different forms of evaluations have influenced decisions and changes in the central goals, their relative weight, and the choice of policy instruments are rare. What is indicated in the studies, is that evaluations have only influenced fundamental reassessments of policies in just a few, exceptional situations.

2. Evaluations do not lead to significant changes of policy...

In the chapter about the Swedish experience in Can Governments Learn? (mentioned above), the discussion in this respect is based on a couple of different sources.2 The conclusion in Can Governments Learn? is that evaluations do not lead to a questioning of the basic assumptions underlying a certain policy “if we consider central policy-making processes at the level of the government and Parliament” (Furubo, 1994, page 59).3 It is further said that:

A conclusion that may be drawn from our examination of the extent to which evaluations lead to learning is that only in exceptional cases do evaluations appear to play a part in significant changes in orientation of policy.

We cannot find more than a couple of later Swedish studies which address the question of use in such terms that they are relevant in this context and they give us the same picture. In a report which is based on interviews from a special investigation group within the Ministry of Finance in September 2002, the situation in relation to what I have called fundamental reassessments is summarised in the following way: “The experience demonstrates that reassessments often have been caused by special events and usually depend on the disclosure of a special and an unsatisfactory state of affairs” (Finansdepartementet, 2002, page 56). So the limited sources at our disposal indicate that the conclusion from 1994 is valid. It is also important to note that the conclusion is not contradicted by studies of policy formation and policy shifts in different areas. In such studies related to areas such as housing policy, energy policy, crime prevention and so on, information from evaluations is not very often referred to as a major explanation for changes of any significance. The information acquired from evaluations does not seem to be a major explanation for significant policy changes.

3. But they are used in fine-tuning and implementation

Moving to the other end of the scale, to the more operative decision-making, there is some comfort in the fact that things seem quite different. When looking at this, we can find the following conclusion in Can Governments Learn? It is said there that “on a more technical level the situation is quite different. In such a context evaluations are able to play an appreciable role – and much evidence would indeed seem to indicate that they do”.

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As indicated in the quotation, we found evidence which supported the statement about the use of evaluations in these more administrative processes, 10 years ago. Today we have of course even more up-to-date material at our disposal.

It is obvious that the visibility of evaluative information related to more ongoing decision-making has increased. In a 1998 study, the Swedish National Audit Office compared the appearance of result information in the budget bill in 14 different areas at two points in time. The result was a marked increase in the evaluative information. Another study about the dialogue between the ministries and the agencies also indicated that the information the agencies delivered was used in the ministries' discussions about the agencies future activities (RRV, 1999).

A study from 2002 (Statskontoret, 2002) indicates a further increase in relation to the extent to which evaluations are mentioned in the yearly budget bill, and the same picture is given in other reports and studies.

I therefore think it is safe to say that we have had an increase in the evaluative information which has reached decision-makers during the last 10 years. It is evaluative information related to what has been accomplished by the agencies, its quality, its cost and the internal administrative efficiency of these agencies. The orientation is more towards output and performance rather than effects and preconditions for effects.

The 2002 study shows that about one-third of the evaluations which were mentioned in the budget bill were used as a justification for present policies. About 15% of the evaluations are used as an argument for change, and in 17% of the cases, the government indicates that it will look further into the matter and then return with proposals to the Parliament. So, if we regard the cases in which the evaluations are used to justify or legitimate present programmes, more than two-thirds of the evaluations have been used.

So the different roles evaluations play in different parts of the scale is striking. How can this be explained? Can this picture actually represent the truth? Can we find reasonable explanations for this lack of utilisation of evaluative findings in relation to more fundamental reassessments; and for the fact that we so seldom use evaluations in relation to significant changes in policies? And can we explain the different degree of utilisation in relation to decisions about the more detailed construction of a policy or its implementation? Yes, in my mind it is possible to find at least some explanations that make this picture at least plausible.

4. Evaluative information lacks relevance

The first explanation is that the very nature of some decisions makes the evaluative information highly irrelevant. A policy or intervention can be
discussed and questioned both from a value perspective, and for more instrumental reasons. The value component can be expected to be more salient when we move towards the fundamental reassessments endpoint in the scale, and the role of empirical information increases when we move in the other direction.

So it is easy to point out that the existence or basic orientation of a programme sometimes can be regarded purely as a question of values. We can on one level imagine that all politicians agree – which is certainly not always the case – about the actual situation in some area, e.g. the standard of housing, the social distribution of education and so on. However, there can be quite different opinions about how a given situation should be judged. Some politicians may regard the situation as unsatisfactory, justifying a political intervention. Other politicians may regard the same situation as quite satisfactory (Sandahl, 1986).

And even in those cases in which all politicians agree that a given situation is unsatisfactory, there can still be divergent opinions concerning whether or not it is a political issue at all, i.e. if the situation motivates political intervention.

And a politician arguing against an existing governmental intervention or programme from such a value perspective has little use of information in evaluations. If the evaluations show that the existing programme has been successful, and perhaps indicates that some changes could make it even more successful, it is still irrelevant information for the politicians who are against the intervention as such. And the same can be said if the evaluations show the opposite: the intervention was a failure and perhaps quite different instruments are needed to make the intervention successful. Even this information is of course quite irrelevant, if the politician is against the intervention as such.4

In these situations, information from evaluations lacks relevance and the political position towards the intervention or programme is based on values.

Figure 2. Explanations

- Fundamental reassessments could be based on shifts in values.
- The actual content of evaluations in relation to different kinds of decisions
- The quality of evaluations (and the knowledge frontier).
- The shifting degree of exactness and reliability political decision-makers.
- Relation between evaluators and political decision-makers.
- Why fundamental reassessments the role of crises.
about what is good and bad, what is better and worse and what is the role of government. The position does not depend on information concerning whether or not a certain intervention was a suitable means of reaching a certain goal or solving a certain problem in society.

But a very brief moment of reflection will probably also lead us to the conclusion that decisions which concern the basic orientation of policies are value-based to a much higher extent than decisions at lower policy levels. In other words, the relative weight of values and empirical information is quite different in more fundamental policy reassessments compared with more technical and instrumental decisions concerning the more detailed construction of a given policy or its implementation.

But even if we, so to say, sort out these situations when a policy or an intervention is questioned from the perspective of values and when evaluations therefore lack relevance, politicians can still question the basic orientation of a policy or a programme for more instrumental reasons. The decisions about the future fate of the intervention could be based on an assessment of how effective the intervention is in the fulfilment of certain goals. We are then faced with the question of whether or not the tools available to the government and Parliament can influence a certain development in society. And we can question which policy instruments are the most suitable, and also their basic construction in the specific situation.

We can certainly imagine that evaluations could contribute information in this kind of reassessments. So we are still confronted with the question of

Figure 3. The role of values and empirical information in relation to different decisions
why evaluations do not seem to have a greater influence on fundamental reassessments of existing policies.

One part of this discussion concerns the actual character of the evaluation which are produced in Sweden and probably in many other countries. Most of the studies which are labelled evaluations in Sweden do not provide information at the fundamental goals-oriented level. Just to give an example: governmental agencies, governmental commissions and different research institutions in Sweden have produced literally hundreds of evaluations about the use of information as a policy instrument in areas such as energy consumption, health and so on. These evaluations provide a lot of information about the dissemination of the information, the efficiency of different channels compared with each other, the changes in knowledge and attitudes in different target groups which can be attributed to the information and so on. In other words, the evaluations provide a lot of knowledge about the implementation of, in this case, a certain policy instrument. However, they do not provide answers to questions concerning in which situations information is a suitable policy instrument in relation to other policy instruments, in which situations information should be used instead of other policy instruments and in which situations information could cause the opposite effect of what was intended.

There is even a tendency to produce fewer evaluations, which deal with the basic assumptions about how a certain intervention can influence different causal relationships and the circumstances for governmental interventions. There has been a tendency over the past 10 years or so to produce evaluations in a much shorter time and to provide more "easily captured" information. More and more of the evaluations are oriented toward implementation, output and performance and are part of the system of agencies reporting to the government. The information in the evaluations therefore is more relevant in decisions which are part of the maintenance of policies or operative decisions.

This explanation is empirical in character. It says that to some extent we produce the “wrong” evaluations if the intention is for them to be used in policy reassessments, and that we to some extent produce the “right” evaluations if the intention is that they be used in more operative decisions. And this is certainly not a new answer in the Swedish discussion. In more than a few governmental documents produced during the last few decades – literally – there has been a complaint that the existing evaluations do not give us help in questioning policies nor in deciding what resources should be allocated for different interventions and which interventions have been the most successful.
5. Quality of evaluations and the knowledge frontier

A closely related explanation is that many evaluations are still of poor quality, even from a more technical point of view (ESO, 1996; Statskontoret, 1999) and this is of course a problem in relation to all kinds of decisions. The report from 1996 is most harsh in its assessment of the quality of evaluations from 22 governmental agencies, evaluations conducted in relation to the agencies’ own activities.

But a more fundamental quality problem has to do with the fact that many evaluations are repeated without any clear link to earlier evaluations. For example: in the field of energy conservation, in which more than 100 evaluations were produced in the 1980s, very much the same evaluations were carried out in the 1990s. The “new evaluations” have raised the same evaluative questions in relation to the same policy instruments and with the same research design without any discussion of earlier results. And I feel rather certain that this is the case in many areas, as in my earlier example concerning the use of information as a policy instrument.

So, the evaluation process itself enjoys only a very limited degree of learning. In examining the enormous number of “day-to-day” evaluations that are made within the various administrations and research institutions, it is evident how little use is made of previous evaluations (= cloning of evaluations).

This kind of evaluative amnesia makes the movement of the knowledge or evaluative frontier very slow. Part of this amnesia is also that many evaluations do not make use of more general knowledge and rather seldom relate themselves to a more general body of knowledge, which may be highly relevant. So to some extent at least the experienced politicians and bureaucrats have understood the rules of the game. Do not trust the evaluators too much!

6. The shifting degree of exactness and reliability

These latter explanations have to do with the actual character of the evaluations. If we could find the main explanations following these lines, we could certainly reduce this to a question of how we could change the character of the evaluations which are produced.

But I am afraid that besides this empirically oriented answer, we also have to discuss our basic ideas about how evaluations can contribute to reassessments of policies, policy orientation and political or governmental learning or whatever we want to call it.

I have said that the role of empirical information varies depending on where we are on the scale, and it is also obvious that we need different forms of evaluative information depending on what kind of decisions we are discussing. When we are talking about how we can improve the technical
construction of a given policy instrument we need a certain type of information, but when we are discussing whether or not it is a good idea to use this policy instrument at all, we need of course quite different types of information. It is obvious that these different forms of information have many different characteristics. The first type of information is often of a character which makes it suitable for the ongoing production of information, which perhaps is not the case when we talk about the latter type of information.

And in this context, it is relevant to make a distinction about how exact and reliable different evaluative statements are. This is illustrated in Figure 4. On the Y-axis we can imagine, nearest the origin of co-ordinates, a limited measure, e.g. an information brochure on influencing household use of energy. A little further up we find the “package of information efforts” required to have an effect on energy consumption, and still higher up the total measures needed to influence energy use in society. On the X-axis we can imagine some kind of chain of effects where, in the example given, we see the reception of the information nearest the zero, and farthest to the right the influence on the environment and the national economy that reduced energy consumption would have.

It is easily seen that we are talking about completely different kinds of information in “a” and “b” and, without crossing over the line to a discussion about theories of knowledge, we – and certainly the decision-makers – can expect information in “a” to be very exact and, at the same time, reliable. Evaluative statements on the effects of complex interventions in still more complex social processes and courses of events are of a quite different nature. An evaluation that draws conclusions about the extent to which a reform of
the school system aiming to influence equality between men and women has actually changed vocational choice, relationships in the home, etc., can hardly do so particularly well, and in any case not with a high degree of reliability. The nearer to “b”, the more improbable it is that different evaluations will come to the same conclusions.

The problem is of course that the “b” information is more relevant than the “a” information, when it comes to decisions about the basic orientation of a policy. It is therefore difficult to imagine that this kind of often uncertain evaluative information should be transferred in a more immediate way to the political decision-making system. The lack of use in relation to fundamental policy reassessments can therefore seem very rational from the politicians’ point of view. But on the other hand, we can also expect that the decision-makers make more use of the evaluative information in relation to the maintenance of policies and operative decisions. The information they need in these processes is more of the “a” character and therefore also more reliable. The difference when it comes to the use of evaluative information in different kinds of decision-making processes seems therefore reasonable even from this perspective.

7. Relation between evaluators and political decision-makers

This brings us to the question of the relationship between the evaluative camp and the political camp. Discussions, even the more recent ones, about the use or influence of evaluations, have had the evaluation and perhaps the evaluation process as starting points. The information in the evaluation has to be disseminated for the purpose of leading to different forms of use. On this point, it can be added that the discussion about the different forms of use has long since passed the stage at which the perception of use was an immediate response among the decision-makers to a specific evaluation.

But even if we are all aware of the sophistication of this discussion about use and utilisation, the underlying idea is still very much based on a model which starts with the evaluation, which hopefully will be disseminated to the decision-makers, who will react to the findings in one way or another – directly or indirectly.6

This model or notion of the utilisation process is perhaps a realistic one when it comes to implementation on a more administrative or operative level. But in reference to the relationship between evaluative information and political decision-making, this notion is perhaps too simplified.

To what extent the knowledge in different evaluations can influence policy reassessments probably also has something – and perhaps a lot – to do with the existence and the character of intellectual structures which are feeding the political system with knowledge. This factor is discussed in a
study about the Swedish Stabilisation Policy 1975-95. The author (Jonung, 1999) tries to “explain the sequence of policy switches that characterise Swedish Stabilisation Policy during the period 1975-95”. The author highlights the importance of intellectual structures from which the political decision-makers may possibly receive information. He points out the existence of a profession in close contact with the political system by saying, “politicians responsible for policy also obtained information, inspiration and arguments from the economic profession, i.e. from economists active at universities and research institutes”. Further he points out the role of international organisations as another source of information.

If we relate the result in this study to our discussion, it would give rise to the question about the need for such intermediate structures between the evaluation side and the political side: intellectual structures which digest the results of evaluations of – usually – rather limited programmes or activities and relate them to a more general body of knowledge.

In the case of the Swedish Stabilisation Policy, it was easy for the author to point out a well-defined academic discipline or profession with channels to the political elites. Perhaps we can imagine that the role of evaluations in political decision-making varies depending on the existence of such intellectual or professional structures.

So instead of the notion of a model in which evaluations are regarded as knowledge channelled directly to the political decision-makers, an alternative way of looking at things is to use the analogy of a “knowledge bank”. Different evaluations can contribute to this knowledge bank with information deposits. The officials of the bank, to continue the metaphor, interpret the information delivered in these different studies, rearrange the information and relate it to earlier knowledge in the field. They finally communicate the knowledge in their possession to the political elites.

That is to say: the immediate users of evaluations are not the decision-makers, but the officials of this metaphorical bank. So the extent to which the information which has been gained in connection with earlier governmental interventions will actually be channelled into the political and administrative system very much depends on the character of these intermediate knowledge structures.

The existence of such knowledge structures is of course very different in different areas. Sometimes there are well-defined knowledge structures coinciding with academic disciplines. However, this is often not the case, and this makes things a bit more difficult. Further, the lack of such structures can perhaps to some extent explain why evaluations are used as little as they are.

But what I want to point out is that the discussion about how evaluations can contribute to more fundamental policy reassessments perhaps should not
focus on the relationship between evaluations/evaluators on one side and the political system on the other. Another perspective focuses on a more triangular relationship, and asks questions about the relationship between the evaluation community and other knowledge structures on the one hand, and these structures and the political system on the other hand. It includes questions about the existence of different channels between these more general knowledge bodies and the political system, and also to what extent evaluations can contribute to this more general knowledge.

To strike a more optimistic tone, one of the lessons learned in Sweden is related to the question about structures to channel more general knowledge into the political processes. In Can Governments Learn?, I described to some extent the system of governmental commissions, which since the beginning of the 20th century has been a way to channel scientific knowledge into the political system. And in the rare, exceptional cases in which evaluations seem to have influenced decisions about policy orientation, they seem to have not done so directly, but through such more information-digesting structures.

8. The role of crises

Finally, I intend to add one more possible explanation. When it comes to implementation and decision-making concerning how a certain agency should conduct its tasks, a system can be created more or less forces the decision-makers to react – at least on some level – to the stream of evaluative information and take it into account in making decisions.

When it comes to fundamental policy reassessments, the situation is different. Since the 1960s, Sweden has tried, on several occasions, to incorporate fundamental reassessments of the basic commitments of the state and the basic tools which should be used to reach different goals in more bureaucratic systems. These systems have aimed to guarantee that such reassessments are conducted regularly, every third or fifth year, for example. In short, and with some brutality, it can be said that these efforts have failed.

The reason is probably not because problems connected with the implementation of these systems, different budget reforms and systems for the production of both output oriented information and outcome oriented information. Instead, and more probable, it is the underlying assumption regarding what motivates that kind of fundamental reassessment of the commitments of the political institutions, and the central means for the fulfilment of these commitments.

These assumptions have probably been too naive. The political level does not start to question a fundamental policy just because one or two or even five or six evaluations point out different problems, e.g. the lack of goal fulfilment and questions about the underlying rationale for the policy.
Instead, in the discussion about policy shifts, the importance of crises or extreme situations is often stressed. And if we follow this thought it leads us to several questions about how, and in which situations, it is fruitful to bring in information from evaluations in different decision-making processes, and it also give a background for the previous discussion about the role of different knowledge bodies which can provide the answers when the politicians really want them.

9. Finally

Perhaps one or two of the things that I have said can be deemed a bit controversial and if so I am glad. I admit I have tried to say a couple of things which certainly could be disputed. I have tried to moderate expectations of the role of evaluations and, in doing so, I have found it important to bring to light a couple of distinctions. They can seem too simple, but even so I think that they are important.

We often talk about evaluations in a more general way, thereby hiding the fact that the information provided in evaluations varies in a number of respects. And at the same the decisions in the political and administrative system are of many different kinds.

These basic facts have consequences with regard to what role we can expect evaluations and evaluative information to play. They also have consequences for the discussion about how frequently different forms of information should be produced and for questions about responsibilities and the organisation of the commissioning and conducting of evaluations as well as for the relationship between evaluation and other forms of knowledge production.

And we can probably imagine several different developments in this field. On one hand, we have perhaps a tendency towards a more ongoing, continuous stream of evaluative information, which perhaps will be channelled more or less directly to the administrative decision-makers from different systems. This kind of information is generated in more or less direct relation to the implementation of different activities. It gives the agencies, or more generally speaking the organisations responsible for the implementation, a key role in the production of such information.

On the other hand, we have the development of other forms of evaluations which have to be done on an ad hoc basis, and which much more strongly than today need to interact with a more general science production. So we have quite an agenda for our future discussions about the role of evaluations in political and administrative learning and also about the role of learning in evaluations.
Notes

1. In this context the terms evaluation and evaluative information are used with great openness. However, even with such elasticity I do not include all kinds of descriptive information. We can assume that some notion of reality lies behind every policy or every governmental programme. The foundation of an intervention is the perception something needs to be done, in other words that a problem is occurring or, perhaps, will occur in the future. The purpose of an intervention is to reduce the magnitude of this problem or to avoid it. And an important kind of information therefore relates to the fulfilment of political goals. Securing such information is not always a simple task. But basically national statistics, as in many other countries, can indicate to what extent the “big goals” have been fulfilled. So a stream of such descriptive information is produced (Sjöström, 2002). To what extent this stream reaches the political decision-makers and in what way this kind of information is used in the political decision-making are questions which I will not include in my discussion.

But when I speak about evaluations which can be used in the reassessments of policies, I am oriented toward the idea that evaluations will give us some information about how a certain action, on a micro- or macro-level, can be judged: to what extent has the action caused a certain development and how can this be explained?

This perspective lies very near the definition by Evert Vedung (1997, page 3): “Evaluation = df. careful retrospective assessment of the merit, worth, and value of administration, output, and outcome of government interventions, which is intended to play a role in future, practical action situations.”

2. The main sources are a study published by the Swedish National Audit Office (Riksrevisionsverket, 1991) in which 100 evaluations were examined and a dissertation about the Swedish commission system. In the later the author studied, among other things, the effect of accumulation and knowledge within the framework of the various governmental commissions on political positions, as well as other issues (Johansson, 1992).

3. One of the key concepts of the book is single-loop versus double-loop learning. Simplified it can be said that the effects of double-loop learning on decision-making means that you question the basic assumptions underlying what you are doing. Both single-loop and double-loop learning can take place at different levels. When double-loop learning is discussed in Can Governments Learn? in relation to Parliament and government, it implies what is discussed here as fundamental policy reassessments. This is illustrated by the following example (page 61): “The Swedish Customs and Excises Department combats the illegal supply of narcotics in order to control the consumption of narcotics. These questions are raised at government and Parliament level as if limiting the physical supply of narcotics is a good way of reducing the consumption of narcotics. If the governments and Parliaments were to alter the activities of customs service on the basis of studies demonstrating that changes in the system of legal sanctions would provide a better way of affecting the supply of illegal drugs, then this would be an instance of double-loop learning. But we might also speak of double-loop learning if the Swedish Customs Agency had, for instance, chosen to employ dogs as a central aspect of border control in the area of narcotics, only to change this policy if it were to be shown that the use of dogs was predicated on quite erroneous assumptions with regard to the behaviour of smugglers (or dogs).”

4. A similar situation is when it is agreed that something is a problem, and also that this problem is something which the government has to deal with, but some
politicians do not think that they can afford it given other needs. Of course it can be said, “Yes, this is a very unsatisfactory situation and in my opinion this is something which should be resolved by governmental intervention, but we cannot afford it in light of other needs.” And the conclusion may be that a governmental programme is abolished or a decision is made not to start a new programme on grounds which at least limit the relevance of information in evaluations.

5. Indications of this are discussed in Furubo and Sandahl, 2002 (page 126) and in several reports from the Swedish Financial Management Authority (ESV, 1999) and also in the discussion about the system of Governmental Commissions (ESO, 1998).


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Can Public Sector Organisations Learn?

by

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1. Introduction

In recent years, considerable attention has been focused on the importance of managing information in organisations, as well as the challenges for organisations to make use of and adapt from it. Organisations are expected to value information, to be able to learn from the past and to adapt to changing circumstances. While much of the literature has focused on private sector organisations, public sector organisations and indeed the governments within which they operate are undergoing significant reforms and face equal challenges.

This paper considers organisational learning in the public sector in light of current public sector reform initiatives, many of which have implicitly been based on the assumption that the public sector can indeed use empirical evidence on past experience to inform current decision-making. In doing so, the paper tries to avoid treating organisational learning anthromorphically, focusing instead on the processes and procedures that form the life blood of organisations.

Learning in organisations relates to how the organisation deliberately changes and adapts over time in terms of structures, functions, values, attitudes and behaviour. Organisational learning, as we shall use the term, refers to formal structures of information and whether or not they are used. Our interest is in how organisations can bring together information on past performance and have it influence decisions. Building on organisational learning literature, we will argue that while individual learning is important, it is not enough. There is a need to institutionalise learning processes within a public sector organisation.

After briefly describing several public sector reforms that rely on organisations using information on their performance, we present a short overview of organisational learning using a framework suggested by Lipshitz and Popper (2000). This is followed by a section discussing a number of mechanisms we suggest are needed for results-based learning and relating them to this framework. We then argue that a key reason why public sector organisations do not use evaluative information is their risk-averse nature, and present various elements of a learning culture which the organisational learning literature has identified. We then outline what lessons have been learned in trying to implement public sector result measurement and reporting.
We conclude the article by bringing together what has been learned in developing and implementing results-based initiatives in the public sector with what the organisational literature says about creating learning organisations. We argue that putting in place appropriate review systems and procedures for reviewing past performance can contribute to bringing about the needed culture change to a learning organisation.

2. Public sector reform trends

Public sector management has been undergoing considerable change over the past decade (OECD, 1997). Among the initiatives, one finds in particular:

- managing for results (results-based management);
- performance contracting for senior managers;
- accountability for results/outcomes.

2.1. Managing for results

Public sector managers are being encouraged to focus on the results (outputs and outcomes) that their programmes are intended to produce for their citizens, rather than just on following rules and procedures or on doing what was done last year (Office of the Auditor General, 1997). Through tracking and measuring those results, they are expected to adjust their activities, based on what is working and what is not. Managing for results envisages information on results playing a key role in public sector management, requires deliberate efforts at measuring those results (i.e. at gathering empirical evidence) and implies a willingness to revise policies and operations based on that information.

2.2. Performance contracting

In many countries, public sector managers, especially senior managers, have annual contracts with their organisation or the government setting out the results they are expected to accomplish in the year, and have their pay at least in part tied to how well they are able to produce the expected results. While judgment is still expected to play a significant role in assessing managers’ performance under this regime, it is also envisaged that empirical information on the results achieved will play a key role (OECD, 1999).

2.3. Accountability for results

Coupled with the managerial focus on results comes the need to build accountability around results. A number of authors have recognised the need to change our traditional view of accountability if we are to focus on results in public sector management rather than solely on rules and procedures. (Behn,
The Auditor General of Canada (2002) has discussed this issue and proposed a revised articulation of accountability:

*Accountability is a relationship based on obligations to demonstrate, review, and take responsibility for performance, both the results achieved in light of expectations and the means used.*

The Auditor General further suggested that:

Accountability in a performance-based public sector requires being able to credibly demonstrate:

- the extent to which the expected results were achieved at what cost;
- the contribution made by activities and outputs of the programme to the outcomes;
- the learning and change that have resulted; and
- the soundness and propriety of the means used.

The basic idea is that if accountability is to include accountability for outcomes over which a manager does not have control, then we need a more mature concept of accountability which allows for the fact that managers may have done all that could reasonably be expected but planned outcomes have not occurred for reasons beyond their ability to influence. In those cases, the key question is whether or not they have learned from the experience and have made changes to improve their use of tax dollars and public authorities based on what they have learned.

Each of these major initiatives is based on the theory that organisations and individuals in the organisation will adjust their activities based on empirical evidence on the past. But that is a key assumption. Empirical evidence that public sector organisations do learn in this fashion is not overwhelming (Torres and Preskill, 2001). And there are several literatures which have examined this lack of learning from facts, including that which examines utilisation of evaluative information, and the literature on organisational learning. This paper examines what a public sector organisation has to do to operate in this way, namely to engage in results-based learning.

### 3. Organisational learning

The literature on organisational learning is vast, covering a wide range of topics ranging from professional development to knowledge management to the utilisation of performance information in organisations. There is not a generally accepted theory nor readily accessible best practices, as numerous authors have pointed out (Argyris and Schön, 1996; Easterby-Smith, 1997). As Lipshitz and Popper (2000, page 346) note, there is conceptual fragmentation between academic researchers and organisational consultants who differ in
purpose (research vs. change), methodology (social science vs. action research) and terminology (organisational learning vs. learning organisation). No attempt will be made here to summarise the literature and this debate.

Rather we will build on some of the areas of agreement, define the terms we are using and set out what seems to be needed for a public sector organisation to effectively use empirical information on the results being achieved by the organisation. We are thus focusing on one specific type of learning in an organisation, namely that founded on deliberate efforts at acquiring and using empirical information. There are other types of learning that can occur such as professional development of individuals, learning from sharing on-the-job experience, and water-cooler discussions.

We are interested in organisational-level learning, whereby in a deliberate manner, evidence on past and other's organisational performance is sought and used to inform decisions in a public sector organisation.

3.1. Organisational learning mechanisms (OLMs)

The conceptual framework we are using is the one proposed by Lipshitz and Popper (2000), which focuses on learning by organisations and introduces the useful concept of organisational learning mechanisms (OLMs). The framework uses both a structural – the OLMs – and cultural elements. OLMs are “institutionalised structural and procedural arrangements that allow organisations to systematically collect, analyse, store, disseminate, and use information relevant to the performance of the organisation”. OLMs are seen as necessary but not sufficient for learning by organisations to occur. The quality of that learning depends on additional cultural/social facets without which OLMS are likely to be enacted as rituals rather than as mechanisms to detect and correct error (Lipshitz and Popper, 2000, page 345). The likelihood of learning is increased if the OLMs are embedded in an appropriate learning values system.

Lipshitz and Popper (2000, page 348) posit five organisational learning values.

<table>
<thead>
<tr>
<th>Inquiry</th>
<th>Persisting in a line of inquiry until a satisfactory understanding is achieved.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td>Giving and receiving full and accurate feedback without defending oneself and others.</td>
</tr>
<tr>
<td>Transparency</td>
<td>Exposing one's thoughts and actions to others in order to receive feedback.</td>
</tr>
<tr>
<td>Issue orientation</td>
<td>Focusing on the relevancy of information to the issues regardless of the social standing (e.g. rank) of the recipient or source.</td>
</tr>
<tr>
<td>Accountability</td>
<td>Assuming responsibility both for learning and for implementing lessons learned.</td>
</tr>
</tbody>
</table>
“Improving organisational learning involves designing and institutionalizing OLMs and embedding them in a learning culture” (Lipshitz and Popper, 2000, page 349). In this paper we are examining the kinds of OLMs needed in a public sector organisation and how the required supporting learning values can manifest themselves.

4. The requirements for organisational results-based learning

What then is required for results-based learning in a public sector organisation? What types of OLMs are needed? What would we expect to see in a results-based learning organisation? In terms of systems and procedures, we suggest that results-based learning would require in an organisation:

- **Credible measurement and analysis.** The results being achieved by its activities and the soundness of those activities are known in a timely manner (i.e. measured).
- **Information dissemination.** This information is communicated and shared within the organisation.
- **Regular review.** Specific routine organisational procedures form the basis to assess the empirical information about past performance, whereby decisions taken by staff and managers in the organisation to change existing policies and activities are informed by this information.

We shall consider each of these requirements for institutionalising a learning process. But we can first note that these activities relate fairly well with the learning values of Table 1, as shown in Table 2.

<table>
<thead>
<tr>
<th>Learning values</th>
<th>Results-based activities</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Measurement</td>
<td>Dissemination</td>
<td>Review</td>
</tr>
<tr>
<td>Inquiry</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Integrity</td>
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<tr>
<td>Transparency</td>
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<td>Issue orientation</td>
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<tr>
<td>Accountability</td>
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<td>✓</td>
</tr>
</tbody>
</table>

Table 2. Organisational learning values and results-based learning

4.1. Credible measurement and analysis

An organisation valuing results information would not leave the gathering of that information to chance. Rather we would expect to see a credible information seeking process in place which would include:

- **Active measurement.** Deliberate, proactive procedures are in place to measure the results being achieved across a wide spectrum of performance.
Measurement would include both ongoing measurement as well as more periodic evaluation, co-ordinated as part of the sensible effective and efficient measurement strategy. Further, results are not all that is important in the public sector. As indicated in the revised articulation of accountability presented earlier, the means used to achieve the results are also important. That is, public sector organisations are expected to adhere to certain values and practices such as propriety, prudence, fairness, treatment of staff in delivering services to citizens. How they conduct their business matters. A measurement OLM needs to cover both the results achieved and the means used.

- **Useful analysis.** To become useful information, data need to be assessed, put in context and appropriately interpreted. Procedures are needed to provide for analysis, synthesis and interpretation of results measurement.

- **A focus on data quality.** Measurement costs time and money, and can be seen taking resources away from programme delivery. Further if the information gathered is to be useful in decision-making, it must be seen by the organisation as credible. Specific quality assurance efforts are required to ensure that the data gathered are valid and reliable. These could include both efforts internal to the organisation as well as the use of external oversight.

Thus we would expect to see specific organisational processes in place to create knowledge about the results the organisation is, or is not, accomplishing.

### 4.2. Information sharing

Having invested valuable resources in the gathering and analysis of quality data, the results information becomes a valuable resource itself – assuming it is made available to potential users in the organisation in an easy-to-use form. Since the aim is for individuals in the organisation to routinely seek out and consider results information in their ongoing activities, we would expect to see widespread dissemination of the information as the norm. This simple requirement can be at odds with the traditional bureaucratic view of information as a source of power, and hence be carefully guarded and discretely used, or be seen as a source of embarrassment in the blame and shame world. Thus we would expect to see:

- **Knowledge management.** Deliberate practices in the organisation to manage the development and communication of results information.

- **Communication practices.** Procedures in place to ensure the timely delivery of relevant information in useable formats to all who might be able to use the information.
4.3. Regular review

The creation and communication of results information will be for naught if the information is not taken into account in the various decision-making venues in the organisation. The measurement of results in the public sector is as much an art as it is a science. Definitive answers to the important performance questions are usually not possible. Even with a sophisticated measurement system in place, there will be ample room and need for experience and judgment of staff and managers. Thus the goal is that results information routinely informs decisions, not that decision-making becomes automated.

But we frequently see that this does not happen in organisations. Decisions are taken without relevant results information at the table, or such information is viewed by decision-makers as something to get around rather than to use. Experience and “gut feel” are seen as adequate for guiding actions. And of course, that is how much public sector management has been and is undertaken. But the public sector trends outlined earlier are arguing the need for a more empirically based approach to management. Reviewing past actions based on empirical evidence on what has worked or not is not part of the decision-making processes in many organisations.

In our view, what is required is that “review” become as integral to managing an organisation as planning. What is required is:

- **Review of performance.** Processes in an organisation requiring regular and routine review of past accomplishments and failures by decision-makers at different levels.

- **Accountable decisions.** Processes to ensure that decisions on future actions demonstrate how they relate to what has been learned about what works and what does not.

In summary, we have identified seven generic OLMs we would expect to see in an organisation that is indeed learning from its past (Box 1).

The OLMs we have identified can also serve as criteria for assessing the extent to which an organisation is indeed learning (in the sense we mean here). In our experience, the gaps frequently found are:

- a lack of attention to quality assurance practices – suggesting that a limited value is being placed on data gathering efforts (weak inquiry);

- limited communication of results information – again suggesting it is not seen as an essential aspect for managing (weak transparency);

- review of activities undertaken as an afterthought or as an external requirement – indicating that review is not a serious part of managing (weak integrity and issue orientation); and
Box 1. Organisational learning mechanisms for results based learning

Credible measurement and analysis:
- deliberate measurement practices;
- useful analysis;
- data quality assurance practices.

Information dissemination:
- knowledge management practices;
- wide-spread communication of results information.

Regular review:
- practices for routine review of accomplishments;
- procedures for follow-up on decisions taken.

- no review and challenging of decision taken to show the extent to which they were informed by results information (weak accountability).

As indicated in the brackets, one can see that most of these gaps correspond to weaknesses in the learning values outlined earlier in Tables 1 and 2.

5. Why is review not loved?

If the programmes of a public sector organisation were all working just fine, delivering the goods and services efficiently, and producing the desired benefits for citizens in an effective manner, there would be little need to emphasise formalised learning. Other than perhaps an occasional check on reality, there would be little to do other than carrying on in the same fashion as before.

Of course that is not reality. Things are not working just fine, conditions are changing, priorities are changing, resources are changing and management is often a scramble just to get through the day.

Public sector organisations, however, do not like to admit that things have gone wrong, even internally. Too frequently, risk avoidance is the practice, and mistakes are downplayed or blamed on someone or something else. Yet, in our view, organisations will not be able to learn from their past efforts unless they can actively learn from their mistakes. Organisations need to, as Michael (1993) has suggested, embrace errors.

Review as an organisational practice – as an OLM – is not loved largely because it tends to show the things that are not working well, the things that have gone off the track. It involves admitting mistakes, finding out what went
wrong and who might have erred, and making that knowledge known in (and probably outside) the organisation.

6. An error-embracing culture

Most public sector organisations live in a world of considerable uncertainty and complexity (Zapico-Goni and Mayne, 1997). Michael (1993) points to the need to be able to live with uncertainty, of admitting that all is not known, but also of valuing the opportunity to learn from knowing what has not worked well. In this environment, the organisation values resilience – the ability to adjust, to accommodate and to partially contain problems.

That may be what is needed but how to get there? This takes us into the cultural aspects of organisational learning. Table 1 identified key values needed to support organisational learning. What values would an organisation have to exhibit in order to “embrace errors”? A little reflection suggests that the values needed so that active learning from errors can be supported include a willingness:

● to seek out explanations of what went wrong (inquiry);
● to accept and discuss the facts uncovered (integrity, issue orientation, transparency);
● to adopt new approaches as a result (accountability).

Of course, the suggestion is not to seek out error, but rather to deliberately encourage learning when errors occur. Indeed, an organisation would try through good risk management to minimise its errors, but not to the point of stifling the learning values listed in Table 1.

7. Learning from the past measurement initiatives

In terms of the OLMs in Box 1, by far the most common ones found in public sector organisations are those which measure and analyse evaluative information on the organisation’s performance. There is considerable literature addressing the general question of the use (or non-use) made of evaluative information. Utilisation of evaluative information – our “regular review” OLM – is the subject of ongoing discussion in the evaluation profession (Preskill and Torres, 2000), but the link with the literature on organisational learning has, for the most part, yet to be extensively explored. The book by Leeuw, Rist, and Sonnichsen (1994) and work by Preskill and Torres (1999) are useful exceptions.

Over the past several decades, considerable efforts have been made in trying to measure the results of public sector programmes and to use that information to improve programmes and the accountability of programmes. These areas of measurement effort are:
● performance measurement/monitoring;
● programme and policy evaluation; and
● performance reporting.

These OLMs can be found in many public sector organisations today, and each is the subject of a large amount of literature.

By and large (and with notable exceptions) success in these areas has been limited, despite considerable effort and expense. Routine use of the evaluative information produced by these measurement OLMs is not the norm in the public sector. What is the problem?

● Too much performance information is being produced?
● The wrong type of information is being produced?
● The information is not credible?
● The information is not timely?

At different times, we suggest, each of these problems has existed and has limited the use made of performance information in organisations. What have we learned about organisational learning from this measurement perspective?

7.1. Performance measurement/monitoring

We can identify several problems encountered when implementing ongoing performance measurement and monitoring in an organisation:

● Too often, performance measurement is done without an adequate framework being set out. Without some framework of what the programme is supposed to be accomplishing, such as a results chain or logic chart, the measures selected have no context and cannot be credibly interpreted as representing an aspect of the programme’s performance. Frequently, too many indicators are tracked, overwhelming an organisation.

● The performance measurement system is inflexible, unable to reflect changing priorities and changing circumstances.

● Inadequate measurement expertise is used in implementing the performance measurement systems. There is no “profession” of performance measurers as there is with evaluators.

● Questions of the quality of the data being collected are often not given adequate attention in organisations, such as through a robust quality assurance system. The credibility of performance measurement data is often questioned by those expected to use or be influenced by performance measurement information.

● Organisations may expect too much from a performance measurement system. As we have suggested, measurement will include considerable
uncertainty, often not providing definitive answers to performance questions, especially if not accompanied with evaluations.

● Indeed, performance measurement on its own cannot provide answers to some important performance questions, such as those dealing with attribution. A weakness has been that performance measurement systems are not seen as part of a broader measurement strategy which would include analysis and evaluation.

7.2. Programme and policy evaluation

Evaluation has experienced similar problems:

● Seen as the only measurement tool in an organisation, evaluation is hard to sustain. Since evaluations tend to be expensive, are done periodically and take time, they need to be part of a broader measurement strategy which includes ongoing performance measurement and analysis of performance information.

● Expectations for evaluation often are oversold. Evaluation cannot be all things to all people in an organisation: a research tool and an accountability tool; an aid to operations and a tool for policy development; comprehensive and specific.

● Experience suggests that evaluation in an organisation cannot address significant rationale questions about the organisation and its major programmes: there are limits to double-loop learning from inside an organisation (Mayne, Divorsky and Lemaire, 1999). They have argued the need for several different kinds of evaluations to deal with the range of performance questions that are of interest.

● Timeliness is a problem. It has often proven difficult to make evaluation findings available at a time when they might be able to influence decisions.

● The weak quality of the evaluations produced often leads to a credibility gap. In addition to data quality issues, evaluations often do not address issues that are of prime concern to the organisation at a point in time.

7.3. Performance reporting

Performance reporting to external bodies is now an accepted feature of many jurisdictions and indeed in many cases legislated. However, progress towards credible reporting is painfully slow (Auditor General of Canada, 2000; Boyle, forthcoming). Problems include:

● difficulty and reluctance in setting out clear and meaningful performance expectations against which to report future performance accomplishments;

● a tendency to report only the good news;
an insufficient focus on the quality of the data and information being reported, and a general lack of skills and experience in good performance reporting;

- inadequate use made in reporting of the findings from evaluations.

Overall what can we conclude? Measurement and reporting efforts in the public sector have suffered from:

- lack of an overall perspective on performance, exacerbated by inadequate integration between ongoing performance measurement efforts and periodic evaluation studies. Better integration could address the problems of timeliness and limited scope;

- inadequate attention to data quality (seeing empirical information as an asset not a cost);

- inadequate expertise in measurement;

- unwillingness to seek out, learn from and report bad news (error-avoidance);

- unrealistic expectations regarding measurement. There is often an inadequate recognition that measurement in the public sector is not an exact science, and that empirical information is intended to inform not determine decisions. Conclusive proof on the results achieved from programmes and policies often is not attainable. This implies there is a need to accept a degree of uncertainty in our knowledge about public sector performance. This further implies that mistakes and errors are inevitable.

The need for an error-embracing culture is clear.

8. Implications for public sector organisations

What then can we learn from past measurement experience? How does this relate to the framework we have presented for organisational learning? In our view, results-based learning in an organisation requires several things, discussed below.

8.1. Investment in sensible and quality measurement

For empirical information on performance to play a significant role in an organisation, the collection and analysis of results information needs to be taken seriously and to be treated as a valuable asset of the organisation. We would expect to see:

- a deliberate measurement strategy spelled out that includes ongoing performance measurement/monitoring, routine analysis of data and information, and periodic evaluations;
8.2. Supporting learning values

We know the kinds of values needed. Risk aversion in public sector organisations needs to be replaced by considered management of risks, a willingness to admit when things go wrong and to be able to discuss errors. This requires:

- leadership from the top which demonstrates the value of learning;
- a free flow of information in a non-hierarchal way – transparency;
- rewarding inquiry and learning, especially from mistakes;
- political support for a learning public service;
- an accountability system which supports learning.

There is not much that is new in this list. The difficult question is how to develop these requirements together in an organisation – the model in mind being that if these values and factors can be brought about, then we will likely see organisational learning occur. But, in concluding, we would like to turn this logic around and suggest that appropriate systems and procedures in public sector organisations could go a long way to creating and supporting the needed learning values.

9. Using systems and procedures to drive learning

Organisations, and perhaps public sector organisations in particular, thrive on systems and procedures. While problems of excessive rules and
procedures in organisations are legend, it remains the case that much of what organisations do – including well-managed organisations – is defined by the systems and procedures they put in place. Key functions in organisations include budgeting, programme planning and human resource planning, in addition to day-to-day managing towards objectives.

What is missing from that list of key functions – in practice and in the literature – is (regular) review. There are no counterparts, for example, to the usual requirements for strategic plans, annual operational plans, planning committees, and the like. “Plans” in some detail are needed to get budgets approved, but not “reviews”. High-profile planning committees and planning retreats abound, but not similar review committees and review retreats to consider past performance of programmes and operations. Audit and review committees do often exist, but they tend to structure their agendas around specific periodic audits and evaluations that have been completed.

We suggest that if review were as required in an organisation as was planning or budgeting, organisational learning would be significantly advanced and the necessary learning values learned. One might imagine a variety of review mechanisms in place at different levels within a public sector organisation, such as:

- Mandatory reviews when projects or significant milestones are completed by those involved, documenting what went well and what not so well, before approval is given for undertaking new projects or the next steps.
- Annual review retreats where the organisational-wide lessons are discussed and documented, undertaken before strategic planning is done.
- Requirements for budget requests to routinely be supported by relevant evidence from past experience.
- Active internal audit and evaluation functions seen as part of the organisation’s set of review mechanisms.
- A monthly review committee that not only considers both the quality and findings from audits and evaluations, but also the most current operational performance information (such as in the form of a performance dashboard), as well as the quality of other review mechanisms operating in the organisation.

Many other such review mechanisms can probably be envisaged. If they became an integral part of how the organisation managed – which itself would require leadership – “learning” would be forced on the organisation and its values. Over time, with leadership, review – results-based learning – would likely become a routine part of managing.
10. Concluding remarks

The challenges in moving to a learning organisation are many. This is certainly the case in the public sector. Strong hierarchies and risk-aversion behaviour are two characteristics which tend not to support a learning culture. The predilection to follow rules and procedures unquestionably is another characteristic of many public organisations which tends to run counter to experimenting and learning.

Organisations are indeed good at setting up systems and procedures. Setting up formal information sharing and especially formal review procedures is something that would be quite doable with the right leadership. Such procedures could go a long way, in our view, to addressing these challenges and establishing and encouraging organisational learning values. This would in turn support real results-based learning.

Notes

1. The views expressed are those of the authors and not necessarily those of the Office of the Auditor General. The authors would like to thank Ngoun Anupheap for assisting in background research that made this paper possible. The paper is based on a presentation made by Maria Barrados at the OECD Symposium on the Learning Government in February 2003.

Bibliography


Knowledge Management in Government: An Idea Whose Time Has Come

by
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Governments cannot afford to overlook a ground swell that is currently transforming companies, and more especially big companies. It is important that governments draw the appropriate conclusions, not by seeking to “copy” the private sector, but by endeavouring to innovate in accordance with their own identity and specificity and in accordance with their own way of managing their human resources.

The following issue paper is in three parts:
- the first part briefly describes the ground swell, which is commonly known as knowledge management;
- the second part shows why this movement is also of significance for the public sector;
- the third part makes proposals with a view to initiating a debate capable of turning into a genuine action programme affecting government over the coming years.

1. Knowledge management: an irreversible movement in large companies

What is it all about? Companies are discovering that their strategic resources are collective resources contained in the form of people's knowledge. The fact is that this knowledge is not properly “exploited”, is “under-exploited” or is even “non-exploited”. It is as if there were an accumulated body of knowledge (of which people are not even aware) with, as the systems analysts would say, “the whole amounting to more than the sum of the parts”. All of which is reminiscent of the famous disillusioned comment made by one of the heads of Hewlett Packard: “Ah, if Hewlett Packard knew what Hewlett Packard knows!”

What are we to make of this remark, which applies to any organised unit? It means admitting that the organisation knows a lot more than it thinks, that there are collective and individual memories that have been erased and that there is expertise that is no longer reactivated for want of appropriate storage methods.

All of this leads to the loss of efficiency apparent in big private organisations. Nobody even bothers to find out how other people solved the same problem earlier. Who remembers the fine invention of the 17th century French philosopher, Blaise Pascal? Seeing his father, the King’s intendant responsible for collecting taxes, struggling with additions and multiplications every day, Pascal thought up and constructed a veritable arithmetic machine,
the ancestor of the first calculator. At the age of 16, this “frightening genius” came up with the invention which would lead ultimately to the computer.

In addition, organisations find it difficult to listen to those who want to improve what already exists (economists call it “process innovation”), even though they use “ideas boxes”. Also, radical innovators tend not to be listened to any more because as new knowledge (or, moreover, a new combination of pieces of knowledge), despite being a source of value creation, is liable to call into question practices that are often fossilised or stabilised. The radical innovations are not listened to for good reasons, though often described as resistance to change. In their disappointment at not being listened to, the said innovators may psychologically desert the organisation, abandoning the idea of making any new contribution and obediently abiding by the collective norm which means that they are no longer under threat. They could be said to be tired of or bored with “pushing” new ideas and new practices – the ones that get nowhere for want of organisational attention.

Although admittedly not new, this waste has now become intolerable for consumers, who are no longer willing to absorb the costs deriving from flawed co-ordination and co-operation mechanisms. It has to be recognised, however, that big companies are beginning to realise the need to change the way they manage their store of knowledge, though the extent of this realisation depends on the nature of the sector.

The consequences of this waste are twofold

● there is not sufficient automation of explicit knowledge which could easily be codified; and
● insufficient steps are taken to provide space for those whose job involves proposing new combinations of knowledge and at the same time being willing to take risks.

The so-called knowledge management movement provides an answer to the above problems. It is a movement that is now occurring in large private firms, and is not a managerial fashion; or at least, if it is a fashion, it is probably going to last a long time. All of the attributes that characterise knowledge management relate in fact to generic factors such as knowledge capturing, processing, transmitting, storing and sharing.

The fact is that firms have always experienced a degree of conflict between “exploration” and “exploitation”. Since they obviously do not want to reinvent the wheel all the time, firms have always sought to develop techniques which facilitate routine and standardisation, thereby increasing efficiency. This is what explains the considerable efforts now being made to automatise everything that can be digitized, i.e. converted into zero and one.
Codifying practices in the form of standard operating procedures is part of the same phenomenon. At the same time, however, firms now realise that nothing can be taken for granted and that success will depend mainly on their capacity to come up with new ideas and solutions that will unsettle their competitors.

Why is it now that firms are realizing the importance of knowledge management as a specific and vital resource? First of all, because there is some urgency, in the sense that gaining a competitive advantage depends on how quick firms are to bring new items onto the market:

- that are sufficiently “rich” for a restricted market of consumers ready to acknowledge them and pay the price; or
- sufficiently “poor” to reach a broad public.

It is this process of value creation that gives rise to the conflict between the richness of ideas and the goal to be achieved (reachness).

Once innovation becomes a key success factor, firms are going to have to change the way they manage those who may be described as knowledge workers. Who are they? They are people who do not perform tasks that can be observed and measured with scientific measuring instruments (such as people's schedules or the sequencing of operations in basic units), but who handle symbols. Knowledge workers are faced with having to solve problems for which they do not always have a catalogue of answers.

The expectations of knowledge workers with respect to organisations are no longer the same as the expectations that employees had in the 1950s, when they were content to be loyal to the organisation in exchange for acceptable compensation. At that time, large organisations achieved stability because of the balance established between acceptable contributions and accepted rewards. This was the implicitly shared equilibrium model.

Nowadays, the situation has completely changed. To pick up a slogan from the 1960s, knowledge workers no longer work for General Motors or IBM. It is General Motors and IBM which have to give them good reasons why they should come and work in their companies. Future employees therefore have to agree to “rent”, for a time, knowledge that they feel they own. This vision of the employee's relationship with the firm marks a complete turnaround in the behaviour of the employee.

This is the explanation given for the difference between a “local” researcher and a “cosmopolitan” researcher in the very competitive world of research. The local researcher will seek to keep up and progress on the spot, in his/her laboratory, while the cosmopolitan researcher will endeavour to broaden his/her scope with the prime objective of obtaining the recognition of his/her peers. The said recognition will be gained by means of international
conferences and articles published in journals read by the author’s peers. The cosmopolitan researcher will have no hesitation in travelling the world and changing jobs, rather in the same way as motor car designers who are courted by a number of competing manufacturers at the same time.

These new employees will be attentive to the quality of the organisation which will facilitate learning mechanisms and enable them to progress in their area of expertise. So they expect not just a salary, but also:

● a place in which they can continually learn new things; and
● the opportunity to belong to a professional community in which cosmopolitan researchers will seek to be recognised on the grounds of their quality.

As a result, belonging to a professional community will often be seen to be more important than belonging to the organisation that employs the researchers in question. The professional community, therefore, is the place where practices are exchanged and personal development can take place. This is precisely the meaning that is to be attached to the enthusiasm (in articles at least) for the role played by communities of practices.

2. Is this knowledge management movement of any significance for the public sector?

Although overly succinct, this panorama does nevertheless show what is happening nowadays in firms that practice knowledge management. The question is whether this panorama has a meaning for the public sector or, more specifically, for government.

At first sight, it could be argued that what has been described above is of a somewhat exotic nature for government. Clearly, government is by no means subject to the same constraints as the private sector which is constantly liable to be punished by a market that can cause firms to disappear from one day to the next. Government therefore does not experience the anguish of such foreseeable decline, but by the same token, those in charge cannot use urgency as a means of imposing change.

Could the present excitement about knowledge management be no more than the futile gesturing of government officials in need of something new? To quote the French proverb and characterise the cynicism of those who are sceptical about managerial method phenomena: “let people bad-mouth what they want”.

To use just two examples from the previous section, it certainly could be noted that, in government:

● the “exploitation” dimension carries more weight than the “exploration” dimension; and
where knowledge workers are concerned, loyalty does not have the same implications.

When one looks at the functioning of mechanical bureaucracies, the importance of the "exploitation" dimension compared to the "exploration" dimension is obvious. The machine metaphor used here is the best way of describing government departments whose method of co-ordination mainly involves recourse to written rules and procedures. Moreover, these procedures are an important or even an essential production activity. The quest for efficiency is (or should be) the permanent concern of government officials who can in fact automate tasks with a high codification potential. Some sectors are obviously more appropriate than others.

To take just the example of the calculation and collection of taxes in a country like France, the army of Treasury accountants and collectors (hundreds of thousands of people) is numerically much bigger than the number of civil servants who put the budget together (just a few hundred). In a ministry like the Finance Ministry, there is therefore a big imbalance between the number of civil servants working on exploitation and the number working on exploration.

With regard to knowledge workers' loyalty, the question differs according to whether one is referring to the public or the private sector. It is hard to imagine "cosmopolitan" workers in the public sector being ready to work for competing organisations on the grounds of their expertise. Suffice it to take the example of sovereign departments such as justice or the police, or a department like health, to realise the impossibility of switching behaviour. Any defection would be seen as a protest or a sign of serious unrest.

Loyalty does not have to be won in this case inasmuch as it is already established, owing to the existence of an agreed idea of the meaning to be given to the concept of service. In a large number of OECD member countries, this loyalty stems more often than not from the fact that civil servant status is gained as a result of an administrative examination, while in some other countries it confers job stability over a certain length of time.

This constitutes a substantial difference which acts in favour of the public sector, inasmuch as the effort that government decision-makers have to make to establish a common culture with shared objectives is much less significant than the efforts that heads of private organisations have to make. In theory, and also in practice, "knowledge workers" are socialised by ideas concerning the general interest or the "public good". That ideology, which has to be seen as the "cement" holding all the objectives together, is without any equivalent in the private sector which has to find other engines that can prove effective but can also suddenly break down (the stock options example).
Concerning these two examples – the strains between the exploitation/exploration logic and loyalty – two comments may be made:

i) There is in fact in government a wide variety between the nature of the tasks performed by civil servants and the collective or individual dimension of their work.

The idea of the mechanistic bureaucracy, in which co-ordination is ensured by rules and not by people, simplifies a daily reality which is a lot more subtle and difficult to understand. Civil servants’ work can certainly be extremely humdrum, but it can also require judgment and discernment, while the same civil servants may also work alone or in groups. Just think of the police, judges, nurses, prison warders, or engineers responsible for road maintenance. These two dimensions – the complexity of the work and the degree of interdependence between the people engaged in the same activity – are independent and give rise to work situations which can be modelled.

In the case of primary and secondary education for example, most of the staff are primary school teachers whose work could hardly be called “routine”, even if teachers have to keep to an official syllabus. Their work still calls for initiative and discernment (first dimension), but more often than not they are isolated (second dimension).

What we therefore have is something that could be termed an independent expert model. There is also another model where independent experts, whose work also demands judgment and discernment, work together on a given problem (the drafting of a pedagogic paper or the diagnosis of a medical image). This can be the case in schools when there is “networking” between colleagues teaching the same subjects, or between schools, or in hospitals which, increasingly, are developing telemedicine techniques.

ii) While knowledge workers’ loyalty may be an established fact in the public sector, this does not necessarily mean that their expectations are any different from those found in the private sector: securing lifelong training for doctors, the teaching profession and magistrates and sharing their questioning with respect to problems encountered in their everyday lives are expectations that are also found in professional bureaucracies in the public sector.

Both examples involve bureaucracies that can be termed professional, i.e. bureaucracies whose co-ordination mechanisms require their “operatives” – teachers and doctors – to be skilled. The latter are anxious to maintain a level of qualification that guarantees their professional independence.

While there is therefore no lack of a priori objections regarding the limits to the transposition of a knowledge management policy, they do not in fact stand up to close scrutiny of actual practice. Governments are experiencing
the same mounting expectations of staff who are no longer working on separable and quantifiable projects, but on “events”, i.e. mainly on problems to be solved, decisions to be taken and anticipatory measures. Examples include the crises that demand rapid and relevant responses, such as natural disasters and industrial and public health risks.

This means that government can no longer afford to overlook the change in operative work, and it also assumes that administrative productivity no longer stems from individual tasks but from the quality of organisation between actors who have to marshal fragmented items of knowledge.

This is the assumption underlying the survey undertaken by the OECD with the object of assessing what progress has been made in terms of knowledge management practices. The whole interest of this survey lies in fact in identifying a series of challenges that government has had, to contend with or will have in the not-too-distant future. These challenges can be met with the resources currently available, without any reference to a far-reaching reform that is constantly being postponed because it is deemed impossible despite being vital. Even so, a number of proposals can lead to a realistic action programme.

3. Action proposals

3.1. Use NICTs to eliminate paper and set up cold data in terms of both quantity and quality

The impressive processing power of computer tools (NICTs, new information and communication technologies) can now be used to make paper documents available on-line. This is the process now taking place with the introduction of e-government confirmed by the OECD survey.

Plenty of measures have been taken, all the OECD member countries having shown initiative in bringing their government departments up-to-date, whether willingly or unwillingly. Nowadays, government portals have no difficulty rivalling private company portals in terms of computer graphics and ergonomics. Local authorities were quick to understand what they could gain by investing in this technology so as to ensure better day-to-day relations with their inhabitants/taxpayers. Making the minutes of town council meetings or auditors’ reports available on-line for example is, evidence of local authorities’ growing enthusiasm for the idea of finally introducing direct democracy which does not involve going through the filter of representation.

From analysing the services available on-line and the quality of the web pages, it has to be recognised that a lot of public organisations have jumped onto the new information technologies bandwagon with, in many cases, considerable success and talent, using both the Internet and Intranet. While big companies’ Intranet sites pool their knowledge with regard to strategy
watch, local authorities are also sharing their technological infrastructure in order to pool their public information databases. The pooling process is therefore clearly under way.

But more is needed, in the sense that the processing power of computer tools needs to be put to work for a specific purpose. On the one hand, it is a matter of working on data bases that are on the network, but also, and above all, it is important to make the system more reactive for the wellbeing of the citizen – a citizen whose expectations are unlimited as the relevant policy-makers know, and whose disappointment with regard to the quality of the services he/she receives can well involve sanctions for the policy-makers in question.

In the private sector, the intention is clear: consumers have to be targeted as well as possible, according to their profile, and their loyalty gained, since a faithful customer costs less to win over than a new customer. Business people and distributors nowadays form partnerships to share the information they have about consumers. They are in possession of data not just about the socio-economic category to which people belong, but also their behaviour, their buying habits, their preferred leisure pursuits, etc. In this way, enormous data banks are built up and information can be swapped. A disposable nappy manufacturer, for example, will “share” his database with a producer of milk for babies.

It is hard to see why this sort of tool, used systematically in the private sector (which uses it for data mining), could not be used in the public sector, though obviously the intention would not be the same. This type of initiative is in fact becoming very much more frequent in the public sector.

In sectors such as the administration of health care reimbursement, where data can easily be codified, an operation that used to take days and occupy thousands of employees, now only takes a few minutes. To take another example – pension scheme management (which occupies a number of civil servants who do only routine tasks) – NICTs in OECD member countries that are experiencing ageing of their population pyramid have made the machinery considerably more efficient. This is rather the same as in the “bank assurance” sector which chose to industrialise the production of its services as early as the late 1950s.

In Canada, for example, a member of the labour force on the point of retiring, who has contributed to several funds and different schemes, can use the Internet to obtain a simulation of the amount of his/her pension in just a few minutes. Not all OECD member countries have yet reached this level of performance, but the outlook has been clearly charted by the policy-makers, who will be faced with increasingly demanding citizens finding it harder and harder to put up with the performance differential between the private sector and a public sector which, in their eyes, carries out much the same tasks. This is where NICTs can play their role to the full.
With varying degrees of facility, NICTs can also penetrate a universe which is harder to codify such as medical diagnoses. The chip can be linked up with the stethoscope, as for example when setting up information systems. But the productivity gains to be derived from using NICTs in the area of medicine itself are hard to gauge, inasmuch as a hospital’s overall performance is unrelated to the performance of a simple task.

When it comes to building up data banks, public officials are not unaware of the fact that resistance to change cannot be overlooked. However, the trend towards automation via codification seems irreversible. Data are read by means of bar codes, which are now so commonplace that nobody thinks about them any more. As regards productivity gains in the private sector, bar codes are to industry what the horse collar was to agriculture in the Middle Ages.

Bar codes have quite simply revolutionised downstream-upstream relations: in supermarkets, suppliers know exactly, in real time, when their product is sold. In other words, the downstream side keeps the upstream side permanently informed. This revolution is important for managing government action, where the aim is specifically to ensure that information moves in a downstream-upstream direction. Bar codes have very quickly become efficient tools of food safety policy, for example by introducing traceability in the breeding industries. It is thus a tool that produces cold data: calf Z reared under its mother Y by breeder X, was born on such and such a day, etc. We have never had at our disposal so much incontrovertible information that cannot be falsified. Nor has paper, the logistical back-up for administrations that were founded on information being traceable, ever been so marginalised. But this does not mean the end of the public authorities’ certification role (issuing permits).

Computer storage of data can also be affected in more surprising places than sickness insurance centres or police stations. In France recently, at the suggestion of a senior master who may be described as innovative, a lycée had the idea of recording secondary school students’ absenteeism in real time by means of bar codes. At the start of every class, the teacher calls out the names and uses an electronic pen to highlight the bar code of the missing student(s). The senior master sees not only overall absenteeism (which may be 10%), but also immediately knows the name of the missing student, the time, the class and the name of the teacher. Furnished with both an overall picture and detailed information, the immediate effect for the master is to shorten the time taken to process the data and enhance the quality of his/her response.

Previously, the procedure was a paper procedure, dependent on the goodwill of the participants in the system. The teacher completed (or did not complete) a detachable form which was then deposited (or not) in the senior master’s office every evening. The latter would then collect all these forms
which would be processed – not on time, but halfway through the day. The master needed two days to know who had been absent, before contending with the protestations of the student claiming (with his/her friends’ backing) to have been at one course in three, and then perhaps warning the parents who would receive the information – a week later.

So the bar code makes it possible to collect “cold” data which can then be interpreted. Therein lies the problem of the transition between data and information, which now has to be emphasised. The term data refers to a set of facts describing a state or condition. The data refer to the attributes of an object, person or event. If the data identify attributes, they also identify absolutely specific causal relations. Knowledge is precisely this capacity to convert these cold data.

Having data on computer will certainly provide masses of data, but without giving them meaning. It will not answer the fundamental question of why. For example, why – other things being equal – are more cataracts operated on here rather than there; why is the cost of collecting this or that tax higher in that particular country, etc. But the work involved in collecting data can be greatly facilitated by establishing indicators which serve to some extent as parameters for describing a government measure.

Building indicators is not straightforward. Relevant parameters have to be established to describe what is to be observed. How, for example, does one construct an indicator of violence on the public highway? How should offences be codified? How can successful social reintegration be codified if success cannot be defined independently of the person providing the definition of success?

Shifting from cold data, which are increasingly well collected and abridged in the form of a composite index, interpreting them and taking action needs to be seen as a veritable “work project” to be undertaken by administrations embarking on the knowledge management path. The survey shows that many have no doubts about doing so.

3.2. Develop new competencies: learning how to interpret cold data

The transition from data collection to data interpretation is central to the knowledge management issue. What is important is to give some meaning to these data which, because of their sheer volume, are liable not to be read or simply to expire in the form of statistics that are regularly published but soon become no more than a ritual.

In both public and private organisations, everybody knows about the mechanisms that bury people under masses of data. Now it is up to knowledge officers to run an ongoing selection and sorting operation. One definition of knowledge management would thus be organising the attention of players in data-saturated systems.
This means changing levels and moving from data collection techniques (which are becoming more and more sophisticated) to interpretation, which is still rather “unrefined”, being based much more on the intuition, judgment, flair and experience of the person doing the interpreting, who will use his own filtering system.

Coming back to the example of recording absenteeism in schools, real-time collection of the information becomes a valuable tool for the master in dealing with the event symbolised by the student’s absenteeism, which has to be interpreted as a breakdown. This will enable the master to narrow down the answers inasmuch as he/she will now have a better grasp of the situation. It may be discovered that the student’s absenteeism is “selective” rather than “systematic” (a particular student being unable to bear a particular teacher and missing only that course). At the same time, the master gets information on absenteeism rates in that particular teacher’s class, the teacher not always being anxious for colleagues to know that students miss his/her courses (or else the student is absent simply because he/she knows there is homework to be handed in on that day).

In other words, the cold data give the master a variety of situations which will enable him to react differently and come up with much more cogent answers than previously. A variety of situations calls for a variety of solutions, and it is the quality of the information that will enable the master to alter the perception of this or that student.

While it may seem insignificant, this example illustrates both the role played by cold data collection and the skills needed to interpret them. Without automation, the data would have been provided in the form of average absenteeism per half-day. This raises the whole question of the relevance of data collection in relation to the intention. If, after operating for seven hours, a surgeon telephones in the evening to find out how his patient is and is told that the average temperature in his unit is 37.9 degrees, no interpretation will be possible. There will be no relationship between the information itself and using it in order to respond.

Interpretation can also be based on comparison, whence the strength of benchmarking surveys, which are beginning to be used in the public sector as instruments for producing knowledge on the functioning of organisations, in order to mobilise not only the players in the systems involved, but also public opinion. Why do more French die on the roads in France than in England, other things being equal in terms of the passenger/kilometre ratio? This is a question that can be asked all the more calmly because cold data are collected in accordance with increasingly strict protocols and are available immediately.

The transition from figures to letters (or the “transposition into words”) requires all the more care in that the said interpretation is destined to result in
public policy measures. So the figures take on all their importance, as long as one knows how to read them and decipher the strategies of the actors involved in formulating the said indicators, and who will be handling them. An example that illustrates this point is to be found in police statistics on delinquency. How are the figures to be interpreted? Is it police activity that is being measured (which can push the figures up or down, depending on the strategies involved in the system), or delinquency? What are the sources of these figures? How are the data aggregated?

In other words, how and where data are collected are details that have to be factored into the work of interpretation. Concerning a question as politically sensitive as security, interpreting the cold data becomes very delicate when the said data are placed under the control of policy-makers and do not derive from an independent observatory or an international organisation such as the OECD. A French sociologist specialising in police matters has proposed the following theorem (the Demonque theorem): “Over a short period, delinquency figures vary in inverse proportion to the popularity of the minister in charge of the department responsible for collecting the data.”

3.3. Changing the structures and methods of human resource management

Knowledge management is not devoid of consequences for the structure of the hierarchy and for human resource management. To mention just three:
- the change in the division of labour;
- the importance to be attributed to knowledge-sharing;
- the reappraisal of human resource management methods.

3.3.1. The change in the division of labour

As soon as data turn into information that can be put to active use, the immediate result will be to profoundly alter the way organisations are structured. This is true in both the private and the public sectors.

The role of hierarchy is redefined. It is no longer a person’s position in a hierarchy that will keep his/her there, but the skill in accurately interpreting data that will have an impact on actions made apparent to civil society. That skill will have to be recognised and accepted by a rank and file increasingly well equipped for data collection. Hierarchy will not actually cease to exist, but the way it gains legitimacy will be changed. Competence will take the place of authority.

Going back to the example of a budget to be drawn up: once data entry techniques have been automated and simulations made both possible and more and more sophisticated, there is more time available to discuss the
impact of the assumptions made. The once fastidious task of data compilation, which could take up a lot of work time, is nowadays turning into policy analysis, with questions being asked and a variety of answers provided regarding taxation or the costs and benefits of this or that solution.

In other words, the number of levels in the hierarchy is going to decrease as those at the base of the pyramid become better informed. The base will increasingly resemble the professional musicians who “naturally” accept the authority of the conductor. The immediate effect will be not only to completely rethink what a hierarchical level means in terms of “value added” on a knowledge chain, but also to rethink the traditional breakdown in mechanicistic bureaucracies between “staff” and “line”.

Traditionally, staff “thought”, i.e. laid down what work was to be done, while the line employees “executed” that work. With the arrival of new information technologies, that division of labour no longer has any meaning precisely because a manager is expected to meld it together.

Relations between the top and bottom of the hierarchy will be changed by the same token. It will no longer be a question of the management focusing on the information coming up from the bottom, but rather one of organising information sharing and the comparing of interpretations – which will necessarily depend on points of view and will differ – precisely in order to improve the quality of decision-making. Administrations will have to focus their efforts on the task of “making sense”.

3.3.2. The importance to be attributed to knowledge-sharing

The process of comparing points of view can only happen at meetings which become real places of work, rather than places for presenting a social hierarchy. It often used to be the case in highly “hierarchy-intensive” meetings that the person who knew was the person who kept quiet. There is in fact nothing spontaneous about knowledge-sharing. In a lot of “mechanistic” bureaucracies, withholding information was a technique or strategy used to enhance one’s power. In the new set-up which permits the circulation of knowledge, the expert’s power is founded not so much on individual knowledge as on his/her ability to make colleagues’ knowledge or opinions “flexible” and so improve decision-making in response to events.

OECD member countries suffer to a greater or lesser degree, for example, from the difficulty of providing schools with systematic experience-sharing mechanisms which will rescue teachers from the isolation that every day saps their energy. Sharing experience in this way involves organising time and places where experience can be shared between colleagues and where actual cases can be dissected. All these mechanisms have to be put in place if a learning administration is to become a reality.
There are, in short, a lot of initiatives, either taken directly by teachers who form networks, or driven directly by the state, borrowing from the example of a country like Mexico which, at federal level, has set up a network for experience sharing in occupational training. Tests with experience-sharing networks are increasing in line with their success, the survey carried out by the OECD confirming that they exist and are operational.

The initiative taken recently by a young writer in France, who set up a public good practice agency (bonnespratiques.com), goes further than the shared practice with the same professional referent. Starting with a concrete problem to be solved (how can schools be opened outside official hours so that voluntary helpers can attend to students, for example), it is a question in this case of circulating practical solutions “that work” throughout the country and sharing practices that have been assessed beforehand by experts and then disseminating them.

3.3.3. The reappraisal of human resource management methods

The effects on human resource management are also important. The expected profile will be different. The basis for assessment will change: success in an administrative examination will no longer guarantee a management post, defined once and for all. On the contrary, the desired qualities after for a managerial position will rather be those looked for in a conductor, to go back to the metaphor used above.

But how does one ensure that one is recognised by musicians, who are professionals, and thus impose one’s authority? A conductor can only assert him or herself with fellow professionals by virtue of his/her reputation and recognition on the international market for conductors and amongst the public. This means shifting from an objectives- to a results-based culture.

Turning to civil servants, whose own individual work can no longer be recognised as such in the sense that they have to share in understanding a given situation (without any answers being given in advance), it would seem that, here too, staff management methods need to be reassessed.

Will the faith of the teacher, the hospital doctor or the magistrate in his or her work be sufficient to give rise to vocations transcended by the spirit of public service? It is clear that fresh incentives have to be found in order to prevent the best people defecting and to avoid the “negative” attractions of public service looked upon as a shield against the risks of the labour market. Here again, the stakes are very high, always assuming it is presumed that if one knows how to manage knowledge, one also knows how to manage human resources. This is an assumption that still has to become a reality.

It may be postulated, by way of conclusion, that what is new today – both for firms and government – is that knowledge is becoming a management
subject. So knowledge may now – at the start of the 21st century – be said to be taking the place of the manual work which was the subject of scientific management at the beginning of the previous century. It is this shift which needs to be stressed and to which thought needs to be given prior to taking action.

To be exhaustive, it should be added that the producers, transmitters and users of this knowledge are fully aware of the above shift and make use of it. In the 19th century, people got married without “knowing”, i.e. without having read the comparative statistics on divorce rates in different countries, by age or socio-occupational category. It is very different nowadays, in the sense that lay people are able, in their own way, to appropriate the knowledge that used to be the reserve of specialists by reading simplified articles based on data produced by family research institutes. To continue with this example, Durkheim’s work is now in the public domain – some would say for the better, some for the worse. The medical sector certainly provides the best example of this interplay between knowledge producers, transmitters and users.

Anthony Giddens, a sociologist and one of Tony Blair’s policy advisers, was one of the first to build a theory around this phenomenon by putting forward the idea of reflexivity. In a society that is becoming reflexive, the increase in knowledge which is removed from its “official” place of production (like universities) does not make for improved control of society but can, on the contrary, cause social instability. This means that individual states have to find fresh space in their capacity to constantly develop cognitive and organisational conditions (and no longer just control and order them) so as to permit interaction between players. This fresh space assumes:

- a form of knowledge management between the central and local levels: at central level this means “making things possible” – though without doing anything other than proffering advice – in order to put together programmes with service producers who agree to be assessed on the basis of their results;

- civil servants who “play the game” by no longer sheltering behind their status, and who are prepared to see their work become similar to that of “internal advisers” to administrative units which, for their part, have to contend with citizens who no longer accept an authority over them that does not provide any explanations. And the more citizens are able to understand such explanations, the more vehemently they call for them.
Public Management Reform: Reliable Knowledge and International Experience

by

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1. Learning what works

In this paper I want to address some fundamental questions concerning the nature of knowledge about public management reform, and particularly its transferability between countries and contexts. My main point will be that knowledge of what works and what does not tends to be heavily context-dependent. That is to say, a technique or organisational structure which succeeds in one place may fail in another. So – to put it bluntly – there is no set of general tools that can be transferred from one jurisdiction to another, all around the world, with confidence that they will work well every time. This means we have to look carefully at contexts, and at the “terms of trade” each time we are thinking of borrowing a good management idea from somewhere else.

This is not a “how-to-do-it” paper. Rather it is a series of reflections on the nature of the “trade” in public management reforms, drawing on the existing academic literature and seeking to identify issues where further work seems to be desirable.

2. The increasing prominence of the international management “trade”

Once, when I was in Helsinki on a mission advising the Finnish Government, the then Minister for Public Management asked me whether I thought Finland should copy “the New Zealand model”? As far as I was concerned, the question came out of the blue. It turned out that neither of us favoured the idea, but the significance is that the question should even have been asked. Meanwhile the British model of Next Steps executive agencies has been exported to, inter alia, the Netherlands, Tanzania, Jamaica, and now Japan (Pollitt et al, 2001; Pollitt and Talbot, 2003). The Germans borrowed the Dutch local government Tilburg model for use in their local authorities. National audit offices all over Western Europe have shared information about how to do performance auditing (Pollitt et al., 1999) and governments have extensively swapped information about accruals accounting. Or again, the idea of restructuring tax collection services as autonomous agencies, which was pioneered in Bolivia and Ghana in the late 1980s, spread to at least 15 developing countries by 2001 (Taliercio, 2003). The Brazilian national school of public administration, ENAP, owes much to the famous French ENA – and so on.

Of course, such international traffic is far from new. For example, history records that constitutions themselves are often borrowed. Some elements of
the United States Constitution travelled to West Germany, and subsequently to Spain and Hungary. In Brazil, the modernisation of the 1930s included the import of American scientific management ideas through the Administrative Department of the Civil Service (Rinne, 2001). Nineteenth century Japan borrowed systematically and shrewdly from various European models of public service (Westney, 1987).

3. Selected academic questions concerning the international transfer of management technologies

Despite the current wave of international borrowing, and its long history, rather little academic attention has been devoted to it. The vast majority of public management scholarship has been, and continues to be, confined to one jurisdiction. Yet the relatively limited amount of work that has been done on international transfers of management technology already shows that they are both complex and problematic. To put it briefly, the act of importing a management technology from one country to another is risky and volatile. Some observers believe that one of the most common outcomes is “inappropriate or hasty transfer” (Stone, 1999, p. 54). Others remark on how frequently the import is “translated”, “edited”, “transformed” or “localised” during the process of acquisition. Transfers frequently result either in failure or in a substantial metamorphosis of the technology itself: for better or worse it becomes something else.

There are many interesting questions which can be asked about this phenomenon. For example, some scholars have concentrated on identifying the conditions which encourage or discourage the export of policies from jurisdiction A to jurisdiction B (including a foundational text by Rose, 1993). Others have attempted to describe the institutional networks which facilitate the flow of ideas (Halligan, 1996; Premfors, 1998). Others have explored the best way to theorise transplantation (De Jong et al., 2002). But these are not the aspects I intend to focus on here. My main concern will be with the question of the conditions favouring a successful transfer. I will attempt to identify some of the variables which seem likely to influence whether or not an imported technology will achieve the expectations which are attached to it.

4. That looks good – maybe I should get one?

Let us begin with the naïve position, and build outwards from there. Perhaps the reason there has not been much academic work on borrowing public management techniques is that there is no a problem? Couldn’t it be that this was a fairly straightforward matter – like selecting a new car? Let us say I see my neighbour has a new car, I ask him about it, discover that it is both more powerful and more economical than my own, and go down to the garage
with my cheque card, and soon I am the proud owner of a new, improved model.

Note some of the assumptions behind this analogy:

- The technology which is transferred is relatively simple and well-understood (a car).
- The task to be performed is (likewise) simple and well-understood (transportation from A to B).
- The knowledge transfer does not take long (the neighbour and I quickly discuss speed, fuel consumption, comfort and price).
- The purchase is voluntary – I choose freely and the neighbour gladly helps by letting me take a short test drive in his car.
- Relationships among the main actors are simple – there is a dyadic transfer of knowledge between the neighbour and me, followed by a similarly dyadic commercial transaction between me and the garage.

And one more:

- We share the same language, so we can easily exchange information and we can readily check and confirm that we do indeed share the foregoing assumptions.

My suggestion is that for many transfers of public management reforms, few or none of the above assumptions hold. In the following paragraphs I go through the assumptions, one by one, and try to set out the reasons for, and consequences of, this view.

5. Simple and well-understood management technologies

The management technologies which are transferred internationally are often fairly new. It is innovations which hit the headlines, politically and professionally, and which therefore grab the attention of would-be importers, exporters and management entrepreneurs. Such new technologies tend to be less well-understood than those which have existed for longer. The Dutch, for example, began a process of adopting the concept of “executive agencies”, explicitly basing this on the United Kingdom Next Steps programme, during the early 1990s – when the Next Steps programme itself was still in the middle of its early phase and its full implications were probably only partly understood. The United Kingdom National Health Service (NHS), launched two large and expensive Business Process Re-engineering (BPR) projects just three years after the Americans, Hammer and Champy, hit the business headlines with their claims to have invented a revolutionary technique (Hammer and Champy, 1995). At that point the bad press which BPR was subsequently to receive was only just starting.
More generally, many of the management technologies which have been the subjects of recent international transfers are anything but simple. Accrual accounting, Business Process Re-engineering, Total Quality Management (TQM), autonomous agencies, regulatory impact analysis, evaluation – each of these is exceedingly complex, having simultaneous effects on many different parts of the organisations which adopt them, and, in most cases, on other organisations with whom the primary organisations have dealings too. None of these widely-traded technologies is a simple, standardised item. For example, research has convincingly demonstrated that TQM is not a single technology, but a broad approach, including within itself many disputes and differences (Joss and Kogan, 1995; Zbaracki, 1998). Similarly, autonomous agencies have taken on a fantastic variety of forms in different countries (Pollitt et al., 2001; Pollitt and Talbot, 2003). Accrual accounting contains within itself many significant choices and it would be an unwise observer who assumed that the figures generated by accrual accounting in New Zealand could be directly compared with those from, say, the United Kingdom or Sweden. In his path-breaking study of lesson-drawing in public policy Rose (1993) persuasively argued that the simpler the cause and effect model, the simpler the transfer was likely to be. The preceding examples show that such simplicity may be less than common.

Nor is it a matter of complexity and variation alone. Less widely recognised, but equally significant, it is not unusual for there to be a lack of unanimity as to how these technologies actually work. How, exactly, do they produce the beneficial effects they are supposed to produce – what is the key chain of logic? I once worked on the evaluation of a major BPR project in a big hospital, where one of the project leaders was a recent and enthusiastic graduate of a Mike Hammer seminar (Hammer and Champy, 1995). It soon became apparent that expectations for the transformation varied widely within the hospital. Some – the true believers – thought that the rigorous mapping and then radical re-thinking of key processes would achieve the breakthrough that was sought. The technology itself would deliver the goods. Others supported the programme not because they believed in BPR as such but because they thought, Hawthorne experiment-style, that almost any outside intervention would release the innate productive capacity of staff who had never before been so directly involved, on such a large scale, in managed change. Others still, including some senior doctors, were sceptical of the technical claims of BPR, but realised that it would pull in extra resources and therefore tried to use it as a vehicle for financing pet schemes which they had been nurturing long before the management consultants showed up. So all these groups thought that the BPR project could be used to improve the performance of the hospital, but they differed rather fundamentally as to how and why the improvement would come about.
In short, the analogy of acquiring a car or other mainly mechanical technology does not fit.

6. Simple and well-understood management tasks

It is not just a question of the complexity of the import, but also one of the complexity of the task and context into which the new management technology is being introduced. There are at least two dimensions to this second source of complexity. First, there is the clarity (or lack of it) of the immediate policy objective(s). Second, there is the institutional and cultural context in which the policy is operating. Each deserves some discussion.

It has long been a common observation of students of the policy process that policy objectives are frequently “multiple, conflicting and vague”. This is sometimes true also for management reform. Studying the process of autonomisation of public agencies in the Netherlands, van Thiel found that politicians had offered a variety of reasons for the restructurings, but most frequently they had specified no objective at all (van Thiel, 2001). Commonly there is ambiguity about whether the top priority objective is to save money, to improve service quality for service users or to make the service more effective from the government’s point of view. The normal procedure is for the promoters of reform to claim that all these effects will be achieved, rejecting or ignoring the idea that there might be some trade-off between them (Pollitt and Bouckaert, 2000, Chapter 6). In such situations there is very likely to be some ambiguity over the “success” of a transfer of management technology, because it is not entirely clear what the key objective was supposed to have been in the first place.

The second source of complexity is probably even more directly threatening to successful transfers of management technology between different countries. It is the embeddedness of the “target” (the specific programme or organisation in the importing country) in a wider network of relationships, and in a particular administrative culture. Networks are “sticky”, so that the particular target cannot be fully addressed without drawing in other organisations, or programmes, and understanding the dynamics between them. Thus, for example, the relations between a United Kingdom agency and the legislature is very different from the relationship between a United States federal agency and the (much stronger) United States legislature, as those trying to set up United States Performance Based Organisations (PBOs) in the late 1990s found out. Similarly, attempts to set up United Kingdom-style performance-oriented agencies in Tanzania ran into difficulties partly because of hugely influential relationships “outside” the agencies themselves, such as the centralised strength of the presidential system of government, and the acute budgetary instability of a poor,
developing country (Pollitt and Talbot, 2003). Klein well summarises the point when he says that:

"Policy learning … is as much a process of self-examination – of reflecting on the characteristics of one's own country … as of looking at the experience of others."

(Klein, 1997, pp. 1269-1270)

To ignore this wider picture may lead to problems. Radaelli, in a recent analysis of the spread of Regulatory Impact Analysis (RIA) through Western Europe, notes that:

There is no doubt that best practice and benchmarking are by far more popular than context-sensitive lesson-drawing.

(Radaelli, 2002, p. 5)

He strongly criticises the best practice approach, at least when it is used in a decontextualised manner (see also Lynn, 1996, p. 105). RIA, he says, is often treated in this way, despite the fact that:

the problems to which RIA is associated differ widely across countries. RIA is an attempt to tackle the problem of competitiveness in Australia. It becomes a solution to the problem of competitiveness in the process of liberalisation and economic integration (via NAFTA) in Mexico. It certainly was a solution to the problem of "rolling back the state" in the early days of compliance cost assessment in the UK. It is an instrument geared towards the general aim of simplification and the "slim state" in Germany. It is a way the EU tries to cope with the problem of legitimacy in its regulatory system.

(Radaelli, 2002, p. 5)

It could be argued that some contemporary trends in public management make the need to address this "wider picture" even more acute. The burgeoning popularity – in many countries – of public/private or public/public partnerships means that the introduction of a new management system to one public organisation may easily have a direct effect on other interested parties. So does the fashion for "joined-up government" and "cross-cutting programmes".

(Pollitt, 2003)

Again, the analogy of buying a car or other "piece of kit" is misleading. It underestimates the possibility that there may be several views on the nature of the job to be done, and it completely ignores the likelihood that the process in question (in the analogy, driving from A to B) will in practice be intimately linked to a range of other tasks and processes.

7. The transfer of knowledge is rapid, straightforward

This can be quickly dealt with. Public management reform is usually a multi-stage process which takes some considerable time and involves many
iterations. There can be debate about a specific technology, but little action. There can be a formal decision to adopt, but implementation may be unenthusiastic or incompetent. Implementation may be vigorous and yet the desired results may still not appear. Hitches and diversions can occur at each stage and for many different reasons (Pollitt, 2001). At first, implemented new technologies may seem full of snags, but, after a couple of years of settling in, the objectives originally aimed for may gradually be achieved. The analogy of rapidly purchasing a new machine and immediately setting it to work usually just does not fit large-scale organisational change.

8. The transfer is voluntary – a free choice

Transferring management technologies from one country to another has become big business. Well-intentioned neighbours who have no motive other than good neighbourliness seem to be in short supply. More often we find transfers suffused with considerations of prestige, legitimacy, the exercise of influence or the straightforward desire to earn a good fee.

Some transfers have a post-colonial dimension to them. Governments in ex-French West Africa are advised by experts from Paris. Agencification programmes in Jamaica and Tanzania are undertaken with substantial help and steering from London (Pollitt and Talbot, 2003). There is nothing necessarily wrong with this, but it does mean that the importer is taking the advice of a far wealthier and more powerful neighbour, who will frequently have other items on its agenda, in addition to the management reform itself. Other technology transfers to developing and transitional countries may be bound up with the conditionalities for loans and/or other forms of assistance from international organisations such as the IMF, the World Bank or the European Union (Stiglitz, 2003). Certain countries – Australia, New Zealand and the United Kingdom among them – pride themselves as being in the vanguard of management reform, and send their experts all over the world.

It may not be an ex-colonial link, or a condition of an international loan, which produces an inequality in the relationship between “adviser” and “importer” but rather the extension of a particular community of discourse to a position of international dominance. In the early and mid-1990s the Public Management Service (PUMA, now GOV Directorate) of the OECD, whether by accident or design, seemed to slide into the role of global mouthpiece for a particular, “Anglo-Saxon” model of management reform (Halligan, 1996; Pollitt and Bouckaert, 2000; Premfors, 1998). The norm became a continuing programme of NPM-style change, and this agenda established itself as the one around which most debate took place. That, I presume, was why the Finnish minister asked me about the New Zealand model – his officials at the time
were active members of PUMA and dutifully brought back Anglo-Saxon ideas to Helsinki for local assessment and possible borrowing.

More than 20 years ago, Powell and DiMaggio proposed a theoretical explanation for the convergence of organisational forms in particular fields towards a common type (Powell and DiMaggio, 1991). Their idea of “institutional isomorphism” has subsequently been quite widely used to explain trends in both the public and the private sectors (e.g. Pollitt, 2001). Interestingly for our present concern with international transfers, none of the three convergence mechanisms proposed by Powell and DiMaggio involves simple voluntary copying aimed exclusively at better performance. The first type, coercive isomorphism, occurs when an organisation adopts a new form because some superior or dominating authority pressures it to do so. Mrs Thatcher’s insistence on compulsory competitive tendering for local government and the National Health Service would be a case in point. In the international arena some of the reforms in the developing world are clearly made largely at the behest of aid donor organisations, both national and international. The second type, mimetic isomorphism, occurs when, under conditions of uncertainty about what the best thing to do may be, an organisation concludes that the safest course is to copy what has been done by some apparently successful or high status organisations in their field. This should confer legitimacy, even if performance does not improve – one always has the defence that one was imitating the best. The third type, normative isomorphism, typically occurs when some professional body or other standard-setting organisation decrees that particular processes should be organised in a particular way. Hospitals organise a certain treatment in similar ways because this is what is recommended by national institutes or colleges of medicine. In the world of public management, international consultancy firms may spread a particular technology as the wind spreads sycamore seeds (Powell and DiMaggio, 1991, p. 70).

The point about the theory of institutional isomorphism is that it extends the range of motives through which international transfers may come about far beyond either simple goodwill or, indeed, a single-minded drive for greater efficiency. Importers may not be rational actors – or, at any rate not only rational actors. Copying may occur because of external pressure on the importing government, because it seems like the safest way to legitimise reform, or simply because some particular piece of management technology has become “the norm” in relevant international networks.
9. The transfer is dyadic – there is one “importer” and one “exporter”

International transfers may be dyadic, but often relationships are more complicated than that. Governments certainly proclaim their own success stories directly to other governments, but the growing network of international conferences and seminars where ideas are exchanged about “good governance”, “benchmarking” and “management best practice” includes other kinds of “player” in addition to currently serving national civil servants. These other actors include:

- the staff of international and supranational organisations such as the World Bank, the OECD or the European Commission. These nodal institutions both bring national (and sometimes local) government representatives together in fora specifically devoted to improving management technologies, and themselves engage in advisory and proselytising roles;
- management consultants, who are regularly hired either to work as expert advisers on specific instances of technology transfer or to report to deliberative fora on the latest developments in the private sector;
- recently retired senior civil servants, who frequently find themselves travelling extensively in retirement to advise other governments;
- some academics – there is a limited but growing band of academics who are “on the books” of national governments and international agencies, and who are regularly called upon to join teams that advise importing countries, or simply to play their part by providing some more “academic” input at international seminars or conferences (Talbot and Caulfield, 2002, is one example of this kind of work).

In practice, transferring management technology from one country to another is rather seldom the work of a single adviser (from any of the above groups). Often it will be a team effort, with teams composed of some mixture of members of the above categories. At their best such teams can be exhilarating places to work – a fruitful mixture of experiences and perspectives. At worst the different motives and cognitive styles of the various types of adviser can lead to mutual irritation and to incoherence or superficiality in the advice the team delivers.

Most such teams will have a designated contact person in the administration of the importing jurisdiction. Some teams will actually include a native of the importing country as a full team member. This can be a crucial role. As indicated above, understanding the domestic context – the local institutional networks and dependencies, and the politico-administrative culture of the host country – may well be essential for the chances of a successful transfer. Implementing TQM in a Russian driving license agency is
most unlikely to be the same as implementing TQM in a Swedish hospital. Without authoritative advice on the local situation, the most expert team can easily get into difficulties. Yet even with that advice, matters may still go astray. Does the crucial local liaison person/team member have his or her own axe to grind? How can the rest of the team assure themselves of the quality of the “inside dope” which they are being fed?

To summarise, international transfers of management technology are seldom accomplished on a “from me to you” basis. Frequently they involve representatives of several different organisations or disciplines who are brought together for the purpose and expected to work as a team. Access to local knowledge is often vital, and sometimes difficult. A transfer of this type is not a matter of a glossy brochure or a brief PowerPoint presentation – it is itself a complex process, in need of good management.

10. There is a shared language between the importer and the exporter

Most people who have studied or taken part in international transfers of policies and technologies have anecdotes to tell about awkward or amusing misunderstandings which have arisen because more than one language is being used. Words are slippery, and even when everything is translated into one language, for non-native speakers key terms may still carry distinctive connotations associated with experiences in their home country. In my own comparative work on executive agencies I was struck by how, even among the Dutch, Swedes and Finns – almost all fluent in English – the term “agency” itself conjured up different sets of expectations, often significantly different from those of the Brits who were accustomed to “Next Steps”-style agencies (Pollitt et al, 2001).

This is not a trivial matter, and its importance is amplified by the fact that what is traded internationally is not usually the practice itself, but words describing the practice:

Reformers may learn about reforms to imitate through written reports, on short visits during which they are given talks about a country’s experience with reforms, or more indirectly when consultants or researchers tell them about change initiatives elsewhere. Thus, what is spreading is not practice as such, but accounts of this practice.

(Sahlin-Andersson, 2001, p. 54)

11. Concluding remarks

In terms of mainstream social science, we seem to be at the stage where we recognise the complexity of the issues, and have developed some broad
conceptual schemes that help us map what we suspect will turn out to be important independent variables. The latter “candidate variables” include:

- the similarity of the goals within the exporting and importing jurisdictions;
- the simplicity/complexity of the technology itself;
- the institutional similarity between the jurisdictions;
- their cultural compatibility.

A number of illuminative case studies stress the significance of one or more of these factors for the success or failure of the transfer (see, e.g. De Jong et al., 2002; Pollitt and Talbot, 2003). Theorists of “path dependency” show how the logic of institutional and cultural similarity may influence the costs of reform and the chances of success (Pierson, 2000). What we do not yet have, however, is much comparative work, where the same conceptual framework is applied to a series of management transfers, to see if some variables, in some circumstances, feature as more significant than others. In general terms it would be likely that characteristics of both the technology itself and the institutional context into which it is being imported will affect the outcome (Manning, 2001; Pollitt, 2003), but to say that is to do no more than announce the first step in model-building.

At a more basic level there is also much work to be done in order to operationalise some of the concepts which have figured in the policy transfer literature thus far. Cultural compatibility, for example, is often mentioned, but how are we to measure it? What technique will enable us to distinguish between situation A, where cultural differences are substantial but can be surmounted, and situation B, where they are so profound that the particular transfer under consideration would stand very little chance of success? The major works in the field of comparative contemporary cultures bring us face to face with this question but do not yet give us the intellectual equipment for answering it (see, e.g. Hofstede, 2001; Hood, 1998).

Once we have advanced further with operationalisation and with systematic comparisons, we may be able to begin to get some idea of the relative frequencies of different kinds of approach and outcome. Do governments normally scan their current portfolio of management arrangements, identify areas of weakness, and then seek the best buy on the international market place? Or are we in a more Kingdonian world, where streams of technical solutions flow along, their advocates waiting for a suitable problem to batten onto, and hoping for a brief moment of political attention, out of which can be squeezed the necessary authority and resources for action (Kingdon, 1984; Wolman, 1992, p. 36)? Case studies of transfer seem to reveal the existence of both types – the “rational shopper” and the “garbage can” model of “impulse purchasing” when a particularly irritating problem needs a new “fix” of legitimacy. What we do not yet know is what the distribution is.
between these two extremes, and whether the growing interest in transfers means that this distribution is changing.

Finally, we should return to the issue of management knowledge itself. Too often, the unspoken assumption is that “management” is now a field of sufficiently certain and invariant knowledge that it can be traded across almost any kind of boundary – organisational, legal, cultural, linguistic, topographical. The paratroopers of the World Bank or Arthur Andersen or the United Kingdom Cabinet Office will float down and help the importing government build a performance indicator system or a financial management system or an autonomous revenue agency. They will “facilitate learning”, “build networks”, “share best practice”. The official texts make it sound as though, in principle, almost any technology can be transferred. Indeed, the category “management technologies that are specific to this place and time, and which cannot be transferred” is de facto empty – it is just not referred to. After all, adjustments can surely be made to meet the institutional and cultural differences of the importing country? But the epistemological foundations of this far-travelling management knowledge are rarely discussed. The possibility that widely-used technologies may contain fundamental flaws or contradictions is not on the agenda. Cultural and institutional differences are categorised as problems to be overcome rather than fundamental reasons for pursuing different, home-grown solutions. [Although, of course, there is a parallel critical literature that questions the status of this expertise: see, for example, Power (1996) on audit; or Hood and Jackson (1991) on the “principles” of public administration; or Pollitt (2003, Chapter 7) on getting and giving public management advice.]

Meanwhile, career paths for the new experts are emerging. The advent of the internet and easy air travel enables their professional networks to be truly international. The construction of a cadre of international public management experts and a network of connected institutions is proceeding apace. Correspondingly, the idea of domestically-devised solutions to local problems – local operative staff working patiently to improve their own practice – begins to look dull and old-fashioned. In our globalised world of management it is increasingly assumed that someone out there must already have a better solution, if only we can find it.

The concluding message is therefore one of caution about this whole way of looking at things. The international experts may know about the technology, but they often know little of the local context, and they may not even know much about the specific functions concerned. Yet functional knowledge and contextual knowledge may be just as important for the success or failure of the reform as knowledge about the technology itself. It is only by combining technical management expertise, functional knowledge and local contextual awareness that we can hope to close the implementation
gap in public management reform. Effectively to combine these three streams of knowledge is itself a management task of the highest importance.

Notes

1. This remark should be partially qualified. The academic literature dealing with international transfers of public management technology is limited (but growing). There are, however, other, much larger literatures which may well contain relevant ideas. These include the general policy transfer literature (e.g. Dolowitz and March, 1996; De Jong et al., 2002; Rose, 1993; Stone, 1999), work on the diffusion of innovations (e.g. Halligan, 1996; Rogers, 1995), and analyses of the modes of propagation of management fashions (e.g. Jackson, 2001, Pollitt, 2001). Clearly, understandings derived from the transfer of management technologies between different jurisdictions within a single country may well prove relevant for the yet more complex subject of transfers between countries.

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