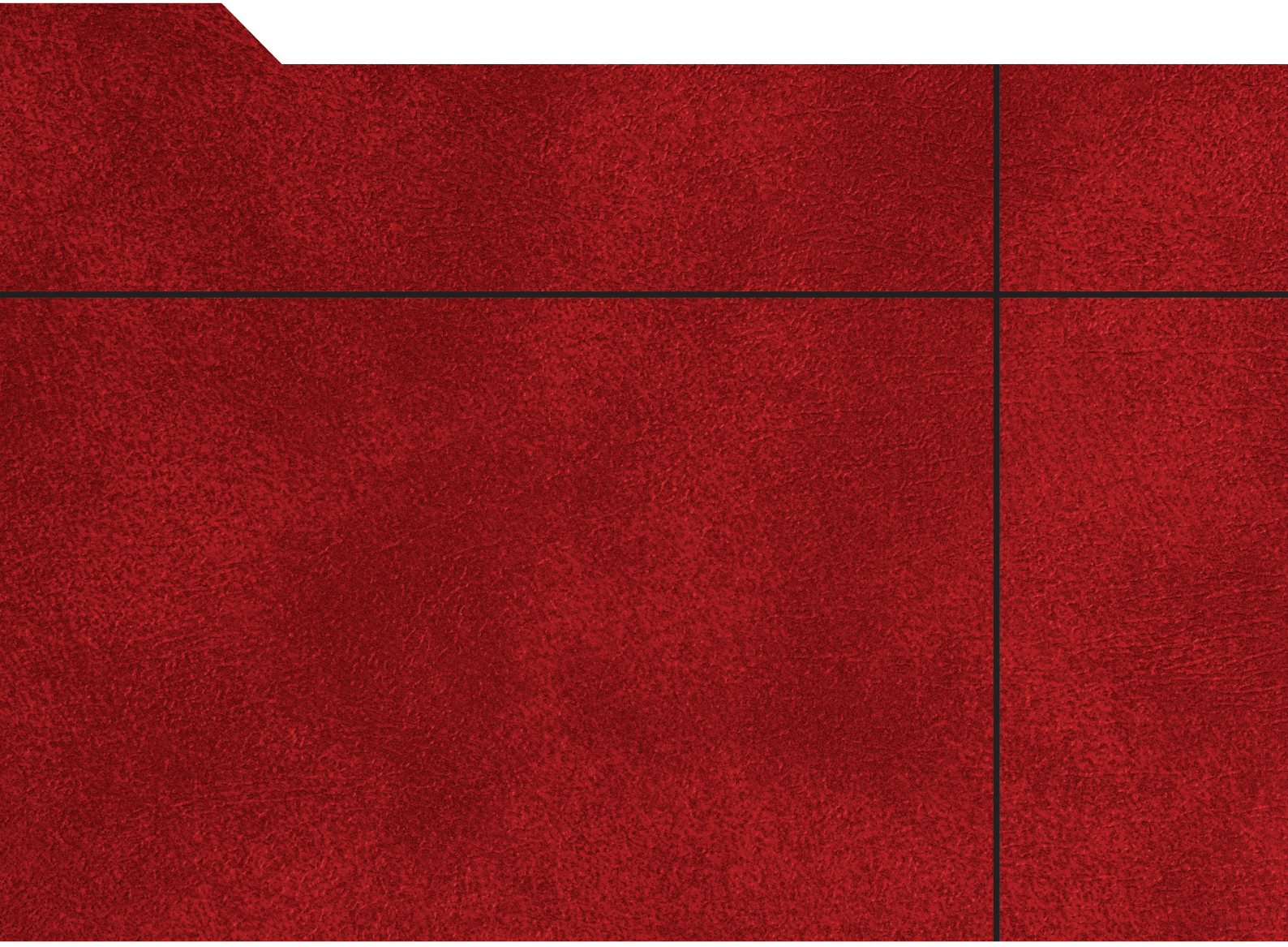
OECD Journal on Budgeting



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Foreword

The OECD Journal on Budgeting is a unique resource for policy makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries of member countries and from other practitioners, the Journal provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.

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Adaptive Health Financing: Budgetary and Health System Responses to Combat COVID-19

27 January 2021

Health financing policies are an essential element of health system responses to COVID-19. Sound policies help ensure there are sufficient resources to combat COVID-19, that the resources are disbursed rapidly, and that resources are spent in an effective manner. The effective implementation of such policies depends on budget and health officials working together closely to bring about co-ordinated actions. This policy brief analyses how OECD member countries have adapted health financing policies to combat COVID-19, and how such policies may need to continue to adapt as the pandemic evolves. It reviews how countries have provided additional budgetary resources to the health sector to combat COVID-19. It also maps out the key areas of joint action by budget and health officials to plan, implement and review the necessary health financing measures needed to combat COVID-19.

Key Findings

As of the end of September 2020, central governments of OECD member countries committed on average 245 USD per person to COVID-19 in the health sector. This paper maps out the key areas of **joint action by budget and health officials to plan, implement and review** the measures needed to combat COVID-19.

Analysis draws a distinction between the immediate actions already taken in the response to COVID-19, and medium-term actions that OECD countries are likely to need to consider. These joint actions took place within tight deadlines, shorter than the usual budget cycle, and demonstrated the crucial role that each set of officials performs and the need for ongoing coordination beyond the measures in the budget responses.

In the context of a challenging fiscal environment caused by COVID-19, polices should ensure ongoing investment into health systems, with considerations on how to achieve outcomes within tight constraints. This should include assessments of both operational and capital expenditures to ensure appropriate surge capacity to respond to future emergencies.

The analysis highlighted a range of essential joint actions:

Estimating how much additional funding is needed and where these funds will come from

- Rapid needs assessments were used to establish new health spending needs. These were necessarily approximate. Moving to the medium-term, in-depth assessments will be important to establish more precise estimates of funding needs.
- Supplementary budgets and contingency funds created additional temporary public funds for the health sector COVID-19 response. Such mechanisms are by definition short-term; if longer-term increases are needed, governments will need to assess more fiscally sustainable funding solutions.
- Reprioritising public spending created some fiscal space for the COVID-19 response. Initially, this has been through temporarily postponing lower priority activities (within health and the overall budget); over time some of these temporary postponements may need to be made permanent.

Determining what these additional funds should be spent on

- Boosting the health workforce requires funding to frontline health providers, including funds for hiring additional temporary health workers, and policies to support sustainable workforce planning over the medium to longer term.
- Prioritising health infrastructure and equipment is needed to minimise critical bottlenecks in delivering essential health services.
- Financial barriers to accessing care can undermine the COVID-19 response, so health financing polices should ensure households do not have to pay large sums out-of-pocket for COVID-19 health interventions.

Good budgetary governance helps funds flow quickly to frontline health providers and other priority actions, as well as ensuring such funds are spent effectively and as intended

- Budget structure matters, with programme and performance budgeting providing a robust framework for allocating and tracking COVID-19 expenditures.
- Accelerated procurement procedures to hasten access to personal protective equipment (PPE), medical devices and other essential items are critical for a timely response to COVID-19. By their nature, they open up possibilities for fraud and misspending, but with strong budget processes such risks can be minimised.

- Coordinated responses require clear roles and responsibilities across government agencies and levels of government, and coordinated support to hospitals and other frontline providers.
- Tracking COVID-19 spending is necessary to verify that resources are spent as intended. Over time, performance frameworks will need to be adapted to assess government responses to COVID-19. In this regard, spending reviews can help evaluate the effectiveness of COVID-19 policies in the health sector, by systematically assessing expenditure relative to governments' budgetary objectives and priorities.

Introduction

All OECD countries announced budgetary measures in response to the spread of COVID-19. The response packages were large and phased, responding to the impacts of the virus as new information became available. Most of the budgetary responses were between 5% - 20% of GDP. The health sector was an early recipient, receiving substantial additional resources to provide effective care and relieve health system pressures.

Budgetary responses were through an increase in expenditure for the provision of government services and commitments through guarantees and loans. The increases in health and other government expenditures occurred through four principal channels: (1) supplementary budgets to increase appropriations; (2) transfers between fiscal years to reallocate unused funds from previous years; (3) reprioritised funding from a government's existing budget; and (4) contingency funds for unanticipated events.

Health financing policies are an essential element of health system responses to COVID-19. Sound policies help ensure there are sufficient resources to combat COVID-19 that the resources are disbursed rapidly, and that resources are spent in an effective manner. The effective implementation of such policies depend on budget and health officials working together closely to bring about co-ordinated actions.

The purpose of this Policy Brief is to first highlight the budgetary responses across OECD member countries in the context of the health sector, taking into consideration the co-ordination of responses across levels of government. Findings show that as of the end of September 2020, central governments of OECD member countries committed on average 245 USD per person to COVID-19 in the health sector, ranging from over USD 1 000 per person in the United States, to under USD 100 per person in Iceland, Latvia and the Netherlands.

This Brief also analyses how OECD countries have adapted health financing policies to combat COVID-19, and how such policies may need to continue to adapt as the pandemic evolves. Firstly, it considers relevant aspects of health financing in OECD countries, specifically the budgetary responses across OECD member countries and the co-ordination of those responses in the health system across levels of government. The brief goes on to identify the key areas where joint action by budget and health officials can have a major impact in combatting COVID-19 and can increase future preparedness and resilience for future shocks to health systems. This brief concludes by identifying the role spending reviews can play in upcoming budget processes to assist budget and health ministries demonstrate the extent to which existing appropriations reflect government priorities when making the case for a sustainable level of funding over the medium-term.

Box 1. The OECD Joint Network of Senior Budget and Health Officials

This OECD Joint Network, established in 2011, provides a space for government officials to discuss challenges and solutions to the fiscal sustainability of health systems. The OECD Joint Network has three core activities: annual meetings, cross-country surveys and country case studies. The aim of these activities is to identify and disseminate best practices in managing health budgets, alongside other policies that can ensure fiscal and broader financial sustainability of health systems. Such challenges are even more pressing in light of the COVID-19 crisis – and the subject of this Policy Brief.

Further details on this OECD Joint Network, including recent publications, are available here:

http://www.oecd.org/els/health-systems/sbo-health.htm

Relevant aspects of health financing in OECD countries

Governmental budgetary commitments to COVID-19

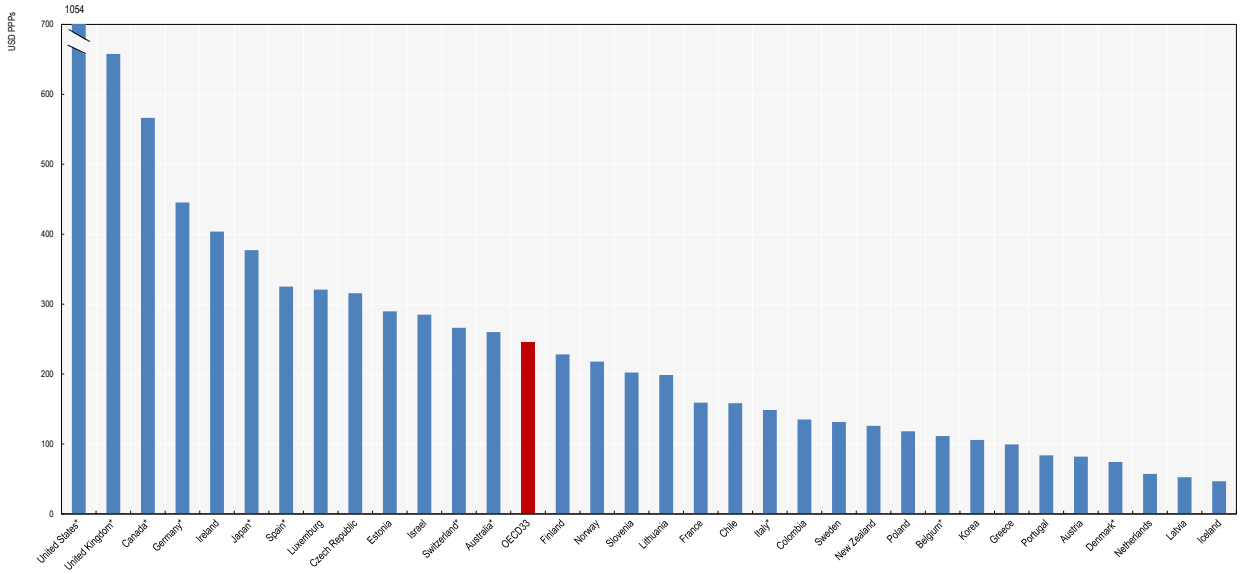
Countries across the world have dedicated unprecedented resources to combatting COVID-19. Response packages announced by governments contain a series of measures designed to mitigate and contain the spread of COVID-19, and treat people who fall ill with the virus. Alongside health system measures, fiscal and balance sheet measures included financial support for workers and vulnerable groups, liquidity support for businesses through tax deferrals, and government guarantees[1]. Further, uncertainty around the development of a vaccine and the potential for future waves of COVID-19 has meant governments have announced successive spending measures. After the fiscal response packages of March, April and May 2020, many OECD countries have tailored the response measures to reflect the structure of their economies and the effects of the virus on communities.

Across OECD members, the size of the budgetary responses has been substantial, notably in some of the countries hit hardest by COVID-19. As of June 2020, Japan and Spain have put in place measures estimated at 15-20% of GDP. The Korean government announced four support packages sequentially totalling KRW 20 trillion, or nearly 11% of GDP. In Austria, Belgium, and the United States have dedicated around 10% of GDP to the immediate COVID-19 response. A number of countries have implemented measures totalling between 5% - 10% of GDP, including Iceland, Latvia, Lithuania and Slovenia, and in Chile, Ireland, Italy and the Slovak Republic responses were up to 5% of GDP (OECD, 2020[1]).

On a per capita basis, central government budgetary commitments to COVID-19 in the health sector ranged from over USD 1 000 per person in the United States and over USD 400 per person in the United Kingdom, Canada, Germany and Ireland, to under USD 50 per person in Iceland (Figure 1). The estimated figures refer to central government spending commitments only and were adjusted for purchasing power parity across the countries. While cross-country differences in the definition of the health system vis-à-vis other COVID-19 spending exist, common response measures included the purchase of medical supplies and equipment for testing or treatment, increases in remuneration of health professionals, support to hospitals and other health providers, and research and development into new vaccines and treatments (Table 1).

[1] For detailed health system responses to COVID-19 see 'Health System Response Tracker'.

Figure 1. Central government additional COVID-19 health spending commitments per capita, 2020 (between March and September 2020)



Note: These figures represent estimates from official announcements of spending measures against COVID-19, as of September 2020. Figures reflect central government spending commitments only, excluding commitments by subnational governments, external donors or private donations. *Denotes countries with a significant budgetary response at the subnational level. PPPs are for Actual Individual Consumption, national currency per US dollar, 2019. Cross-country comparability is limited by differences in the date of the latest available official announcement. See Table 1 for details on the exact timing of official announcements across countries.
Sources: OECD member country Governments

Table 1. Additional central government COVID-19 health expenditure commitments, 2020 (latest available official announcement)

Country	Additional commitment (millions, local currency)	Additional commitment (per capita, USD PPPs)	Main expenditure areas	Source (as of)
Australia	9 423	260	Purchase of PPE, increasing testing capacities, expanding telehealth and hospital services	Government of Australia (as of July 23rd)
Austria	579	82	Purchase of PPE and medical equipment, research	Parliament of Austria (as of May 6th)
Belgium*	1 000	111	Purchase of medical equipment and PPE	Federal Public Service and Policy Support (as of April 20th)
Canada	25 617	566	Increasing testing capacities, vaccine research, purchasing of medical supplies, mitigation efforts	Government of Canada (as of August 11th)
Chile	1 299 780	158	Purchase of medical supplies and equipment, strengthening hospitals	Ministry of Finance, Chile (as of September 1st)
Czech Republic	40 300	316	Health insurance payments, salaries, PPE, medical devices, hospital debt relief	Ministry of Finance, Czech Republic (as of May7th)
Denmark*	3 100	74	Procurement of PPE	Ministry of Finance, Denmark (as of May 29th)
Estonia	213	290	Transfer to Estonian Health Insurance Fund	Parliament of Estonia (as of April 2nd)
Finland	1 087	228	Additional health costs, testing, PPE and medical equipment, research on diagnosis and vaccines	Ministry of Finance, Finland (as of September 24th)
France	8 000	159	Extraordinary healthcare expenses including equipment and masks, staff remuneration	HCFP (as of June 10th)

Germany*	26 790	445	Central procurement of PPE, vaccine development and treatment measures	Ministry of Finance, Germany (as of September 18th)
Greece	610	99	Purchase and distribution of PPE and medical goods, hiring additional health workforce, enhance laboratory capacities	Ministry of Health, Greece (as of September 21st)
Iceland	2 500	47	Hospital services, testing capacities, mental health services, health workforce bonuses	Government of Iceland (as of April 21st)
Ireland	1 800	404	Expand hospital capacity, develop primary and community-based responses, procurement of medical equipment	Government of Ireland (as of May 12th)
Israel	10 000	285	Purchase of ventilators, PPE, and medicines, increasing testing capacity	Government of Israel (as of May 5th)
Italy*	6 312	149	Hiring of medical and nursing personnel, expanded private hospital capacity, purchase of medical equipment	Ministry of Economy and Finance, Italy (as of March 17th)
Japan	4 798 900	377	Disease prevention, medical care provision, PCR testing equipment, distribution of masks, research and development	Ministry of Finance, Japan (as of May 5th)
Korea	4 800 000	106	Disease prevention, expanded diagnostic and treatment facilities, vaccination research	Ministry of Finance, Korea (as of June 3rd)
Latvia	59	52	Health personnel expenditures, procurement of PPE, testing equipment, ventilators, surveillance, laboratory network	Ministry of Health, Latvia (as of September 4th)
Lithuania	249	199	Purchasing PPE, equipment, bonuses and social guarantees for health care workers	Government of Lithuania (as of July 1st)
Luxemburg	194	321	Medical equipment and health infrastructure, testing capacities	Government of Luxembourg (as of April 4th)
Netherlands	800	57	Purchase, distribution and sale of medical devices, contribution to vaccine research, training additional healthcare personnel	Government of Netherlands (as of April 24th)
New Zealand	371	54	Hospital capacity, aged care, primary care	New Zealand Treasury (as of May 29th)
Norway	12 160	218	Expenses for medicines and medical equipment, laboratory expenses, vaccination development	Ministry of Finance, Norway (as of May 12th)
Poland	7 500	118	Creating and equipping infection hospitals, medical transport and additional healthcare services	Government of Poland (as of April 1st)
Portugal	504	84	Health personnel expenditures, acquisition of medical equipment	Government of Portugal (as of June 18th)
Slovenia	247	202	Purchase of medical, protective equipment	Stability programme 2020 (as of August 30th)
Spain*	10 030	325	Ministry of Health support, transfer to regions, research on drugs and vaccines development	Government of Spain (as of July 12th)
Sweden	12 366	131	Public Health Agency, National Board of Health and Welfare, Swedish Medical Produce agency, transfers to municipalities and regions for costs associated with testing and tracking	Government of Sweden (as of September 21st)
Switzerland*	2 910	266	Procurement of medical supplies, PPE, tests, and medications, contribution to CEPI	The Federal Department of Finance, Switzerland (as of August 12th)
United Kingdom*	32 000	658	PPE, Test, Trace, Contain and Enable programme, procurement of additional ventilators	OBR (as of July 8th)
United States	344 900	1 054	Grants to health providers, preparedness and response, vaccine and treatment research	Committee for a Responsible Federal Budget (as of August 28th)

Note: *Denotes countries with a significant budgetary response at the subnational level
Source: OECD member country Governments

Figures constitute only central government spending commitments. So differences in per capita spending levels are attributable in part to the different roles of subnational governments (SNGs) in the COVID-19

response. In Australia, Belgium, Canada, Japan, Spain, Switzerland, and the United States, SNGs have significant dedicated budgetary resources for the health sector. In addition, depending on the coverage of health financing, social health insurance (SHI) plays a significant role in financing emergency responses (See Box 2).

Of note is that quantifying the additional resources for the health sector does not allow for statements referring to the optimal, or desired, level of resources dedicated to combat COVID-19. Beyond the policy responses implemented, differences in the prevalence of COVID-19 across member countries, along with the state of health systems in each country, contribute to expenditure variances.

Co-ordinating COVID-19 responses across levels of government

Subnational governments (SNGs) are key players in addressing the COVID-19 pandemic. In the health sector, SNGs are often responsible for a significant share of public expenditure on health, regional and local authorities are delivering critical short-term containment measures, and ensuring health systems have the capacity to respond.

The provision of health services represents a significant portion of SNGs budgets in many countries. For example, in Italy, health represents 48% of SNG total expenditure. In Australia, Austria, Colombia, Denmark, Finland, Spain, Sweden and the United States, health expenditures represent over 20% of SNG budgets (OECD, 2020[2]). Looking beyond the share of expenditure, the decision-making powers across levels of government can illustrate potential co-ordination challenges between central government and SNGs (Beazley et al., 2019[3])Many central governments across OECD countries have implemented measures to mitigate the impact of the COVID-19 crisis on SNG budgets. This included an increase in central government transfers to offset expenditure and revenue pressures of SNGs, as well as those dedicated specifically to the health sector. In particular, as at June 2020, 15 of 37 central governments in OECD member countries provided transfers to SNGs for COVID-19 related health expenditures (Table 2). This included central government in decentralised systems, such as Canada, Finland, Norway, Spain, and Sweden, where SNGs usually have the responsibility of financing health services to compensate for expenditure pressures. While in Korea, the central government provided special support for Daegu City and the North Kyeongsang Province, the hardest-hit areas, to fund infrastructure and disease prevention. For the remaining 22 OECD countries that do not provide direct budgetary transfers to SNGs, the response measures reflected a more centralised pooling of budgetary resources to combat COVID-19.

Table 2. Transfers to subnational governments for COVID-19 related health expenditures

Country	Federal or Unitary	Transfers to SNGs	Notes
Australia	Federal	✓	The Commonwealth is to pay half of all additional costs incurred by states and territories in diagnosing and treating patients with COVID-19, and disease containment efforts.
Austria	Federal	✗	
Belgium	Federal	✗	
Canada	Federal	✓	The central government provided resources to provinces and territories for critical health system needs preparedness and mitigation efforts.
Chile	Unitary	✗	
Colombia	Unitary	✗	
Czech Republic	Unitary	✗	
Denmark	Unitary	✓	The central government is to provide compensation to regions for extraordinary expenses for COVID-19-related measures
Estonia	Unitary	✗	
Finland	Unitary	✓	The central government is to provide support to municipalities, including reimbursement of COVID-19 related costs to hospital districts.
France	Unitary	✗	

Germany	Federal	✗	Transfers to public health offices at district level to expand tracing capacities.
Greece	Unitary	✓	Supplementary transfers granted to regions and municipalities to provide the initial response.
Hungary	Unitary	✗	
Iceland	Unitary	✗	
Ireland	Unitary	✗	
Israel	Unitary	✗	
Italy	Federal	✗	
Japan	Unitary	✓	Transfers to local governments for COVID-19 related measures.
Korea	Unitary	✓	Special support for Daegu City and North Kyeongsang Province, the areas hit hardest area for disease prevention and treatment.
Latvia	Unitary	✗	
Lithuania	Unitary	✗	
Luxemburg	Unitary	✗	
Mexico	Federal	✓	States will receive transfers through *The Health Institute for Wellbeing*.
Netherlands	Unitary	✗	
New Zealand	Unitary	✗	
Norway	Unitary	✓	Support tor Regional Health Authorities and Municipalities.
Poland	Unitary	✗	
Portugal	Unitary	✗	
Slovak Republic	Unitary	✓	Transfers to regional public health authorities.
Slovenia	Unitary	✓	The government is providing additional lump sum payments to municipalities.
Spain	Quasi-federal	✓	Advance transfer to the regions for the regional health services.
Sweden	Unitary	✓	The state will retrospectively compensate municipalities and regions for extraordinary measures and additional costs in the health system.
Switzerland	Federal	✗	
Turkey	Unitary	✗	
United Kingdom	Unitary	✓	Transfers to devolved governments (Scotland, Wales and Northern Ireland).
USA	Unitary	✓	Federal transfers to state to address coronavirus-related expenses, measured by the number of positive tests for the COVID-19 disease.

Source: Authors.

In some countries where SNGs have large responsibilities for health, additional appropriations have already been allocated to health expenditures, notable examples include Australia, Belgium, Canada, Japan, Spain, Switzerland and the United States. In Australia, every state and territory government has announced a spending response to the COVID-19 crisis. Of this, approximately 28% is dedicated to hospitals and health care, including Intensive Care Unit (ICU) capacity, COVID-19 testing, ventilators, medical equipment, and respiratory clinics (Grattan, 2020[4]). In the United States, most states have increased their appropriations for health and/or created special appropriations to respond to the COVID-19 crisis. In Belgium regional governments have announced significant budgetary measures directed towards the health system, for example, Walloon set an envelope of EUR 115 million earmarked to help the health and social sector (Walloon Government, 2020[5]).

Other than direct resource transfers to combat COVID-19, central governments have supported SNGs through other targeted measures and co-ordinated responses with insurance schemes. One targeted measure was the centralised procurement of medical supplies for distribution across regions (Italy, Switzerland). On insurance schemes, Box 2 illustrates the scope of co-ordination within four country examples.

Box 2. Co-ordinating the policy response with health insurance schemes

The role of compulsory health insurance funds to co-ordinate and deliver a response to COVID-19 depends on the financing scheme. Compulsory health insurance schemes are the dominant source of health financing in 21 OECD countries. For example in France, Germany, Japan, Luxembourg and the Netherlands, compulsory health insurance covers around three-quarters of all health spending.

As such, Social Health Insurance (SHI) funds are at forefront of the COVID-19 response across these countries – and includes responsibility for testing strategies, organising and financing COVID-19 related health services, and ensuring protection to vulnerable groups. For example:

- **Germany**, health insurance funds, together with the federal government, are contributing EUR 5 billion towards a Protective Shield for hospitals, to mitigate revenue shortfalls and higher costs.
- **Korea**, the National Health Insurance Fund has committed over KRW 10.4 billion to the COVID-19 response. This includes reimbursement to providers, prevention activities and the coverage of COVID-19 diagnosis and treatment costs.

At the same time, increases to unemployment can reduce employment-related health contributions as a result of lower income, while health spending will be similar or increase. This can result in fiscal deficits or the need to raise contributions rates and/or diversify the sources of financing compulsory health insurance systems. To compensate for this, central governments have provided transfers to SHI funds as part of the overall response package to COVID-19:

- **Austria**: The federal government provided a flat-rate subsidy to the Austrian Health Insurance Fund of EUR 60 million for the additional expenses incurred by the COVID 19 crisis.
- **Estonia**: The state supplementary budget provided transfers to the Estonian Health Insurance Fund (EHIF). The purpose was to cover the costs related to COVID-19 and the state emergency. However, the rigid legislation applied to COVID-19 related costs does not allow the EHIF to use the supplementary funds to cover its revenue shortfalls.

Source: Authors

Joint actions by budget and health officials

Mapping joint actions against COVID-19 across key strategic phases

In the short-term, health financing policies contribute to the health system's response to short-term needs during the coronavirus pandemic. Additional resources to combat COVID-19 must be made available quickly, which requires the rapid execution of funds, making it possible to boost the health workforce, procure medical equipment and supplies, and expand hospital capacity, among other measures.

In the medium-term, health financing policies can help ensure health systems emerge stronger and more resilient to future waves of COVID-19 and other health shocks. In the context of a challenging fiscal environment post-COVID-19, polices should ensure ongoing investment into health systems, with considerations on how to achieve outcomes within tight constraints. This should include assessments of both operational and capital expenditures to ensure appropriate surge capacity to respond to future emergencies. In mapping the main joint actions by budget and health officials, three key phases can be identified:

- **Plan** the response to COVID-19.

- **Implement** the announced responses.
- **Review** which policies worked well and which have not, before planning an updated response.

Table 3 below maps joint actions to these three phases, including how they link to the budget cycle and the emergency management cycle. The budget cycle characterises the way in which a government's budget is produced, specifically, budget strategy, budget formulation, budget execution, and budget review. The emergency management cycle characterises, specifically, preparedness, mitigation, response, and recovery.

This section analyses the joint responses by ministries of finance and health in relation to the three actions of plan, implement and review. The analyses draws a distinction between the immediate actions already taken in the response to COVID-19 and medium-term actions that OECD countries are likely to need to consider. The analyses include examples from OECD countries.

Table 3. The health financing response – joint actions from budget and health officials

Phase	Joint Responses	Short-term actions	Medium-term actions
PLAN *Links to phases of:* Budget cycle Budget strategy Budget formulation Emergency cycle Mitigation Preparedness	Estimate resource needs for health system response	• Conduct rapid needs assessment to estimate new spending needs and indicative budget envelope	• Conduct more in-depth assessments to establish medium-term expenditure requirements
	Reprioritise public spending	• Postpone lower priority spending (within health and the overall budget)	• Reprioritise overall government budget • Reprioritise health budget
	Identify basis of additional funds	• Allocate additional temporary funds to the health sector, using supplementary budgets or contingency funds	• Assess feasibility and desirability of: o Increasing government revenues o Private financing options
	Revise budgetary modalities	• Create or modify budgetary programmes to reflect COVID-19 activities	• Deepen implementation of programme and performance budgeting
IMPLEMENT *Links to phases of:* Budget cycle Budget execution Emergency cycle Response Recovery	Boost surge capacity (staff, supplies, space)	• Staff: mobilise additional health workers, adapt roles of existing staff, prioritise health staff for social support services • Supplies: accelerate procurement procedures (without compromising integrity) • Space: repurpose non-medical space, transfer patients to localities with spare capacity	• Staff: revise health workforce planning to account for future surges, including the creation of a reserve of personnel • Supplies: reform procurement, including potential domestic production of some essential supplies • Space: evaluate health infrastructure within capital budgeting framework
	Adapt cost recovery policies to support groups vulnerable to COVID-19	• Suspend user fees and co-payments related to COVID-19	• Reassess cost recovery policies
	Ensure a co-ordinated response across government	• Clarify roles and responsibilities of different government agencies • Co-ordinate support to hospitals and other frontline health providers	• Revise payment modalities and financing regimes for additional on-going COVID-19 costs
REVIEW *Links to phases of:* Budget cycle Budget review Emergency cycle Recovery Mitigation	Adapt accountability requirements	• Adapt tracking and reporting measures prior to release of funds	• Revise accountability rules to include budget codes for COVID-19 expenditure
	Evaluate effectiveness of government policies in response to COVID-19	• Conduct rapid assessments focused on safety and efficacy • Adapt performance budgeting frameworks to COVID-19	• Expand scope of evaluations to include cost-effectiveness analysis • Revise programme and performance budgeting frameworks • Conduct Spending reviews

Joint responses against COVID-19 during the 'Plan' Phase

Rapid-needs-assessments were used to quickly establish how much additional funding was needed

Due to the rapidly evolving situation, estimating health resource needs for the COVID-19 response represents a significant challenge. Joint action requires the rapid assessment and costing of policy proposals – such as the cost of hiring additional health workforce, and the purchase of specialised medical supplies, including personal protective equipment (PPE) – to establish budget envelopes and spending limits. At the same time, previously budgeted expenditures may fall, as countries take actions such as the postponing or cancellation of elective surgeries, budget should respond accordingly.

In the medium-term, budget allocations must find a balance between providing sufficient resources to enable health systems to respond, while ensuring the sustainability of public finances. More in-depth assessments based on data from the first wave may help to refine estimates of the ongoing resource needs, thereby providing a more accurate estimate of medium-term expenditure requirements. Such needs assessments should include all critical components of the supply chain in the health system, including research and development.

Box 3. Country examples of supplementary budgets

Across OECD countries, budget envelopes for COVID-19 responses refer specifically to additional resources for the health sector, for example:

- **Estonia**: An explanatory memorandum to the Supplementary Budget Act contains revised expenditure projections and limits for the 2020 budget. The memorandum includes revised expenditure and revenue projections and the updated budget position for the Estonian Health Insurance Fund. Projections estimate the loss in revenue from health insurance payments, and COVID-19 related costs for primary care, ambulance services, specialist care, hospital care, and pharmaceuticals (Rahandusministeeriumi, 2020[6]).
- **Iceland**: A supplementary budget contained estimates of the additional costs incurred in the health system, and in particular the additional cost for each specialised hospital, due to COVID-19 (Althingi, 2020[7]).
- **Netherlands:** The supplementary budget included cost estimates for various emergency measures, which formed the basis for adjustments to expenditure ceilings. Previously budgeted expenditures are also adjusted (up or down) using revised estimates (Rijksoverheid, 2020[8]).

Source: Authors.

Reprioritising spending created some fiscal space for the COVID-19 response

Identifying areas of low-priority spending for reprioritisation – both within and outside the health budget – can create some fiscal space for COVID-19 related spending. Joint action between health and finance ministries can ensure the appropriate identification of low-priority health spending items. In contrast, blanket cuts, implemented by finance ministries alone, can damage the ability of health systems to respond to COVID-19 as well as disrupt the continuity of non-COVID-19 related care.

In the short-term, the focus across OECD countries has been to temporarily postpone spending on non-essential services. Common measures included postponing elective care procedures or re-specifying hospital discharge criteria. Alternative delivery modalities, notably telemedicine, have been scaled up to

help offset the postponements to care. In many countries, this has been facilitated through the relaxation of regulation (OECD, 2020[9]).

Looking to the medium-term, lessons from temporary reprioritisation efforts may help to inform efforts to tackle wasteful spending in health. For example, policymakers may explore whether a permanent increased use of telemedicine offers value-for-money. In addition, as non-COVID-19 care returns to post-pandemic levels, policymakers may use this new reality to identify the extent to which cuts were a correction for the wasteful utilisation of care, versus a cut in essential services. More broadly, finance and health ministries may look together at the viability and desirability of increasing prioritisation of health within the overall government budget. The fiscal and social consequences of postponing non-essential services should also be considered. In particular, health providers paid through activity-based funding mechanisms will face revenue shortfalls when such services are not provided. Governments may therefore have to provide temporary financing to such health providers, which would reduce or cancel out any short-term cost savings from postponing care.

Box 4. Country examples of reprioritising existing expenditure

Many of the supplementary budgets and contingency funds enacted by OECD countries identified how spending could be reduced, for example:

- **Estonia:** The supplementary budget reduced expenditure by EUR 141 million, including a temporary suspension of state payments to the mandatory pension scheme (for those born after 1982) (Rahandusministeeriumi, 2020[6]).
- **Hungary:** Funding for the new Pandemic Protection Fund (equivalent to about EUR 2 billion) comes in part from reallocated budget items, notably subsidies to political parties and tax revenues that normally go to municipalities (Bloomberg, 2020[10]).
- **Latvia:** The government requested all ministries to review expenditures for activities cancelled due to COVID-19, and divert unused funding to combat the pandemic. As of September 2020, the process of identification and reprioritisation of funds is still ongoing. The process leads to a reduction and reallocation of appropriations between the ministries and other central government authorities.

Source: Authors.

A number of budget constraints were relaxed in health ministries

While reprioritisation efforts can free up some resources, these are unlikely to be sufficient to respond to COVID-19, particularly in the short-term. Therefore, many OECD countries implemented emergency budgetary measures to rapidly identify sources of additional public funds. While finance ministries were responsible for the identification of such funds, ministries of health provided invaluable input through the contribution of spending amendments or proposals for the health sector response to COVID-19.

Supplementary budgets and contingency funds were the main budgetary mechanisms used to authorise the use of additional funds.

- **Supplementary budgets** are proposed amendments to the annual budget, used to authorise additions or changes in allocations that were not foreseen at the time of the original budget. They typically require parliamentary approval, but can be subject to simpler legislative procedures (OECD, 2018[11]). To ensure transparency and consistency with good budgetary principles,

supplementary budgets should explain the basis for the supplementary budget measures and show the effect on fiscal policy objectives (OECD, 2020[12]).

- **Contingency funds** can provide immediate funding on a limited timescale. Established to finance unanticipated emergencies, the use of the funds do not require parliamentary approval beyond the approval of the annual budget. Nearly all OECD countries have a contingency reserve for unforeseen expenditure (OECD, 2018[11]).

In the medium-term, if resource assessments indicate the need for permanently higher health spending to combat COVID-19, various financing options should be explored. Reprioritising government spending can free up some funds, but this may not be sufficient. Therefore, the feasibility and desirability of mobilising additional resources to increase government tax revenues or to increase private financing should be assessed. In the context of SHI systems, after experiencing COVID-19 related-costs and lower revenues, insurance funds may need to reassess the sustainability of funding structures. Options may include adjusting the contribution rates of employees/employers, although this should be considered as part of the impact on labour taxes, or finding alternative sources of income, ultimately leading to a more diverse funding structure.

Box 5. Country examples of sources of additional funds

Many OECD countries introduced supplementary budgets to raise additional funds for COVID-19. As of June 2020, examples include:

- **Estonia, Finland, France, Germany, Greece, Korea, Netherlands, Sweden and Switzerland**: Such measures were typically temporary in nature – for example, in Sweden, while support measures directly affecting the government balance amount to about SEK 95 billion (1.9% of GDP), only SEK 12 billion of these funds will affect the balance from 2021.
- **United Kingdom:** Enacted the Contingencies Fund Act 2020 to fund the COVID-19 response. Under this Act, the available contingencies not requiring parliamentary approval increased from a limit of 2% of spending in the preceding financial year to a limit of 50%.

Source: (OECD, 2020[1]).

Programme budgeting provides a framework for allocating and tracking COVID-19 expenditures

The budget classifications used to formulate public budgets affect the flexibility of line ministries to respond to COVID-19. Budgets detailing expenditures by inputs offer limited flexibility, as reallocations between inputs require parliamentary approval. When programmes form the basis of appropriations, decision makers have flexibility – within a defined programme – to redirect spending to priorities without further parliamentary approval.

In the medium-term, programme budgeting offers the flexibility to continue to respond to COVID-19 based on changing needs. This is while still being grounded within a core accountability framework for public resources, through expenditure and performance tracking mechanisms.

Box 6. Country examples of programme budgeting frameworks

Many OECD countries have programme budgeting frameworks in place. In the context of COVID-19:

- **France**: Created new budgetary programmes as a means of allocating expenditures to the COVID-19 response. Following the framework of the annual budget, the supplementary budget contained a new budgetary mission 'Contingency plan for the health crisis', divided into two new programmes and related actions (Republique Francaise, 2020[13]).
- **New Zealand**: Utilised its programme budgeting framework as a basis for allocating COVID-19 related expenditures. As part of the 2020 budget, the Government established the COVID-19 Response and Recovery Fund (CRRF) to support a response to and recovery from COVID-19. For the health sector, it provided a framework for the Ministry of Health to manage expenditure flexibly within the budgeted envelope (New Zealand Government, 2020[14]).

Source: Authors.

Joint responses against COVID-19 during the 'Implement' Phase

Boosting health workforce numbers and supporting sustainable workforce planning

Health professionals are at the frontline of combatting COVID-19. OECD countries have enacted a range of health workforce policies to boost overall numbers, including mobilising medical students, recently retired staff and bringing in personnel from the private sector and army. The roles of existing medical staff have also been adapted to treat COVID-19 patients, and governments have prioritised health workers for receiving social support such as childcare. These measures, while necessary, are costly. Consequently, finance ministries have allocated significant shares of supplementary budgets or emergency funds to mobilise the workforce, including overtime pay and providing bonus payments.

Lessons learned from these short-term responses to the COVID-19 crisis should feed into discussions around sustainable workforce planning for the medium-term. Issues include ensuring sufficient doctors and nurses, the mix of professions, and the ways in which the health sector can attract and retain workers to build future resilience. Creating a reserve of personnel can offer a flexible response to any future surges in COVID-19 cases. For countries with chronic workforce shortages, joint action between budget and health ministries can ensure sustained investments into the workforce beyond the initial outbreak, notably through improved pay and working conditions.

Box 7. Country examples of boosting health workforces

Examples of public employment and management practices in the health sector included:

- **Austria**: Implemented measures to support workers from nearby Eastern European countries, which the health and long-term care sectors rely on heavily. These included bonus payments, and also flights and non-stop trains to transport workers between their home country and their patients in Austria, despite border closures (Sozialministerium, 2020[15]).
- **Chile, France, Hungary, Ireland, and the Netherlands:** Are examples of countries that introduced new flexibilities for hiring health workers, including hiring retired professionals, qualified jobless health workers and allowing students in advance stages of medical and nursing training to start practising.

- **Italy:** The government decree 'Cura Italia' contains measures to hire an additional 20,000 health workers for the health system and support overtime (Ministero dell'Economia e delle Finanze, 2020[16]). To support hiring, the government created rapid recruitment tracks, and released more freelance contracts for doctors and nurses not yet listed under the Medical Register (Ministero della Salute, 2020[17]). They also promoted psychological support services for health professionals during the emergency.

Note: For further examples from the OECD see 'Health System Response Tracker', and 'Workforce and safety in long-term care during the COVID-19 pandemic'.
Source: Authors.

Accelerated procurement procedures were critical for a timely response to COVID-19 but should not compromise integrity

Ensuring the sustained availability of the medical supplies needed to diagnose and treat patients has been a major concern during the ongoing outbreak (see (OECD, 2020[18]), from which this analysis is drawn, for further details on procurement challenges during COVID-19). Countries are not only in competition for the same resources at an international level, but central governments may also be in competition with regions, municipalities, and even individual hospitals for the same supplies. For the short-term responses, policies focused on implementing emergency contracting frameworks for urgent purchasing needs of health related goods or services, which provides exemptions and flexibilities to the general rules on open and competitive tendering practices. Specific actions included permitting public buyers to negotiate directly with potential contractors, no prior publication requirements, no time limits, no minimum number of candidates to be consulted, or relaxation of procedural requirements.

Other policy initiatives for the short-term response should focus on incentives to increase collaborative and co-ordinated approaches for procurement strategies. The centralised purchasing of medicines and other health products can help avoid the duplication of stock and internal competition for supplies. Moreover, co-ordination at the international, national and regional levels can prevent competing requests being sent to the market and resulting in suppliers inflating prices.

Emergency contracts facilitated the governmental response to the radically different purchasing environment. However, even when the general rules on procurement frameworks are suspended, joint action must ensure that government spending remains transparent. Ex-post transparency and ex-post auditing requirements help maintain the integrity of emergency contracts. Explicit initiatives include the rapid publication of all COVID-19 related emergency contracts as quickly as possible, and publishing reports on the execution of these contracts. E-procurement platforms can record transactional information on emergency procurements to analyse bidding patterns and identify potential integrity threats. Finally, setting up a central price and supplier tracking system for key medical supplies and other health products helps to identify red flags in procurement contracts, excessive pricing strategies, counterfeits and other misconducts. Supply chains should also be revisited in the medium-term, including assessing the costs and benefits of producing certain essential supplies domestically.

Box 8. Country examples of accelerating public procurement

Country examples:

- **Colombia:** Excluded the procurement of medical devices and PPE needed for the fight against the coronavirus (COVID-19) from the general public procurement regime, and allowed public buyers to purchase these items without any formal tender procedures. However, the

government reinforced transparency and monitoring rules for contracts that fall outside of the normal procurement framework.

- **France:** The government took emergency measures in public procurement, removing requirements for prior advertising and competitive tendering for limited items in the health sector (Ministère de l'Économie et des Finances, 2020[19]).
- **Italy:** Centralised and simplified its procurement process. CONSIP, the national procurement agency owned by the Ministry of Economy and Finance, is responsible for the emergency procurement process for medical devices and ventilators related to COVID-19 (CONSIP, 2020[20]).

Source: Authors.

Prioritising health infrastructure and equipment to make responses to future crises more effective

COVID-19 highlighted the need for the adequate capacity of hospital beds, particularly ICU beds, to address sudden surges in seriously ill patients. The pandemic showed that countries needed to be flexible and creative to boost infrastructure capacity. Repurposing non-medical space to create temporary field hospitals or testing centres; and the safe and timely transfer of patients from overrun localities to other areas with spare capacity have been two effective strategies to meet sudden spikes in COVID-19 cases.

Looking to the medium-term, governments should reassess the capacity of health infrastructure to respond to potential future waves of COVID-19. This includes balancing the need for an adequate supply of ICU beds while avoiding excess idle capacity. The geographic distribution of these beds, and strategies for repurposing non-medical space for treatment and testing are also critical. A sound capital budgeting framework can help evaluate infrastructure proposals. Such a framework can establish consistency between capital investment plans with health sector priorities, and the prudent assessment of costs and benefits of such investments.

Box 9. Country examples of prioritising health infrastructure

Country examples of prioritising health infrastructure:

- **France:** The intensive care capacity in the Eastern part of the country was overstretched and a military camp was set up to boost the number of ICU beds. The military also transferred patients across regions from those operating at nearly full capacity to those with spare capacity (OECD, 2020[9]).
- **Korea:** Pioneered the approach of drive-through centres together with network of 96 public and private laboratories. More than 50 drive-through centres boosted the capacity to identify cases quickly with around 20 000 tests conducted daily (OECD, 2020[9]).
- **United Kingdom:** Temporary field hospitals were built in seven major cities to provide additional ICU capacity. The London Nightingale hospital became operational on 3 April, with capacity to treat 4 000 patients, with 500 beds equipped with ventilators and oxygen (NHS, 2020[21]).

Source: Authors.

Countries removed financial barriers to accessing care to ensure a more effective COVID-19 response

Although nearly all OECD countries provide universal health coverage, gaps persist in some countries. Population coverage for core services remains below 95% in seven OECD countries, and is lowest in Mexico, Poland, and the United States. A critical task for health systems confronted with the spread of COVID-19 was to protect the health of citizens, requiring that diagnosis, testing and appropriate care should be readily available, affordable and provided in a safe environment (OECD, 2020[22]).

Across the OECD, it was common for the government budget to provide transfers or subsidies to health systems to cover certain population groups, for example retirees, children below a certain age, students, soldiers, disabled people, and unemployed populations. However, expanding the subsidies to suspend user fees and co-payments requires joint action from finance and health ministries to guarantee the corresponding budget resources. This should cover transfers, subsidies, or direct payments to ensure full coverage for testing, diagnosis and treatment for COVID-19. Persistent gaps in coverage undermines the health system response, with failures to be tested or diagnosed for COVID-19 due to costs damaging efforts to limit transmission.

Although a key aspect of resilience is the ability to provide a proactive short-term response, health systems can evolve based on lessons learned during the crisis. In the medium-term, countries should reassess coverage and identify gaps to build resilience for future pandemics.

Box 10. Country examples of financial barriers

Country examples of lowering and/or removing financial barriers to access health services.

- **Ireland:** Although coverage for services in public hospitals is universal, less than half of the population is covered for the cost of GP visits. However, during the COVID-19 crisis, regardless of coverage status, the Health Service Executive will finance the provision of remote consultations by GPs for patients who may have contracted COVID-19.
- **Poland:** The National Health Fund is to fully cover health services combating the COVID-19 outbreak for the uninsured as well as the insured, including testing and access to medication. Funding comes from the state and extends coverage to the uninsured, or those without a Polish citizenship (Sejm, 2020[23]).
- **United States:** Increased access to diagnostic testing and treatment by the federal government, state governments, and private insurers. One step included the elimination of cost sharing for COVID-19 testing under Medicare and Medicaid (the federal programmes providing health insurance to the over 65s, disabled, and low income populations). This has been funded through the federal supplementary appropriation enacted in March 2020 (Tolbert, 2020[24]).

Source: Authors.

Coordinated responses require clear roles and responsibilities across government

There were multiple actors – both within the health sector and beyond – that are charged with combatting COVID-19. At the outset, the various government agencies needed clarity about the roles and responsibilities of the agencies in the COVID-19 response. Co-ordination mechanisms were critical to ensure the response to COVID-19 was rapid, targeted to localities with the most pressing needs; and also to ensure consistency in policy decisions and response strategies across different stakeholders.

Of note is the co-ordination across levels of government, for example, even in countries with decentralised governance, supplementary budget funds tend to be centralised. Joint collaboration between finance and health ministries can help identify particularly vulnerable regional or local governments to prioritise resources. Following large transfers of additional resources to SNGs also requires the corresponding transfer in monitoring and accountability standards. Beyond the management of additional funds, SNGs need to be at the heart of policy decisions, given that they are closer to the frontline of the COVID-19 response. Effective co-ordination can ensure the alignment of priorities across levels of government, the implementation of joint policy actions, and allow for rapid information sharing.

As countries move towards medium-term strategies, joint action should prioritise a co-ordinated recovery across government agencies and levels of government. In particular, targeted action to address any asymmetric impact of the crisis across regions can help prevent lasting territorial impacts. Further, countries should review the effectiveness of multi-level co-ordination mechanisms for crisis management.

Box 11. Country examples of roles and responsibilities

A number of OECD countries have provided additional budget support to subnational governments.

- **Australia:** The National Cabinet assumed responsibility for decision-making and leadership during the crisis. The Cabinet comprises of the prime minister and all state and territory premiers and chief ministers, it brings together information to help implement co-ordinated decisions across Australia (The Conversation, 2020[25]).
- **Canada:** The Federal Government increased budget transfers for health services to provinces and territories. Co-ordination is facilitated through a federal-provincial-territorial Special Advisory Committee (SAC) on COVID-19. The SAC advises Deputy Ministers of Health across Canada on the co-ordination, public health policy, and technical content related to COVID-19 (Government of Canada, 2020[26]).
- **Denmark:** The current budget law sanctions municipalities if they overspend budgets. However, due to the expected rise in health costs due to COVID-19, the government is planning to grant an exemption for the pandemic (OECD, 2020[27]).
- **Greece:** The Ministry of Health has co-ordinated with the National Centralised Procurement Agency (EKAPY), in an attempt to allocate resources efficiently. It has set up a Digital Registry which monitors stock and utilisation of all COVID-19-relevant equipment (gloves, masks, protective gear for medical personnel etc.), as well as hospital and ICU bed capacity and occupancy in real-time. The data is utilised to forecast future needs (WHO/EC/European Observatory, 2020[28])
- **Korea:** Adopted a supplementary budget that includes support for Daegu City and the North Kyeongsang Province, two of its hardest hit areas.

Source: Authors.

Coordinated support to hospitals and other frontline providers is also needed

Irrespective of the degree of decentralisation across levels of government, hospitals and other health providers merit special attention. Factors such as boosting surge capacity, procuring medical supplies, and establishing testing capabilities, drive up health provider costs. On the other hand, depending on payment modalities, postponed or cancelled elective surgeries, restrictions on face-to-face consultations, and strict lockdown measures can cause a significant drop in revenues.

Joint action should ensure co-ordinated support for health providers during the pandemic. Direct central or SNG resource transfers can help stabilise provider revenues. Other more targeted measures include the adjustment of payment modalities reflecting COVID-19 activity costs, or providing financial incentives to expand capacity. Further, establishing co-ordination mechanisms between providers allow for information sharing regarding the status of resources such as medical supplies, ICU capacity and share emerging practice. Financial support for health workers merits special attention. Joint action is necessary to avoid 'double coverage' for health workers, eligible for coverage under short-term worker government schemes, and through health providers that have received compensation for revenue reductions.

In the medium-term, countries should continue to revise payment modalities and financing regimes to support providers where necessary. This includes making adjustments that are more permanent to payment systems to reflect COVID-19 related activity beyond the initial outbreak, such as hygiene and decontamination costs, and on-going testing initiatives. Other funding adjustments may include support to providers facing a backlog of patients due to postponement in planned care.

Box 12. Country examples of co-ordinated support

Country examples of co-ordinated support measures:

- **Germany:** Implemented measures at the federal level to support hospitals and expand ICU capacity, funded through federal transfers. Measures included a compensation payment for loss of earnings due to a lower utilisation of beds. It also included a bonus for additional ICU capacities (amounting to EUR 50,000 for each ICU bed with mechanical ventilation and surcharges for additional costs) (Rong, 2020[29]). Germany has sought to improve co-ordination across hospitals, with the Robert Koch Institute, the German Hospital Association (DKG) and the German Association for Intensive and Emergency care (DIVI) setting up a website where each hospital provides a daily update on available capacity with respiratory support (DIVI, 2020[30]).
- **New Zealand:** A new initiative in the central government's budget provides funding to address increases in waiting lists and waiting times incurred during the crisis and the follow-on period. This spending initiative is to be funded until the budget year 2022/2023 (New Zealand Government, 2020[14]).
- **Portugal:** The COVID-19 crisis led to a change in the governance for hospitals, from a model of almost total regulation and centralisation, to that of autonomy. Prior to the crisis, hospitals could not make multi-year expenditure commitments or invest beyond certain thresholds without authorisation from the ministries of finance and health. Since the crisis, the government has given hospitals an 'exceptional expenditure authorisation regime for the response to the pandemic'. The Central Administration of the Health System and the Directorate-General for Health have been delegated powers to approve expenditures with a view to responding more quickly to purchase goods and services. Hospitals also have increased flexibility to make direct adjustments to expenditures (Diário da República, 2020[31]).
- **United Kingdom:** Simplified the financing regime and created greater certainty on the flow of money to reduce the burden on hospitals, and helps NHS Trusts support the economy by paying suppliers promptly. Hospitals are guaranteed minimum income through block contracts, and are able to claim monthly top-ups, depending on the additional cost of COVID-19 treatment (Brown and Ward, 2020[32]). In addition, the government rid more than 100 NHS hospitals of historic debt, freeing financial space to invest in infrastructure improvements.

Source: Authors.

Joint responses against COVID-19 during the 'Review' Phase

Tracking COVID-19 spending helps verify that resources were spent as intended

Countries are allocating unprecedented levels of public resources to combat COVID-19. With a rapid response, funds are identified and released much more quickly than in the normal budget process. Governments have granted additional degrees of flexibility within the rules governing the use of funds. This means maintaining sound budgetary governance practices are as crucial in assuring the proper use of resources and maintaining financial accountability. Tracking and reporting on COVID-19 spending helps to verify if resources have been spent as intended.

Finance ministries have a lead role in ensuring financial compliance and enforcing effective control of budgetary expenditures. And, health ministries are critical in implementing reporting rules and procedures for additional COVD-19 funding.

In the medium-term, countries should adapt mechanisms to control and track the execution of new spending measures. Through the creation of dedicated budget programmes, codes or funds for COVID-19, government officials can be held accountable over the use of funds during the crisis. Finance ministries should uphold transparency when modifying existing rules to grant additional degrees of flexibility to health officials, ensuring clear criteria over the use of funds.

Box 13. Country examples of tracking COVID-19 expenditure

Country examples of tracking and monitoring expenditure:

- **Austria:** The Ministry of Finance has emphasised the need for transparency during the crisis – with separate accounts for COVID-19 expenditure set up to facilitate ongoing monitoring. The information will be published by the Ministry of Finance in a monthly report to parliament, with a separate section on 'Corona Measures', detailing the list of all measures and costs related to COVID-19 (Parliament of Austria, 2020[33]).
- **New Zealand:** The Controller and Auditor-General is to monitor COVID-19 spending and report to the public and parliament on the government response. This includes examining the systems in place for the Government on the authorisation and use of COVID-19 related expenditures.
- **United Kingdom:** The government has asked the NHS to account for the resources it has used to tackle COVID-19. Using unique COVID-19 cost centres and budget codes, the NHS hopes to capture all COVID-19 related costs, including capital costs and opportunity costs, for example, the costs of staff moved to work on COVID-19 from other areas (HFMA, 2020[34]).

Source: Authors.

Adapt performance frameworks to assess government responses to COVID-19

OECD governments have implemented unprecedented policy measures to contain and mitigate the effects of COVID-19. Ex ante and ex post analyses can help governments assess the relative effectiveness and efficiency of policies. In the short-term, such analyses will need to be rapid, and likely focused on safety and efficacy. But over time they should become more comprehensive, closer in nature to traditional Health Technology Assessments (HTA) that review the cost-effectiveness of different interventions. Such assessments can provide invaluable input into preparation for ongoing and any future waves of the virus.

Beyond policy evaluation, performance budgeting frameworks can be adapted to COVID-19, in terms of objectives and key performance indicators. This can give parliaments and citizens a clearer picture of what

public services are actually being delivered, to what standards of quality and with what degree of efficiency. In the medium-term, spending reviews are a key tool to help ministries of health and finance identify resources that can support priority goals.

Box 14. Country examples of performance budgeting frameworks

Several OECD countries are utilising HTAs to gather and assess COVID-19 related information:

- **Canada:** The Canadian Agency for Drugs & Technologies in Health (CADTH), conducts 'Rapid Response Reports', which bring together evidence on prevention, infection control, screening and testing, mental health issues, and ethics surrounding COVID-19 (CADTH, 2020[35]). Other agencies conducting similar tasks includes the National Institute for Health Care and Excellence (NICE) in the United Kingdom, and the Austrian Institute for Health Technology Assessment (GmbH).
- **France:** The amended budget law has created a new budget mission and two new budgetary programmes on COVID-19. Following the performance framework of the general government budget, the budget annex contains details of the new created programmes. This includes the programmes strategy, outlining planned spending measures within the programme and the overall aim. Following this are a set of programme objectives, with the success captured by a number of quantitative indicators.

Source: Authors.

Spending reviews can support joint actions by budget and health officials

The medium-term issues in this section identify the challenges facing the budget and health sector officials following the outbreak of COVID-19. Many of these challenges are not new but emphasise the scarcity of resources at a time when many areas of the public sector will likely to seek additional funding through a government's budget processes.

The health sector is well placed to articulate the challenges it faces in a budget process. On the one hand, the health sector has responded rapidly to the frontline of COVID-19, adopted new functions, such as test and trace, and displaced existing activities by prioritising the responses to COVID-19. On the other, the crisis has identified health resources that were not fit-for-purpose and services that were not unduly missed when they were deprioritised. Both sets of factors contribute to a high awareness of the need to adequately finance the health sector if it is to achieve long-term health outcomes.

Of the tools available to budget and health officials to demonstrate the challenges and the effectiveness of the existing allocation of resources in governmental budgets, spending reviews are a readily available option. Spending reviews have been used since the 1970s. Examples of countries that have pioneered the use of spending reviews include the Netherlands, where the first government-wide spending review was implemented in 1981. The purposes of a spending review include creating fiscal space, improving a government's control over aggregate expenditure, prioritising expenditure in a sector, and managing potential risks.

Following the 2008 Global Financial Crisis, spending reviews were used for fiscal austerity purposes. While that purpose can still apply today, in the past 12-years OECD countries have also used spending reviews to identify capacity constraints relative to government priorities and to foreshadow risks that could affect

future budgets (Box 15). The track record from using spending reviews in these ways helps to establish it as a durable tool across budget and health officials ahead of the 2021 and 2022 budget processes.

The reviews able to be deployed quickly, have an established link to budget processes and are used by nearly all OECD countries. Such reviews are able to be completed faster than a sector-wide evaluation, which increases the relevance of the tool for political decision-makers in a time of ongoing crisis.

Box 15. Spending reviews

A spending review is an examination of the efficiency and effectiveness of the government's existing expenditure. Rather than a budget, which focuses on new expenditure, spending reviews analyse baseline expenditures. Health ministries can opt to implement a spending review within the health sector to help identify areas of wasteful, inefficient or outdated spending. A spending review can also be used to demonstrate the extent to which expenditures align to a government's priorities. Doing so can increase the profile and priority of implementing health policies and bring awareness to the budgetary constraints and sustainability challenges facing ministries of health.

Nearly all OECD member countries have conducted a spending review of all or part of government expenditure, with the main objective to improve spending efficiency over the medium-term (OECD, 2018[11]).

In the health sector, spending reviews occur on a whole-of-ministry basis or for an identified area of expenditure. The **United Kingdom** carries out a whole-of-government spending review approximately every three years, to set budget allocations for departments, including for the NHS, as well as to review the consistency of spending relative to government priorities (HM Treasury, 2020[36]). The Value-for-Money team in the **Slovak Republic** conducts spending reviews identified areas of expenditure, with the health spending review focussed on achieving patient outcomes (Government of the Slovak Republic, 2019[37]).

Source: Authors.

Conclusions

Governments across OECD member countries committed significant budgetary resources for the health sector response to COVID-19. The identification of budgetary resources occurred on a rapid time scale, supported by a series of planning actions by health and finance ministries. The rapid estimation of resource requirements and costing of policies provided direction to set resource envelopes. Alongside supplementary budgets and contingency funds, planned reprioritisation efforts helped identify fiscal space for the health sector. A number of countries with programme budgeting frameworks used the inherent flexibility of the frameworks to allocate or redirect expenditures to COVID-19 responses.

Furthermore, governments adapted health financing arrangements to support a swift execution of budgetary funds to implement response measures. Increasing the size of the health workforce and investing in infrastructure allowed health systems to respond to the demand surge that resulted from the spread of COVID-19. Governmental measures to relax aspects of public procurement requirements facilitated the purchase of PPE, medicines, and other medical equipment. In some countries, reducing the financial barriers to health care improved access to testing and treatment for COVID-19. Finally, countries implemented measures that provided financial assistance to hospitals and other health providers during the crisis, which supported a coordinated whole-of-government response.

Given the extent of the measures, health and finance ministries across OECD countries adapted budgetary mechanisms to review response measures. Monitoring and reporting systems were designed to account for COVID-19 expenditures. In addition, some countries adapted the performance frameworks to review the effectiveness of COVID-19 expenditure measures.

Looking beyond the immediate response, health and finance ministries need to focus on the recovery and aftermath of COVID-19. The focus should turn to the efficiency and value for money across the health sector given that COVID-19 has changed underlying cost-structures. Resources should be made available to the health sector as necessary for COVID-19 related activities, without losing sight of the efficiency of public spending.

Confronted with these challenges, health budgeting systems will need to demonstrate the effective use of public spending when seeking additional resources. Conducting in-depth assessments of health sector expenditure requirements can inform parliament of the expected outcomes over the medium term, thereby strengthening the case for sustainable financing in the health sector. Secondly, reprioritisation efforts within the health sector in light of COVID-19 can help to eliminate ineffective or wasteful spending. Deepening the implementation of programme budgeting offers the flexibility to continue to respond to COVID-19 based on changing needs while providing a framework for performance assessment and accountability over budgeted outcomes.

With COVID-19 reshaping health sector priorities, health financing policies need to ensure existing resources are allocated to the areas of greatest need. Revising health workforce planning to ensure future resilience, including through the creation of a reserve of personnel, may help to estimate the future needs of the workforce. Reforming procurement, including potential domestic production of some essential supplies will prevent shortages and stock-outs during future pandemics. Comprehensive capital budgeting frameworks that include assessments of future need and contingency planning for health crises can help identify appropriate levels of public investment, such as hospital ICU beds. In addition, payment modalities and financing regimes may need to be revised to account for additional on-going COVID-19 expenses to prevent financial hardship for health care providers.

Due to the distribution of health financing responsibilities across levels of government and agencies, health and finance ministries should assess the institutional mechanisms to improve co-ordination across the health sector in light of COVID-19. Such mechanisms, employed during a crisis, helped to facilitate the allocation of responsibilities across the health sector, reducing overlap and ensuring consistency of policy measures. During COVID-19, this included the use of executive federalism and centres of government to co-ordinate the response, as well as the centralisation of activities such as procurement.

Taking stock of the COVID-19 policy measures will be a momentous task for health and finance officials. Permanent adjustments to budget and accounting frameworks to track COVID-19 related expenditure will help policymakers understand the overall impact on health expenditure. A key challenge will be ensuring international comparability of COVID-19 accounting to allow for cross-country comparisons. Looking forward, cost-effectiveness analysis of alternative policy measures to address COVID-19 will also be invaluable to inform health and finance officials of the best use of resources.

Following the pressures on health systems from COVID-19, spending reviews are a readily available option for budget and health officials to demonstrate the challenges and the effectiveness of the existing allocation of resources in governmental budgets. Reviews in the health sector are able to be completed faster than a sector-wide evaluation, which increases the relevance of the tool for political decision-makers in a time of ongoing crisis. The results from a spending review are instrumental to the health sector, by helping to create fiscal space, improving a government's control over aggregate expenditure, prioritising health expenditure, and managing potential risks.

Overall, collaboration between health and finance ministries is essential to deliver a sustained recovery from COVID-19. Building resilience to face future pandemics and other shocks requires investments in the

health sector, and assurance that the investment is going to the right areas. While COVID-19 has increased the pressure on government resources, it is important to recognise the impact of investing in health systems contributes to the wider economic recovery from COVID-19.

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Camila VAMMALLE (✉ camila.vammalle@oecd.org)his paper is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and the arguments employed herein do not necessarily reflect the official views of OECD member countries.

Chile: Review of DIPRES' programme evaluation system

This review analyses the institutional arrangements, evaluation instruments and processes involved in the evaluation of spending programmes and institutions in Chile. In particular, it examines the extent to which the Chilean Budget Office's *ex post* evaluations are used to inform budget decision making, as well as the wider relevance and use of evidence generated by these evaluations.

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JEL codes: H50, H61

Keywords: evaluation, Chile, DIPRES, budget, public spending, performance

Acronyms and abbreviations

CGR	Comptroller General of the Republic of Chile
CONEVAL	National Council for the Evaluation of Social Development Policy (Mexico)
CPIAU	Central Performance and Impact Assessment Unit (Canada)
DIPRES	Chilean Budget Office *Dirección de Presupuestos*
EPG	Evaluation of public programmes
INTOSAI	International Organization of Supreme Audit Institutions
OECD	Organisation for Economic Co-operation and Development
PAP	Annual performance plan (France) *Projet annuel de performances*
RAP	Annual performance report (France) *Rapport annuel de performances*
SECG	Evaluation and Management Control System *Sistema de Evaluación y Control de la Gestión*

Overview

Summary

The system of *ex ante* and *ex post* evaluations developed by the Chilean Budget Office (DIPRES) has many good features that reflect Congress' and the government's strong and sustained commitment to evaluate spending programmes and feed the results back into the budget decision-making process. Strong features include rigorous *ex ante* analysis of programmes and well-developed methodological approaches to *ex post* evaluation. However, the system has not produced the expected benefits, neither in terms of improved accountability for programme performance nor in terms of changes in expenditure patterns.

Ex ante analysis of new spending proposals follows a well-developed methodology, involving co-operation between DIPRES, the Ministry of Social Development and line ministries. The main objective of this type of assessment is to improve the quality of spending through systematic analysis of programme design, including the use of logical frameworks and indicators to create a strong basis for programme monitoring and evaluation. However, there is no clear connection between the *ex ante* and the *ex post* evaluation systems, especially in the case of social programmes, where the evaluation function is split between the Ministry of Social Development and DIPRES.

Chile has a well-developed institutional framework, methodologies and tools to perform *ex post* evaluation of public programmes and institutions. However, after 20 years of implementation, it has had limited impact on budget allocations, programme redesign or closure of poorly performing programmes. The overall programme of *ex post* evaluations averages less than 5% of total government expenditures annually and most individual evaluations are also small in terms of expenditure coverage. Programmes in Chile are numerous, but mostly small in scale compared to other OECD countries.

At the same time, the range of matters covered by the evaluations conducted by DIPRES is broad, extending beyond financial performance to consider issues of policy and programme design, programme management, and overall impact. This holistic approach could be considered a strength of the evaluation system, but it has also raised concerns about whether this scope dilutes the ability of DIPRES to focus limited resources on those issues that support its own decision making. At an annual cost of USD 1 million, the evaluation system is not expensive, however, it is possible that the same money, spread across a broader range of tools, could have a greater impact on the quality of public spending. For example, spending reviews have been extensively used in OECD countries with positive results both in terms of savings and reallocation of resources to match spending priorities.

There has been a long-running debate about the governance of the evaluation function in Chile. Successive governments have made commitments to set-up an independent evaluation agency, but no action has been taken. The experience of other OECD countries provides no best practice model for governance of the evaluation function. However, it does suggest potential areas for improvement, including greater participation of line ministries and changes in the process for scrutiny of evaluations. The main responsibility for the evaluation function rests with the Budget Office of the Ministry of Finance. The Ministry of Social Development also plays a significant role, in respect of *ex ante* evaluation of social programmes. Congress is involved in deciding with DIPRES which areas of expenditure should be subject to evaluation each year. Congress also reviews all evaluation reports, albeit with limited analytical capacity and with limited, detailed follow up of evaluation findings.

A fundamental obstacle to evaluations having a budgetary impact is the current structure of the budget. The budget does not have a programmatic structure and programmes appear either as a single line item or are contained within a line item (for example, transfers). This makes it hard to track spending or evaluate programme efficiency and effectiveness. While efforts have been made to prepare spending reports on programme execution, these have to be prepared manually, and represent a best estimate of expenditures rather than audited expenditures. This inevitably reduces the budgetary relevance of evaluation findings.

The quality of *ex post* evaluations is not consistent. Evaluations are carried out by independent panels of experts, following clear terms of reference. However, the process of panel selection means that panel composition is unpredictable under certain evaluation lines and the quality of work is sometimes affected by ineffective team leadership and co-ordination. Standardised budgets and time frames for evaluations also mean that more complex programmes cannot be examined in the same depth as simpler programmes, sometimes resulting in limited impact.

Evaluation reports are published and readily accessible on DIPRES' website, thus ensuring a level of transparency. However, the level of engagement between politicians and civil society is low. In this respect, Chile is no different from many other OECD countries. The press shows some interest in evaluation findings, and reports on them, but media reports on the findings of evaluation are not the same as the critical analysis that can occur through engagement processes.

Findings

The OECD found six broad issues that adversely affect the evaluation system.

First, Chile has invested heavily in the evaluation system as the principal tool for performance monitoring. It stands in contrast from most other OECD countries that use a more diverse set of performance monitoring and management tools to track programme performance and make budgetary adjustments based on performance. Some rebalancing of the tools used by DIPRES would likely produce better results. This would involve:

- the development of performance budgeting
- selective use of spending reviews
- interim performance monitoring, especially of major infrastructure programmes.

Second, the evaluation system is highly centralised, with limited involvement of line ministries, Congress and other stakeholders in decisions about what should be evaluated and in the conduct of evaluations. This creates problems of ownership of evaluation findings and the relevance and quality of the analysis. Broadening the range of stakeholders involved in evaluation could lead to improved quality and impact. More specifically this would involve:

- DIPRES leading evaluations of important strategic programmes, in consultation with line ministries and Congress
- line ministries developing the capability to conduct their own evaluations, following central guidance provided by DIPRES, and to participate in DIPRES-led evaluations
- the Comptroller General of the Republic of Chile developing capability to carry out performance audits, responding especially to requests from Congress.

Third, mechanical problems in the design of the budget system, especially the fact that programmes are not well-defined in the budget, make it hard to track programme expenditure and therefore hard to draw budgetary conclusions based on evaluation findings:

- Introduce a programme classification in the budget, transitioning from the current structure based on administrative classification.
- Combine existing budget programmes into fewer, broader policy areas designating smaller existing programmes as sub-programmes or activities. This is likely to help identify overlaps, co-ordination challenges and information asymmetries.

Fourth, there has been a long-running debate regarding oversight and independence of the evaluation function. Congress, while having a strong legal role, has felt relatively powerless in practice, while civil society has also had a limited role, despite evaluation reports being publicly available. Rather than

establishing a separate independent evaluation function, the OECD recommends measures to strengthen independent oversight of the evaluation process:

- strengthen the analytical capacity of the Congress (secretariat) to support stronger engagement of members at all stages of the evaluation process
- establish a Civil Society Council to independently review and comment on budget matters, including evaluation.

Fifth, there is a general concern about the lack of impact that evaluations have on budgetary decision making, or on decisions to redesign or cancel programmes. This relates to co-ordination issues within DIPRES and between DIPRES and the Ministry of Social Development. The OECD recommends:

- Establishing internal co-ordination mechanisms within DIPRES between the departments responsible for evaluation and budget preparation. Budget analysts should be involved in scoping evaluations led by DIPRES and consider evaluation findings as part of the process for setting the next year's budget for programmes subject to review.
- Institutionalising common methodologies and standards for all *ex ante* evaluations.
- Linking *ex ante* evaluation more firmly to *ex post* evaluation through the identification of objectives, indicators, an overall logical framework and a tentative time frame for future evaluations.

Finally, at a more fundamental level, successive governments have shown limited interest in programme performance, with the result that the main actors lack incentives to pay attention to evaluation findings. A renewed political commitment and messaging, as part of a general overhaul and relaunch of the evaluation system, would help improve the impact of future investment in programme evaluation.

Recommendations

Chile has invested significant resources in developing evaluation as a key tool for promoting the effectiveness of public expenditures. In supporting the government's investment, the OECD recommends that the government consider the following reforms.

A high-level recommendation is that Chile broaden the range of its analytical tools that it uses to assess spending effectiveness, efficiency and policy alignment. New tools should include programme and performance budgeting, with an initial focus on adopting a programmatic budget classification; and spending reviews of programmes, groups of programmes or sectors. Programme budgeting would facilitate expenditure tracking and analysis, and so provide a much stronger basis for budgetary analysis as part of the evaluation process. Spending reviews have proven effective in OECD countries at addressing misalignment between existing spending allocations and government policy priorities.

There is a long-standing, unresolved debate about the independence of the evaluation function and its positioning within government. The OECD recommends to keep the leadership of the *ex post* evaluation function within DIPRES, but to partially devolve responsibility for evaluations to other line ministries with the objective of improving quality and ownership and thereby impacting evaluations as well as overall coverage. In a revised set-up, DIPRES would retain responsibility for evaluation methodology and oversight of evaluation efforts across government and would carry out evaluations of important programmes focusing on effectiveness, economy and efficiency. Line ministries would have a mandate to initiate their own programme evaluations, following central guidance and focused on the effectiveness of policies and programme management. In this way, the total coverage could also potentially be increased from the current level of around 5% of public expenditure a year.

Congress' role in the selection of evaluation subjects and scrutiny of evaluation should be enhanced, both through training and capacity building of the congressional secretariat. Congress' influence could be further strengthened if the Comptroller General began carrying out performance audits, with its work programme responding to specific requests from Congress.

Ex ante and *ex post* evaluation should also be linked more closely through active management by DIPRES. Establishing a common database, bringing together officials from the two departments in DIPRES responsible for evaluation and budget formulation, and institutionalising common methodologies and standards for all *ex ante* evaluations can help to achieve this objective.

Chile should consider more structured engagement with civil society organisations. A possible mechanism for this would be a Civil Society Council, whose role would be to independently review and comment on budget matters, including the proposed programme of evaluations and findings. The establishment of such councils is already provided for under Chilean law, although none has yet been established for DIPRES.

Linked to the proposed revamp of the evaluation system, the centre of government should make explicit communication efforts designed to emphasise political support for programme evaluation and its role in promoting effective and accountable management of public spending. This, combined with other recommendations, would help to ensure that there is effective co-operation and follow-up by line ministries.

Introduction

As part of the discussions on the 2018 Budget Law, the Chilean Congress and the government agreed to review and assess the Programme for the Evaluation of Programmes and Institutions, which is part of the Management, Evaluation and Control System of the Budget Office of the Ministry of Finance. The OECD was invited to conduct this review, which was carried out between July 2018 and February 2019.

This review analyses the institutional arrangements, evaluation instruments and processes involved in the evaluation of spending programmes and institutions, and follow-up actions. In addition, the review examines the extent to which DIPRES' *ex post* evaluations are used to inform budget decision making, as well as the wider relevance and use of evidence generated by evaluations. In particular, it looks at the extent to which evaluations provide evidence of whether programmes are meeting their objectives and whether evaluations include the right elements and evidence to justify the continuation, modification or closure of programmes.

The review considers the extent to which evaluation has contributed to better use of public resources, including efficiency gains in the programmes evaluated and/or changes in resource allocation and whether DIPRES' evaluation system represents an effective use of resources. The review does not provide a quantitative assessment of the impact of the evaluation system, but rather assesses and provides recommendations in respect of the governance framework of the evaluation system.

The report is divided in three parts. The first section describes the institutional arrangement that supports and reinforces the Chilean evaluation system, namely the legal framework, the main actors, roles and responsibilities, and the debate on where the evaluation function should be located in terms of institutional design. The second section analyses the evaluation system, including policies and strategic approaches to *ex ante* and *ex post* evaluations, the procedures and criteria used to prioritise the programmes to be evaluated, some methodological challenges, and the coverage of the evaluation system in terms of the programmes and institutions evaluated. Finally, the third section assesses the impact of evaluation results in both resource allocation and policy making, and explores the main limitations on the use of evaluation to inform decision making.

Context and institutional set-up

After 20 years of implementation, DIPRES' evaluation system is embedded in a robust institutional and legal framework. This comprises a set of formal rules and regulations, institutional roles and responsibilities, and internal organisational and management arrangements that ensure the smooth

functioning of the system. This section discusses each of these three elements and offers an assessment of its suitability and tailored recommendations.

The institutional set-up of the evaluation function has been the subject of a long-running debate in Chile, driven by concerns that locating the function in DIPRES may reduce independence and objectivity, and by concerns about the limited impact of evaluation on policy making and budget allocations. This issue is also discussed in this section, together with possible alternative models from other OECD countries.

Legal framework

Chile has a well-developed legal framework that defines key roles and responsibilities as well as the principles and characteristics of various evaluation streams. The basis for the *ex post* evaluation system of public programmes is set in Article 52 of the Organic Law of Financial Administration of the State. The main objective of the system is to evaluate the efficiency and effectiveness of public programmes and institutions, and provide information to support management and assessment for efficient decision making in the allocation of public resources.

In 2003, Decree No. 1177 provided a more detailed regulatory framework. The decree included an explanation of the *ex post* evaluation streams and their use, a set of guiding principles based on independence and transparency, and the definition of key roles and responsibilities. It assigned DIPRES the lead role for implementing the evaluation streams. It also prescribed that evaluation should be carried out by authorities and institutions with specific functions that must meet the principles of technical reliability, relevance and opportunity.

In 2011, Law No. 20.530 created the Ministry of Social Development. This law assigned responsibility for all policies, plans and programmes in the area of equity and/or social development to this ministry, including the function of evaluating all new or significant reformulated social programmes. It also provided key steps for the evaluation process and created the Integrated Bank of Social Programmes.

Both the Ministry of Social Development and DIPRES have developed specific regulations and guidelines to define the process, criteria and objectives of each of the evaluation streams. In particular, in 2015, DIPRES issued conceptual and methodological guidelines for the *ex post* evaluation system, updating and unifying previous manuals into one single document.

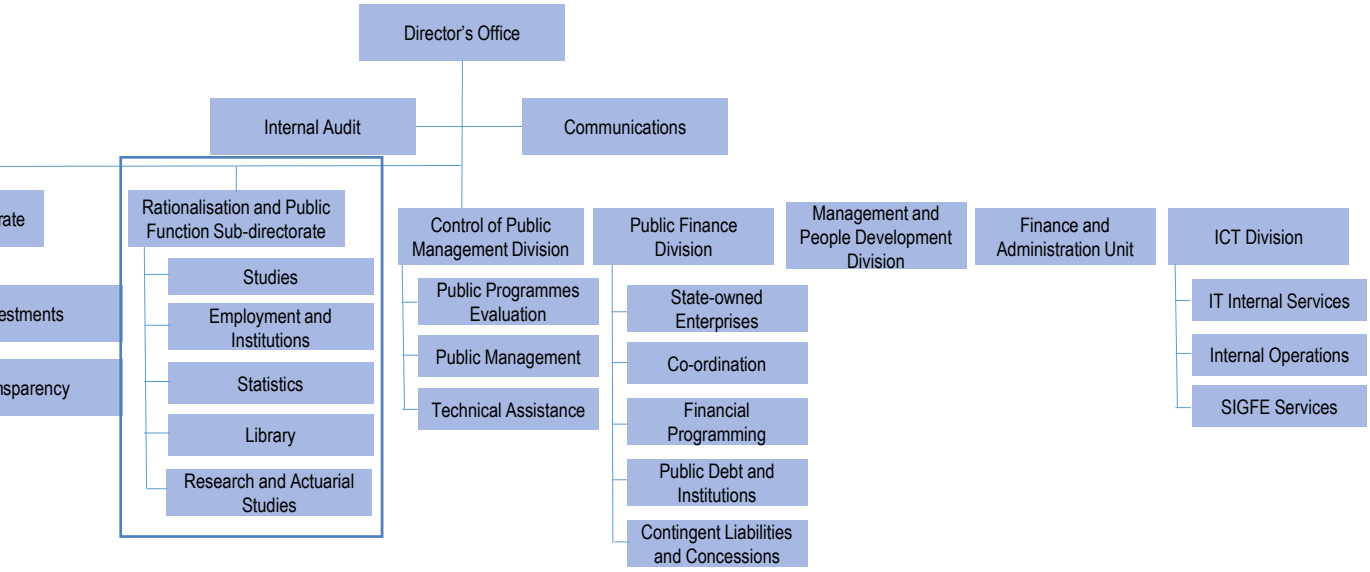
Institutional roles and responsibilities

Budget Office

DIPRES is the leading agency in the ongoing process of improving the quality of public spending in Chile. Its main objectives are to strengthen the budget as a mechanism to reach the most efficient allocation of public funding in line with government priorities; foresee public revenues and expenditures in order to ensure fiscal sustainability in the medium and long term; and reinforce multi-level co-ordination as a way to streamline the budget bill. In order to achieve these objectives, DIPRES has a staff of more than 300. In addition to the classic structure of having sectoral divisions shadowing respective spending ministries, DIPRES has special units dealing with performance and results information, long-term budget studies, and financial management issues (Figure 1).

The Budget Sub-Directorate deals with the budget preparation process and has two units: the Budget Management Department and the Investments and Transparency Department. The Budget Management Department mainly focuses on the preparation of the budget bill and there is a public servant in charge of budget formulation for each policy sector (policy sector experts). The Investments and Transparency Department is in charge of the implementation of the Transparency and Access to Public Information Law, which obliges all public institutions to provide information requested by citizens.

nal chart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Employment and Institutions
Statistics
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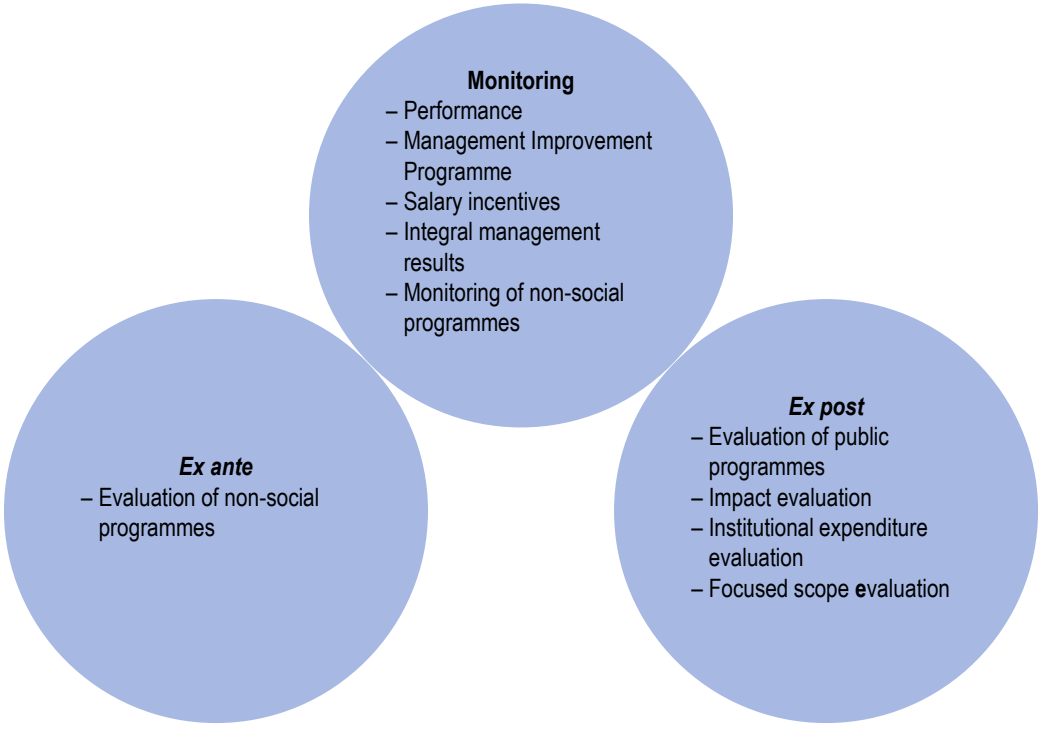
Research and Actuarial Studies
Control of Public Management Division
Public Programmes Evaluation
Public Management
Technical Assistance
Public Finance Division
State-owned Enterprises
Co-ordination
Financial Programming
Public Debt and Institutions
Contingent Liabilities and Concessions
Management and People Development Division
Finance and Administration Unit
ICT Division
IT Internal Services
Internal Operations
SIGFE Services

The evaluation function is located in a separate division of DIPRES, the Control of Public Management Division. This division works in consultation with the inter-ministerial committee and the National Congress to define the evaluation pipeline (see below). It is also responsible for developing the evaluation methodology, defining the organisation and financing of the evaluation work programme, reviewing and approving the evaluation reports (quality control), and sending the evaluation reports to Congress and other public institutions. Besides the *ex post* evaluation function, the division is responsible for the *ex ante* evaluation and monitoring of non-social programmes, the definition of performance indicators, and the management of the public sector remuneration incentive programme (Management Improvement Programme), among other activities (Figure 2).

Figure 2. DIPRES' public management control system



Inter-ministerial committee

The *ex post* evaluation process is guided by an inter-ministerial committee, comprised of DIPRES (representing the Ministry of Finance), the Ministry General Secretariat of the Presidency and the Ministry of Social Development, in consultation with the Congress. This committee is responsible for ensuring that the evaluation programme is consistent with the government's policies and priorities; the conclusions of evaluations, alongside technical support, are available to stakeholders; and co-ordination is encouraged to ensure the quality of the work, including during the selection of consultants/advisors. Between September and December, the committee is responsible for preparing the proposal for forthcoming evaluations in order for it to be discussed and approved by the Congress. Before the beginning of the budget bill discussion (between August and September), DIPRES is in charge of presenting the general results from the evaluations made that year to Congress.

Evaluators

The evaluations are carried out by evaluators from outside the public sector, typically technical experts from universities, consultancy firms or international organisations, with competence in the area of evaluation, and selected by public tendering. In some cases (impact evaluation, institutional expenditure evaluations and focused scope evaluations), teams are established to participate in the public tendering. In the case of evaluation of public programmes, evaluators participate on their own and if they are selected they become part of a bigger team that includes other evaluators selected by DIPRES. Evaluators (*panel evaluador*) are responsible for organising and analysing the information provided by related ministries and public agencies, and work in co-ordination with line ministries and DIPRES in order to have access to the information and research necessary to perform the evaluation. Finally, they should also be available to attend the aforementioned Congress meetings, if convened.

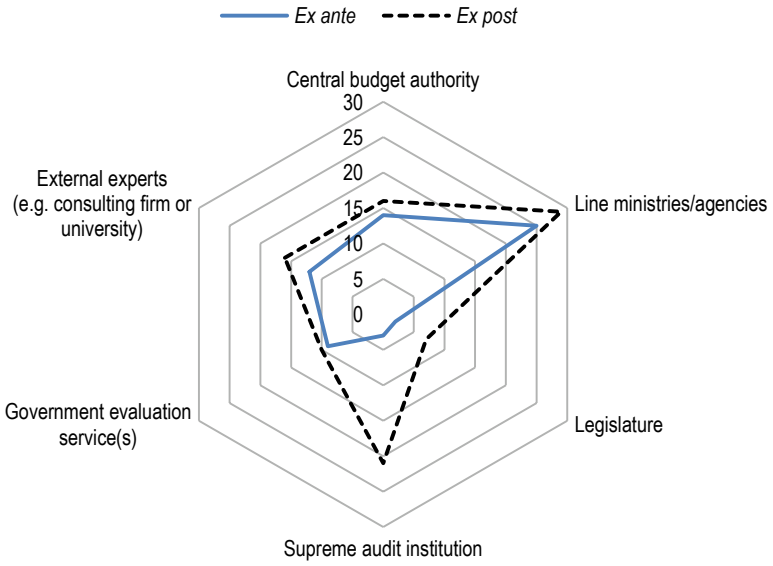
Ministry of Social Development

Since 2011, the Ministry of Social Development has held responsibility for *ex ante* evaluation and monitoring of all social programmes and public investment initiatives.[1] Locating this responsibility in the Ministry of Social Development is intended to improve the co-ordination and coherence of social investment across all government agencies. The co-ordination process is also supported by an Inter-ministerial Committee for Social Development.[2] Within the Ministry of Social Development, the Sub-Directorate of Social Evaluation is in charge of the evaluation function. Evaluation covers both new social programmes and those that require significant reformulation.

Line ministries and agencies

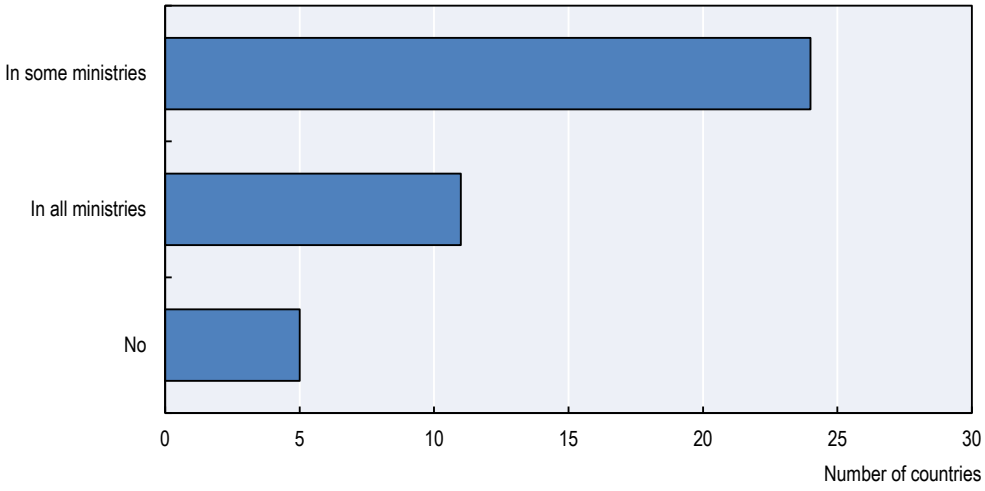
Compared with other OECD countries, line ministries in Chile play a limited role in the evaluation process. In most OECD countries, line ministries are in charge of conducting programme evaluations (Figure 3). Furthermore, most OECD countries have evaluation units in some or all ministries (Figure 4). In contrast, the evaluation process in Chile is centralised. Line ministries do not participate in the selection of the programmes to be evaluated and do not have a leading role during the implementation.[3] They participate in the evaluation process by providing information to the evaluation team in the form of written documents, data and face-to-face interviews. They also provide observations on the preliminary reports and attend follow-up meetings. Once the preliminary findings have been established, line ministries and agencies review and comment on the findings to be delivered to the Ministry of Finance and propose follow up actions, making institutional commitments to DIPRES. Following this, they are responsible for reporting to the Budget Office on the implementation of the institutional commitments every six months.

Figure 3. Organisation responsible for conducting programme evaluations in OECD countries, 2018



Note: Data are not available for the United States.
Source: OECD (2018[1]), Question 30.

Figure 4. Existence of evaluation units in line ministries in OECD countries



Note: Data are not available for France, Luxembourg or the United Kingdom.
Source: OECD (2018[2]).

Congress

The National Congress of Chile has a formal role in determining which programmes should be evaluated and in reviewing the findings of evaluations. During the discussion of the budget bill each year, the Special Budget Commission proposes programmes for evaluation and, based on a common agreement with the executive, validates the final list. This decision is often embodied in a protocol of agreement between the Ministry of Finance and the Congress. The final list is included in a decree signed by the Ministry of Finance.

All final evaluation reports are made available to the Congress and the public, and their summaries are included in the budget information papers in the form of "executive minutes". Congress also reviews all the results of evaluations, including indicators of performance and achievement of goals, as part of the annual budget package presented during the budget approval phase.

Despite this formal involvement in the process, in practice Congress' influence is limited and members of Congress feel largely excluded from the budgetary processes. In exercising its oversight role, one of the main constraints members face is limited capacity to understand and analyse the budget. The budget document is long, detailed and technical and legislators rely on experts in a small Budget Advisory Unit. The small size of the Budget Advisory Unit allows only limited scope and depth of analysis, and to some extent, a dispersion of the topics analysed. Among other OECD countries, the United Kingdom offers an example of effective support to parliament in carrying out its scrutiny role (Box 1).

Box 1. The United Kingdom's House of Commons Scrutiny Unit

The House of Commons' Scrutiny Unit supports select committees in the examination of the expenditure and performance of government, and the relationships between spending and delivery of outcomes. It does so by linking examination of spending with the examination of outcomes, by helping committees analyse spending patterns alongside performance, and by pressing the government to improve the information available and promoting parliament's interests of holding the executive to account. For instance, the Scrutiny Unit has:

- produced a *Guide for Committees on Better Financial Scrutiny*, which encourages examination of spending and outcomes throughout a programme's lifespan, and sets out good practice
- contributed financial and performance material to committee inquiries, including briefings, questions, reports and analysis of impact assessments
- analysed and briefed committees both on spending and trends in performance, using published indicators, when committees hold their hearings with ministers on government departments' annual reports and accounts
- followed up a committee recommendation for government departments to produce annual mid-year reports
- engaged with government in developing proposals to improve and simplify government accounts for the benefit of parliamentary users.

Source: OECD (2018[3]).

Congress has not demonstrated strong or sustained interest in the findings of *ex post* evaluations. Due to the structure of the budget, Congress also faces difficulties linking programme evaluation findings to budget allocations due to the fact that budgetary programmes do not correspond to operational programmes (see Section 3). This reduces its capacity to influence budget decisions, deliberate in a meaningful manner and hold the government accountable for performance.

Civil society

Evaluations are publicly available on DIPRES' website. In fact, Chile is one of 13 OECD countries that make evaluation findings publicly available by default (OECD, 2018[2]). However, there is little engagement with civil society organisations in respect of evaluation findings. There is potential for greater involvement from a number of non-governmental organisations, both those that take an interest in budgetary issues, such as the Observatorio Fiscal, and those with a focus on specific policy areas subject to evaluation, such

as environment, health, education and social welfare. DIPRES could have a leading role in promoting engagement with civil society organisations. Despite the fact that information is publicly available, civil society organisations' ability to engage in legislative debate on budgetary issues is constrained by the fact that the budget and accounts do not report allocations or expenditure on a programmatic basis.

According to the OECD *Recommendation of the Council on Digital Government Strategies*, governments should incentivise public engagement in using data to improve understanding about governments' performance. In the same manner, governments should put in place governance arrangements to ensure responsible and coherent use of data that benefits citizens and strengthens public trust (OECD, 2018[4]). Some OECD countries have used more systematic tools and platforms to make the results of evaluations available and facilitate interaction between policy makers, experts and civil society (see OECD (2018[3])). There is a possibility to set up interactive forums, and platforms, for example the Australian "Policy Liaison Initiative" in the health sector aims to provide practical support to the Department of Health staff through strategies focusing on increasing policy makers' capacity to identify and apply evidence from Cochrane systematic reviews.

Supreme audit institution

The Office of the Comptroller General of the Republic (Contraloría General de la República, CGR), which is the supreme audit institution of Chile, is not involved in reviewing programme performance. It is understood that a key reason for this is that the statute governing the work of the CGR excludes it from questioning government policy decisions. This has been interpreted as preventing its involvement in reviewing programme effectiveness and performance and its work is therefore focused on compliance audit. The absence of a performance audit function within the CGR makes the current evaluation function of DIPRES that much more important.

This contrasts with many OECD countries, where supreme audit institutions examine issues of economy, efficiency and effectiveness in the use of government funds, as per INTOSAI standards, as well as audit performance information reported in the government's financial statements. For example, the Auditor-General of South Africa has audited non-financial performance information since 2005-06 (Box 2).

Increasingly, national audit offices are using performance audit to provide insights into complex problems and risks, such as modernising outdated financial regulatory systems and protecting public safety. In the view of the US Government Accountability Office, for example, performance audit aims to provide objective analysis that management and those charged with governance and oversight can use to improve programme performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. Supreme audit institutions often separate performance auditing from financial and compliance auditing, with personnel working on performance auditing having different backgrounds and skills than those selected for the other audit streams.

Box 2. Audit of non-financial performance information by the Auditor-General of South Africa

Beginning in 2005-06, the Auditor-General of South Africa began to audit non-financial performance information. This stemmed from the requirement under the Public Finance Management Act, 1999 (Act 1/1999) and the Municipal Finance Management Act, 2003 (Act 56/2003) that accounting officers must report annually on performance against predetermined objectives.

The Auditor-General of South Africa audit approach focuses on:

- understanding and testing the policies, procedures and controls related to the management of performance information

- understanding and testing systems and controls relevant to collecting, monitoring and reporting performance information
- confirming the existence and consistency of performance information between the strategic/annual performance plan, quarterly reports and annual performance report and its presentation in annual reports
- comparing reported performance information to relevant source documentation and auditing the validity, accuracy and completeness of reported information.

The Auditor-General of South Africa audit criteria include:

1. Compliance with planning and reporting requirements:
   - existence of defined objectives, indicators and targets, with information reported against those predetermined objectives, indicators and targets
   - timeliness of the reporting of performance information within two months after the end of the year
   - presentation of performance information using the National Treasury guidelines; the consistency of performance information in tables and the narrative of the annual report; with clear explanations of material differences between actual and planned performance.
2. Usefulness of reported performance information:
   - measurability of objectives using indicators and targets, with well-defined indicators and SMART (specific, measurable, attainable, relevant and time bound) targets
   - relevance with a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets
   - consistency between objectives, indicators and targets and between various planning and reporting documents.
3. Reliability of reported performance information:
   - validity of actual reported performance
   - accuracy in the amounts, numbers and other data relating to reported performance
   - completeness of results and events in the annual performance report.

Source: OECD (2014[5]).

As highlighted in the previous section, Chiles' supreme audit institution does not currently perform an evaluation function. In articulating its reasons for not conducting performance audit, the CGR cites the restriction on auditing the "merit" of political or administrative decisions, and the fact that the verification and assessment of compliance with the objectives and goals is considered to be the mandate of the administration (OECD, 2014[5]). As highlighted in the OECD's review of Chile's supreme audit institution (OECD, 2014[5]), performance auditing does not need to question the merit of intentions and decisions; instead, it may focus on examining whether possible shortcomings in organisation, management and support systems have affected the capacity to deliver the expected results. Likewise, any role the supreme audit institution has could complement and strengthen – rather than duplicate – the work of the central administration in programme evaluation.

An ongoing debate on the institutional arrangements for the evaluation function

The institutional arrangements for the evaluation function has been a subject of debate for a long time. The debate has been prompted by the perceived low impact of the current evaluation system in both resource allocation and policy making (Hawkesworth, Huerta Melchor and Robinson, 2013[6]; May et al.,

2006[7]; Vammalle and Ruiz Rivadeneira, 2017[8]), the limited evaluation coverage (Olavarría Gambi and Figueroa Huencho, 2010[9]), and the need to put the evaluation function at a higher level of political responsibility (Bellolio et al., 2012[10]).

Proposals to create a new institutional framework with an independent agency or directorate responsible for evaluation has been part of the agenda of the last two administrations and was a topic discussed during the last presidential elections. There have been different proposals from the executive and academia highlighting the roles and responsibilities that a potential new agency could undertake. It could, for example, assume responsibility for methodology and quality assurance of evaluations carried out by contractors. However, this model would be unusual; most OECD countries have devolved the evaluation function to line ministries with methodological advice provided by the Ministry of Finance, Economy or the centre of government.

The experience of other OECD countries provides no clear best practice model for governance of the evaluation function. However, in OECD countries, evaluations are mainly carried out by the line ministries, although a wide range of other institutions are active in this space, including the central budget authority, supreme audit institutions and external bodies such as universities and consulting firms.

This institutional set-up increases line ministries' buy-in and helps align the evaluation process with their needs and priorities. However, it also requires robust evaluation capacities at the line ministry level. In Canada, for example, line ministries are responsible for selecting, conducting and implementing the results of evaluations, under the guidance of the Treasury Board of Canada. Even though under the new Policy on Results approach the Treasury Board of Canada Secretariat has the ability to initiate evaluation exercises, the core evaluation function is devolved to line ministries (Box 3).

Only 5 out of 30 OECD countries (Lithuania, Mexico, Poland, Spain and the United States) have chosen to allocate the responsibility of policy evaluation across government to an agency (OECD, 2018[2]). In contrast, the large majority of countries have chosen to allocate this responsibility to the centre of government and/or the Ministry of Finance (Figure 5).

Independent government evaluation services can increase capacity and help ensure objectivity. However, there is a risk that the impact of evaluation results is weaker given their distance from the policy-making and resource allocation decision-making processes. The National Council for the Evaluation of Social Development Policy (CONEVAL) in Mexico illustrates some of these main advantages and limitations (Box 4).

Box 3. Canada's monitoring and evaluation institutional arrangement

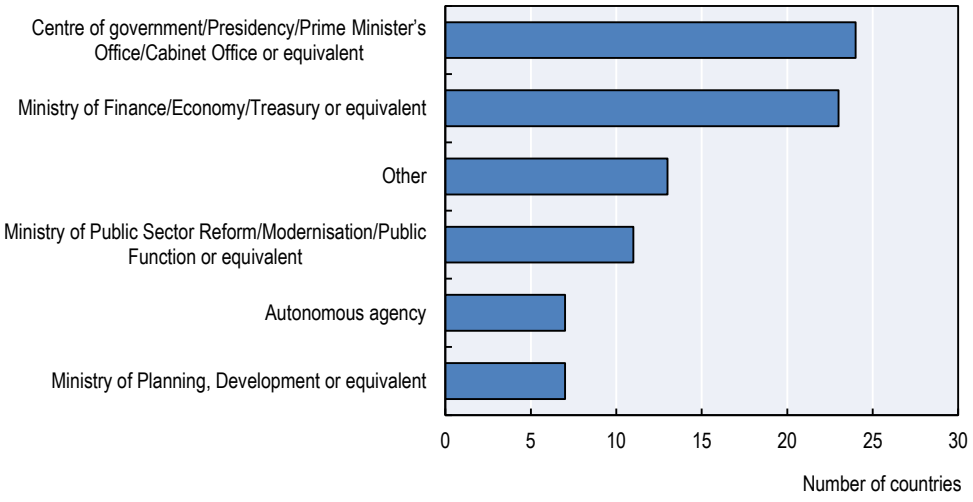
Canada has long used evaluation to support evidence-based policy development. For over 40 years, evaluation in various forms has been used to assess the performance of programmes operated by government departments. The 2006 Federal Accountability Act introduced a requirement that all grant and contribution programmes be evaluated every five years. The Policy on Results came into effect in 2016 and requires departments to have a five-year rolling departmental evaluation plan (Government of Canada, 2016[11]).

Evaluation units in each department undertake evaluation studies and have a role in preparing evaluation planning reports and assessments, developing results-based management accountability frameworks, and providing advice and training to programme managers on evaluation. Evaluations can also be conducted by contractors in whole, or in part, particularly when specific technical or subject matter expertise is required. Department managers use evaluation findings and recommendations to support policy and programme improvement, expenditure management, Cabinet decision making and public reporting.

The Treasury Board of Canada Secretariat Results Division is the technical support unit for evaluations, setting standards, providing central leadership, guidance and support, and using evaluation results, where appropriate, in decision making at the centre of government.

Source: OECD (2018[12]).

Figure 5. Institutions within the executive that have competences related to policy evaluation across government



Note: Data are not available for France, Luxembourg or the United Kingdom.
Source: OECD (2018[2]).

Box 4. CONEVAL: Mexico's independent government agency

The National Council for the Evaluation of Social Development Policy (CONEVAL) is a decentralised agency of the Mexican federal government that co-ordinates the evaluation of the National Social Development Policy as well as other policies, programmes or interventions related to social development. CONEVAL is the cornerstone of the monitoring and evaluation system for the social sector in Mexico and is one of the leading agencies in the implementation of results-based management in the public sector more broadly. In particular, it regulates, conducts and co-ordinates the evaluation of social development policies at the national level; and develops guidelines and criteria for identifying and measuring poverty at the national, state and municipal levels.

CONEVAL is a relatively independent government agency with a unique governance structure. Although it is located within the executive branch, and the federal government appoints its executive director, leadership of CONEVAL relies on an independent collegiate body made up of six academic councillors.

The expertise and specialisation of staff, and the participation of academics, has enabled CONEVAL to develop robust methods and to conduct and commission evaluations that are technically reliable and credible to both internal and external stakeholders. Furthermore, co-ordination and technical support has lowered the costs of evaluation practices in social agencies. However, due to its social sector focus,

CONEVAL has limited competences, increasing the technical capacity gap in evaluation between the social sector and other relevant areas and levels of the public administration.

CONEVAL's relations with ministries have also been difficult at times, particularly when evaluations point out implementation problems and programme shortfalls. Another important challenge is that being separate from the government's decision-making processes limits CONEVAL's capacity to enforce the use of evaluation information to directly influence policy and budget decisions (e.g. in budget and planning), even in the social sector.

Source: Castro, Lopez-Acevedo and Busjeet (2009[13]).

In Chile, there are some clear advantages from DIPRES' close involvement in evaluation, notably its financial expertise and authority. The current institutional arrangement, with the evaluation function located in DIPRES, helps to ensure the legitimacy of the evaluations results. Furthermore, the inter-ministerial committee that gathers the main stakeholders provides an institutional structure for developing the follow-up commitments and supporting changes. The Ministry of Finance, being home of both the unit in charge of the public programmes' evaluation and the Budget Management Department, allows an organisational environment in which evaluations results can feed into budget-related decisions. However, these organisational arrangements do not necessarily facilitate an optimal communication flow between these two units and, in that sense, integration of evaluation results into budget decision making.

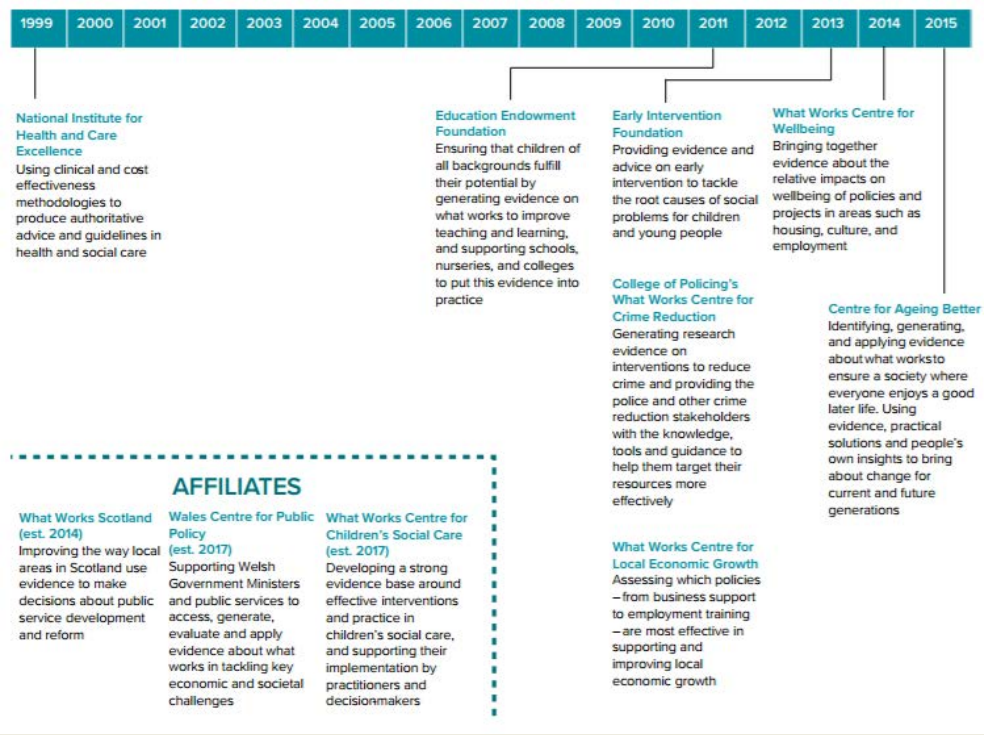
The existing arrangement could be strengthened through consultation and participation by line ministries, both in the selection of programmes and institutions to be evaluated and by involving technical experts from line ministries as members of the evaluation teams. This could improve the relevance, quality and impact of evaluations. Greater involvement of line ministries will require robust internal evaluation capacities. However, there currently is great level of variation between line ministries' ability to assume this function (Bellolio et al., 2012[10]).

Another option would be to develop a more informal network approach as has been developed by the United Kingdom. The What Works Network (Box 5), supported by the centre of government (Cabinet Office) and the finance ministry (HM Treasury) encourages independent evidence-based analysis of policy and service delivery, making use of a network of independent institutions that specialise in analysis of public policy.

Box 5. The United Kingdom's What Works Network

The What Works Network was launched in 2013 with one simple aim: to ensure that spending and delivery of public services is informed by the best available evidence. As of 2018, the network consisted of ten independent What Works centres. Collectively, the centres produced more than 280 evidence reviews in 5 years and commissioned or supported over 160 trials.

Figure 6. The growth of the What Works Network



Source: What Works Network (2018[14]).

The Cabinet Office and HM Treasury have championed the work to ensure that evidence about what works informs key decisions. These centres have pioneered new ways of using evidence in areas such as policing, education, local economic growth, and health and social care. Collectively, they have helped transform understanding of the effectiveness of widely used but, until now, poorly evidenced practices. For instance, it has now been shown that reducing class sizes can improve pupil attainment – but only when numbers drop below around 20. And that most ear infections and cases of sinusitis are best treated with pain relief, despite antibiotics being routinely prescribed.

A 2018 report on the operation and achievements of the What Works Network is available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/677478/6.4154_What_works_report_Final.pdf.

Source: UK Cabinet Office.

Assessment and future orientations for reform

DIPRES plays a substantive role in the Chilean evaluation system. This reflects the centralised nature of the government in Chile and the authority of DIPRES, built on a track record of sound fiscal management and accumulated experience and expertise. This institutional design could bring some benefits; the process is taken seriously by line ministries and evaluation findings can feed into resource allocation decisions. At the same time, this model presents a number of issues. First, the role of Congress is limited and it makes little use of the evaluations produced by DIPRES (World Bank, 2005[15]). Even though it has a formal role in selecting the evaluation agenda and reviewing the results, in practice many members of

Congress are not aware of the evaluation system and do not have the technical capacity to get involved in the process. Second, line ministries have little influence over what is evaluated and are not directly involved in the evaluation process, which leads them to question both the relevance and the quality of evaluations. Third, political leaders have expressed concerns about the dual role of DIPRES, both as the evaluator and the final decision maker with respect to the budget, and have suggested that the evaluation function should be transferred to an independent agency.

To address these concerns, the following changes could be considered:

- Provide support to Congress in the form of a strengthened secretariat with increased analytical capability to help members to engage more actively and critically in the evaluation process. This would give greater effect to the provisions of the budget law.
- Strengthen line ministries' capacity to conduct evaluations of their own programmes. In particular, DIPRES could consider providing training and bringing additional staff to ensure that institutional counterparts recognise evaluation as an inherent part of the execution of a public policy programme. The management of evaluation concepts and tools could also be improved, supporting the capacity of line ministries to design and implement evaluations of their own programmes. This should increase buy-in from line ministries, improve the relevance of subjects chosen for evaluation, and increase the likelihood that evaluation findings will be accepted and acted on by line ministries. Furthermore, this will be a key aspect when implementing spending reviews (see Section 3).
- A more fundamental reform would involve distributing responsibility for evaluation between DIPRES, line ministries and the CGR, similar to the situation in other OECD countries. In such an alternative model, DIPRES-led evaluations could be more tightly focused on finance issues, namely efficiency, economy and effectiveness. Line ministries would become directly responsible for commissioning broader evaluations of their own programmes, with evaluation focused on policy design, impact and programme management. The CGR would establish a performance auditing function, carrying out audits on behalf of Congress, within the limits of its governing statute. At a minimum, the scope of audit should cover the reliability of non-financial performance information that underpins programme management and accountability, but could extend well beyond this.
- On institutional arrangements for the evaluation function, several options could be considered. DIPRES could continue to co-ordinate the evaluation process across government, including the development of evaluation methodology. This is similar to the situation in many OECD countries.
- Strengthen the role of civil society in the evaluation process. Civil society has had little involvement in the evaluation process, despite the reports being publicly available. In this respect, Chile is no different from other OECD countries. Chile could consider more structured engagement with civil society organisations. A possible mechanism for this would be a Civil Society Council, whose role would be to independently review and comment on budget matters, including the proposed programme of evaluations and findings. The establishment of such councils is already provided for under Chilean law, although one has not yet been established for DIPRES.

Evaluation system methodology and coverage

After two decades of implementation, Chile has an *ex ante* and *ex post* evaluation system that provides information on programme performance. In the process, it has created a critical mass of experienced evaluators. However, the system faces important challenges, such as disconnection between the *ex ante* and *ex post* evaluation processes, informal and variable criteria for prioritising the evaluation agenda, and barriers to increasing the coverage of programme evaluations. This section examines the Chilean evaluation system methodology, the strategy behind it and the links that hold together various elements of

the system. The section identifies key methodological challenges and ends with a summary assessment and recommendations.

Chile's monitoring and evaluation system

A sound monitoring and evaluation system should be a regular part of the life cycle of public policies and programmes, must be conducted in a methodologically rigorous and systematic manner, and should make information available to the public in a timely manner (Lázaro, 2015[16]) Furthermore, it should offer decision makers and managers the tools and evidence to detect policy challenges, to adapt or adjust public policies or programmes, and to understand their viability or their failures (OECD, 2019[17]). Likewise, a sound monitoring and evaluation system can inform resource allocation and help governments improve spending efficiency (OECD, 2019[18]).

Chile has a well-established system for obtaining information on agency and programme performance known as the Evaluation and Management Control System (Sistema de Evaluación y Control de la Gestión, SECG). The system aims to improve the effectiveness of policy making and management throughout the central government, to create performance incentives for civil servants, and to make the budget results-oriented.

This report focuses mainly on DIPRES' *ex ante* and *ex post* evaluation function. However, the SECG has other tools to monitor institutional performance, strategic priorities, and specific programmes and projects (Box 6). Despite being implemented within the competences of the same division, there are no explicit links between the different monitoring tools used by DIPRES and the *ex ante* and *ex post* evaluation system.

Box 6. Chile's monitoring system

The Chilean monitoring system has three main actors: the Ministry of Finance, the Ministry of Social Development and the line ministries. The following are the key monitoring tools used by these actors:

- The H form (Formulario H): a document that accompanies the Budget Bill and comprises performance indicators that include qualitative information on public goods and services (Ministry of Finance-DIPRES).
- The Management Improvement Programme (Programa de Mejoramiento de la Gestión) that grants bonuses to public servants that reach specific targets (Ministry of Finance-DIPRES).
- Internal management indicators (*indicadores de gestión interna*) that focus on internal processes and procedures (Ministry of Finance-Plan ChileGestiona).
- Collective performance agreements (*convenios de desempeño colectivo*) that encourage team work within work units towards annual institutional targets (line ministries).
- Individual performance agreements (*convenios de desempeño individual*) that set strategic management targets for every civil servant (civil service and line ministries).
- Programme monitoring with the objective of following up on programme execution and measuring progress against targets (Ministry of Finance-DIPRES).
- Follow up of social programmes: performance indicators of social programmes (Ministry of Social Development-Social Policy Division).

Sources: DIPRES; Irarrázaval and De Los Ríos (2014[19]).

A dual system for ex ante *evaluation*

The systematic use of *ex ante* evaluation of new spending programmes can be an important tool to support performance budgeting. This should define the programme objectives, be aligned with strategic goals, include an explanation of the programme logic, and identify costs and indicators of the programme's impact, including baseline and target values. Such analysis serves to improve the quality of programme design, weed out less effective programmes, and provide a basis for subsequent performance monitoring and impact evaluation (OECD, 2019[18]).

In contrast with the *ex post* evaluation system that is fully centralised in DIPRES, the *ex ante* evaluation function is shared between the Ministry of Social Development and DIPRES, where the Ministry of Social Development covers social programmes and DIPRES reviews non-social initiatives.

The process of *ex ante* evaluation of programmes began in 2008. The process provides relevant information on the design of new and reformulated programmes, and provides inputs to the budget formulation process. Its specific objectives are:

- explain for each programme the public issue to be addressed, the populations to be considered, the strategy to be followed, the goods and/or public services to be provided, and the expected results
- facilitate the subsequent monitoring and evaluation of the results of the funded programmes
- contribute to improving the coherence of the Programme Offer of Public Services
- contribute to transparency in the allocation and management of public resources (OECD, 2019[18]).

DIPRES is responsible for the implementation of *ex ante* evaluations of non-social programmes. The objective of this type of evaluation is to ensure that new public programmes have an adequate design that allows for monitoring and future evaluation, thereby improving efficiency and effectiveness in the use of public resources over time.

In OECD countries, *ex ante* assessment systems vary substantially. In many countries, *ex ante* assessment is understood to mean regulatory impact assessment, which may or may not examine the long-term budgetary impact of regulatory initiatives. In other countries, there are separate procedures for appraising long-term capital investment projects. In a few countries, all of these are processes of *ex ante* assessment and appraisal are covered by one set of guidelines (the "Green Book" in the case of the United Kingdom).

Although Chile has robust methodologies and coherent regulation, the information system that contains the programme evaluations is basic, with a rigid structure that does not support comparisons between different programmes or the measurement of progress in a timely manner. The Ministry of Social Development and DIPRES have different systems in place to report and monitor *ex ante* evaluations. This arrangement is not common in OECD countries.

The existence of a dual system has created some tension between the Ministry of Social Development and DIPRES. The definition of a social programme is not always clear and the linkages between social and non-social programmes can be lost under the current system. The Ministry of Social Development has expressed interest in building upon the experience gained from performing the *ex ante* evaluation and monitoring functions, and would like to use this experience to undertake *ex post* evaluation of social programmes. As the function is split between these two institutions, it creates co-ordination challenges in the evaluation system between the *ex ante* and *ex post* evaluation of social programmes, and challenges for sharing the methodologies, tools and criteria used for *ex ante* evaluation across the administration.

A well-established ex post *evaluation system*

Public programmes and policies should be evaluated at an advanced stage of implementation or upon completion. The results of *ex post* evaluations should detect key challenges, provide inputs to adapt or adjust public policies and programmes, and help to understand the viability or the failure of the policies and programmes (OECD, 2019[17]). Furthermore, the *ex post* evaluations should feed back into the strategic budget decision-making process and support transparency and accountability for the stewardship of public funds (OECD, 2019[18]).

Chile has a well-defined *ex post* evaluation function that is centrally regulated and systematically applied. The function's main objective is to improve resource allocation and increase the quality of public spending. *Ex post* evaluations commenced in 1997 with a pilot to evaluate the design and management of ongoing public programmes. In its experimental phase, the Evaluation of Public Programmes (EPG) stream was launched, and included the assessment of 20 public programmes. The assessments responded to commitments in the Budget Law concerning evaluation and transparency of public management. Substantial improvements have been carried out since then to develop a robust framework, create an evaluation culture in the public sector and form a critical mass of evaluators in the country.

The evaluation process is carried out in five main stages (Figure 7):

1. Selection of programmes: the inter-ministerial committee prepares a proposal of the programmes that could be evaluated. The proposal is discussed with Congress and is afterwards amended during the budget bill discussion.
2. Pre-evaluation stage: evaluators are chosen, contextual information of a programme is gathered with support from the line ministries and the evaluation framework is prepared.
3. Evaluation stage: the evaluation teams (panels) are established and the evaluation is performed. Line ministries can provide observations to the preliminary reports.
4. Communication of the evaluation results: the evaluation results are sent to Congress and to the line ministries. Line ministries can provide an official institutional response to the final report. This response is public and is sent to Congress.
5. Post-evaluation stage: based on the evaluation results, line ministries and DIPRES agree on specific commitments. DIPRES then sets timelines and a monitoring strategy.

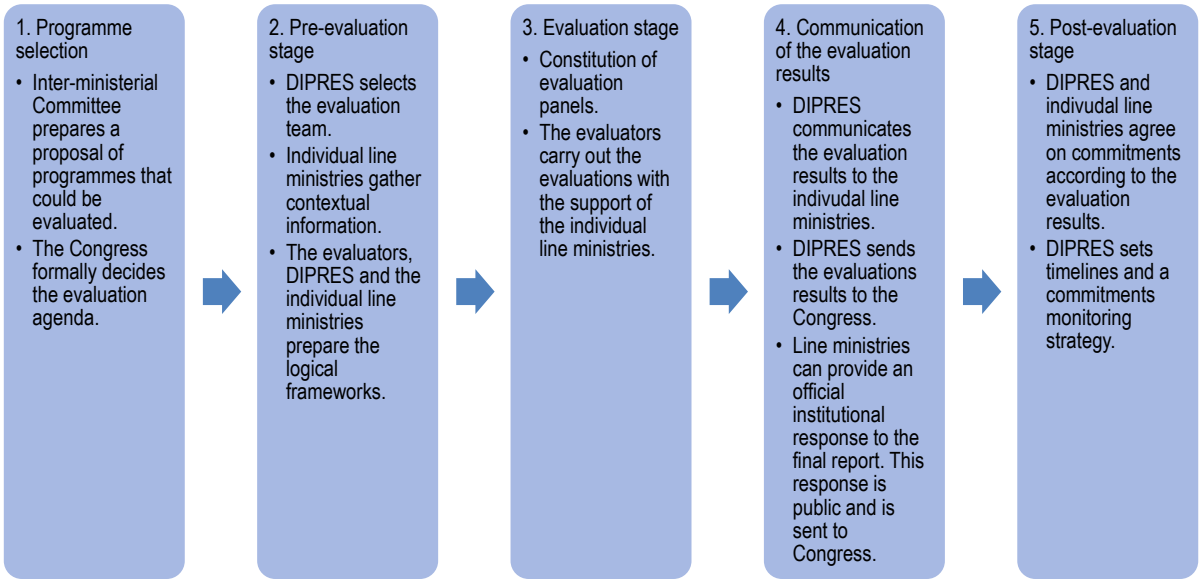
During the last 20 years, the *ex post* evaluation system has gradually developed new streams of work with different scopes and objectives, but has always maintained the central focus of delivering performance information to strengthen the decision-making process and improve the quality of public spending. There are currently four main evaluation streams under DIPRES.

1. Evaluation of public programmes

In 1997, the government of Chile started implementing evaluations of ongoing public programmes, aiming to improve public management and better inform the resource allocation process. EPGs use a logical framework methodology to assess programme design, execution and reporting. The evaluation takes into account the following elements: justification or main issue that the programme is aiming to address; overall design; organisation and management; and results, including an efficiency, efficacy and economic assessment of the programme.

EPGs are performed by panels comprising three independent experts, selected through a public tendering process. The evaluation process lasts six months and has an average cost of USD 35 000. During this period, evaluators prepare preliminary and final reports on the results of the evaluation, its conclusions and recommendations. The evaluators and DIPRES work in collaboration with line ministries to collect relevant data, analyse the information and revise the reports. The timeline of the evaluation process is designed to ensure alignment with the budget formulation cycle.

Figure 7. *Ex post* evaluation process in Chile



Source: Based on information from DIPRES.

2. Impact evaluation

In 2001, the government created a new stream of evaluation that was designed to assess programme effectiveness based on impact measures. It looked at the causal relationship between programmes and results, using quasi-experimental methodologies. The analyses were based on extensive data collection, evaluative techniques such as cost-benefit and cost-effectiveness analysis, and comparison groups to isolate the effect of external factors.

Historically, impact evaluations were performed by a consulting firm or a university that was selected by public tendering and were focused on programmes preselected by DIPRES. However, in 2017, DIPRES decided to optimise the production of impact evaluations, making sure that the evaluations were relevant and rigorous technically. To do so, DIPRES created two new impact evaluation lines: 1) an Impact Evaluation Fund, where academics could propose rigorous impact evaluation designs for various government programmes; and 2) Impact Evaluation of Pilot Programmes. Based on internal capacity, a DIPRES team implements impact evaluations in-house.

Impact assessments typically take 12-24 months and have an average cost of USD 125 000. During this period, preliminary reports are submitted, as well as a final report containing the results of the assessment and recommendations. The evaluators and DIPRES work in collaboration with line ministries to collect relevant data, analyse the information and revise the reports.

3. Institutional expenditure evaluation

This evaluation stream was created in 2002 and aims to evaluate public institutional performance. In contrast to other evaluation streams, the institutional expenditure evaluation does not evaluate single programmes, but focuses on the overall design, management and results achieved by a particular public institution (i.e. a ministry or agency).

This evaluation stream uses a similar methodology to the one applied in the EPG stream, but it adapts the assessment requirements to a broader perspective, focusing on the strategic objectives, organisational structure and budget of the institution.

The evaluation process lasts approximately eight months. During this time, preliminary reports and the final evaluation report containing the evaluation results and recommendations are completed. The evaluators and DIPRES work in collaboration with line ministries to collect relevant data, analyse the information and revise the reports.

4. Focused scope evaluation

The latest evaluation stream was created in 2015, and aims to provide DIPRES with a less complex and faster evaluation process to assess relevant aspects of a particular programme. There are three possible focus areas:

1. Cost review: looks at the efficiency with which a certain good or service is delivered. It aims to provide a unitary value that can be compared with a benchmark (market value), and explain the magnitude and causes of the difference between these two values.
2. Programme implementation: looks at programme targeting, and the potential implementation gaps that exist between the initial programme design and actual execution.
3. Strategic design: revises the foundations and information on which a programme is based in order to justify its existence, and the overall programme strategy.

Focused scope evaluation reports must be submitted within four months. Despite the short evaluation period, the streamlined process is not as fast as intended due to the lengthy procedure of selecting the independent evaluators.

All four evaluation streams require the selection of independent evaluators through a public tender process. DIPRES devotes a large amount of time and resources preparing and selecting external evaluators and consequently has limited capacity to undertake evaluations in-house.

Chile has a robust *ex post* evaluation framework, with clear and defined product lines and a strong focus on issues of policy, programme design and programme management. The range of issues covered in *ex post* evaluation varies widely across OECD countries. Certain countries including Canada, Japan and Spain mandate coverage of a comprehensive set of issues in their evaluations (OECD, 2018[3]). Despite the well-developed framework, Chile could further improve the way the evaluation pipeline is defined, as well as address other methodological challenges, as discussed in the following sections.

Potential use of interim evaluations

Interim evaluations could be a useful addition to the evaluation toolbox to enable the government to take corrective action in the event of design or implementation weaknesses in a programme. This is relevant for all programmes and is especially important for large capital investment programmes. For example, in the United States, the Government Performance and Results Modernization Act requires agency leaders and managers to use regular meetings to review data and drive progress toward key performance goals and other management-improvement priorities. Agencies are to conduct reviews at least quarterly to assess progress toward a goal, determine the risk of a goal not being met and develop strategies to improve performance. Research shows that data-driven reviews are effective, where performance data are routinely discussed for management purposes (Box 7).

Box 7. Quarterly performance reviews in the United States

A significant aspect of the US Government Performance and Results Modernization Act (2010) is that it requires formal routines for agency staff to discuss data. Agencies must hold quarterly reviews (sometimes called data-driven reviews) of progress on agency priorities and other significant goals. The chief operating officer is required to lead these reviews and there is discussion of progress on each goal by senior managers and the designated goal leader. The goal leader is to track performance outcomes, understand why the progress towards an outcome might vary, and organise efforts for improvement.

The objectives of the quarterly performance review are:

- Review the progress achieved during the most recent quarter, the overall trend data and the likelihood of meeting the planned level of performance.
- Hold goal leaders accountable for knowing whether or not their performance indicators are trending in the right direction at a reasonable speed, and if they are not, for understanding why they are not and having a plan to accelerate progress to the goal.
- Hold goal leaders accountable for knowing the quality of their data, for having a plan to improve them if necessary, and for filling critical evidence or other information gaps.
- Hold goal leaders accountable for identifying effective practices by searching the literature, looking for benchmarks and analysing disaggregated data to find positive outliers among performance units.
- Hold goal leaders accountable for validating promising practices with replication demonstrations or other evidence-based methods.
- Review variations in performance trends across the organisation and delivery partners, identify possible reasons for each variance, and understand whether the variance points to promising practices or problems requiring more attention.
- Include evaluation staff to share and review performance information and evaluation findings; better understand performance issues that evaluation and research studies can help to address; and refine performance measures and indicators.
- Include, as appropriate, relevant personnel within and outside the agency who contribute to the accomplishment of each agency priority goal (or other priority).
- Support the goal leaders in assuring other organisations and programmes are contributing as expected to the agency priority goals (or other priorities).
- Identify agency priority goals (or other priorities) at risk of not achieving the planned level of performance and work with goal leaders to identify strategies that support performance improvement.
- Encourage a meaningful dialogue around what works, what does not and the best way to move forward on the organisation's top priorities, using a variety of appropriate analytical and evaluation methods.
- Establish an environment that promotes learning and sharing openly about successes and challenges.
- Agree on follow-up actions at each meeting and track timely follow-through.

Source: OECD (2018[3]).

In Canada, accounting officers have a personal legal obligation to appear before parliamentary committees to answer questions on the management responsibilities of their department. A similar arrangement for

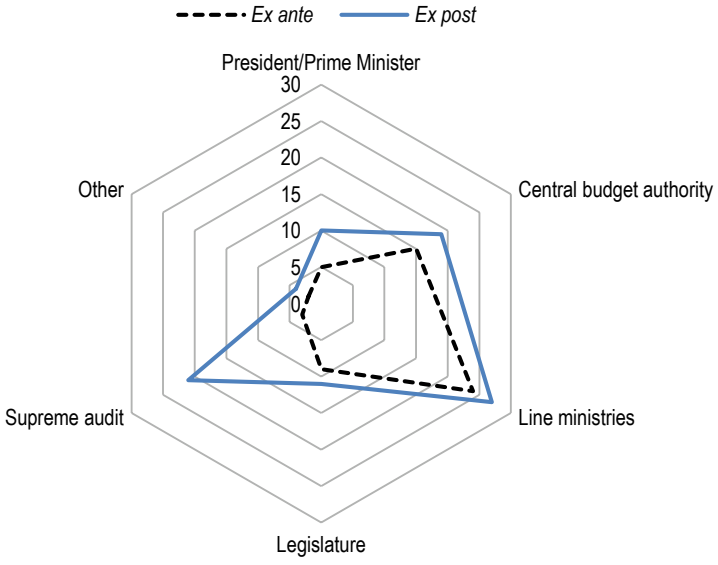
accounting officers exists in Ireland. Also in Ireland, an annual agreement is signed between a department head and the relevant minister outlining performance objectives.

Selection of programmes to be evaluated

The current legal and regulatory frameworks do not stipulate specific criteria for the selection of programmes to be evaluated during a calendar year. The selection process starts in September, when the annual evaluation results are presented to Congress prior to the discussion of the budget bill. Between September and December, the inter-ministerial committee prepares the proposal for the following year's evaluations in order for the proposal to be discussed and approved by Congress.

The list of programmes and institutions to be evaluated is set out in a memorandum of understanding (*protocolo*) signed every year between the government and Congress during the budget approval process. The document is a formalised political agreement negotiated in parallel to the budget. As such, the list is not defined based on predetermined criteria. Sector experts from the Budget Management Department can recommend programmes for evaluation. Budgetary or sectoral needs might influence the final decision. The selection process is often driven by the context, specific requirements of Congress, the willingness of a ministry to co-operate in the evaluation and other relevant dynamics. In this sense, it is important to note that neither the line ministries nor the sector experts from the Budget Management Department are involved in the selection process (except to recommend programmes for evaluation). This differs from other OECD countries, where both the supreme audit institution and line ministries can have a prominent role in defining the evaluation pipeline (Figure 8).

Figure 8. Organisations responsible for deciding what will be evaluated in OECD countries, 2018



Note: Data are not available for the United States.
Source: OECD (2018[1]), Question 29.

In practice, the inter-ministerial committee selects programmes based on criteria that can vary from year to year. In 2018, the criteria included: linkages to presidential commitments, budgetary relevance, programmes with complementarity issues, and programmes with performance challenges. Impact evaluations also include viability and evaluability criteria.

Key challenges of the evaluation process

As highlighted in the previous section, in Chile, the practice of evaluations is supported by methodological guidance and a well-developed process for the selection of expert panels and conduct of evaluations that has been developed and refined over a 20-year period. Despite this, the effectiveness of the evaluation process is adversely affected by a variety of issues.

The unit of analysis is narrow

Except for evaluations of institutional expenditure, the Chilean system is focused mainly on the evaluation of specific individual programmes rather than on policy or the government's strategic goals. This has resulted to very detailed tools to look at one specific programme, but can lack analyses of how related programmes contribute toward a common result. In character, many programmes are more akin to small-scale policy initiatives; for example, three separate programmes that were evaluated all aimed at keeping kids in school.

In the last couple of years, DIPRES has tried to take some first steps towards more comprehensive analysis, commissioning the evaluation of two or more related programmes at the same time. However, without the proper guidelines and tools in place, the evaluation has been carried out as a group of evaluations rather than a comprehensive analysis on the way the different programmes interact. Evaluators have reported difficulties in carrying out comprehensive evaluations, since in practice, they need to evaluate each programme separately. Experienced evaluators reported that they have not presented proposals for comprehensive evaluations because of the amount of work involved.

Evaluators also point out that there are sometimes differences between what DIPRES understands to be a spending programme and line ministries' own understanding. As a result, ministries often do not see the evaluation's findings as relevant. For example, money allocated in the budget to a "school achievement bonus programme" is understood by DIPRES as a programme, whereas for the line ministry it is one component of a larger income support programme for families. As a result, line ministries do not always find the findings of evaluations relevant or useful. This problem is linked to the lack of a programmatic structure in the budget that, if introduced, could contribute to a common understanding of programmes (see Section 3).

Weaknesses in programme design

Evaluators highlight that in a number of important sectors, such as health, new programmes are often developed without the benefit of logical frameworks, defined performance indicators or baseline numbers against which to conduct the evaluation. DIPRES and the Ministry of Social Development have been working to overcome this challenge. The *ex ante* evaluation process has helped strengthen the design of new programmes; however, there are still some sectors that need further improvement. These weaknesses in programme design undermine the basis of good evaluation.

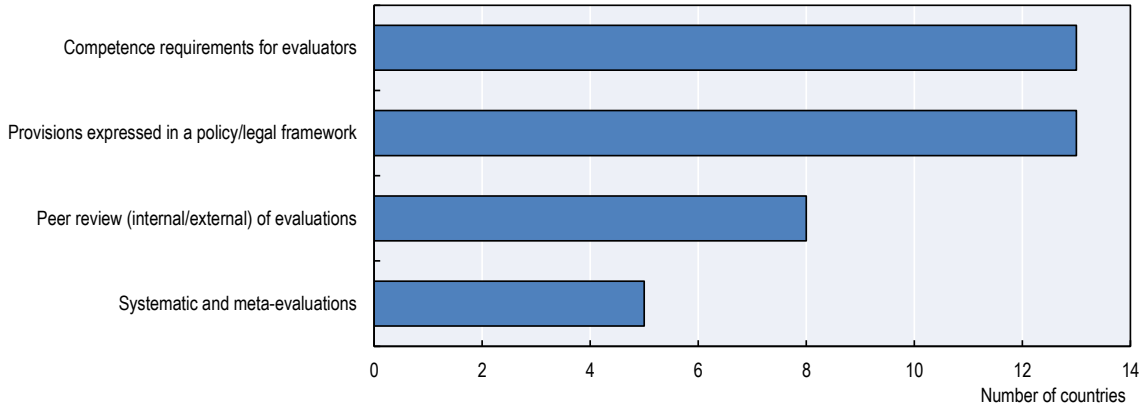
Co-ordination, teamwork and quality issues

For the EPG line, panels are constituted separately for each evaluation, with DIPRES deciding on the composition of each panel based on a public selection process. However, the quality of leadership and teamwork appears to be variable. A panel co-ordinator is appointed for each evaluation, but depending on the quality of the team as a whole, a disproportionate share of responsibility may fall on the co-ordinators. These factors lead to variability in the quality of evaluations.

Quality assurance

The OECD found that the quality assurance mechanism for evaluations was not clear. In practice, this role lies with DIPRES. The evaluation findings can contain excessive detail, while at the same time DIPRES does not always have a sufficient understanding of the non-financial policy and implementation issues covered by the evaluations. OECD countries use a variety of measures to ensure quality of policy evaluations. Some of the most common tools are competence requirements for evaluators, use of policy frameworks with particular provisions and use of evaluation peer reviewers (internal and external) (Figure 9).

Figure 9. Measures to ensure quality of policy evaluations in OECD countries



Note: Data are not available for France, Luxembourg or the United Kingdom.
Source: OECD (2018[2]).

Collaboration with line ministries is becoming more difficult and access to information can be a challenge

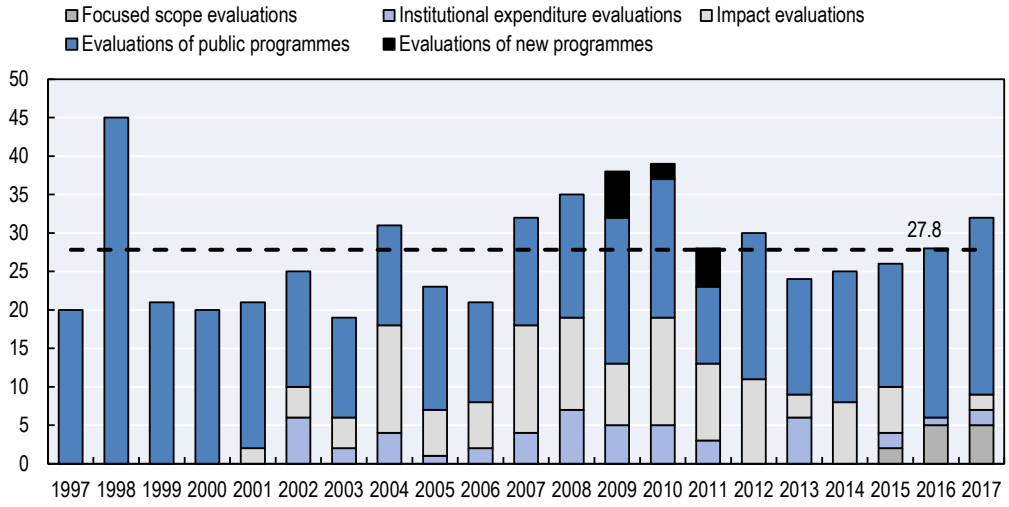
Collaboration with line ministries seems to have become less effective over time. The OECD found that, compared to when the evaluation process was first introduced, ministries are now less inclined to make senior staff available to meet evaluators, depriving them of a strategic management perspective. Access to information has also been an issue, with some line ministries citing data privacy issues, for example in social programmes, as a reason not to share data, thereby impairing the quality of the evaluation. Furthermore, due to the use of performance classifications after the evaluations, there is a perverse incentive to hide information when programmes are not effective or efficient. The lack of data and analysis can also lead to ambiguous recommendations.

Limited evaluation coverage

Despite concrete efforts to sustain evaluation capacities and the creation of new streams of work, evaluation coverage remains limited and varied across government. In the first 20 years of implementation (1997-2017), DIPRES carried out 403 evaluations, involving 560 programmes. EPG has been the most widely used evaluations stream, constituting almost 70% of the total number of evaluations carried out up to 2017, followed by impact evaluations, which represent over 20% of total evaluations. There are fewer examples of the recently created focused scope evaluations, representing just 2% of the total number of programmes and institutions evaluated (Figure 10).

Figure 10. Programmes and institutions evaluated by evaluation streams in Chile, 1997-2017

Absolute value



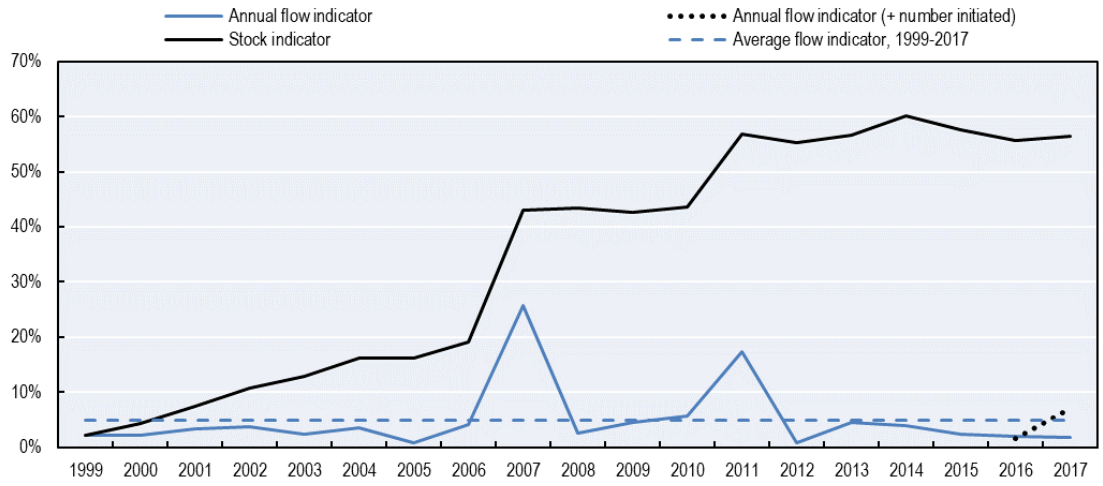
Note: Covers the evaluations completed, ongoing and those to be tendered.
Source: Darville, Díaz and Leiva (2017[20]).

Despite the introduction of new evaluation streams, the number of EPG evaluations – the core of the evaluation system in Chile – has remained broadly stable, with an average of 18 evaluations per year between 1997 and 2017 and with increased use in recent years. The use of the impact evaluation stream has been more variable since its creation in 2001, with an average of seven evaluations per year since 2001, but with declining use in recent years.

There are two main indicators of the low perceived coverage of the evaluation system: 1) the number of institutions with programmes that have been subject to evaluation; and 2) the share of the national budget that has been evaluated. Since its implementation, the EGI stream has covered 23% of the total institutions of the Chilean government. Although cumulatively (stock indicator) 56.5% of the national budget has been covered since the evaluation system started (through the evaluation of programmes and institutions together), on average, the annual coverage represents less than 5% of total spending. This figure is influenced by two important institutional evaluations[4] made in 2007 and then in 2011, which brought about big jumps in terms of the evaluated budget (Figure 11) (Darville, Díaz and Leiva, 2017[20]).

The limited coverage contrasts with other OECD countries, where the unit of analysis tends to be wider. For example, in the Netherlands, the Ministry of Finance obliges line ministries to evaluate policy areas once every four to seven years. Ministries are further obliged to inform the Court of Audit about evaluation analysis and conclusions (Netherlands Court of Audit, 2013[21]). The purpose of this is to provide better information on relevance, effectiveness, efficiency and cost of government programmes to coalition governments at the time of budget formulation. The legislation achieves comprehensive evaluation coverage of Dutch government spending.

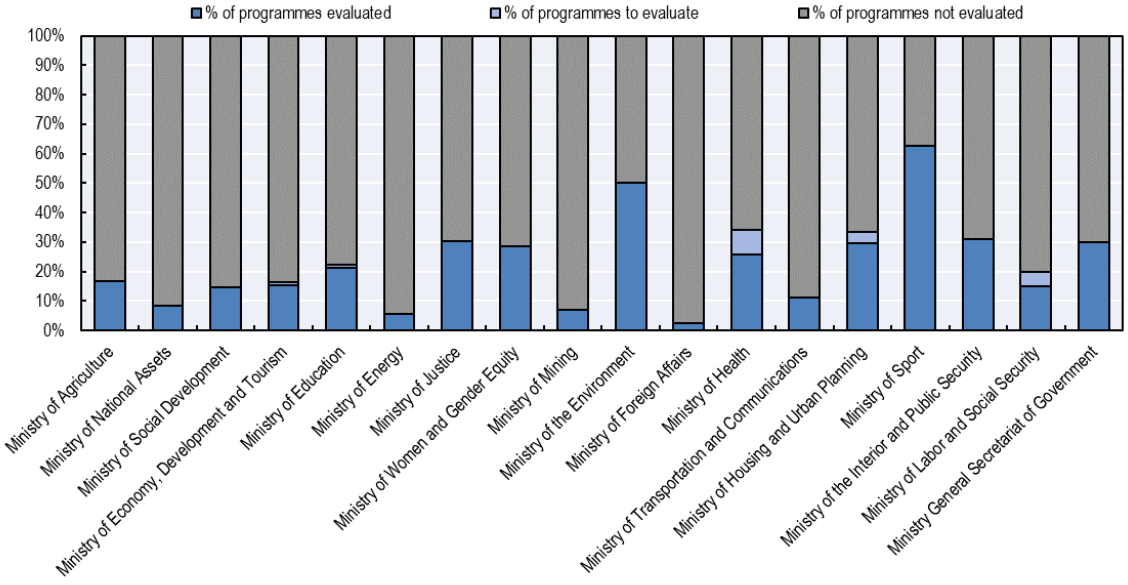
Figure 11. Coverage of programmes and institutions evaluated in terms of budget in Chile, 1997-2017



Source: Darville, Díaz and Leiva (2017[20]).

Finally, it is important to highlight that there is significant variation in the share of programmes evaluated across ministries. Evaluation efforts have been concentrated in the largest ministries in terms of budget and programmes (Figure 12).

Figure 12. Coverage of programmes evaluated in Chile by ministry, 2002-17



Source: Darville, Díaz and Leiva (2017[20]).

In the case of Canada, evaluation policy has a principle of comprehensive coverage, requiring that all departments evaluate all direct programme spending within five years. Each government department or ministry has designated a head of evaluation with unencumbered access to the head of the organisation, and most have formed departmental evaluation committees. This formalisation of the evaluation function

is seen to improve the neutrality of evaluations within departments. There is also a trend among a number of OECD countries towards evaluating broader policy areas. Canada's horizontal reviews offer a good example of how to implement centrally led evaluation of a particular priority area (Box 8).

Box 8. Centrally led performance and impact assessment of horizontal reviews in Canada

The Canadian government engages in horizontal reviews of priority areas. In support of this, a Central Performance and Impact Assessment Unit (CPIAU) was created within the Treasury Board Secretariat with the main objectives of improving horizontal measurement and delivering evidence-based insights and advice, including using statistical approaches to provide consistent and comparable measurement of programme performance. The CPIAU has a strategic partnership with Statistics Canada, Canada's national statistical agency, which has a legislative mandate to collect and compile data that can strengthen programme evaluation. Statistics Canada provides information that allows data sets to be linked, thereby facilitating the horizontal approach. In addition, line ministries leading the programmes being evaluated are also a part of the horizontal review team. In this sense, the Canadian experience makes it clear that in order to have a horizontal perspective of a public policy, there must also be a horizontal perspective of the government itself and it must build convergence points such as the CPIAU and Statistics Canada to improve flow of information.

One of the 2017 horizontal reviews was the Business Innovation Review. The review was undertaken across all departments and aimed "to simplify programming and better align resources to improve the effectiveness of innovation programmes". The Business Innovation Review focused on a sub-set of trans-sectional government activities that support business innovation: funding, advice and service (existing and new); industry facing government research; support provided directly and in partnership with third parties; tech development through commercialisation and exports.

The Horizontal Review of Business Innovation and Clean Technology Programmes noted that there is a need to build a common and comparable assessment of programme performance, employing a horizontal approach and enabling greater co-ordination of policy research, evaluation approaches and performance data to better inform resource allocation to, and across, programmes. In addition, the review demonstrated the potential for common measurement methods and indicators to enable comparison and benchmarking across programmes, as well as for strengthening the measurement of programme performance through statistical analysis of programme administrative data.

Source: Treasury Board of Canada Secretariat (2018[22]).

Assessment and future orientations for reform

Chile has developed a diverse set of evaluation tools, ranging from *ex ante* appraisal of new spending proposals to *ex post* evaluation of individual programmes and institutions. *Ex ante* analysis of new spending proposals has helped to improve the quality of spending. A rigorous process of analysis, involving iteration between DIPRES, the Ministry of Social Development and line ministries, helps to eliminate weak proposals and improve the quality of programme design. However, there is a weak link between *ex ante* and *ex post* evaluation and so the potential for *ex ante* evaluation to improve the quality of *ex post* evaluation has not been fully realised.

The overall coverage of *ex post* evaluations is quite limited, averaging less than 5% of government expenditures by value annually. The coverage of individual evaluations is also quite small, as most "programmes" consist of small-scale policy initiatives, linked to incremental funding. This can be contrasted

with other OECD countries where there are typically fewer, larger programmes being evaluated, representing major policy areas or services.

At the same time, the scope of each evaluation is broad, extending beyond financial matters to consider policy and programme design, programme management, and overall impact. Such an approach has advantages, but it also brings up the question whether leadership of the evaluation process should be with DIPRES or another agency (see Section 1).

To address these matters, the following recommendations could be considered:

- Conduct evaluations of broader policy areas and groups of related programmes: Wider evaluation coverage is likely to help identify overlaps, co-ordination challenges and information asymmetries. It can also provide a more realistic and useful assessment of the effectiveness of programmes, since on many occasions their impact depends to a large extent on the way they interact with other associated public programmes.
- Redefine the policy criteria used to develop the DIPRES-led programme of evaluations: One approach is that all spending programmes should be subject to evaluation within a given period, for example five years. This approach would need to be linked to a reorganisation of spending programmes into fewer units and/or the introduction of a new evaluation product covering sets of related programmes. A second policy change would be to consult line ministries on the selection of programmes to be evaluated by DIPRES, so that the selection reflects better their concerns and priorities. This has the potential to increase line ministries' commitment to evaluation and the use of the results to improve programmes.
- Develop the capacity of line ministries to conduct their own evaluations, focused on the effectiveness of policies, programmes and programme management: DIPRES would support line ministries' evaluation efforts by developing central guidance on how to conduct evaluations. A good practice example of such guidance is the United Kingdom's Magenta Book.
- Create capacity within DIPRES to implement evaluations in-house. These would be selected according to priorities determined by DIPRES and would focus on programme efficiency and effectiveness. Undertaking evaluations in-house could improve efficiency by reducing the time spent selecting evaluators, reduce implementation time, strengthen the link with the sector experts from the Budget Management Department, and increase the use of results in budget decision making. Ireland and the United Kingdom provide examples of how in-house evaluation capacity can be strengthened (Box 9).
- Institutionalise common methodologies and standards for all *ex ante* evaluations: The methodology and requirements for *ex ante* evaluation are, in general terms, similar for both social and non-social programmes. DIPRES and the Ministry of Social Development should persevere in their efforts to eliminate any possible differences in their approaches to the *ex ante* evaluation and establish the institutional arrangements necessary to ensure long-term coherence in methodologies. Furthermore, the two institutions should have a shared platform to report and monitor *ex ante* evaluations. This has the potential to increase transparency, facilitate the engagement of civil society, and allow for complementarities between social and non-social programmes.

Box 9. In-house evaluation capability: The examples of Ireland and the United Kingdom

- United Kingdom – in-house evaluation: "Evaluations are produced within departments by in-house analysts. Sometimes evaluation staff is in a segmented distinct unit, but is commonly part of existing financial management functions. Some evaluation work is tendered out to external researchers but independent evaluators outside of the government have described that

administrative data can be difficult to use to evaluate the impact of government interventions." "The government's professional association for economists (the Government Economic Service) has also been bringing together department analysts to develop the evidence base on the trends and drivers of efficiency in the public sector in order to inform spending and implementation decisions."

- Ireland – in-house evaluation specialists: "The Irish Government Economic and Evaluation Service (IGEES) is an integrated cross-government service to enhance the role of economics and value for money analysis in public policy making. Established in 2012, the service demonstrates a desire to develop a high and consistent standard of policy evaluation and economic analysis throughout the Irish civil service. IGEES centralises standards of recruitment and service, to ensure that professional economic and evaluation service standards are delivered across all government departments. The IGEES Network helps build evaluation capacity in line departments. Almost all departments now have an IGEES unit with clear work programmes that should support better policy development and evaluation."

Source: OECD (2018[3]).

Evaluation results and impact

The main objectives of the evaluation system in Chile are to improve the impact of spending programmes through review of programme design, management and financing. Impact is achieved through implementation of recommendations by the agencies responsible for the programmes and actions by DIPRES in respect of resource allocation to programmes. Chile has developed a formal process to follow-up on evaluation results and monitor implementation. However, in practice, there is low perceived impact of the evaluation system in both programme management and resource allocation. This section assesses the impact of evaluation results and explores the main limitations to ensure they are used as a valuable tool for decision making during budget formulation and for policy-making purposes.

A formal process to follow-up on evaluation results

The final stages of the evaluation process involve commitments by line ministries to take action on recommendations made by evaluators, and monitoring of follow-up implementation. Within DIPRES, there is also a process to determine whether there should be a budgetary response.

The recommendations made by the evaluators are studied by the Ministry of Finance and the institutions responsible for the programmes in order to identify the way they can be implemented and the possible legal and financial limitations. Based on the analysis, institutions define the commitments to implement the recommendations over the medium term. After the evaluation process is finalised, results are shared with the Budget Director, the Management Control Division and DIPRES sector experts. Evaluation reports are presented to Congress in August, before presenting the budget bill.

Institutional commitments represent the basis for the follow-up process. Some of the most common types of commitments relate to improving the monitoring and evaluation system and the internal management of the programme, and substantive redesign of the programme, among others.

In order to follow-up on compliance with these commitments, DIPRES carries out a review every six months, reporting on progress of institutional commitments, qualifying the degree of compliance as "fulfilled", "partially accomplished" or "not accomplished". There tends to be high levels of compliance with institutional commitments. More than 95% of commitments were reported as fulfilled between 1999 and 2016. Furthermore, commitments that are not accomplished or partially accomplished are usually

related to a couple of programmes that are particularly problematic, rather than consistent levels of non-compliance across all programmes. However, fulfilled commitments have decreased when considering the evaluations finalised from 2015 on. For example, 75% of the commitments of the Healthy Life programme evaluation (2016) had not been fulfilled for 2017, as well as 50% of the commitments of the Action on Adult and Youth Education programme evaluation (2016) and 62% of the commitments of one specific line of the evaluation of the programme addressing families living under conditions of extreme poverty (2016).

Low perceived impact on both resource allocation and policy

One of the reasons for commissioning this OECD review was the low perceived impact of the evaluation system on resource allocation and policy. The OECD also heard this concern from a range of stakeholders in Chile, specifically that evaluations have little impact on the existing silos or on the spending programmes themselves, and that evaluations are used more to define programme adjustments than to reallocate resources between or within programmes, with the results therefore referring more to management issues than to make the allocation of public resources more efficient, which is one of the main goals of the evaluation system.

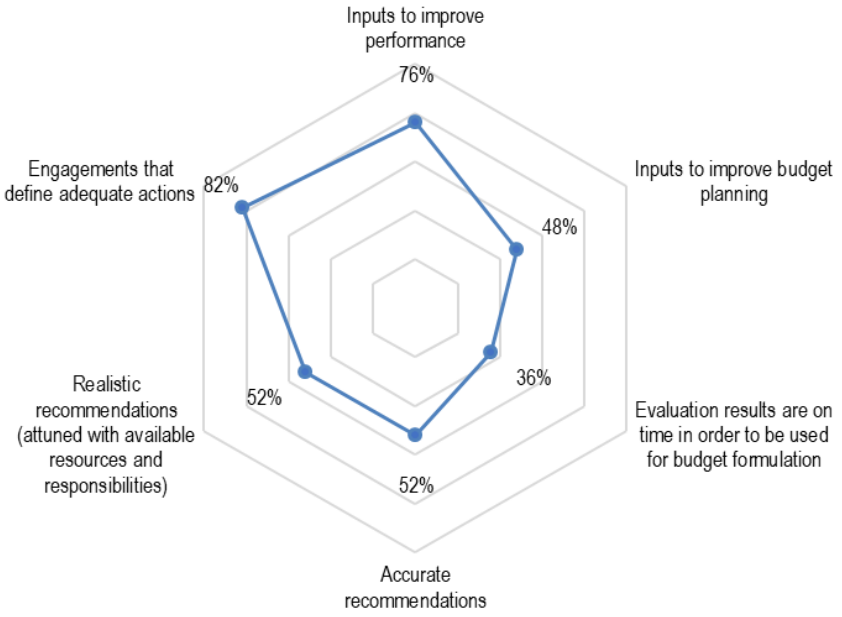
A recent survey carried out by DIPRES aiming to unveil the extent to which evaluation findings have an impact on resource allocation revealed that evaluation results are not used greatly to inform the budget process (Figure 13). Ministries are not absorbing and integrating the evaluation findings during the budget preparation process and the Budget Management Department of DIPRES does not find evaluation results particularly useful.

Evaluation results inform processes and procedures inside programmes to adjust operations and reallocate human, financial and/or material resources. They also inform Chilean public policies in terms of their management characteristics, the institutional arrangement and internal features of the programmes such as targeting, cost-benefit analysis, synergies and scale economies. Survey results confirm that evaluation findings are a useful tool when it comes to decision making on ongoing projects, but they do not necessarily inform the agenda setting and policy formulation stages of the public policy cycle.

In a similar way, the DIPRES survey also shows that evaluation results are less useful to define budgeting requirements than they are for redefining programme design, making changes in the management modality or in human resources or the programme organigram (Figure 14). Regarding the way evaluations are used during the budget formulation phase, they are mostly used to justify the resources currently assigned to the programme and to make changes in the programme's internal processes towards improving effectiveness and efficiency. On the contrary, evaluations are rarely used to reattribute resources between programmes.

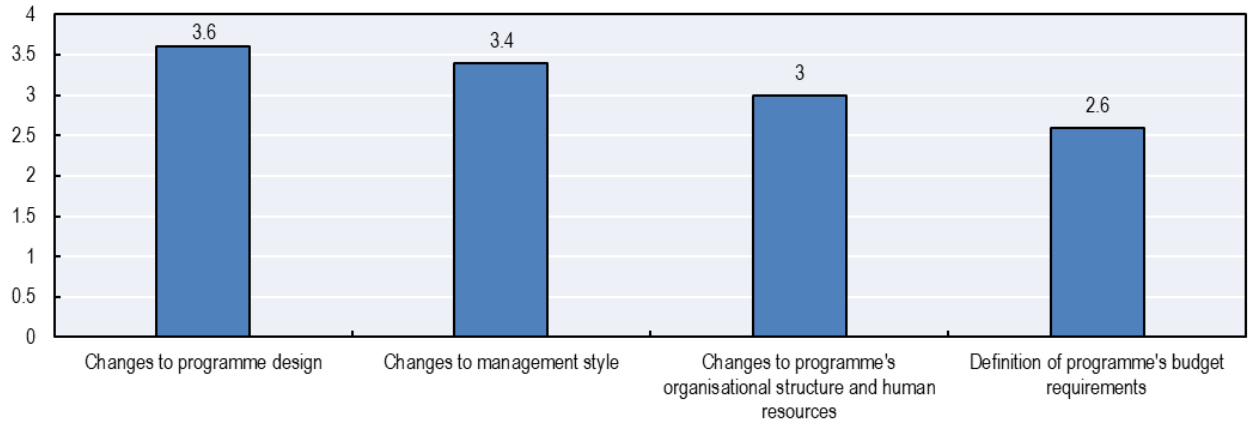
Figure 13. Characteristics of evaluation results in Chile

Agree and strongly agree



Note: Survey results from ministerial co-ordination officials.
Source: DIPRES.

Figure 14. Average utility level of the evaluation results in Chile



Note: On a scale of 1-5, where 1 means not useful and 5 means very useful.
Source: DIPRES.

As explained above, the Chilean evaluation system includes a compliance and follow-up strategy that should inform the performance of public programmes. However, the survey highlights that the majority of the sector expert respondents from the Budget Management Department believe that the level of compliance with the evaluation recommendations (and set commitments) are not used to take decisions during the budget formulation process. Likewise, most respondents believe that there are no adequate mechanisms to inform about compliance with these recommendations. Regarding areas to improve the process, the survey highlights four main areas of reform: 1) improve the linkage between compliance and budget allocation; 2) increase the involvement of the budget policy analysts in the monitoring of their sector targets; 3) reduce the time between the evaluation results and the definition of commitments (based on

evaluation recommendations); and 4) improve the reporting platform to make it more flexible and interactive.

The path of follow-up actions is unclear, with no process for making major cuts in expenditure and very few examples of cancelled programmes that are performing poorly. More than half of the programmes evaluated since 2011 have no demonstrated results or underperform (Table 1). Despite the negative results, the impact in budget allocations is limited. Poorly performing programmes typically have many defenders and there are few incentives to change the programmes significantly.

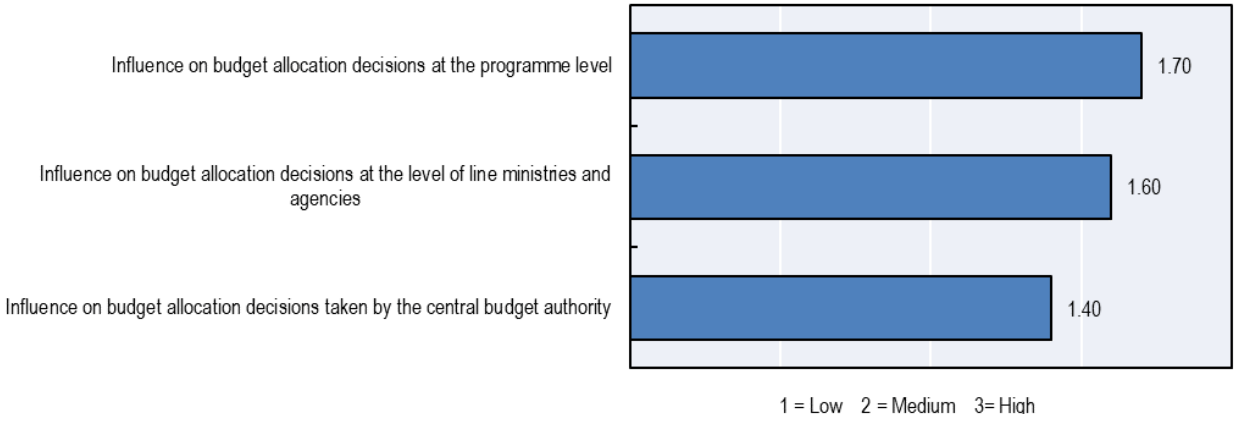
Table 1. Evaluation results in Chile by performance category, 2011-17

Category	Total	Percentage
Good performance	5	4%
Adequate performance	40	28%
Underperformance	83	58%
No demonstrated results	15	10%
Total	143	100%

Source: DIPRES.

A similar trend can be noticed across OECD countries, where the impact of evaluation processes on budget decision making is low, especially at the macro level. Although it could be anticipated that evaluation findings would influence budget allocation decisions at the level of the central budget authority, in practice this is where the influence is less, perhaps reflecting the decentralised nature of the evaluation process itself. Even at the programme level, where the impact is the greatest, the impact level overall is rated between low and medium. The single most important problem preventing evaluations from having an impact is the absence of any formal mechanism to consider evaluation findings in the budget process, followed by insufficient bureaucratic and political interest in the evaluation findings (Figure 15).

Figure 15. Impact of evaluation processes on budget decision making in OECD countries, 2018



Note: Data are not available for the United States.
Source: OECD (2018[1]), Question 34.

Key challenges limiting the impact of evaluation results

Institutional arrangements

The OECD found that co-ordination within DIPRES is an issue, illustrated by an insufficient exchange of information between the budget department and the evaluation department. A better flow of information, and stronger co-ordination between the Control of Public Management Division and the Budget Management Department could improve the use of evaluations results in the budget preparation process. Greater involvement by sector experts from the Budget Management Department might help to gather more and better information about the sector background and context and, accordingly, to ask better research questions.

The existing budget structure imposes a constraint on evaluations having a budgetary impact

A fundamental obstacle to evaluations having a budgetary impact is the current structure of the budget. The budget does not have a programmatic structure and programmes appear either as a single line item or are hidden within a line item such as transfers. This makes it hard to identify spending allocations to programmes or to monitor and evaluate the efficiency and effectiveness of spending. While efforts have been made to prepare reports on programme execution, these have to be prepared manually, represent only a best estimate of expenditures and are not auditable. This inevitably reduces the budgetary relevance of evaluation findings. This contrasts with other OECD countries where budgets are organised and appropriated on a programmatic basis, enabling governments to track programme expenditure and link this meaningfully to performance. Moving towards a design of the budget where budgetary programmes correspond to operational programmes would allow improving the value and use of evaluations for allocation decisions.

Introducing a programme structure in the budget requires a deep cultural change, for both the central budget authority and line ministries. International experience suggests that programme budgeting should be implemented in a progressive manner, shifting from detailed “line-item” budgeting to programmatic and thematic budgeting, in an effort to promote greater engagement with the policy content and “meaning” of budget allocations. In many countries, programmes are selected within the context of a policy “cascade”, from high strategic and developmental goals which inform medium-term and specific outcome goals, in turn informing departmental or sectoral objectives and associated output targets and deliverables. Once programmes have been selected, countries can then move to allocate clear assignment of responsibility (organisational and, ideally, managerial) for the achievement of the selected programmes and targets. Reforming the structure of the budget towards programme budgeting is an ambitious undertaking. France, for example, fundamentally reformed its budget structure, enacting in 2001 a new Organic Budget Law structured along missions, programmes and actions (Box 10).

Box 10. French programme budgeting system

In 2001, France enacted a new Organic Budget Law, including a well-defined programme structure, shifting budget classification from nature of expenses to public policy objectives. According to this new approach, the budget must be divided into missions, programmes and actions:

- A mission covers a series of programmes designed to contribute to a specific public policy. A mission can involve a single ministry or several ministries. The parliament cannot change or adjust the missions. It has to accept the budget allocations proposed by the executive government and has power only to vary the allocation between programmes.

- A programme covers a coherent set of activities of a single ministry targeted to a specific public policy objective. If more than one ministry participates in a large public policy, each of them should have a separate programme, covering its own responsibility in that matter, and ensuring co-ordination. Thus, a programme corresponds to a centre of responsibility. Accordingly, a programme director is appointed for every programme. All the resources from the state budget should be allocated and spent within a programme. In a similar way, resources allocated by the parliament to a particular programme cannot be spent by the ministers for another programme.
- An action covers a set of operational means to implement the programme. The budget breaks down resources allocated to the actions of each programme; however, this break down is indicative and not binding. There is indeed a high degree of freedom for expenditure choices for ministers, in order to allow the programme to reach its forecasted performance. However, there is one exception to this increased freedom: appropriations for personnel are not indicative but binding, in an asymmetrical way: personnel appropriations can be used for other purposes, but appropriations for other purposes cannot be used for personnel costs.

The Organic Budget Law prescribes an extensive performance reporting process to integrate performance information into the budget system through the following two types of mandatory budget documents: annual performance plans (*projets annuels de performances*, PAP) and annual performance reports (*rapports annuels de performances*, RAP). For a given mission, the PAP provides a detailed description of its purpose, goals, policy targets and performance indicators. As part of the annual budget act, the PAP documents are forward looking and are meant to contribute to the public debate about the costs and benefits of public policy. The RAPs are published in the first quarter along with the budget review act; they focus on performance achievements and provide detailed information on programme implementation and results. The RAPs are thus backward looking and tend to contribute to the public debate on the administration's performance.

Source: Loi organique relative aux lois de finances 2001.

Limited impact of the evaluation system and relevance of results

As already mentioned, according to the survey, there is a perception that line ministries do not pay enough attention to the evaluation results. There seems to be a lost momentum for the evaluation system in Chile. Given DIPRES' strong position in defining policy making and resource allocation within the Chilean budgeting framework, its role as the leader of the evaluation system should be perceived as structural. This was the case in the first years of the evaluation system. However, with time, results and findings were perceived as having a low impact on decision making. As a consequence, evaluators reported in the survey that the level of attention paid to the evaluation by line ministries became weaker.

Lack of specific tools to increase efficiency and improve budget allocation

In contrast to other OECD countries, Chile has invested heavily in its evaluation system, but has not developed other performance monitoring and management tools that typically form part of an overall performance management and budgeting system. Some rebalancing and broadening of the effort seems likely to produce better results. The list of tools typically used by OECD countries includes:

- reforms of ministry strategic plans to improve the quality of programme objectives, performance indicators and targets
- use of a medium-term expenditure framework to align sectoral spending plans with policy priorities consistent with meeting medium-term fiscal objectives

- spending reviews to identify inefficiencies in existing spending and free up resources for new priorities
- programme and performance budgeting, defining programmes and performance indicators and linking these to resource allocation, and changing budget classification and expenditure controls
- reform of human resource management to align individual incentives with performance, for example performance-based pay and individual performance appraisal.

Chile has used some of these tools, including a strategic definition of institutions' functions, objectives and performance indicators (*definiciones estratégicas*); a management improvement programme (Programa de Mejoramiento de Gestión); and salary incentives (*mecanismos de incentivo de remuneraciones*). However, there are other tools that could be further developed. Given the political and institutional context in 2017, two of these tools – programme budgeting and spending reviews – would appear to have strong potential to complement and strengthen programme evaluation.

Programme and performance budgeting

Performance budgeting is "the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved".

Performance budgeting offers a wide range of potential benefits that are attractive to different stakeholders. For the centre of government, performance budgeting offers the chance to strengthen the alignment between decisions on budget allocation and government policy priorities, thereby boosting the chances that the government can deliver on important pledges. For parliament, performance budgeting offers greater clarity on the purposes of spending and what goods and services will be delivered in return for the resources they have voted on, as well as a means of holding officials to account for the achievement of results. For the Ministry of Finance, performance budgeting provides new types of information that help them take resource allocation decisions based on evidence of what works, plus tools to make line ministries more accountable for the effectiveness and efficiency of spending. For line ministries, performance budgeting provides tools to improve their internal decision making, and to make a stronger case to government in support of their budget proposals. It also helps programme managers do their job, enabling them to track performance as well as spending. For citizens and civil society organisations, performance budgeting offers the prospect of greater transparency and accountability in respect of the purposes and results of public spending and, by opening up the "black box" of the budget, it strengthens the basis for direct citizen engagement in the budget process.

Characteristic elements of a performance budgeting system are:

- In the preparation of the budget, spending decisions take account of priority policy objectives as well as past programme performance.
- The budget is presented to the legislature as a set of programmes. This may be in addition to, or replace, presentation based on administrative and economic classification.
- Non-financial performance indicators and targets, representing the planned objectives of spending, are presented in the budget and linked to spending programmes.
- During budget execution, budget managers have the autonomy to manage financial resources, balanced by the accountability for achieving results.
- Performance information is provided to managers together with budget execution data to help them monitor performance and improve the quality of spending.
- Reports to parliament on budget execution include performance information and a narrative explaining the reasons for under- or over-performance.

Performance budgeting is a major long-term reform which deserves separate analysis and recommendations. In the short term, implementation of a programmatic classification of the budget, which is one element of the reform, would substantially strengthen the evaluation process, independent of full implementation of a performance budgeting system.

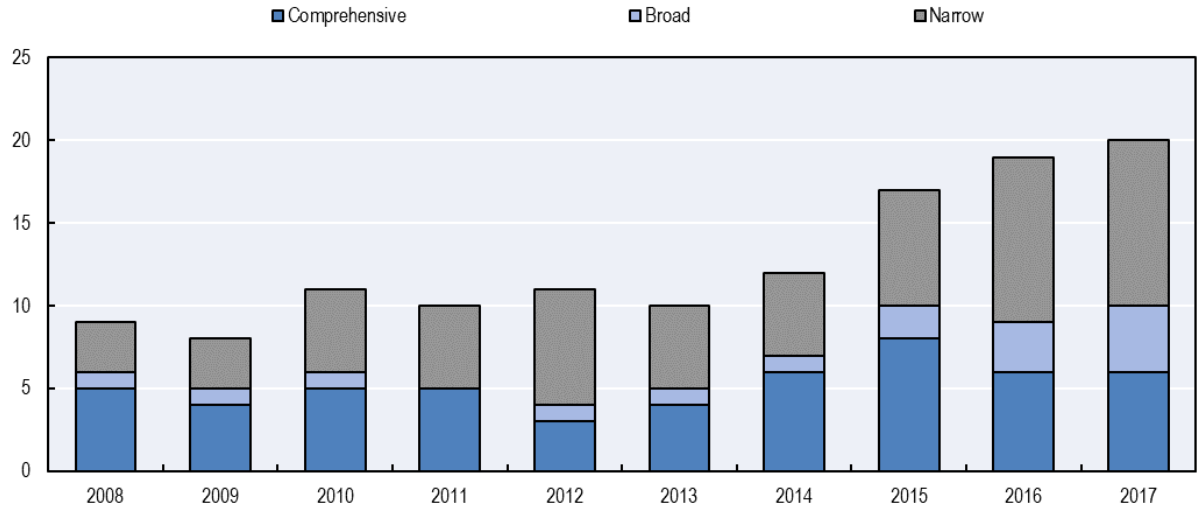
Other elements of the reform would strengthen performance orientation and complement the evaluation process. DIPRES has already begun work to define programmes.

Spending reviews

Spending reviews provide a method of reviewing spending effectiveness and efficiency linked to government policy goals. They are widely used as a strategic budgeting tool in OECD countries, with 28 out of 34 OECD countries reporting that they conduct spending reviews either annually or periodically. Between 2011 and 2017, there was a steady trend towards the use of spending reviews in OECD countries (Figure 16).

The main objective of spending reviews is to increase the fiscal space available to government to finance its policy priorities. Governments have made use of this tool to carry out budget consolidation, cutting less effective spending while safeguarding key spending priorities and to reprioritise expenditure, helping governments to align spending with key policy priorities. A key characteristic of spending reviews is that they systematically analyse baseline expenditures to identify scope for savings and realignment of resources to support policy priorities. This contrasts with the normal focus in the annual budget process on competing demands for incremental increases in spending.

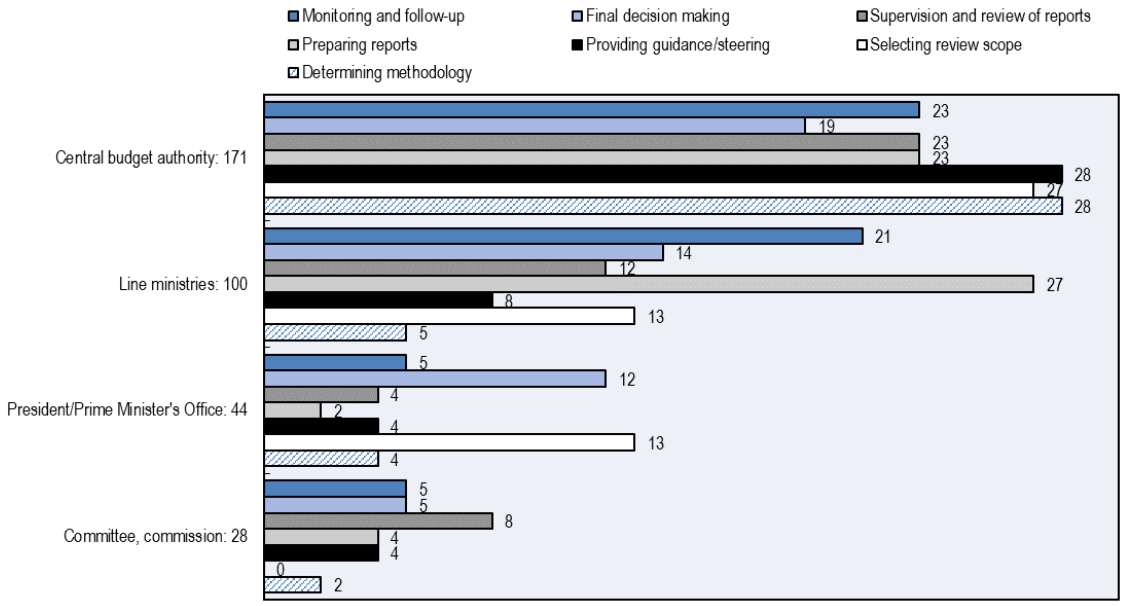
Figure 16. General trends across OECD countries towards increased use of all types of spending reviews, 2018



Note: Data are not available for the United States.
Source: OECD (2018[1]), Question 39.

Spending reviews have many similar characteristics to evaluation, including a critical reassessment of the justification for expenditures, from the perspectives of economy, efficiency and effectiveness. They are an adaptable tool which can be tailored to the specific circumstances of individual countries and may examine specific programmes, policy areas or agencies. The use of narrow spending reviews has increased constantly in OECD countries since 2008 (Figure 17).

Figure 17. Primarily responsible government actor for spending review procedures in OECD countries, 2018



Note: Data are not available for the United States.
Source: OECD (2018[1]), Question 38.

Smaller scale sector spending reviews, such as those used by Denmark (Box 11) and the Netherlands offer a model that could be followed by Chile.

Central budget authorities play a leading role at almost all stages of the spending review, especially in determining the methodology, while line ministries lead the preparation of the reports, and the President or Prime Minister's Office are key actors when selecting the review scope (see Figure 17).

Box 11. Special studies review in Denmark

Since the mid-1980s, Denmark has had a system of spending reviews known as "special studies". The special studies are part of the normal annual budget preparation process, although there have been some years when no special studies were undertaken. Although in principle the special studies may recommend increases in funding for existing programmes, in practice this is rare and the focus is on savings. There is no formal link to broader government performance-improvement processes. There have typically been 10-15 special studies carried out each year, although this has increased significantly since the global financial crisis. Historically, the primary focus of the special studies process has been on increasing space for new expenditure priorities. However, at the time of this OECD review, the focus had shifted towards reducing aggregate expenditure for fiscal consolidation purposes. This has led to an increase in both the number of special studies and the value of expenditure which they cover (e.g. studies of defence and police expenditure). Most special studies are agency reviews or programme reviews, and the main focus has, over the years, been on efficiency savings rather than strategic (output) savings. Special studies are generally carried out by joint Ministry of Finance/spending ministry taskforces, with terms of references that are approved by Cabinet. Taskforces present savings options to the Minister of Finance and the Economic Committee of Cabinet. These recommendations should, in principle, be based on consensus between the Ministry of Finance and the spending ministry

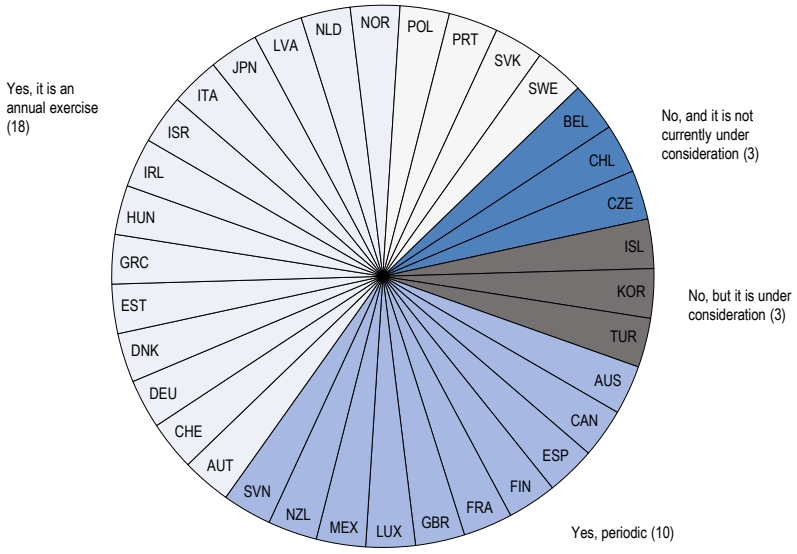
concerned, but if consensus is not reached, separate recommendations may be put forward. The Economic Committee generally takes the final decision about which savings measures will be adopted in the budget.

Source: Robinson (2014[23]).

Finally, in terms of information available, it is important to consider what information already exists in terms of outcome evaluation (using existing relevant performance indicators) and/or efficiency analysis. For this, Australia provides a relevant example through its system of "strategic reviews" of programmes or processes that have been conceived in part to support spending review. Drawing on these reviews, the Department of Finance typically develops and presents savings options for the Expenditure Review Committee of Cabinet.

There has been a widespread use of spending reviews in OECD countries. In 2018, more than half of OECD countries (18) implemented it as an annual exercise and ten used it as a periodic exercise (Figure 18).

Figure 18. Use of spending reviews in OECD countries, 2018



Note: Data are not available for the United States.
Source: OECD (2018[1]), Question 36.

Assessment and future orientations for reform

Strengthen political support for evaluation

Government leadership is key to developing a culture of accountability for performance that would give renewed energy to the evaluation process. In other OECD countries, political expression has taken different forms. Australia and the United States, for example, have enacted performance laws (in Australia the PGPA Act 2103, in the United States the Government Performance and Results Modernization Act 2010), whereas countries such as Austria and the United Kingdom have set up performance units at the centre of government. Political engagement and communication could be linked to decisions regarding changes to the evaluation system.

Implement a programmatic budget classification

In Chile, a frequent finding from evaluations is that expenditure programmes are not aligned well within the budget classification system and the operations of line ministries. Transitioning from the current budget structure based on administrative classification to a programmatic structure would enable Chile to combine its existing budget programmes with larger programmes. Existing programmes could be reclassified as sub-programmes or activities. This would improve the basis for evaluation by enabling programme expenditures to be tracked. Programmes should cover broad policy areas and services that have a long-term character, for example, in education, programmes might include primary education, secondary education, adult literacy, special needs education and teacher training. DIPRES has already begun work to define programmes, and this should be continued in collaboration with line ministries, but with a government commitment and timetable to adopt a programmatic classification.

Introduce spending reviews as a complementary tool to evaluation

DIPRES should consider initiating spending reviews modelled on those used by Canada, Denmark or the Netherlands. These would focus on groups of programmes or policy areas and would focus on programme efficiency and effectiveness and opportunities to improve strategic alignment of spending with priority policy goals.

As highlighted by Vammalle and Ruiz Rivadeneira (2017[8]), OECD best practices suggest the following key elements for implementing a successful spending review process in Chile:

1. Spending review should be a regular and ongoing feature of the budget process. Simultaneous consideration makes it possible for governments to adopt other high-priority new spending proposals without increasing aggregate expenditure, by selecting additional savings options sufficient to fund the extra new spending.
2. Clearly define the scope of the spending review. Proper alignment between the government's objective and the type of review implemented is a key success factor for the spending review exercise.
3. Political oversight and direction of the spending review process. Spending review is not a purely technical function, it should be under the direction of politically appointed officials who are sensitive to the priorities of the presidency.
4. Clearly define roles in the spending review process. Taking into account the clearly centralised evaluation process currently in place, Chile could benefit from a joint spending review exercise, where line ministers can contribute with their particular knowledge of the sector and DIPRES can support and orient the process due to its long tradition with the evaluation and control system.
5. Ensure line ministries' buy in. Increased efforts to promote the evaluation function within spending institutions could be a good strategy to increase engagement and support from line ministers.
6. Have well-defined programme budgeting. A successful spending review depends on a large extent on the Ministry of Finance knowing exactly which programmes are being delivered by each spending ministry and how much is being spent on each, making the programme classification of the budget particularly relevant to programme review, and to the search for strategic savings (Robinson, 2014[23]).
7. Implement the review at the right moment in the political cycle and following a clear implementation timeline (Box 12). Traditionally, countries carry out in-depth spending reviews in the first year of the presidential term of office, and more limited spending reviews in subsequent years. It is helpful to agree on the sequencing of spending reviews, for example beginning with "quick wins" that may demonstrate the value of the exercise and so generate momentum and commitment to the process.

Box 12. Spending review process and main steps

Phase 1: Mandate and road map

Secure a political mandate and bureaucratic commitment to the exercise supported by communicating objectives and assigning leadership roles. At the outset, it is important to establish how decisions will be taken based on the findings of the spending review process. Significant changes in resource allocation will undoubtedly be met with resistance and so high-level support will be needed to realise the potential benefits.

Develop a high-level road map or concept note encapsulating agreement on the scope, objectives and timeline for the spending review exercise. The objectives should reflect national policy priorities and fiscal goals.

Allocate resources dedicated to the project. Senior officials will have to be released from their usual responsibilities. High-level analytical and policy skills are needed to assess potential reform options and top-level project management skills are needed to keep the process on track and ensure consistency. Operational leadership of the project should remain with government and not be outsourced. Knowledge of administrative rules and processes is necessary but not sufficient; external experts may need to be hired.

Phase 2: Design

In Phase 2, the mandate and road map are operationalised. High-level objectives and scope are disaggregated into a portfolio of smaller projects and more detailed terms of reference are prepared for each component part. In case the government has overall savings targets, the expected contribution of each line ministry should be communicated up front. Line ministries may be invited to suggest spending items or agencies that should be subject to particular scrutiny.

The key output should be a set of terms of reference that combines a unified overall approach or methodology with more detailed sector-specific requirements. Methodological guidance is advisable to ensure a consistent approach across the portfolio of individual spending reviews, including definition of the technical elements required to support decision making, such as potential savings, costs, impact on citizens, and risk assessment.

Governance arrangements should be defined and a team assembled for the overall co-ordination of the spending review exercise before the implementation phase begins. A co-ordination/delivery taskforce is typically a permanently staffed team reporting to a board which has a consolidated view over the entire project during the conduct of the review and the implementation phase. Independence from the administration under review is a key success factor, so that decisions are not taken by officials responsible for the policy or spending under review.

Phase 3: Conduct of the reviews

Conducting the reviews incorporates three key steps: 1) diagnosis; 2) formulation of reform options; 3) feasibility analysis and decision making. Diagnosis is based on mapping of sources of funding and expenses, including analysis of spending evolution and the main cost drivers, broken down to a level where potential inefficiencies and anomalies can be identified. Spending should be assessed in the context of policy objectives and its relative contribution towards achieving policy objectives, including target populations. Useful perspectives can be obtained through benchmarking against national or international comparators.

Lack of data is a common problem in which case alternative approaches can be explored and combined. These may include use of sample data and other existing material, e.g. from auditors, universities and

think tanks. A good analysis will challenge historically accepted assumptions and procedures that are obsolete.

The second key step is the formulation of reform options with alternative scenarios. This may involve sensitivity analysis to simulate the impact of a lower level of spending and/or of an alternative allocation of spending on policy objectives. Another approach is to consider policy alternatives. Some countries consult widely with officials and end-users to generate ideas or voice their preferences between different proposals.

The third key step is to analyse the feasibility of the various reform options. Feasibility and impact are the main criteria used to decide between alternative options. Feasibility analysis should take account of multiple factors, including implementation costs, risks (political and public resistance), other obstacles such as the need to amend the law and spill-over effects, for example on other expenditures.

At the end of this phase, the recommendations of each individual spending review are considered and a set of reform proposals is selected for implementation based on considerations of impact, cost, risk and return.

Phase 4: Implementation

In this phase, the benefits of the spending review are realised in the form of savings and reallocation of resources. Follow-up monitoring is an essential part of the process as it should not be assumed that recommendations will be implemented fully and effectively, Results should be assessed both individually for each project and collectively relative to the initial mandate.

At the end of the implementation phase, it is recommended to evaluate the real savings captured versus the implementation cost and the fulfilment of the initial mandate. This exercise should be carried out independently. For example, the UK National Audit Office independently assessed the savings achieved by the 2004 Gershon spending review and the Finnish National Audit Office (VTV) published an evaluation of the Productivity Programme.

Source: Adapted from Vandierendonck (2014[24]).

Strengthen internal co-ordination within DIPRES

The feedback loop, whereby evaluation findings influence subsequent budget decisions, is weak. In part this is due to inherent problems in linking budget allocations to outputs and outcomes, caused by the complexity of the problems that governments deal with and the often unclear relationships between financial inputs, outputs and outcomes. In part, however, it can be attributed to the distance existent between the departments in DIPRES that deal with evaluation and budget and limited follow up with line ministries.

DIPRES' management should institute formal mechanisms to ensure effective information exchange between departments within DIPRES to improve the quality and impact of evaluation. In the course of designing and conducting evaluation, the knowledge and concerns of sector budget experts should be considered. Equally, the findings of evaluations should be considered by sector specialists in the budget department responsible for preparing the next year's budget.

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Notes

[1] Before 2011, the Ministry of Planning (that was later transformed into the Ministry of Social Development) was already in charge of ex ante evaluation of public investments.

[2] Its members are: the Ministries of Education, Health, Housing and Urbanism, General Secretary of the Presidency, Labour, Finance, Justice and Human Rights, and Sports (Law 20.530 and Law 21.090).

[3] Some ministries have built capacities to conduct their own programme evaluations. However, this is not a homogenous practice and when conducted, these evaluations are not integrated with the budget process.

[4] The then Institute for Previsional Normalization (Instituto de Normalización Previsional, INP) and the National Health Fund (Fondo Nacional de Salud, FONASA).

Managing fiscal risks: Lessons from case studies of selected OECD countries

Based on five case studies, this paper looks at the definition and classification of fiscal risks; sets out the components of a comprehensive fiscal risks framework; and examines how to operationalise such a framework. It then summarises challenges and key lessons to be considered by countries that wish to implement OECD recommendations in this area to increase the resilience of their public finances in the wake of the COVID-19 outbreak.

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JEL codes: H50, H61

Keywords: fiscal risks, stress, shocks, public finance, contingent liabilities, COVID-19, macroeconomic risks

Introduction

Recent months have shown that global crises such as the COVID-19 pandemic create pressures on public finances that are difficult to anticipate and prepare for. Across OECD countries, most governments have decided to play the role of "insurer of last resort" for firms and households well beyond what they had done a little more than a decade ago, when the world economy was hit by the 2008 global financial crisis. Fiscal plans have derailed as large risks crystallised, despite the fiscal reforms of the last decade.

As the worst case scenario for public finances seems to have already materialised, should governments and Ministries of Finance still try to manage their fiscal risks? This article takes the view that recent events should not discourage policy makers from building expertise and developing processes for managing fiscal risks, which will be all the more important in the coming years for several reasons:

- With a highly uncertain economic environment, forecasting the economy and public finances will become increasingly challenging. Having a clear understanding of existing and new risks to the fiscal forecast will be crucial for decision makers to draw realistic spending plans.
- With fiscal risks at an all-time high, managing them will be a core task of decision makers, e.g. monitoring the stock of guarantees, credit risk on government loans, commercial value of equities held by the government, and taking timely and appropriate decisions in relation to the management of related risks.
- With unprecedented fragile public finances, fiscal responsibility and discipline in ministries, departments and agencies will involve not only meeting their expenditure targets, but also managing existing and emerging risks linked to the amplification of both on- and off-balance government assets and liabilities, in the form of debt, acquisition of equity in strategic firms, loans, guarantees, etc.
- With difficult budgetary trade-offs ahead, the legislature will need comprehensive information on fiscal risks and their management to exercise oversight and conduct an effective debate over budgetary decisions, including reserves and "space" in fiscal plans.

Therefore, although the identification and measurement of fiscal risks is challenging and Ministries of Finance know well that a fiscal risk may not always turn out as anticipated, this article aims to provide evidence that potential benefits in terms of awareness, anticipation and promotion of an informed debate about the resilience of public finances are likely to outweigh the time and resources required.

The starting point for this article is the *OECD Best Practices for Budget Transparency* (OECD, 2002[1]) and the *Recommendation of the Council on Budgetary Governance* (OECD, 2015[2]). Based on five case studies including two pioneer countries in the management of fiscal risks (Australia and New Zealand) and three countries that developed their framework in the wake of the 2008 financial crisis (Finland, the Netherlands and the United Kingdom), this paper identifies practices to be considered by countries that wish to implement OECD recommendations in this area and strengthen their fiscal risks framework. It emphasises that the objective of such frameworks should go beyond mere disclosure to include the active management of fiscal risks and consider them in the formulation of fiscal policy.

This paper does not aim to detail policy responses to specific risks, but rather makes the point that the starting point for resilient public finances is a smart definition of ever-changing and evolving fiscal risks (Section 2); a comprehensive framework for their identification, analysis and management (Section 3); and sound arrangements for operationalising the framework (Section 4). Finally, it summarises challenges and key lessons, and identifies future directions of the OECD's work to advise member countries on managing fiscal risks (Section 5).

Defining fiscal risks

What is a fiscal risk?

Fiscal risks should be identified against fiscal forecasts

The concept of fiscal risks is closely linked to the more general problem of the accuracy of fiscal forecasts that form the basis of medium-term expenditure frameworks.[1] The 2008 financial crisis put an emphasis on better understanding uncertainty in forecasts. This includes accompanying the outlook with a fan chart reflecting uncertainty with forecasts; including more variables in the sensitivity analysis; and identifying where significant deviations could come from and what this means for the government's fiscal mandate and longer term fiscal sustainability.

Fiscal risks is the term used for describing these sources of potential large deviations from the fiscal forecast. They are defined as "the probability of significant differences between actual and expected fiscal performance" (Kopits, 2014[3]) or "the possibility of deviations of fiscal outcomes from what was expected at the time of the budget or other forecast" (IMF, 2008[4])

As deviations from forecasts, fiscal risks are not the same as fiscal pressures, which are phenomena generally integrated in the forecasts (e.g. ageing). The United Kingdom's Office for Budget Responsibility (OBR) notes, for example, that "what constitutes a fiscal risk depends crucially on which potential developments in the public finances you choose to incorporate into the central projection and which you regard as potential deviations" (OBR, 2017[5]).

The definition of fiscal risks may go further by specifying criteria for including or not, certain parameters in the forecasts. For example, in Australia, fiscal risks are defined as "matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood; and the realisation of contingent liabilities or assets" (Commonwealth of Australia, 2019[6]).

The nature and number of fiscal risks identified by a given country also depends on the forecast against which they are considered. Risks over the short, medium and long term are not the same. For example, today's natural disaster risks will become tomorrow's climate change risks. In the United Kingdom, because fiscal risks are identified against both the medium-term and long-term fiscal forecasts, the last *Fiscal Risks Report* identified and discussed around 60 large risks to public finances.

Fiscal risks are virtually infinite and criteria are needed for their identification and disclosure

Even within these boundaries, fiscal risks are potentially infinite and some countries explicitly acknowledge that within the definition and criteria for identifying fiscal risks, it may not be possible to cover all potential fiscal risks faced by governments in a single report.

The United Kingdom argues that any definition of fiscal risks should aim to cover significant potential developments in the public finances "that might require a policy response – either before or after the event" (OBR, 2017[5]). New Zealand's legislation states that fiscal risks should be disclosed "to the fullest extent possible" (Parliamentary Counsel Office, 2020[7]). In other words, a definition of fiscal risks should not aim at comprehensive coverage of potentially infinite fiscal risks, but rather at supporting policy decision making and facilitating oversight and accountability.

In addition to the concept of fiscal risks, the terms "stress" or "shocks" is sometimes used. Stress or shock can be defined as an event potentially triggering several risks at the same time or successively, and exerting the largest costs on public finances. Typically, a large economic crisis, whatever its source (e.g. financial crisis, trade war, natural resources shortage, etc.) will trigger fiscal risks in the form of reduced government receipts and additional spending to support the economy and households. Pandemics or large natural disasters are other events that could trigger shocks, with comparable spillover

effects from the economy to government revenue and spending. The identification and measurement of these shocks is further discussed below.

How to classify fiscal risks?

Fiscal risks fall under four broad categories

The OECD *Recommendation of the Council on Budgetary Governance* (OECD, 2015[2]) calls upon governments to "classify by type" their fiscal risks, with proposals formulated in the past on how such classification could be done, for example depending on the methodological approach to estimating them (Kopits, 2014[3]). Such a classification is important because a long list of fiscal risks would not be easy to understand for decision making.

Case studies show that classification of fiscal risks is a shared feature of fiscal risks frameworks and classification by nature is the most common approach. Beyond risks to the reliability of the forecasts linked to "technical errors" of forecasters, four main categories of risks can be identified in most countries, although the terms or detailed classifications used vary (see Table 1). These categories are:

1. **Macroeconomic risks**, which emanate from either cyclical or structural changes in the economy that would directly affect the government revenue forecast and potentially indirectly influence its spending forecast. Risks in relation to macroeconomic variables include especially growth, natural resources prices, as well as the financial sector, which may, however, be identified separately from other macroeconomic risks.
2. **Government policy or programmes risks**, which are risks that tax collection or spending controls won't happen as planned, generating revenue losses or additional spending. Spending and revenue risks are discussed, for example, in the United Kingdom's *Fiscal Risks Report*, such as risks in relation to welfare or health spending. Similarly, Finland identifies so-called internal risks, which are risks "associated with the implementation of the government programme".
3. **Uncertain budgetary claims** (also called contingent liabilities) risks, which encompass all commitments that the government has formally entered into or obligations that the government would not be able to avoid but that are not included in the fiscal forecast because they are uncertain or impossible to measure. In Australia, uncertain budgetary claims comprise guarantees (where one party promises to be responsible for the obligations of another party if that party defaults), indemnities (a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer) or other types of claims (e.g. legal claims, tax disputes, uncalled capital subscriptions).
4. **Balance sheet risks**, which are mainly risks associated with assets and liabilities owned by the government, such as equity shareholdings or loans. New Zealand, for example, defines balance sheet risks as "risks affecting the Crown's financial position through changes in the value of its assets or liabilities".

Debt risks, which include interest and foreign exchange rates, may be presented as a separate category or included in one of the above categories.

Finally, some countries identify as fiscal risks expectations over government's interventions or bailouts in case of a crisis, which are called **implicit commitments or contingent liabilities risks**. Finland, for example, identifies "expenditure that the government may be socially or politically obliged to make if a particular event occurs", such as a bailout of a bank or subnational government.

The identification – and indeed measurement and disclosure – of such risks is controversial in that it can crystallise or give ground to claims that have not been legally endorsed by the government and approved by parliament, and can lead to moral hazard. Recent fiscal packages in the wake of the COVID-19

outbreak, however, show the scale of such implicit liabilities and the need to have an understanding of them, in particular in the event of a large shock, as further discussed below.

Other key characteristics should be identified

International institutions have proposed using more sophisticated classifications of risks, based on characteristics such as measurability; magnitude; probability of occurrence – i.e. probable, possible or remote; government influence on the materialisation of fiscal risks – i.e. endogenous or exogenous; and the nature of the government's obligation – i.e. explicit or implicit (Lindwall, 2013[8]; IMF, 2016[9]). For example, Australia and the United Kingdom classify fiscal risks according to their likelihood to crystallise and their potential impact on public finances.

Ideally, when choosing a classification of fiscal risks, countries should consider their final objective in terms of fiscal risks management and which classification is the most suited to meeting that objective. For example, Australia presents fiscal risks by department and agency, putting the emphasis on responsibilities and accountability for managing these risks. The United Kingdom uses categories that differentiate between two types of risks. The first category is risks over which the government has no control. The second comprises risks over which it has "some varying degree of direct control, which helps appreciating fiscal risks that the government is creating for itself through its policies, as opposed to those that might be imposed on it by circumstances". The Netherlands differentiates between explicit and implicit risks for similar reasons.

Ultimately, it should be acknowledged that any classification of risks is necessarily imperfect, as risks are rarely isolated and often correlated, as evidenced in recent research (Schilperoort and Wierts, 2013[10]; IMF, 2016[9]). One typical example of such correlations is the 2008 financial crisis, which via its impact on the economy, affected public spending and receipts, but also resulted in government guarantees being called upon. It may still be too early to assess the full range of impacts of the COVID-19 outbreak, but it is already clear that the pandemic directly generated significant additional health spending, and also a fall in economic activity that affected public receipts and necessitated new policy measures to support firms and households. Such correlations between risks can be explored using stress tests, as further discussed below.

Establishing a comprehensive framework

What are the objectives of a fiscal risks framework?

The OECD *Recommendation of the Council on Budgetary Governance* calls for countries to establish mechanisms for identifying their fiscal risks; make explicit the mechanisms for managing them; and consider them in debates about the appropriate fiscal policy stance (OECD, 2015[2]). Similar advice is provided by other international organisations (IMF, 2016[9]).

In Australia and New Zealand, fiscal risks are explicitly mentioned in primary legislation, which comprises detailed disclosure requirements and an obligation for government to manage fiscal risks prudently. This approach entrenches fiscal risks disclosure and management as one of the pillars of transparent and sound fiscal policy and emphasises the need for clarity and accountability on government's choices and trade-offs in this area.

Table 1. Main categories of fiscal risks identified by countries in the case studies

	Macroeconomic risks	Uncertain budgetary claims	Programme and policy risks	Balance sheet risks
Australia	**Real economy** (GDP, trade, household consumption) **Debt interest**	**Primary spending** (claims, disputes against departments, indemnities, disaster recovery) **Guarantees** (contingent liabilities)	**Primary spending** (policy decisions) **Revenue** (tax base, tax policy)	**Government loans** (contingent assets exposed to credit risk)
Finland	**Real economy** (GDP, trade, inflation, unemployment) **Composition of government assets** (real assets, financial assets, state holdings in listed companies)	**Explicit liabilities** (legally binding contingencies arising from government guarantee, callable capital in international institutions, climate or nuclear risks) **Implicit liabilities** (socially or politically obliging contingencies related to the banking sector, state-owned enterprises, local government or environmental damage)	**Guarantee schemes** (credit risk from export and housing-related guarantees) **Revenue** (tax base)	**Financial liabilities** (one-off expenditures, debt-to-GDP) **Financial assets** (value of financial and real assets)
Netherlands	**Debt interest** (interest rate, credit, liquidity and foreign exchange)	**Explicit conditional risks** (public guarantees and public costs for natural disasters and terrorist attacks) **Implicit unconditional risks** (old-age pensions, healthcare, climate mitigation) **Implicit conditional risks** (rescue of firms and institutions, medical and agrarian emergency measures, other private costs)	**Explicit unconditional risks** (automatic stabilisers, i.e. tax revenue and unemployment benefits; interest rate, excess cost of investment projects, technical and legal risks)	N/A
New Zealand	**Real economy** (GDP, trade, productivity) **Confidence environment** (biosecurity threats, volatility of government investments, business confidence) **Debt interest**	**Contingent liabilities** (uncalled capital, guarantees, indemnities, legal proceeding and disputes) **Contingent assets** (legal proceedings and disputes) **Significant events** (natural disasters, international events leading to changes in the external environment)	**Primary spending** (policy changes) **Cost pressures** (associated with existing policies and risk of cost variances) **Revenue** (tax base, tax policy)	**Change in the value of assets and liabilities** (movement in market or business variables affecting financial assets or property owned by the government) **Direct fiscal costs** (actual costs incurred because of a shock) **Indirect fiscal costs** (changes to future government revenue and expenses consecutive to the economic impact of a shock)
United Kingdom	**Macroeconomy** (output growth, recession, composition of activities/GDP) **Financial sector** (bail-out cost, indirect fiscal costs, tax impact) **Debt interest**	**Primary spending** (nuclear decommissioning, litigation: clinical and tax) **Balance sheet** (explicit and implicit guarantees)	**Primary spending** (welfare, health and adult care, local government, spending control) **Revenue** (tax base, tax policy)	**Balance sheet** (value of financial assets, reclassification in or out public sector net debt)

Note: The main categories of risks identified in the most recent fiscal risks report or statement for each country are identified in bold.

Other countries studied have less binding and comprehensive approaches. In Finland, extensive disclosure of fiscal risks is not a legal requirement, but a practice of successive governments. The United Kingdom has detailed requirements for the disclosure of fiscal risks and a detailed management strategy, but both have been stated in government publications that have no permanent basis. For both countries, current practices could therefore be deviated from in the future. In the Netherlands, although

legislation requires that the Central Planning Bureau report fiscal risks, there is no obligation for the government to explain how these risks are managed, except for guarantees.

Table 2. Legal basis for fiscal risks disclosure and management: Summary from the case studies

	Disclosure of fiscal risks	Management of fiscal risks
Australia	The Charter of Budget Honesty Act requires that the budget economic and fiscal outlook report contain "a statement of the risks, quantified where feasible, that may have a material effect on the fiscal outlook".	The Charter of Budget Honesty Act requires the government to manage fiscal risks faced by the Commonwealth prudently.
Finland	N/A.	N/A.
Netherlands	The Sustainable Public Finances Act requires that the Central Planning Bureau report biannually on public finances, including fiscal risks.	N/A.
New Zealand	The Public Finance Act requires disclosing "all government decisions and all other circumstances that may have a material effect on the economic and fiscal outlook".	The Public Finance Act lays out the principle of "responsible fiscal management", comprising the prudent management of fiscal risks facing the government.
United Kingdom	The Charter for Budget Responsibility tasks the independent fiscal council with producing "a fiscal risks statement setting out the main risks to the public finances, including macroeconomic risks and specific fiscal risks … at least once every two years". Further, the government's public strategy requires identifying the source, scale and likelihood of risks.	The Charter for Budget Responsibility requires that the government "formally respond to [the independent fiscal council] report" within a year. Further, the government's public strategy requires mitigating fiscal risk where cost-effective and consistent with broader policy objectives; provisioning for other risks where possible; accommodating residual risks when setting the overall fiscal policy stance.

How to identify and measure fiscal risks?

Approaches for identifying and measuring individual risks

Because fiscal risks are different in nature and constantly evolving, establishing processes for identifying and monitoring them regularly is the basic component of any fiscal risks framework. The case studies show that different approaches are used for identifying and measuring risks falling under each one of the broad categories of fiscal risks defined in Section 2. Some common approaches in identifying and measuring fiscal risks identified in case studies are:

- Concerning **technical risks**, the basic requirement is to evaluate, ideally publicly, the accuracy of previous fiscal forecasts and ensure that the sources of past errors are clearly identified. Based on a "history repeats itself" assumption, key technical fiscal risks, such as model risks, are disclosed and explained alongside fiscal forecasts. For example, Australia discloses the uncertainty surrounding key indicators underpinning the forecasts by graphically showing confidence intervals based on historical error margins.
- Concerning **macroeconomic risks**, identification and measurement is generally under the forecaster's responsibility. These risks depend indeed on macroeconomic developments, parameters and hypotheses that underlie the main or alternative macroeconomic scenarios. They may include terms of global trade, household consumption growth, productivity, market yields, etc. Macroeconomic alternative scenarios or risks may be measured by using sensitivity analyses and by evaluating how they improve or worsen key fiscal headlines of the country, as is the case in Finland.
- Concerning **programme and policy risks** and **uncertain budgetary claims**, sources of information are manifold and the collection and centralisation of information done by the Ministry of Finance is discussed in more detail in Section 4. For guarantees, information is sometimes provided by the debt management office or required as part of the monthly budget reporting. The nominal value of guarantees is the measurement method used in Australia, Finland, the

Netherlands and New Zealand. Generally, departments and agencies are formally required to identify their programme and policy risks and provide their best estimate of potential additional funding requirement, as is done for example in Australia.

- **Balance sheet risks** are the risks related to assets and liabilities reported in the financial statements. Responsibilities for identifying potential risks in relation to specific assets and liabilities may lie with different ministries and agencies, e.g. risks in relation to recovery of loans might be identified by the debt management office while those in relation to the capital needs for state-owned enterprises might be monitored by the shareholding agency. Other balance sheet risks may be identified. For example, New Zealand measures potential costs associated with the reconstruction of crucial infrastructure in the event of a natural disaster.
- **Debt risks** are generally identified and monitored by the entity responsible for debt management. The types of risks to be monitored may be laid out in the mandate of the entity responsible for debt management. That is the case, for example, in the Netherlands. The risks monitored by the countries studied are, for example, interest rate levels and credit, liquidity, and foreign exchange risks. Concerning interest rate levels, measurement often consists of examining the change in interest expenses if the general interest rate were to rise permanently by one percentage point.

The case studies show, however, that not all fiscal risks can be measured. When that is the case, virtually all countries consider that transparency requirements impose disclosing at least narrative information. Australia, for example, specifically identifies fiscal risks that are “unquantifiable liabilities” in its statements of fiscal risks.

It may also be the case that identifying and quantifying a risk will create moral hazard for the government or harm its position in litigations or negotiations. Need to avoid disadvantaging the country therefore calls for clearly defined and limited exemptions to providing an evaluation of certain fiscal risks or even disclosing them. New Zealand, for example, exempts from disclosure information that is likely to prejudice substantial economic interests of the country; harm the security or defence of the country or the international relationships of its government; compromise the government in a material way in negotiation, litigation or commercial activity; or result in material loss of value to the government.

Fiscal stress tests

As noted above, certain events – e.g. economic crisis, pandemic – may trigger simultaneously several fiscal risks and generate a shock to public finances. Shocks are of different nature (e.g. transmission from the economy to public finances or vice versa, short-lived or long, etc.), hence the different potential impacts on public finances that four of the countries studied try to measure using fiscal stress tests (Table 3).

The case studies show that, beyond the complex economic and fiscal modelling work underlying fiscal stress tests (Schilperoort and Wierts, 2013[10]), countries have to answer three questions when undertaking such exercises: 1) which shock scenarios will be tested; 2) which fiscal headlines will be scrutinised; and 3) how to factor in the results of the stress tests in decision making.

Concerning the **scenarios’ selection**, countries conduct stress tests of their public finances based on scenarios of likely shocks, such as a global economic downturn or financial crisis, or may focus on topics animating the economic and fiscal policy discussion at the time of the stress test, such as the stress test of a no-deal scenario by the OBR in 2019.

It is notable that, in two countries, shock scenarios are based on those developed by other institutions: for example, the United Kingdom’s OBR carried out a stress test in 2017 based on the Bank of England’s own annual stress test of the UK banking system. Similarly, Finland’s first stress test in 2019 was based on a risk scenario used by the European Banking Authority for banks.

The OECD *Recommendation of the Council on the Governance of Critical Risks* underlines that governments should enhance efforts to minimise the impact that critical risks may have on public finances (OECD, 2014[11]). Such a clear link between critical risks and stress tests of public finances is observable only in New Zealand, however, which has drawn its 2018 stress test scenarios from the national risk registers that support public risk management and planning processes.

The case studies show that **objectives** and **fiscal headlines** scrutinised by each country vary. Objectives stated for the stress tests range from assessing impacts on the government's capacity to meet its fiscal targets (Finland and the United Kingdom) to evaluating consequences on the country's capacity to meet its financing needs (the Netherlands and New Zealand). Stress tests and risk analyses in the Netherlands focused also on fluctuations in economic growth and interest rates.

Concerning fiscal headlines, net debt is scrutinised by most countries. While net debt is not a government fiscal target, the choice for scrutinising this headline seems to be motivated by the assumption that, in the event of a shock, financial assets, even those earmarked for specific purposes, would remain liquid and therefore available for paying off gross debt.

Discussions held with officials as part of the preparation of this report show that questions remain on how fiscal stress tests can be used to facilitate or even inform fiscal policy. As noted by the United Kingdom's OBR, decision makers' perception might be that "putting bad economic news into … fiscal models will simply generate bad fiscal news" (OBR, 2017[5]). In addition, some fear that, in the wake of the COVID-19 outbreak, where previous stress tests have not comprised a pandemic scenario, the exercise could be considered useless for anticipating shocks to public finances and preparing for them.

Although these questions are legitimate, it is not possible to anticipate every risk that eventually may materialise and it does not undermine the importance of trying to be as comprehensive as possible in managing the public finances. Furthermore, the case study of New Zealand highlights the value of fiscal stress tests in stretching decision makers to consider events that may only be remotely possible and to prepare, even imperfectly, for them: in 2006, New Zealand modelled the impact of a pandemic on the macroeconomy.[2] This model was used as the basis for analysing the economic impact and Treasury preparedness during the 2009 H1N1 crisis. In New Zealand also, fiscal stress tests have been explicitly used as one of the factors to consider for determining fiscal policy objectives, as described in more detail below.

Table 3. Characteristics of fiscal stress tests: Evidence from the case studies

	Scenarios	Fiscal headlines scrutinized	Frequency
Finland	2018 and 2019: Global financial market disturbance leading to a macroeconomic shock.	Net debt and fiscal headlines of the European Union's Stability and Growth Pact.	One stress test in the annual *Fiscal Risks Report*.
Netherlands	2011: Financial crisis, a European debt crisis and global economic crisis.	Fiscal headlines of the European Union's Stability and Growth Pact.	Ad hoc (2011, 2015, 2019).
New Zealand	2018: Severe Wellington earthquake; outbreak of foot-and-mouth disease and major international economic downturn.	Net debt and operating balance before gains and losses.	At least every four years in the Investment Statement.
United Kingdom	2017: synchronised domestic and global economic and financial market stress (based on Bank of England scenario); 2019: no-deal Brexit (based on IMF scenario).	Net debt and net borrowing.	One stress test in each biennial *Fiscal Risks Report*.

How to manage fiscal risks?

Prevention and mitigation[3]

The case studies show that all five of the countries under study have developed approaches to prevent or mitigate certain fiscal risks to which they are exposed. Of course, different types of fiscal risks call for different preventative or mitigation actions (e.g. discouraging risky behaviour through regulations; encouraging actors to pool risk; placing limits on the extent of government exposure, etc.).

This paper does not aim to provide a summary of policy options for managing individual categories of fiscal risks, as governance, prevention, mitigation, etc. will deeply vary depending on the risk considered. However, a number of successful policies are mentioned in the case studies, for example how risks in relation to state-owned enterprises are prevented in New Zealand. In addition, recent OECD reports have discussed in detail the management specific fiscal risks, e.g. in relation to natural disasters (OECD/The World Bank, 2019[12]), subnational governments' insolvency (Irwin and Moretti, 2020[13]) and government infrastructure (OECD, 2020[14]).

It is noteworthy that, in some countries, prevention and mitigation strategies involve that principles for taking on certain risks and recovering related costs be specified in the legislative framework. That is the case, for example, in Finland and the Netherlands, where calling large guarantee schemes in the wake of the 2008 financial crisis and the subsequent impact on public finances have led to a tightening up of the legislation. In the Netherlands, the government does not take on a new contingent liability unless an overriding reason is identified; an external opinion on the level of the premium to be charged to beneficiaries is legally required; and the policy is systematically assessed *ex post* (sunset clause). In Finland, however, escape clauses have limited the efficiency of the new legislation.

The case study of the United Kingdom is of interest in that it shows how the systematic identification and measurement of fiscal risks since 2017 and definition by the government of a detailed management strategy have triggered decisions on mitigation approaches for a range of fiscal risks in only a few years. They include, among others, the adoption of a framework for the approval of contingent liabilities; a new financial oversight framework for the Bank of England and a comprehensive bank resolution regime; the decision to end further sales of student loans; and steps to lower the costs of clinical negligence in the National Health Service.

The case study of the Netherlands highlights that defining prevention and mitigation strategies for certain fiscal risks also allows creating safeguards in the event of a crisis and "channelling" government interventions. For example, in the Netherlands, ceilings of existing national government guarantee schemes have been increased as part of the COVID-19 crisis response, but no new schemes have been approved. Principles concerning contingent liabilities mentioned above have continued applying, although where previously most guarantees were *ex ante* budget-neutral because of the risk premium, most COVID-19-related guarantees are expected to have a budgetary costs.

Provisions and reserves

All countries studied with the exception of the Netherlands maintain a reserve, provision or "fiscal space" in their fiscal plans in case certain risks materialise. Their value has, however, no link to evolutions of the stock of fiscal risks. Where such provisions or reserves are included in the budget, Ministries of Finance aim to avoid any perception that overspend will be unconditionally funded. They establish therefore strict criteria for accessing these funds and separate reserves can be established for new policies to be decided over the course of the budget execution vs. funding for unexpected events (Table 4).

Emphasis is also put on the responsibility of departments and agencies in monitoring and preventing their fiscal risks; allocating funding in their budget if it becomes probable that they will materialise; and finding resources in their own budget if a risk unexpectedly materialises before they can claim additional funds

from the general budget.[4] For example, New Zealand details three different options available to departments in case of over-spend: 1) reprioritisation of funds; 2) using reserves for new expenditures included in the budget and multi-year framework; and 3) policy choices that will allow modulating the amount and timing of funding. In the Netherlands, only the first of these options is available to ministers.

Annual reserves and provisions traditionally included in the budget are, however, too small to absorb large shocks such as the crisis generated by the COVID-19 pandemic. In all of the countries studied, reallocation of funds and reserves were used to fund emergency spending during the first weeks of the crisis. However, as the crisis unfolded and the crystallisation of further risks became probable, new reserves were very significantly increased in some countries with the approval of the legislature (Advance to the Finance Minister in Australia and Contingencies Fund in the United Kingdom) or supplementary budget laws were successively laid before parliament (Finland). In New Zealand, fiscal policy response to past crises included drawing liquidities from the Natural Disaster Fund and suspending contributions to the Superannuation Fund.

Table 4. Case studies: Provisions and reserves

	Provision/reserve for unexpected events	Provision/reserve for new policies or programmes	Other
Australia	The budget contains a provision used only in case of an erroneous omission or understatement in the budget or due to unforeseen expenditures realised after the last day it was practicable to provide for it in the budget.	The budget contains an allowance for anticipated events that cannot be assigned to individual programmes (so-called contingency reserve).	N/A.
Finland	The budget contains a reserve for unforeseen events (0.2% of total expenditure in 2020).	The budget contains a provision for new policies to be defined in the supplementary budget (0.6% of total expenditure in 2020).	N/A.
Netherlands	N/A.	N/A.	N/A.
New Zealand	Contingencies may be included in departments' budgets for amounts that are still subject to uncertainty at the time the budget is being finalised.	The budget comprises a general operating contingency that provides for operating proposals that arise between budgets (so-called Between-Budget Contingency).	New Zealand has two long-term reserve funds (the Natural Disaster Fund and the Superannuation Fund).
United Kingdom	The budget contains a Contingencies Fund (2% of the government budget in the preceding year) and reserve for unforeseen expenditure and future costs that exceed the departmental expenditure limits (0.5% of departmental expenditure limits).	N/A.	The Treasury maintains a headroom against fiscal rules to absorb modest near-term shocks.

Consideration of fiscal risks in the formulation of fiscal policy

As already noted by the OECD (2019[15]), a group of countries place emphasis on adopting a prudent fiscal policy stance for accommodating large fiscal risks or shocks. What is a "prudent enough" fiscal policy stance is not a settled debate, but Fall et al. (2015[16]) have suggested that debt fiscal rules or targets should allow a buffer on top of what is considered a sustainable level of public debt, to facilitate responses to future shocks.

While it is obvious that fiscal risks analysis and fiscal stress tests can only be one of the many factors that inform fiscal policy decisions, they can help decision makers in defining fiscal targets or objectives. In New Zealand, in recent years fiscal targets have been defined by adding a buffer measured with fiscal stress tests to the debt level considered sustainable over the long term, based on a clear and public framework of analysis (Makhlouf, 2019[17]).[5]

In the United Kingdom, the government's public strategy for fiscal risks management requires that the government accommodate fiscal risks that cannot be mitigated or provided for when setting the overall fiscal policy stance. The 2018 government report on the management of the country's fiscal risks did not discuss, however, how fiscal policy could potentially better accommodate existing fiscal risks (HM Treasury, 2018[18]).

How to be transparent and help promote an informed debate?

Disclosure of fiscal risks is now a common practice in the countries studied for this report. However, the means for disclosing fiscal risks, as well as the breadth and depth of information published, is variable. Disclosing information on fiscal risks in the budget documentation is the usual practice, but Finland and the United Kingdom publish stand-alone reports. The report published by the United Kingdom's Office for Budget Responsibly is particularly detailed compared to those of other countries.

Disclosure practices generally reflect the different nature of fiscal risks. For example, in Australia and New Zealand, macroeconomic risks are discussed next to the macroeconomic and fiscal forecasts, shining a light on uncertainties surrounding the government outlook and impacts on key fiscal headlines. Other fiscal risks in relation to the implementation of governments' programmes, policies or guarantees are presented separately, with their nominal value disclosed where possible.

The United Kingdom's practice of publishing two reports is unique amongst OECD countries. The OBR's report presents and analyses fiscal risks and "highlight issues" associated with them. The government's response is published in a separate report (*Managing Fiscal Risks*), which presents the fiscal risks management strategy and how "issues" are addressed. This emphasises that the disclosure and management components of a fiscal risks framework are equally important. In the Treasury's own words, in doing so, the government aims to provide "a mechanism for parliament and the public to assess the adequacy of the government's strategies for managing these risks and hold it to account for their implementation" (HM Treasury, 2018[18]).

Ultimately, a fiscal risks statement or report should be about providing a clear and legible addition to the material that is helping to promote an informed debate about the resilience of public finances. A long narrative description of fiscal risks would be difficult to navigate and to use and do little to achieve this objective. Therefore, the definition of fiscal risks, their classification, the choice of numerical thresholds for disclosure, discussed above, should aim to avoid information overload.

Tables and visualisations can also help improve the understanding of key messages. The United Kingdom's OBR provides a "risk matrix" differentiating existing and new risks and showing their potential financial impacts and probability of occurrence appears promising. Australia identifies in a separate table of its statement of risks any new fiscal risk since the previous update. Such practices are important in that they increase the understanding of how economic developments, government policies, etc. have generated new risks for public finances.

Operationalising the framework

As noted in Kopits (2014[3]), operationalising a fiscal risks framework that requires the collection and analysis of information on a wide variety of risks requires clear allocation of responsibilities among various actors, organisation and efficient information sharing within government. Although the case studies highlight a variety of practices for operationalising fiscal risks frameworks – e.g. depending on whether the Ministry of Finance or independent fiscal institution prepares the fiscal forecast, whether the budget system is centralised or decentralised, etc. – this section discusses best examples of how to operationalise a fiscal risks framework.

Responsibilities of government

As underlined in Section 3, responsibilities for identifying, measuring and managing risks vary depending on the type of risks considered. The Ministry of Finance generally monitors and manages macroeconomic risks, while line ministries and agencies often have the responsibility to monitor and manage fiscal risks associated with their own activities. Debt risks are typically a responsibility of the debt management office. A typical example of this decentralised type of organisation is Australia.

The Ministry of Finance generally has a centralisation and oversight role in the fiscal risks framework. According to the case studies, it usually carries some or all of the following responsibilities:

- provision of guidance to other stakeholders on the identification, measurement, cost-benefit analysis, reporting, etc. of fiscal risks
- review and/or approval of fiscal risks generated by new policy or programme proposals from line ministries and other public entities
- consolidation of information on fiscal risks reported by other public entities and monitoring of the flow and stocks of fiscal risks
- analysis of fiscal risks, including potentially identifying interrelationships between different types of risks
- definition of a management strategy
- reporting to decision makers and the legislature on fiscal risks and how to manage them.

It is important to note that either the Ministry of Finance (Australia and New Zealand) or independent fiscal institution (the Netherlands and the United Kingdom) may be in charge of preparing the macroeconomic and fiscal forecasts and reporting fiscal risks. Where this is a responsibility of the independent fiscal institution, the Ministry of Finance may remain responsible for reporting certain specific risks to the legislature and the management of fiscal risks. For example, in the Netherlands, the independent fiscal institution also reports biannually, as well as at the start of each new government's mandate, on the situation of public finances and fiscal risks, but the Ministry of Finance publishes a contingent liabilities statement with the budget.

Within the Ministry of Finance, line ministries and other public entities, the identification of fiscal risks should rely on a variety of professionals. Economists, spending and tax analysts, finance professionals, etc. can all contribute to the identification and management of risks, due to their complementary knowledge of specific policy areas or access to certain information. For example, finance professionals that compile the balance sheet will have a good understanding of potential risks generated by the past activities of the government, by recording provisions in relation to litigations or assets depreciations, while economists and budget analysts will generally have a forward-looking approach to fiscal risks.

A success factor for comprehensive identification and management of fiscal risks is therefore to enhance the co-ordination of the actors involved in the fiscal risks framework, possibly through regular meetings. This is, for example, the case in the United Kingdom, where a Fiscal Risks Group has been established within the Treasury. The Fiscal Risks Group operates under the supervision of the Treasury Executive Board and, ultimately, the Chancellor. It supervises work done by other specialised groups within the Treasury (spending risks, tax risks and balance sheet risks groups). It meets monthly and reports to the Executive Management Board on a quarterly basis.

External oversight of the fiscal risks framework

Independent fiscal institutions, through their forecasting and surveillance functions, may have the responsibility of identifying, measuring and reporting all or certain fiscal risks (the Netherlands and the United Kingdom) or expressing a view on fiscal risks reporting and analysis done by the government

(Finland).[6] The value of giving a specific responsibility to the independent fiscal institutions in the fiscal risks management framework lies primarily in discouraging the government from refusing to acknowledge certain risks or avoiding measuring them for political reasons.

The case studies show that supreme audit institutions have an important role to play in the fiscal risks management framework. For example, they review processes and channels for identifying certain risks or assess the quality of the financial reporting framework, which is one of the sources of information for fiscal risks identification and measurement. The National Audit Office of Finland, for example, has realised a number of reviews in past years and formulated recommendations on how to improve the framework, both in terms of methodologies and reporting.

Supreme audit institutions also provide recommendations concerning the management of certain risks. The United Kingdom's National Audit Office produced a series of reports on the management of the public sector balance sheets, contributing to the identification and design of management approaches from certain types of risks.

Officials interviewed for the preparation of this report underlined that, for fiscal risks management to be fully part of the budgeting culture, it is important that the legislature exercise active oversight in this area. This depends, among other factors, on the quality and legibility of the information provided by government, analytical support provided by the parliamentary budget office and supreme audit institution, but also ownership by parliamentary committees, which might be challenging due to the technical and sectoral nature of most fiscal risks.

Interviewees noted that ideally the legislature should be involved *ex ante*, concurrent and *ex post*:

- *Ex ante*: the legislature may specify detailed transparency and management requirements for the government, define principles for the government formally taking over certain risks or set ceilings for certain contingent liabilities, in particular for guarantees, as is the case, for example, in the Netherlands.
- Concurrent and *ex post*: the legislature should monitor the evolution of the stock of fiscal risks and hold government accountable for its management strategy and implementation. Such oversight is, of course, facilitated when the government publishes a full report on its management of fiscal risks, as is the case in the United Kingdom.
- Finally, the legislature could question the government on whether and how fiscal risks have been considered for setting the fiscal policy stance and objectives.

Tools and processes

Establishing appropriate processes in relation to all aspects of the fiscal risks management framework and skills is crucial to the successful implementation of the framework. These processes should ensure that:

- identification and management of fiscal risks is done in all public entities in accordance with the government's overall principles on fiscal risks disclosure and management
- authorisation is systematically sought from the Ministry of Finance or other monitoring bodies where required by legislation or regulations
- reporting on fiscal risks is comprehensive, reliable and timely.

A basic requirement is to make sure that the relevant actors in all public entities have appropriate knowledge of the concept of fiscal risks and understanding of the requirements for their disclosure and management, using shared methodologies and reporting tools. For example, in Australia, a Risk Potential Assessment Tool is used across government to evaluate a range of risks for all new spending proposals.

The Risk Potential Assessment Tool requires an estimation of the "financial exposure" associated with the new spending proposal, with consideration of "any contingent liabilities that may accrue to government as a result of implementation". Managers are required to specify "whether the proposal is likely to require additional funding" and "whether all costs have been considered". The value of such an approach resides also in the fact that fiscal risks are considered systematically as part of the budget formulation process. It also encourages entities to think of fiscal risks not only in terms of certain types of operations, such as guarantees, but more widely as part of their overall risk management framework.

Another example is the United Kingdom, where a comprehensive guidance was established in relation to contingent liabilities that aim at providing an overview to all public sector actors of the approval process and assisting officials in the application of this process by providing a number of tools, including checklists.

Concerning reporting, certain fiscal risks may be reported regularly in dedicated systems, as is the case in Finland for guarantees, or as part of the monthly financial reporting, as in New Zealand. There is value in reporting certain fiscal risks as part of the "traditional" reporting cycle in that it conveys the message that a similar level of quality and reliability is applied to reporting fiscal risks as is applied to the financial statements.

In the area of reporting, interviews show that progress is still needed with, for example, limited use of cost accounting for consolidating all costs associated with the realisation of certain fiscal risks or shocks, such as natural disasters. Although no country currently holds a comprehensive database of fiscal impacts from the realisation of fiscal risks, New Zealand's government has committed to developing a mechanism for more systematic reporting of *ex ante* and *ex post* public spending on disaster risk management (OECD/The World Bank, 2019[12]).

Lessons from case studies, challenges and future directions

What are the main lessons from this study?

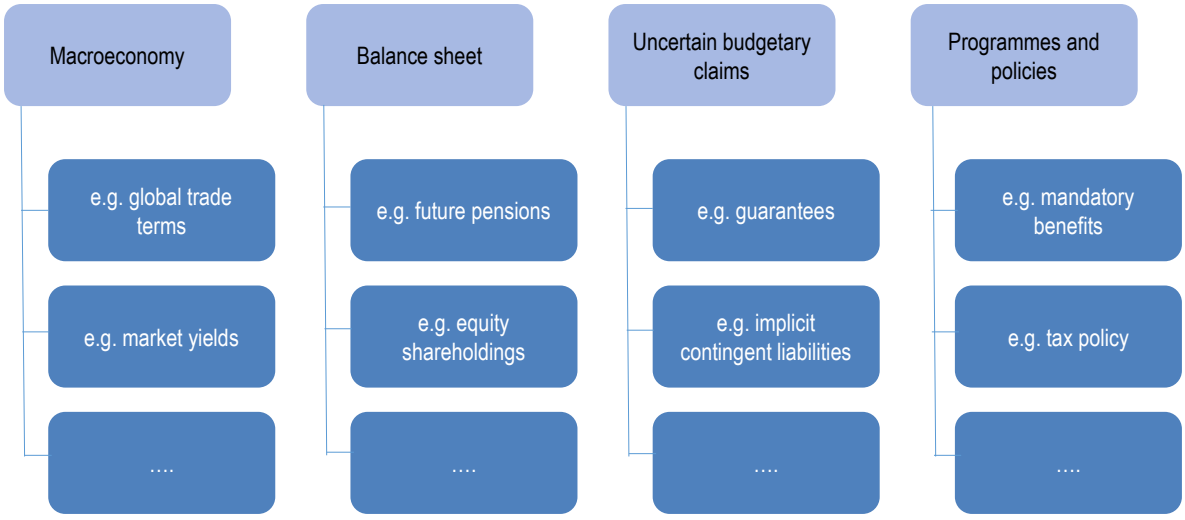
Defining fiscal risks

Fiscal risks are commonly defined as "potential deviations from the government forecasts". In addition, to have the potential to support a transparent identification of fiscal risks, the definition should: clarify against which fiscal outlooks they should be assessed, ideally both the medium- and long-term forecasts; specify criteria for scenario and events to be included or excluded from the forecasts; and define a threshold for disclosure.

The definition of fiscal risks should also specify broad categories for classifying fiscal risks. These categories should include macroeconomic risks (including debt risks), balance sheet risks, uncertain budgetary claims (explicit and implicit), and government policy or programmes risks (Figure 1).

Further, the definition should require that other key characteristics of fiscal risks that will facilitate decision making on management approaches be identified, such as their potential magnitude and probability of occurrence.

Figure 1. Taxonomy of fiscal risks



Designing a comprehensive and effective framework

The objectives of the fiscal risks framework should ideally be set out in legislation. They should include the identification, measurement and disclosure of fiscal risks, as well as their management by the government. The management strategy should be defined in a public document and comprise principles and/or requirements for taking over certain risks, guidelines on prevention and mitigation approaches, and an indication of how fiscal risks and fiscal stress tests will be considered in fiscal policy formulation.

Approaches for identifying and measuring fiscal risks vary depending on the category of risks considered. To identify and measure risks comprehensively, information therefore should be collected from a variety of sources, both within and outside of the Ministry of Finance. Circumstances in which fiscal risks cannot be measured should be identified and explained and should not deter countries from disclosing them.

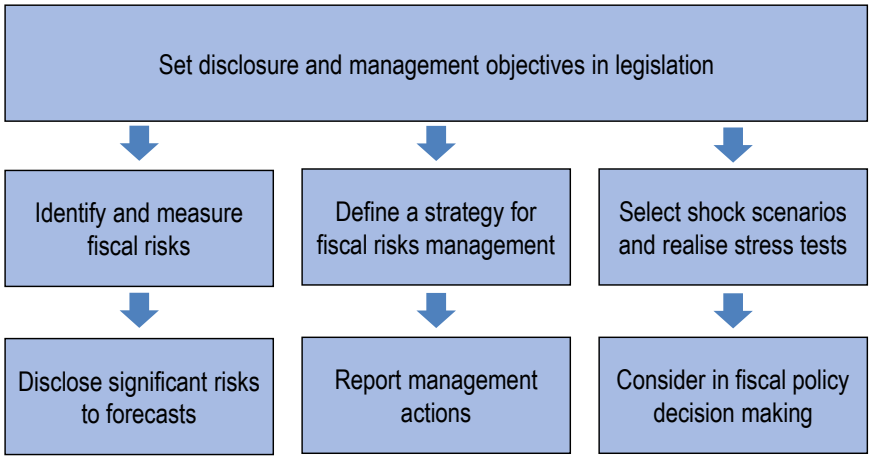
Stress tests that analyse correlations between various fiscal risks and potential impacts of large shocks on public finances should be undertaken on a regular basis. In doing so, countries should provide a rationale for which fiscal aggregates will be scrutinised, drawing lessons from the most recent shocks where balance sheet instruments such as loans and guarantees have been increasingly used as economic policy tools by governments. Stress tests should also allow identifying the government's potential, implicit contingent liabilities, which depend among other factors on the capacity the economy as a whole to absorb the shock in the first instance.

Selecting forward-thinking multidimensional shock scenarios is crucial for the credibility of stress test exercises. There would be value, going forward, in defining and disclosing the approach for selecting shock scenarios. Consideration should be given in particular to testing critical risks identified in national risks registers, e.g. pandemic, large natural disaster, disruption of energy facilities, etc.

A consolidated view of fiscal risks and results of fiscal stress tests should be available to decision makers and the public. To make this information legible and reader-friendly, visualisations should be used as much as possible to highlight key messages; for example, using clear classifications, showing new risks since the last update in a separate section or table, or preparing a risk matrix showing how fiscal risks compare in terms of their likeliness of occurrence and potential scale.

Beyond providing comprehensive information on fiscal risks and results of stress tests, transparency requirements should include disclosing the government's strategy; information on actions taken for managing significant individual risks, ideally in a dedicated statement or report; as well as a discussion of potential fiscal policy implication.

Figure 2. Components of a fiscal risks management framework



Operationalising the framework

There is no one-size-fits-all institutional organisation for fiscal risks management. In particular, the identification and measurement of fiscal risks may fall under the responsibility of the Ministry of Finance or an independent fiscal institution, depending on which institution is in charge of preparing the fiscal forecasts.

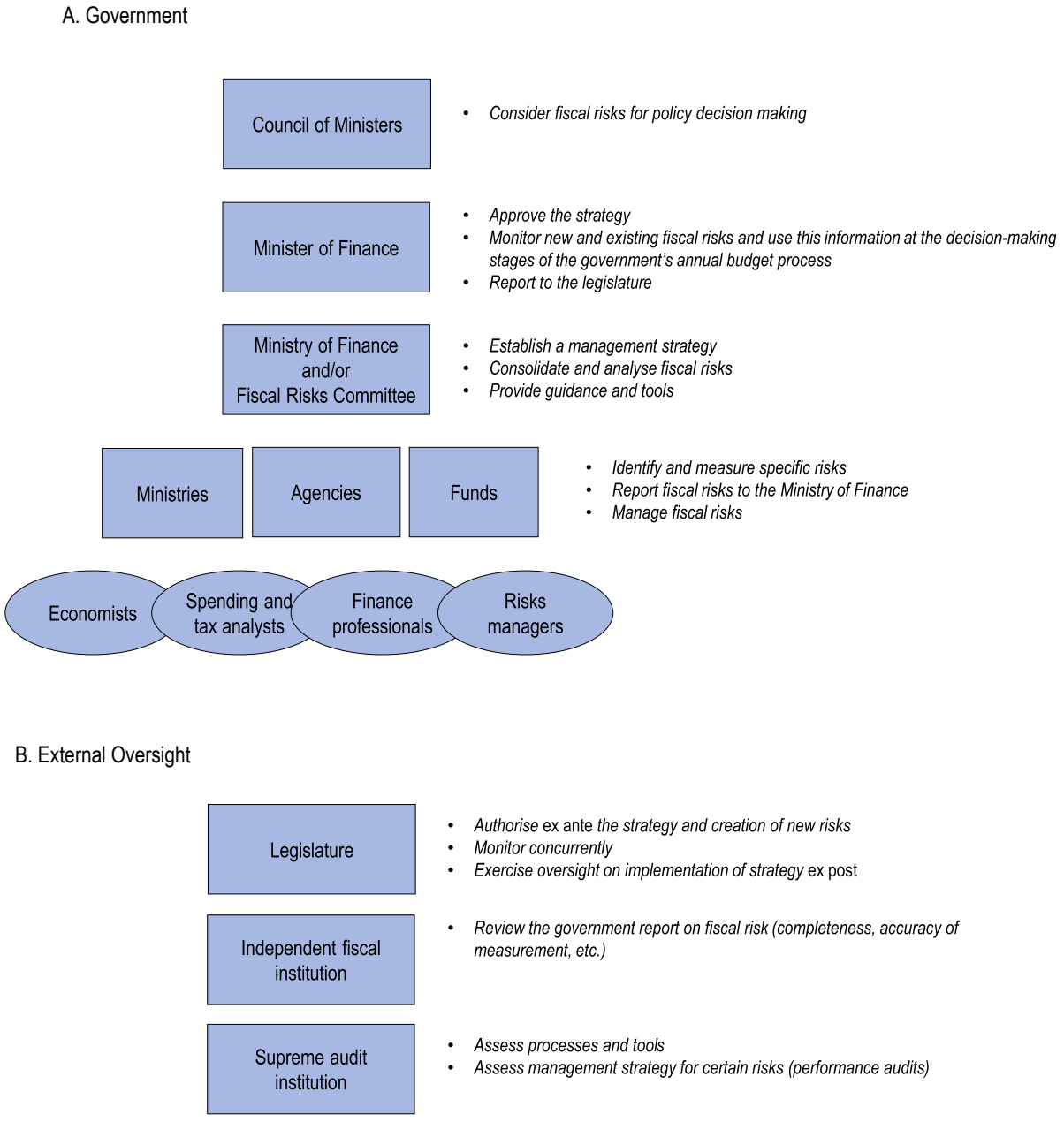
In all cases, comprehensive identification, measurement and management of fiscal risks should involve a large range of professionals within government and be part of the regular budget cycle. Specifically, economists, spending and tax analysts, finance professionals, risks managers, etc. should all contribute with their complementary knowledge of specific policy areas, access to information and analytical skills.

The responsibility for successfully operationalising the fiscal risk management framework lies with government. The mobilisation of a large range of professionals across government implies that clear and legible guidance and tools should be made available by the Ministry of Finance on how to identify, measure, report and eventually manage individual risks – e.g. checklists for identifying fiscal risks arising from new policies or financial operations, IT solutions for regular reporting of risks, etc.

As underlined by a number of officials interviewed, successful operationalisation of a fiscal risks framework also involves centralisation of information and regular communications with ministers or, in other words, making sure that fiscal risks are not identified and measured just to be ignored but, on the contrary, to be managed.

Decision makers' awareness of fiscal risks and issues with the resilience of public finances highlighted by fiscal stress tests is higher in particular when analysis of fiscal risks is done at a senior level of government (e.g. a committee reporting directly to the Minister of Finance) and disclosure requirements are comprehensive, allowing oversight by the legislature and independent fiscal institution.

Figure 3. Institutional responsibilities for fiscal risks management



Note: Responsibilities would not be similar in countries where the independent fiscal institution performs the forecast and the fiscal risks report.

What are the remaining challenges in managing fiscal risks?

Overall, the case studies prepared for this report show that fiscal risks frameworks – that is, the identification, analysis and management of fiscal risks – have the potential to support better budgetary management and fiscal policy, as well as to improve the transparency and accountability of a government's decision making.

The case studies show obvious achievements in three areas:

1. Disclosure of fiscal risks alongside fiscal forecasts has increased transparency on how the forecasts are prepared – that is, specifically, on what is excluded from them – thus decreasing the discretion of governments in this area and facilitating the external oversight of the legislature and fiscal watchdogs.
2. Reporting on fiscal risks has imposed greater rigor in the way managers elaborate their policy proposals and prepare their spending forecasts – that is, thinking not only of spending that is certain or likely, but also of what could go wrong in the course of the policy implementation, and preparing for it as best as possible as shown in particular by the case studies of Australia and New Zealand.
3. The management of fiscal risks has developed since the 2008 financial crisis, with the case studies highlighting actions taken in Finland, the Netherlands and the United Kingdom for better monitoring and preventing risks from contingent liabilities in particular.

However, challenges are equally obvious:

- First, research conducted for the preparation of this report highlighted difficulties in making the management of fiscal risks a priority for decision makers working within a three- to five-year political mandate, considering that fiscal risks are uncertain, potentially long term, and costly to prevent or mitigate.
- Second, questions remain as to whether the impacts of large shocks on public finances can be measured reliably with fiscal stress tests and factored into fiscal policy decision making, considering that governments are increasingly acting as insurers of last resort for the economy.
- Third, the COVID-19 crisis highlighted the limits of existing mitigation strategies in the event of a large shock. In all of the countries studied, fiscal packages largely exceeded the resources available through reallocations of appropriations and existing budget reserves. Emergency budgetary legislation therefore had to be passed to allocate new resources to the government, including sometimes increasing provisions that allow the Ministry of Finance to take spending decisions without *ex ante* approval by parliament.

The question of the political cost vs. benefits of disclosing and managing fiscal risks is a legitimate one. The 2008 financial crisis and the COVID-19 pandemic have shown, however, that fiscal risks do materialise and tomorrow's risks, if ignored, are likely to become today's problems. The shock caused by the pandemic may be a tipping point in that comprehensive requirements and detailed strategies for managing fiscal risks, from being perceived as a constraint, may become one of the tools that decision makers will use to evidence how they are building up the resilience of public finances. In other words, a fiscal risks framework could become a "safeguard" for decision makers, helping them to demonstrate how they handle existing fiscal risks and explain the choices and trade-offs to avoid creating new ones.

Concerning fiscal stress tests, it was mentioned during interviews conducted for the preparation of this report that more needs to be done in using stress tests for identifying and measuring potential implicit liabilities of governments. Specifically, by assessing how the entire economy of a country, both households and businesses, would react to a given shock, stress tests should help measure if and how the government would be constrained to absorb the shock beyond any pre-existing legal guarantee or commitment (Schilperoort and Wierts, 2013[10]). This, in turn, should allow anticipation and transparency; that is, assessing current policies and establishing principles or guidelines that could be referred to in an emergency situation.

The challenges mentioned above will have to be overcome if resilience becomes a policy priority for decision makers within government, as part of the effort to create a more shockproof global economy.[7] We should therefore not be too quick to claim that the COVID-19 pandemic has sounded the death knell of fiscal risks management, as it actually makes their identification, analysis and management all the more important.

Conclusion: Future directions

This report provides good practice examples on frameworks for fiscal risks management, which is a prerequisite for resilient public finances. However, beyond the establishment of a sound framework, countries urgently need to define or scale-up policies to monitor and mitigate large fiscal risks generated by the COVID-19 crisis. These risks include:

- **Macroeconomic risks:** virtually all governments that published macroeconomic and fiscal forecasts during the last months have underlined significant uncertainties on a number of assumptions used in preparing these outlooks and these uncertainties will continue for a potentially long period. Uncertainties include the continued effects of the COVID-19 pandemic on the global and national economies, unemployment levels, etc. as well as risks of a resurgence of the pandemic in countries where it has slowed and a wide range of approaches that governments could consider in such a case. Such uncertainties affect fiscal forecasts in many ways, including estimations of future tax revenue.
- **Programme and policies risks:** governments of OECD countries have implemented a wide range of policies to respond to the COVID-19 crisis (OECD, 2020[19]). In most countries, if initial responses have focused on providing additional resources to the health sector, government responses have progressively included large packages of support measures targeting certain businesses and workers as well as vulnerable households, depending on national circumstances. As the economic disruption from COVID-19 may still be in its early stages, uncertainties around the costs of these policies are significant and measures considered initially as temporary could be perpetuated.
- **Uncertain budgetary claims risks:** very large guarantee schemes have been established in most countries as part of the COVID-19 response, well beyond what had been done during the previous global crisis in 2008. Risks that these guarantees will be triggered will create very significant uncertainties around expenditure forecasts in the future. In addition, as COVID-19 further impacts a number of sectors in the economy, guarantees pre-existing to the COVID-19 crisis, such as export guarantees, may be called. Finally, implicit contingent liabilities are likely significant and rising as governments are clearly expected to act (and have already acted in some cases) as insurers of last resort during this crisis.
- **Balance sheet risks:** in the wake of the global financial crisis, the government's balance sheet had already become an important instrument of government policy in the form in particular of financial sector asset purchases and concessional loans to certain households and businesses (IMF, 2018[20]). In most countries, similar instruments have been used as part of the COVID-19 crisis response and, although data are not available yet, it is likely that government balance sheet will balloon on a larger scale than what was experienced ten years ago. Risks in relation to these assets and liabilities will be high in the coming years – e.g. uncertainties over the repayment of loans provided to businesses and households and the value of government shareholdings in corporations hit by the crisis.

Concerning balance sheet instruments, the measurement of these assets and liabilities and their active management, which has been a regular topic for experience sharing at meetings of the OECD Network of Financial Management and Reporting, will become increasingly important. After the COVID-19 crisis, governments cannot be mere users of financial instruments, but will have to be "investors" that actively monitor and manage their portfolio of assets and liabilities. That is true in particular for such financial assets as loans and shareholding equities, which, if not managed, may become significant fiscal risks.

Annex 1.A. Case studies on managing fiscal risks

Australia

Context

Australia has a relatively long history of managing fiscal risks and the requirement on government to manage fiscal risks was strengthened in the late 1990s with the adoption of the Charter of Budget Honesty Act (the "charter"). The charter aims at medium-term sustainability of public finances and increasing budget transparency in Australia. To do so, it states in general terms the principles of sound fiscal management, including a requirement that the government "manages fiscal risks faced by the Commonwealth prudently […] includ[ing] risks such as risks arising from erosion of the tax base; and risks arising from the management of assets and liabilities". Furthermore, the charter states that the "budget economic and fiscal outlook report" must contain "a statement of the risks, quantified where feasible, that may have a material effect on the fiscal outlook" (Australian Government, 1998[21]).

Overview of the fiscal risks management framework

Australia's fiscal risk management framework has two primary objectives, as mandated by law. The first one is to identify the full range of factors that may influence the actual budget outcome in future years and to disclose comprehensively these factors to increase the transparency of the fiscal projections. The second objective is to manage and mitigate where possible these risks, in accordance with the principle of sound fiscal management.

The main characteristics of the fiscal risks management framework are summarised in Table A.1. A key characteristic of Australia's framework is that the management of fiscal risks is fully integrated into the annual budget cycle and general requirements for Commonwealth entities' corporate planning.

Specifically, the annual budget formulation is guided by the Budget Process Operational Rules, agreed each year by the Cabinet. These rules reflect the government's fiscal strategy and have a number of elements that contribute to risk assessment, including a requirement that Commonwealth entities submit an assessment of risks arising from new policy proposals to the Department of Finance (Department of Finance, 2016[22]).

A shared *Risk Potential Assessment Tool* (Department of Finance, 2016[22]) helps entities in assessing risks, by guiding them to consider questions such as whether the new policy is a strategic priority for the government, its financial impact, what risks are associated with the proposal (legal, financial and operational), the associated mitigation strategy and residual risk.[8]

Table A.1. Australia's approach for fiscal risks management

Fiscal forecasting and analysis of deviations	The biannual and pre-election Economic and Fiscal Outlooks contain fiscal and economic forecasts, as well as analysis of past deviations from the forecasts used to calculate confidence intervals for key fiscal and economic aggregates.
Risks identification	Commonwealth entities identify the fiscal risks in their area of responsibility and are required to provide information to the Department of Finance and the Treasury.
Risks measurement	Commonwealth entities identify and assess risks when preparing their financial statements and risks are consolidated by the Department of Finance. The Treasury performs sensitivity analysis of key fiscal aggregates to changes in the underlying key macroeconomic forecasts, projections and assumptions.
Disclosure	A statement of risks is included in the Budget Strategy and Outlook, the Mid-Year Economic and Fiscal Outlook, and the Pre-election Economic and Fiscal Outlook.
Prevention/mitigation	Departments and other entities prevent and mitigate the risks arising from their operations, contingent liabilities and assets.
Provision or reserve	A provision and Advance to the Finance Minister are included in the annual Appropriation Act that can be used in case a fiscal risk crystallises.
Fiscal policy	Fiscal risks are not formally considered for setting fiscal targets. Fiscal strategy aims for fiscal sustainability and accordingly is set in recognition of broad fiscal risks. Current political commitments aim for a balanced budget and the reduction of debt.

Stakeholders in fiscal risks management

The government operates a highly devolved fiscal risks management framework. The Department of Finance holds a central consolidation function for the preparation at least twice a year of a statement of risks (see below), which is included in the main budget documents, that is based on information communicated by departments and agencies. This excludes macroeconomic risks, which are dealt with separately by the Department of the Treasury in the main budget documents. The Department of Finance also holds an "advisory role" during budget preparation and works closely with other departments and agencies to discuss and analyse, among other things, the specific risks that fall under their areas of responsibility. The statement of risks also includes is a statement regarding risks associated with unanticipated changes in economic circumstances prepared by the Department of the Treasury, largely focused on tax revenue risks, together with a description of several general risks that can affect tax collections.

Separate from the statement of risks, but also included in the main budget documents, is the Treasury's analysis of fiscal risks associated with uncertainties around the economic outlook, with input by the Department of Finance on the impacts of variations in economic parameters on areas of government spending (see also further below).

Departments and agencies are responsible for identifying and measuring their fiscal risks, as well as their prevention and mitigation, based on guidance from the Department of Finance and the Treasury.[9] They submit to the Department of Finance and Treasury requested information for the preparation of the Budget Strategy and Outlook, the Mid-Year Economic and Fiscal Outlook, and the Pre-election Economic and Fiscal Outlook (Australian Government, 1998[21]), as well as in-year and year-end financial statements, which include disclosures on contingent liabilities.

Definition and disclosure of fiscal risks

The Charter of Budget Honesty Act 1998 requires that all factors that could affect fiscal outcomes be disclosed in a statement of risks in the Budget Strategy and Outlook, the Mid-Year Economic and Fiscal Outlook, and the Pre-election Economic and Fiscal Outlook. To this purpose, fiscal risks are defined as "general developments or specific events that may affect the fiscal outlook" that are not included in the estimates because of the uncertainty surrounding their timing, magnitude or likelihood.

Fiscal risks are further categorised into general fiscal risks, specific contingent liabilities and specific contingent assets. Specific contingent liabilities and assets are defined as "possible costs or gains to the Australian [g]overnment arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the [g]overnment's control" (Commonwealth of Australia, 2019[23]).[10] Loans are also considered as fiscal risks, due to the credit risk that they will not be repaid in full.

The statement of risks is relatively short and uses a clear analytical presentation. Beyond listing general fiscal risks, specific contingent liabilities and specific contingent assets, the document highlights variations from one statement to the next; that is, new risks that are identified, as well as modifications or removal of existing risks. In addition, contingent liabilities and assets are categorised as "significant but remote", "unquantifiable" or "quantifiable". Only quantifiable risks are measured. As a rule, documentation on fiscal risks is prepared by departments and agencies before consolidation by the Department of Finance, putting the emphasis on sectoral responsibility and accountability for identifying, monitoring and managing these risks.

Macroeconomic risks are considered in the comprehensive economic outlook section of the main annual budget documentation, the Budget Strategy and Outlook, and the Mid-Year Economic and Fiscal Outlook, as well as in the Pre-election Economic and Fiscal Outlook. This is complemented by consideration of fiscal risks associated with economic outlook uncertainties in the budget documents' section on the historical performance of budget forecasts and the sensitivity of budget estimates to changes in the underlying key macroeconomic forecasts and projections.

Key policies for prevention or mitigation of fiscal risks

Concerning prevention and mitigation strategies, although departments and agencies have the responsibility for managing their own risks, the government has overall "conservative strategies in place to reduce its potential exposure to contingent liabilities" (Commonwealth of Australia, 2019[24]). In addition, the annual Budget and Appropriation Act includes resources that can be used in case a fiscal risk crystallises:

- The Budget includes a contingency reserve, which principally reflects anticipated events that cannot be assigned to individual programmes in the preparation of the budget estimates and can include funding for "events or pressures that are reasonably expected to affect the budget estimates" (Commonwealth of Australia, 2019[24]).
- An Advance to the Finance Minister (AFM) can be used by the Finance Minister in case (s)he "is satisfied that there is an urgent need for expenditure, in the current year, that is not provided for, or is insufficiently provided for [...] because of an erroneous omission or understatement; or because the expenditure was unforeseen" (Australian Government, 2018[25]).

The AFM provides for funding as a last resort, and as such has been used sparingly in recent times – only five times in the period from 2013-14 to 2018-19.

To mitigate fiscal risks from economic uncertainties and economic shocks, the Australian government has for several years set a fiscal strategy aimed at achieving budget surpluses, on average, over the course of the economic cycle. This underlines the government's setting of medium-term fiscal policy while allowing for flexibility in response to changing economic conditions. The policy elements underlying the strategy have included fiscal discipline by controlling government expenditure – including, until the expectation in the December 2019 Mid-Year Economic and Fiscal Outlook (Commonwealth of Australia, 2019[24]) of a return to budget surplus in 2019-20, reducing expenditure as a share of gross domestic product (GDP) – and a cap on tax revenue as a share of GDP.

The fiscal strategy is set by the government in accordance with the legislated principles of sound fiscal management and the requirements on the content of fiscal strategy statements under the Charter of Budget

Honesty Act. A key element of the government's fiscal strategy in 2019 was to focus on strengthening the balance sheet through public debt reduction to ensure the longer term sustainability of the budget. Paying down public debt ensures that the government is better equipped to deal with future challenges and reduces the burden of debt on future generations (Commonwealth of Australia, 2019[24]).[11]

COVID-19 crisis

Since March 2020, the Australian parliament has passed a series of additional standing appropriations and 2019-20 Appropriation Bills to fund COVID-19 response measures. In addition to funding agreed measures, the additional 2019-20 Appropriation Bills increased the AFM provisions – now totalling AUD 42 billion compared to a previous amount of AUD 380 million in Appropriation Bill No. 2 (Parliament of Australia, 2019[26]).

Additionally, the government decided to delay the 2020-21 Budget from 12 May 2020 to 6 October 2020. This was due to the very high level of uncertainty over macroeconomic and fiscal forecasts and related challenges in formulating a new fiscal strategy post-COVID-19.

Finally, following the government's decision to delay the 2020-21 Budget from 12 May 2020 to 6 October 2020, the Australian parliament passed 2020-21 Supply Acts. The Supply Acts provide broadly seven-twelfths of the 2020-21 annual appropriations to support the ongoing business of government in the new financial year, which commences on 1 July 2020. For entities and activities that are expected to have higher expenditure early in the 2020-21 financial year, in particular where this is driven by COVID-19 impacts, additional appropriations were provided for in the Supply Acts. The Supply Acts also extend the operation of AUD 40 billion of the AFM provisions into the 2020-21 financial year.

In response to the COVID-19 pandemic, the AFM dollar thresholds have been increased for 2019-20 and 2020-21 in order to manage evolving financial risks. The increased demand on the AFM due to the COVID-19 pandemic has resulted in the AFM being used seven times between March 2020 and August 2020.

At an operational level within Australian government entities, existing processes and controls have not been changed during the crisis. COVID-19 policy proposals have been subject to the usual level of scrutiny, including in relation to the risks they create, although analyses have been done within a shorter time frame. Existing controls have not been identified as an impediment or delay to response implementation. Rather, there is an awareness of the heightened risk of fraud in the current operating environment and the need for appropriate controls to mitigate this risk.

Finland

Context

Finland's budget system is characterised by a binding medium-term budget framework (General Government Fiscal Plan) anchored to a budget balance fiscal target (now established at -0.5% of GDP) and multiannual spending limits for central government (central government spending limits) that allow setting a clear course for fiscal policy and maintaining fiscal discipline. This sound budget system was put under stress in 2008, when the financial crisis dramatically hit the Finish economy, generating in turn a sharp increase of the public deficit and debt and increasing the use of guarantees to support households and the economy.

In the wake of the crisis, the National Audit Office of Finland (National Audit Office of Finland, 2011[27]) and the International Monetary Fund (IMF, 2015[28]) both recommended improvements for reporting and managing government risks and liabilities. These recommendations were endorsed by the Ministry of Finance, whose own analyses conducted in 2015 concluded that Finland's ability to withstand new

economic shocks was materially lower than before and established new guidelines for monitoring the growth of government liabilities, including contingent liabilities (Ministry of Finance of Finland, 2015[29]).

Overview of the fiscal risks management framework

Building on the existing budget system, the rationale for establishing a fiscal risks management framework in Finland was to increase transparency on fiscal risks, in particular the stock of guarantees and other off-budget liabilities, and better inform fiscal policy decisions. For this purpose, since 2016, the government has published an *Overview of Central Government Risks and Liabilities* report which discloses consolidated information on the central government's fiscal risks. The Ministry of Finance publishes this report on a voluntary basis. The main characteristics of the fiscal risks management framework in Finland are summarised in Table A.2

The Ministry of Finance is the key stakeholder in the framework and produces the *Overview of Central Government Risks and Liabilities*. For this purpose, the Ministry of Finance monitors and measures directly fiscal risks associated with macroeconomic factors, with tax flows and with a number of liabilities relative, for example, to the European Financial Stability Facility, to export-financing activities or to state-owned enterprises.

The Ministry of Finance also relies on information provided by other ministries and agencies, which are required to report government guarantees and collaterals following guidance from the Ministry of Finance. This information is collected in a centralised management system (called KoTa) developed by the State Treasury (Ministry of Finance of Finland, 2016[30]) on a monthly basis for housing-related guarantees and biannually for export-related guarantees and student loans.

As part of the budget preparation, information about state guarantees, warranties and off-budget assets shall be appended to the final accounts. Each ministry shall also submit to the Ministry of Finance a description of the performance of its activities that includes "a review of the most important changes and risks in the operating environment of the sector" (Ministry of Finance of Finland, 1992[31]). However, the information contained in this review is not used in the preparation of the *Overview of Central Government Risks and Liabilities.*

Following its 2011 report, the National Audit Office of Finland plays an important role in identifying potential improvements to the framework through its frequent recommendations. For example, it noted that each agency and ministry is in charge of measuring risks although "assessment requirements have not been clearly determined" (National Audit Office of Finland, 2018[32]) at the central level. More generally, in 2018, the National Audit Office underlined challenges in reporting certain fiscal risks and integrating their analysis into fiscal policy decision making (National Audit Office of Finland, 2018[32]).

Table A.2. Finland's approach for fiscal risks management

Fiscal forecasting and analysis of deviations	The *Overview of Central Government Risks and Liabilities* discusses past deviations from the forecast of GDP, which is the primary factor underpinning the fiscal forecast.
Risks identification	Each entity within central government is responsible for identifying its risks, describing and monitoring them. Ministries and funds report government guarantees and collaterals in a centralised management system (KoTa).
Risks measurement	Measurement of government guarantees is at nominal value. Other risks are not systematically measured.
Disclosure	The annual General Government Fiscal Plan includes a brief description of general risks associated with the fiscal forecast. The *Overview of Central Government Risks and Liabilities*, published on a voluntary basis, provides a more comprehensive view of fiscal risks threatening public finances.
Prevention/mitigation	Each public entity is expected to prevent or mitigate its own risks. Concerning guarantees, the general rule is that fees (one-off and annual) should be charged to beneficiaries.
Provision or reserve	The Budget contains an unallocated reserve for unforeseen events and a provision for new policies to be included in any supplementary budget.
Fiscal policy	Fiscal risks are not formally considered for setting fiscal targets. Current fiscal targets are a central government deficit of -0.5% of GDP for 2023 and general government debt-to-GDP ratio below 60% of GDP (Ministry of Finance of Finland, 2019[33]).

Definition and disclosure of fiscal risks

Table A.3 presents the classification of fiscal risks used in Finland. Within general risks, internal risks are defined as pressures unaccounted for in the forecasts "associated with the implementation of the Government Programme". External risks are defined as risks associated with general economic development" (Ministry of Finance of Finland, 2019[33]). Off-budget liabilities risks are associated with government policies that may generate additional spending when certain events happen, of which state guarantees or loans are a typical example (Ministry of Finance of Finland, 2020[34]). Balance sheet risks are not formally defined, but can be understood as risks that the commercial value of government assets and liabilities may unexpectedly change (Ministry of Finance of Finland, 2020[34]).

Table A.3. Finland's categories and nature of fiscal risks

Category	Nature of risk	Description
General risks	Internal risks	Pressures associated with the implementation of the government programme (e.g. one-off expenditure).
	External risks	Pressures closely linked to general economic development (e.g. growth slower than expected).
Off-budget liabilities risks	Open contingent liabilities	Expenditure that the government is legally bound to make if a particular event occurs (e.g. government guarantee).
	Implicit contingent liabilities	Expenditure that the government may be socially or politically obliged to make if a particular event occurs (e.g. bailout of the banking sector and local government).
Balance sheet risks	Financial assets	Decrease of the valuation of central government financial assets (e.g. decrease of the equity value of state-owned enterprises).
	Financial liabilities	Increase of central government liabilities (e.g. pensions).

Sources: Ministry of Finance of Finland (2019[33]; 2020[34]).

The *Overview of Central Government Risks and Liabilities* is the main source of information on fiscal risks, although information on general risks is also provided in the General Government Fiscal Plan. The report, first published in 2015, has been developed regularly, with, in particular, the inclusion of increasingly detailed information on financial assets and liabilities in successive reports and a stress test of public finances disclosed in the 2019 report (Ministry of Finance of Finland, 2020[34]).[12]

The *Overview of Central Government Risks and Liabilities* lists and analyses all categories of fiscal risks in a mostly qualitative way; however, nominal value of government guarantees is provided in the report. The analysis of risks associated with balance sheet and off-budget liabilities is particularly developed. A

notable feature of the report is an analysis of government implicit liabilities, in relation to local government, state-owned enterprises, environmental damage and the banking sector (Ministry of Finance of Finland, 2020[34]). Although implicit contingent liabilities relative to the banking sector are analysed in a general manner, more quantitative data are provided about municipal loan stock and municipal guarantees.

The comprehensive analysis of implicit liabilities is motivated primarily by the large size of the banking sector relative to the Finnish economy and by the rapid growth of local governments' loans and guarantees over the past ten years (Ministry of Finance of Finland, 2020[34]). In case of a crisis, it is expected from the central government to ensure the continuity of the banks' operations even though no explicit legal obligation exists, which poses an implicit risk to central government finances.

In addition, a chapter within the General Government Fiscal Plan outlines the key findings of the *Overview of Central Government Risks and Liabilities* (Ministry of Finance of Finland, 2019[33]).

Fiscal stress tests

For the first time, the 2018 *Overview of Central Government Risks and Liabilities* included a stress test of general government finances. The stress test quantifies the direct impacts on general government finances caused by weaker overall growth and several of its components such as reduced corporate tax and income tax revenue and higher expenditure linked to unemployment benefits. It also estimates the government's exposure to expenditures related to contingent liabilities, especially to export and housing guarantees, and the sensitivity of the value of government financial and real assets.

In 2019, the stress test additionally measured the impact of a hypothetical shock on the general government balance sheet, i.e. changes in the value of government assets and evolution of the debt-to-GDP ratio, including due to the calling of government guarantees. It concluded that in 2021, government debt and net debt would respectively reach almost 70% and 20% of GDP consecutive to the hypothetical shock, versus 58% and 11% in the baseline scenario (Ministry of Finance of Finland, 2020[34]).

The stress tests realised in 2018 and 2019 were based on the scenario used by the European Banking Authority for the stress test of the banking sector. First, the impact on Finnish GDP is estimated using the Ministry of Finance's forecasts as a baseline and the Ministry of Finance's estimates for several components of growth that were not explicitly mentioned in the European Banking Authority's scenario. The impacts of the shock on general government finances are then estimated by comparing the previous forecasts made by the Ministry of Finance with the results of the general government scenario model developed by the Ministry of Finance.

Nevertheless, the results of the stress test analysis have not yet triggered specific policy measures aiming at decreasing the exposure of public finances or limiting the volume of off-budget liabilities.

Key policies for prevention or mitigation of fiscal risks

In Finland, the fiscal risks management framework is primarily aimed at the identification and reporting of risks, as a means for raising decision makers' awareness. There are no mandatory guidelines concerning strategies for the prevention and mitigation of fiscal risks. However, the 2019 *Overview of Central Government Risks and Liabilities* discusses certain prevention and mitigation actions or policies, e.g. in relation to interest rate risk associated with central government debt or credit risk arising from export-related guarantees.

Government guarantees and collaterals have been a particular concern of the Ministry of Finance. To improve the monitoring of the stock and flows, the ministry developed a centralised management system (KoTa) to collect the information from ministries and government funds. The Act on State Lending and State Guarantees defines the default rules that apply to government guarantees authorised by parliament:

the standard fee structure for guarantees comprises a one-off fee of at least 0.25% of the capital and an annual fee of at least 0.5% of the capital.

However, guarantee fees can be waived by the government for special reasons and the Ministry of Finance acknowledges that, in practice, "the government has deemed special reasons to apply to almost all guarantees […], effectively turning what was intended as an exception into a rule" (Ministry of Finance of Finland, 2018[35]).

Concerning mitigation, to offset the impact of certain small risks materialising (e.g. calling of a guarantee), the yearly budget contains an unallocated reserve for unforeseen events and a provision for new policies to be included in any supplementary budget (Ministry of Finance of Finland, 2019[33]). Their total amount represents approximately 0.8% of the yearly expenditure ceiling defined for 2020.

COVID-19 crisis

The General Government Fiscal Plan for 2021-2024 was released on 16 April 2020. Having invoked the exceptional circumstances clause set out in the EU's Stability and Growth Pact, the General Government Fiscal Plan only presented a medium-term projection for general government finances based on an independent forecast and did not include the Stability Programme usually provided to the European Commission at that time of the year.

The Finnish government submitted three supplementary budget proposals to the parliament, referring successively to prevention and preparation measures related to COVID-19, easing the financial situation of Finnish companies, fixed-term and targeted measures to combat the health and economic effects of COVID-19, etc. The government also proposed a large state guarantees scheme, on which fees have been waived, as has been the case for some other guarantees schemes in the past.

Netherlands

Context

Since the 1990s, the Netherlands has used a budget framework based on multiannual expenditure ceilings, which is based on the current government's independently costed pre-election programme. This system is generally considered an efficient tool for delivering national fiscal objectives that have traditionally aimed at keeping public debt at sustainable levels over the long term, in the context of an ageing population and decreasing natural resources rent. Another important component of the framework is that all fiscal and budget plans are based on independent macroeconomic and fiscal forecasts (Vierke and Masselink, 2017[36]).

In the wake of the 2008 financial crisis, the Dutch government explored how to better shield the country's public finances against future shocks, beyond existing budgetary tools. The Study Group on Fiscal Space was commissioned to analyse the risks to Dutch public finances and published a report providing a number of recommendations for better handling these risks (Study Group on Fiscal Space, 2010[37]).[13]

The Dutch government responded with its own report in September 2011, *The Government Finances Stress Test: A Risk Analysis of Dutch Public Finances*. Following this initial work, the Dutch government set up a Risk Commission comprising representatives of the Ministry of Finance, line ministries and the central bank to review all its existing loans, guarantees and financial sector support and provide proposals to limit a further increase in such contingent liabilities. The Risk Commission's work led to the adoption of a new framework that introduced a ceiling for the overall level of contingent liabilities, criteria for taking on new contingent liabilities and strengthened transparency requirements *vis-à-vis* the parliament (Hofmans and van den Coevering, 2014[38]).

Overview of the fiscal risks management framework

The Dutch fiscal policy framework can be said to have three broad objectives: 1) the sustainability of public finances, with sound fiscal and budgetary management, including after the 2013 reforms in relation to the EU-wide fiscal framework, including the two and six pack reforms;[2] 2) the effective use of tax money; and 3) macroeconomic stabilisation.[14] The main characteristics of the framework for managing fiscal risks are described in Table A.4

Table A.4. The Netherlands' approach for fiscal risks management

Fiscal forecasting and analysis of deviations	Fiscal forecasts are published twice a year in the Central Economic Plan and Macro Economic Outlook, along with two shorter and adjusted projections.
Risks identification	The identification of fiscal risks is the responsibility of a range of actors responsible for identifying and monitoring risks that fall under their competency.
Risks measurement	Macroeconomic and financial risks are measured through alternative scenario analysis under unchanged policy and stress tests.
Disclosure	Information on fiscal risks is provided with the medium-term projections and the annual Budget (especially guarantee-related risks).
Prevention/mitigation	The risk management policy for contingent liabilities includes a ceiling and prevents the government from taking on new contingent liabilities except in the case of overriding reasons.
Provision or reserve	The Netherlands does not have provisions or reserves. Unforeseen expenditures shall be funded by the reallocation of existing resources.
Fiscal policy	Fiscal risks are not formally considered for setting fiscal targets. The government follows a trend-based fiscal policy, setting expenditure ceilings for the central government, social contributions and healthcare, and a revenue ceiling to control the total tax burden (OECD, 2019[39]).

Stakeholders in fiscal risks management

An independent fiscal council, the Netherlands Bureau for Economic Policy Analysis (CPB), is responsible for producing independent macroeconomic and fiscal forecasting, before any general election and as part of the annual budget cycle.[15] Alongside the fiscal forecast, the CPB identifies risks that could cause deviations, in relation to macroeconomic developments in particular.

A range of actors, such as ad hoc commissions and permanent independent organisations, are responsible for identifying and managing specific fiscal risks on which they are competent. For example, the Netherlands Environmental Assessment Agency (PBL) evaluates environmental and spatial policies and identifies connected risks. Financial sector risks are identified and managed through supervision by the Dutch Authority for the Financial Market.

The Ministry of Finance monitors a number of specific risks. For example, the Dutch State Treasury Agency is responsible for debt management and funding, in particular for risks related to the interest rate, credit, liquidity and foreign exchange. The Ministry of Finance is also in charge of producing a consolidated statement of government contingent liabilities (direct and indirect guarantees), which is published yearly alongside the budget.

Definition and disclosure of fiscal risks

The Study Group on Fiscal Space's report provides a detailed taxonomy of fiscal risks threatening Dutch public finances, including in case of a severe shock to the economy such as a large natural disaster or a terrorist attack (Table A.5). The report identifies a number of key characteristics for individual risks: each

[2] Within the EU fiscal framework, the six pack reform refers to a set of rules put in place in 2011 to reduce macroeconomic imbalances and improve the viability of public finances of member states. The two pack reform, introduced in 2013, builds upon the six pack to improve budgetary co-ordination among member states.

risk can be explicit or implicit and conditional or unconditional, as shown in Table A.5. The report makes the point that fiscal risks shall be managed using different tools depending on these characteristics.

The CPB discusses potential risks to its short-term (published biannually), medium-term (covering the next 4 years and published biennially) and long-term projections (in *Ageing Reports* covering the next 40 years and published every 4 years) in the relevant reports. The risks identified range from international economic and political developments (such as trade conflicts, the consequences of Brexit and the current coronavirus crisis) to domestic sources (i.e. the housing and labour market and the pension sector). The CPB also publishes an annual report outlining the risks in relation to the financial sector (CPB, 2019[40]).

Table A.5. The Netherlands' taxonomy of fiscal risks

	Unconditional (costs are incurred but size is uncertain)	Conditional (cost are incurred only if uncertain event occurs)
Explict risk (*ex ante* obligation)	– Automatic stabilisers (tax revenue, unemployment benefits) – Interest rate risk – Excess costs (infrastructure) investment projects – Technical and legal fiscal risks – Mortgage interest risk (via mortgage deduction)	– Financial sector: public guarantees, public backing of private guarantees – Public costs of infrastructure to counter natural disasters and terrorist attacks
Implict risk (no *ex ante* obligation, but high chance that risks will still be borne by government *ex post*)	– Old age pensions – Care (health and long term) – Climate mitigation	– Financial sector: rescue of firms and institutional units which are "too big to fail" – Medical emergency measures (including pandemics) – Agrarian emergency measures (animal diseases) – Private costs of natural disasters and terrorist attacks

Source: Study Group on Fiscal Space (2010[37]).

The Budget Memorandum, presented on the Budget Day in September to the House of Representatives along with the national Budget and the tax plan, describes the financial and economic situation of the Netherlands, explaining the Cabinet's plans for the coming year and the associated spending plans. The Budget Memorandum contains an annex (Annex 12 in the 2020 Budget) that provides a list and short analysis of the government's contingent liabilities – i.e. the government's direct guarantee schemes and indirect ones. Indirect guarantee schemes are those provided by public entities that the government could be obliged to take over (Government of the Netherlands, 2019[41]). In 2019, the government deepened its analysis of explicit and implicit contingent liabilities using the International Monetary Fund's (IMF) guidance and methodology.

Fiscal stress tests

The CPB conducted risk analyses in 2011 and 2015. A number of economic scenarios were identified and the effects on the Dutch economy and public finances were examined. The Dutch government responded to the Study Group on Fiscal Space with its own report in September 2011, *The Government Finances Stress Test: A Risk Analysis of Dutch Public Finances*. The report discusses risks emanating directly from developments in the economy as well as risks resulting from guarantees and other government interventions in the event of a crisis. The report also analyses a number of scenarios of major shocks (a financial crisis, a European debt crisis and a global economic crisis) and correlations between risks, and emphasised the need to better prevent these risks going forward, as such shocks would lead to a substantial deterioration of Dutch public finances (Dutch Ministry of Finance, 2011[42]).

The Ministry of Finance recently conducted additional fiscal stress tests, including measuring the government's implicit contingent liabilities. They were published in the Budget Memorandum 2019.[16] Fluctuations in economic growth and interest rates were at the centre of those analyses and fiscal stress

tests. In addition, the 2020 Stability Programme included sensitivity analyses with respect to growth and interest rates.

Key policies for prevention or mitigation of fiscal risks

In 2015, the Dutch government adopted a new policy for loans, financial interventions, guarantees and other contingent liabilities (Hofmans and van den Coevering, 2014[38]). In compliance with the so-called "no, unless" policy, the government does not take on new contingent liabilities (including indirect guarantees, loans and participation in financial interventions) unless there is an overriding reason to do so. In addition, a sunset clause obliges the government to assess policies involving contingent liabilities five years after the start of their implementation. A ceiling sets annually a maximum level for contingent liabilities, in particular guarantees. Finally, an external opinion on the level of the premium to be charged to beneficiaries of government guarantees is requested in case of large and complex risks.

Prevention and mitigation strategies exist for other fiscal risks. Natural disasters risks, for example, are an area of focus in the Netherlands, as the country is particularly exposed to flooding. Accordingly, the Delta Programme was developed to protect the Netherlands against flooding. It is presented every year by the Delta Programme Commissioner and is financed by the Delta Fund, a separate item on the central government budget which provides resources for flood protection in the future and for ensuring freshwater supply. In 2015, the Netherlands adopted a risk-based approach for the flood risk management policy: protection levels are based on the probability and impact of flooding. The focus is thus on prevention rather than insurance. Importantly, in 2018, the Water Crises Control in Security Regions (WAVE2020) Programme was launched, with the aim to set a new contingency plan to control the impact of a flood disaster (Delta Programme Commissioner, 2019[43]).

Concerning those fiscal risks that cannot be prevented or accommodated, the policy, as shown in Table A.5, is to fund additional spending by a reallocation of resources across budget lines or budget chapters. Large shocks to the economy are accommodated by running a prudent fiscal policy that, by declining public debt, is expected to provide sizeable fiscal space to be used by decision makers in times of stress for the economy (National Academy for Finance and Economics, 2013[44]).

COVID-19 crisis

On 17 March 2020, the government decided a package of emergency measures to deal with the economic consequences of the coronavirus. Various additional emergency measures were decided upon in the weeks that followed. Given the exceptional situation, in addition to reallocations of resources across budget chapters, the government decided to adjust the expenditure ceiling of EUR 20 billion to allow for the extra expenditure (specifically, the "regular" expenditure ceiling will not apply to the expenditures from the emergency package). Emergency measures will also generate less income from taxes and contributions in the short term (deferral of taxes).

Guarantees have been granted as part of the economic support measures and stocks of government guarantees will consequently increase sharply. Ceilings of existing national government guarantee schemes have been increased as part of the COVID-19 crisis response, but no new schemes have been approved. The channelling of new government interventions into existing schemes has allowed usual processes and safeguards to be maintained. The principle of "no, unless" remains in place, although its implementation has shifted from correcting market failure to providing direct support to the economy. Where previously most guarantees were *ex ante* budget-neutral because of the risk premium, most crisis-related guarantees have estimated budgetary costs, which are submitted to parliament in supplementary budgets.

The CPB carried out a study public on 26 March 2020 containing four scenarios outlining the possible impact of the COVID-19 pandemic on the economy and fiscal position in 2020/21 according to the length

and scope of disruption to normal economic activity, taking into account the support measures already announced by the government.

New Zealand

Context

In the late 1980s, New Zealand adopted the Public Finance Act (New Zealand Treasury, 1989[45]), the core legislative framework within which New Zealand's government can borrow or spend public money. In 1994, the Fiscal Responsibility Act (New Zealand Government, 1994[46]) clarified some of the principles of the Public Finance Act, and strengthened disclosure requirements in order to increase the transparency and scrutiny of the budget process. The two laws were merged in 2004, to form the current version of the Public Finance Act (New Zealand Treasury, 2020[47]).

The Public Finance Act's objectives include providing a long-term focus to budgeting, facilitating parliamentary scrutiny of economic and fiscal plans, and increasing transparency. Increased transparency shall be achieved mainly by disclosing the government's intentions and objectives concerning fiscal policy and producing regular economic and fiscal updates against the stated intentions and objectives.

The Public Finance Act also lays out the principles of "responsible fiscal management". They comprise reducing and maintaining debt at "prudent levels"; achieving positive net worth for government; ensuring predictability and stability in tax rates; and the prudent management of fiscal risks facing the government (New Zealand Treasury, 2020[47]). The government can depart from these principles, but has to provide detailed explanations to parliament in such cases.

Overview of the fiscal risks management framework

Legislation requires that fiscal risks facing the Crown be both managed "prudently" and "disclosed to the fullest extent possible" (New Zealand Treasury, 2020[47]). To achieve these objectives, New Zealand has established a comprehensive and detailed framework (Table A.6), including guidelines for preventing and mitigating fiscal risks. For those risks that cannot be prevented or mitigated, the government's approach consists of maintaining debt at prudent levels and holding a healthy level of net worth, to increase the Crown's resilience to shocks (New Zealand Ministry of Finance, 2018[48]).

Table A.6. New Zealand's approach for fiscal risks management

Fiscal forecasting and analysis of deviations	The Economic and Fiscal Updates contain economic and fiscal forecasts. Analysis of deviations is performed in a separate report as part of the Analysis of the Treasury's Macroeconomic and Tax Forecast Accuracy.
Risks identification	The Treasury relies on four main avenues for fiscal risks identification: 1) its own fiscal risks monitoring system; 2) the review of previous risks; 3) consultations with agencies; and 4) review of the minutes for budget negotiations.
Risks measurement	Each agency measures its specific fiscal risks under the Treasury's guidance and monitoring. The Treasury measures general and balance sheet risks.
Disclosure	The biannual and pre-election Economic and Fiscal Updates disclose general, specific and balance sheet fiscal risks.
Prevention/mitigation	Each department prevents and mitigates specific fiscal risks through reprioritisation of funds, budget allowances or policy choices. The Debt Management Office manages risks to the government's overall balance sheet.
Provision or reserve	The Between-Budget Contingency provides for urgent funding. Contingencies at the level of departments can also be used to finance known cost pressures whose amount are subject to uncertainty at the time of the finalisation of the budget. In addition, New Zealand has two long-term reserve funds: the Natural Disaster Fund and the Superannuation Fund that aims at mitigating the long-term effect of the ageing population.
Fiscal policy	New Zealand does not have legislated numerical fiscal rules, but the government is legally required to state its fiscal strategy. Results of fiscal stress tests were formally considered to determine the country's most recent fiscal target.

Stakeholders in fiscal risks management

Reporting entities participating in fiscal forecasting include departments (such as ministries or customs service), offices of parliament (such as the controller and auditor-general), the New Zealand Superannuation Fund, the Reserve Bank of New Zealand, state-owned enterprises (that report quarterly to shareholding ministries), and other Crown entities (such as the Accident Compensation Corporation) (New Zealand Treasury, 2019[49]). These reporting entities are responsible for identifying their specific fiscal risks, as well as managing prudently as required by legislation.

The Treasury centralises information on specific fiscal risks and their management by reporting entity. These fiscal risks are reported by all entities within central government on a monthly basis in the integrated financial management information system operated by the Treasury. In addition, the Treasury identifies, measures and manages certain specific risks, such as those coming from state-owned enterprises, and general risks stemming from the government's decisions, or macroeconomic circumstances. A specific unit within the Treasury, the Debt Management Office, is in charge of aggregating information on assets and liabilities across the government and manages risks to the government's overall balance sheet.

Definition and disclosure of fiscal risks

Legislation defines fiscal risks as "all government decisions and other circumstances known to the government that may have a material effect on the fiscal outlook, but that are not certain enough in timing or amount to include in the fiscal forecasts" (New Zealand Treasury, 2019[49]). This definition includes risks that are subject to written reports to responsible ministers as well as decisions that have been deferred (Warren, 2004[50]). Treasury guidance further specifies the disclosure requirements for fiscal risks as opposed to the inclusion of the fiscal impacts of decisions in agencies' forecasts (New Zealand Treasury, 2018[51]).

The Treasury further classifies fiscal risks into three broad categories and types (Table A.7):

4. so-called "specific fiscal risks", which are risks in relation to government decisions falling under the portfolio of activities of individual ministries and agencies
5. balance sheet risks, which are risks affecting the Crown's financial position through changes in the value of its assets or liabilities
6. general risks, which are global risks to the economy or public finances.

Table A.7. New Zealand's categories and nature of fiscal risks

Category	Type	Description
Specific fiscal risks	Policy changes	Potential decisions likely to be taken by the government related to both new policy and existing policy settings.
	Cost pressures associated with existing policies and risk of cost variances	Changes in demand or pricing that impact the cost of delivering services under existing policy settings.
	Contingent liabilities and assets	Potential costs or income that depend on whether particular events occur.
Balance sheet risks	Change in the value of assets and liabilities	Movement in market or business variables affecting financial assets or property owned by the government.
	Direct fiscal costs	Actual costs incurred because of a shock (e.g. cost to rebuild infrastructure).
	Indirect fiscal costs	Changes to future government revenue and expenses consecutive to the economic impact of a shock.
General risks	Deviation from key assumptions and judgements	Any deviations from the key assumptions and judgements used for the economic and fiscal forecasts that have flow-on impacts for the fiscal forecasts.
	Other uncertain events	Significant events relating to changes in the external environment (e.g. natural disasters, international events).

Source: Adapted from New Zealand Treasury (2019[49]).

Fiscal risks are discussed alongside the economic and fiscal forecasts in the Economic and Fiscal Updates. Disclosures provide information about risks at a greater frequency than the annual budget because they are released biannually and ahead of elections as the Budget Economic and Fiscal Update, the Half Year Economic and Fiscal Update, and the Pre-Election Economic and Fiscal Update.

General and balance sheet fiscal risks are described in the chapter on risks and scenarios, which also comprises a description of uncertainties for the economic and fiscal outlooks, as well as the alternative scenarios for the economic outlook. General risks, which are measured and can be presented in graphs, include changes to economic assumptions (implied by major adjustments in international financial markets, weaker trading partners' growth, migration, etc.), natural disasters, biosecurity threats or volatility of the government's investments given the business environment. Balance sheet risks include risks in relation to financial assets and liabilities, including debt, and are described in a qualitative manner (New Zealand Treasury, 2019[49])

A full separate chapter is dedicated to specific fiscal risks in the Economic and Fiscal Updates. Disclosure of specific risks is required only above a materiality thresholds of NZD 100 million. Specific fiscal risks are presented by ministerial portfolio. They are classified by nature and their status compared to the previous Economic and Fiscal Update is specified (unchanged, changed or new). Their impact on revenue, expenses or capital expenditures is briefly described and quantitatively assessed when possible.

As for the contingent liabilities and assets, which are among specific fiscal risks, they are further categorised as quantifiable or unquantifiable. Contingent liabilities considered to be remote (less than a 10% chance of occurring) are excluded from the reporting. Moreover, only contingencies involving amounts of over NZD 100 million are separately disclosed and detailed, the rest being aggregated in the "other" category (Table A.8).

Table A.8. New Zealand's contingent liabilities categories

Category of contingent liabilities	Type
Quantifiable	Uncalled capital
	Guarantees and indemnities
	Legal proceedings and disputes
	Other
Unquantifiable	Indemnities
	Legal claims and proceedings
	Other

Source: New Zealand Treasury.

Fiscal stress tests

Balance sheet risks are further analysed with stress test scenarios in the Investment Statement, published by the Treasury at least every four years (New Zealand Treasury, 2018[52]). It aims at testing the medium-term fiscal resilience of the government balance sheet by accounting for the impact on net debt of the government, the potential change of value of government assets and liabilities, as well as for direct and indirect fiscal costs such as direct cost to rebuild infrastructure or changes of future government revenue.

Three separate scenarios were analysed in 2018: 1) a severe Wellington earthquake; 2) an agricultural disease outbreak; and 3) an international economic downturn. These scenarios were selected to cover a broad range of shocks that could affect New Zealand over the medium term and were drawn from risk

registers prepared to support public risk management and planning processes (New Zealand Treasury, 2018[52]).

Finally, research carried out for preparing this report included looking at whether the case study countries had identified pandemic as one of their fiscal risks and put in place prevention or mitigation strategies. That is the case in New Zealand: in 2006, in the context of the H5N1 epidemic, the Treasury of New Zealand published a paper modelling the potential economic impact of a severe pandemic in New Zealand and discussing consequences in relation to the public debt target and role of prevention policies (New Zealand Treasury, 2006[53]).

This paper was followed by other reports in 2009 related to the H1N1 epidemic that discussed the impact on budget forecasts and the Treasury preparedness (New Zealand Treasury, 2009[54]; 2009[55]). In 2011, the Treasury of New Zealand listed pandemics and health emergencies as one of the major economic shocks that have the potential to disrupt government finances (New Zealand Treasury, 2011[56]).

Key policies for prevention or mitigation of fiscal risks

As noted above, each entity within central government is expected to monitor and prevent, where possible, fiscal risks from crystallising. An example of such policies is the State-Owned Enterprises Continuous Disclosure Rules, which obliges state-owned enterprises to continuously report on any matter that may affect their commercial value (New Zealand Treasury, 2015[57]).

Further, the Budget Economic and Fiscal Update (New Zealand Treasury, 2019[49]) details three different options for each ministry to manage their risks: 1) reprioritisation of funds; 2) using budget allowances for new expenditures included in the budget and multi-year framework; and 3) policy choices that will allow modulating the amount and timing of funding.

For residual risks, the strategy stated in the Economic and Fiscal Update is to maintain net debt at prudent levels and hold a healthy level of net worth. What constitutes a prudent level of net debt is determined based on a framework which determines the “upper limit of debt” and the additional buffer needed for a “prudent level of debt” (Falli et al., 2015[58]).

Results of fiscal stress tests were formally considered to determine the country’s fiscal target before the COVID-19 pandemic hit the global economy (New Zealand Government, 2019[59]).[17] Specifically, under the three stress tests scenarios done in 2018, the Treasury estimated that net debt would rise by between 5% and 15% of GDP in case of a crisis and as high as 20% in case of a major shock. These estimates led to a view that “a net debt buffer of at least 20 percent of GDP below [the] upper net core Crown debt limit of 50 to 60 percent of GDP would be reasonable based on the current state of the evidence” (Makhlouf, 2019[60]).

The Treasury further notes that “a strong balance sheet helps by absorbing the impact from risks so that the wider economy does not need to adjust immediately, at a greater economic cost. A strong balance sheet also provides the government with fiscal space and choices about how it can respond to shocks” (New Zealand Treasury, 2019[49]). During the most recent shocks faced by the country, the balance sheet was used as part of the fiscal policy response, e.g. the Natural Disaster Fund was drawn on and contributions to the Super Fund suspended (Makhlouf, 2019[60]).

COVID-19 crisis

Besides Budget legislation, the Imprest Supply Act 2020 (passed on 25 March 2020), which authorised the government to spend up to NZD 52 billion, and Section 25 of the Public Finance Act 1989 (permanent legislative authority for emergencies) have provided the government with parliamentary authority to incur COVID-19-related expenditure.[18,19] Consequently, expenses relating to COVID-19 have been classified into three categories and handled accordingly:

1. reprioritisation of baselines: if the expenditure could be met from existing baselines, approval was granted by joint ministers or the Cabinet
2. expenses incurred in emergencies: when Section 25 of the Public Finance Act was invoked (subject to certain criteria), the Minister of Finance approved expenses to meet this emergency
3. expenses approved by Cabinet: if approval is required to incur expenses but it is not within scope of Section 25 of the Public Finance Act, Cabinet approval was required.

United Kingdom

Context

The United Kingdom's current framework for fiscal policy and budgeting comes from the Budget Responsibility and National Audit Act, adopted in 2008 in the wake of the financial crisis. This act was an effort to increase the credibility of the government's fiscal forecasts and clarity of its fiscal targets. It provides for the government to publish a Charter for Budget Responsibility explaining its "formulation and implementation of fiscal policy and policy for the management of the national debt." The act also sets up an independent fiscal council, the Office for Budget Responsibility (OBR), to prepare economic and fiscal forecasts underlying the government budget and assess whether its fiscal objectives are being met.[20] In 2016, following an assessment of the United Kingdom's fiscal transparency practices (IMF, 2016[61]) noting that reporting on fiscal risks was incomplete and fragmented, the Charter for Budget Responsibility was updated to task the OBR with producing "a fiscal risks statement setting out the main risks to the public finances, including macroeconomic risks and specific fiscal risks (…) at least once every two years". Interestingly, the charter specified that the government would "formally respond to this report" within a year (HM Treasury, 2017[62]). The OBR also produces a Fiscal Sustainability Report, in which it analyses the fiscal consequences of both past and future government activity, setting out long-term projections for spending, revenues and financial transactions and assessing their implications for public debt. The Fiscal Risk Report and the Fiscal Sustainability Report are published in alternating years.

Overview of the fiscal risks management framework

Within the broad requirements of the Budget Responsibility and National Audit Act and the Charter for Budget Responsibility, the framework for fiscal risks management in the United Kingdom has been designed in a collaborative manner by the OBR and the Treasury, including through consultations with experts and international institutions.[21] The main characteristics of the fiscal risks management framework are summarised in Table A.9.

Table A.9. The United Kingdom's approach for fiscal risks management

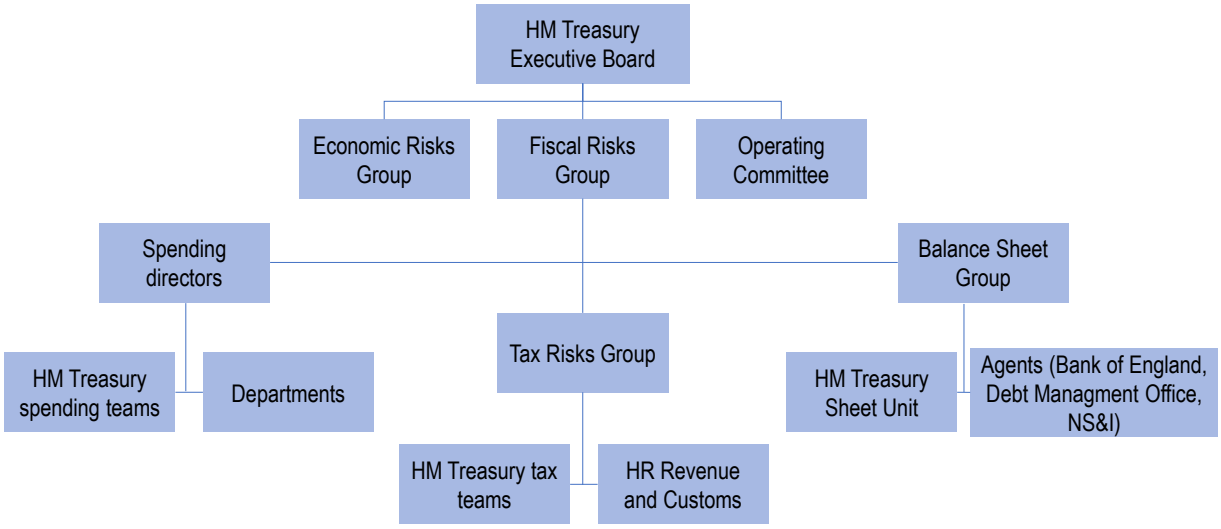
Fiscal forecasting and analysis of deviations	The Office for Budget Responsibility (OBR) produces fiscal and economic forecasts twice a year in its Economic and Fiscal Outlooks, which are used as official forecasts. Long-term projections are published in the Fiscal Sustainability Report. The OBR assesses its own forecasting performance in an annual Forecast Evaluation Report, in which it compares past forecasts against outturn data, explaining any deviations and errors.
Risks identification	A Fiscal Risks Group within the Treasury was created in the mid-2000s to identify and assess risks related to the government's fiscal objectives. The Treasury co-ordinates its work with the other bodies competent for sector-specific risks (see below).
Risks measurement	The OBR assesses the likelihood of the risk and its potential impact on both stock and flow measures of the public finances, focusing particularly on macroeconomic risks (emanating from either cyclical or structural changes in the economy) and specific risks (stemming from particular sources, such as government guarantees).
Disclosure	Fiscal risks are mainly and comprehensively disclosed in the OBR's Fiscal Risk Report. Some risks to medium-term forecasts are also mentioned in the Economic and Fiscal Outlooks and sensitivity analysis on long-term projections are presented in the Fiscal Sustainability Report.
Prevention/mitigation	The government's strategy to manage fiscal risks follows five steps: 1) identify the source, scale and likelihood of the risk; 2) disclose the risk; 3) mitigate the risk; 4) provision for risks that cannot be mitigated but with relatively certain size and timing; and 5) accommodate residual risks (HM Treasury, 2018[63]).
Provision or reserve	The budget contains a Contingencies Fund (2% of the previous year's budget) and a reserve to deal with unforeseen expenditure and future costs exceeding the so-called departmental expenditure limits (0.5% of departmental expenditure limits). On certain occasions, a so-called special reserve was created (e.g. military operations in Afghanistan or the 2013-14 winter floods).
Fiscal policy	Fiscal risks are not formally considered for setting fiscal targets. At Spring Budget 2020, it was announced that the Treasury will review the fiscal framework to ensure it remains appropriate for the macroeconomic context, while ensuring the sustainability of the public finances (HM Treasury, 2020[64]).

Stakeholders in fiscal risks management

The OBR is responsible for producing a fiscal risks report at least once every two years, which identifies and measures fiscal risks in an objective, transparent and impartial way. The Treasury is responsible for the management of fiscal risks, although the identification and disclosure of certain specific risks may fall under its responsibility if required by law. The working relationship among the OBR, HM Treasury and other bodies involved in fiscal risks management is stated in a memorandum of understanding, which clarifies each institution's responsibility, the co-ordination of the forecast process and information sharing (OBR, 2017[65]). A Fiscal Risk Liaison Group, chaired by the OBR and comprising Treasury representatives, sets the timetable for the departments' contributions on which the OBR's Fiscal Risks Report is based.

Within the Treasury, three sub-committees supervised by the Treasury's Executive Management Board identify and analyse specifically economic, fiscal and operational risks (Figure A.1). In particular, the Fiscal Risk Group co-ordinates the work on the identification of fiscal risks, assesses their likelihood and potential impact, and proposes mitigation strategies. The Fiscal Risk Group meets once a month to collect the analysis of the Treasury's risk management groups on sector-specific risks, then reports to the Executive Management Board with quarterly reports. It is to be noted that, in 2016, a Balance Sheet Group was established to report to the Fiscal Risk Group on risks to the government's holding of assets and liabilities.

Figure A.1. The United Kingdom's institutional responsibilities for fiscal risks management organisation



Source: HM Treasury (2018[63]).

Responsibility for the identification and management of specific risks lies with relevant departments or agencies, which are expected to carry out "active surveillance of fiscal risks" and report to the Treasury (HM Treasury, 2018[63]).[22] Fiscal risks surveillance should be done as part of the management of operational risks, for which guidance is provided in the government's *Orange Book*.[23]

The National Audit Office also plays a role in assessing risks faced by departments, making recommendations on how to improve the use of public money through value-for-money assessments presented to parliament. In 2016, the National Audit Office published a report examining provisions, contingent liabilities and guarantees in the whole of government accounts, shedding light on the risks and benefits to the public finances and discussing the management strategy concerning assets and liabilities adopted by the government (UK National Audit Office, 2016[66]).

Definition and disclosure of fiscal risks

Fiscal risks are defined as "a potential deviation from the 5-year-ahead central forecasts for public sector spending, receipts, borrowing and debt contained in the Economic and Fiscal Outlooks and from the corresponding 50-year-ahead projections in the Fiscal Sustainability Report" (OBR, 2017[67]). The OBR also considers the fiscal risks arising from pressures on spending (such as ageing and health costs) which may have an impact on fiscal sustainability, independently of whether they are recognised in the forecasts.

The OBR's Fiscal Risks Report represents the most comprehensive disclosure effort on fiscal risks within OECD countries: the two reports published in 2017 and 2019 identify around 60 fiscal risks for the United Kingdom's public finances over the medium to long term, measure them with few exceptions, and present them in broad categories as follows: macroeconomic and financial sector, revenue and spending, balance sheet, and debt interest. The reports go further by classifying the risks in a detailed matrix by size (low, medium or high impact) and likelihood (from very low to very high probability of crystallisation). The report includes several visualisations providing contextual information and facilitating the understanding of the scale and evolution of key fiscal risks.

The most recent Fiscal Risks Report includes new sections on fiscal risks stemming from the shadow banking system, the setting of fiscal policy and climate change. In trying to assess and quantify climate-related fiscal risks, the OBR used the framework developed by the Bank of England, which started to

evaluate climate-related risks to financial stability in 2015. Climate-related fiscal risks include, among others, spending increases for climate change adaptation and mitigation strategies and legal challenges generating future costs.

The level of disclosure on fiscal risks management in the United Kingdom is unique in that HM Treasury is required to formally respond to the Fiscal Risks Report produced by the OBR within a year. By HM Treasury's own words, the report "provides a mechanism for parliament and the public to assess the adequacy of the government's strategies for managing [these] risks and hold it to account for their implementation".

The last report published in 2018, called *Managing Fiscal Risks*, outlines the government's frameworks for managing fiscal risks (further described below), describes the actions that government is taking to manage individual risks and outlines further actions the government is taking to strengthen its framework. A complete fiscal risk register with the corresponding responsible department is also included. The report does not discuss the appropriateness of the fiscal policy course and objectives in light of fiscal risks identified by the OBR (HM Treasury, 2018[63]).

Fiscal stress tests

The OBR's Fiscal Risks Reports include chapters showing the effects of a stress test, based on a bespoke stress scenario in each report: a synchronised global and domestic economic and financial shock in 2017 and a no-deal Brexit scenario in 2019. Stress tests are based on macroeconomic scenarios prepared by other independent international and national institutions such as the Bank of England (for the 2017 macroeconomic shock stress test) and the IMF (for the no-deal Brexit stress test in 2019). Impacts of the shock scenarios are assessed for the following fiscal aggregates: public sector receipts, expenditures, net borrowing and net debt.

Key policies for prevention and mitigation of fiscal risks

Traditionally, the budget comprises a Contingencies Fund regulated by the Miscellaneous Financial Provisions Act 1946 and held by the Treasury. It may be used for emergencies or expenditures that were not included in the budget. The Contingencies Fund Act 1974 sets the size of the fund as 2% of the amount of the government budget in the preceding year.

Beyond this Contingencies Fund, the government's strategy to manage fiscal risks follows five steps:

4. "Identify the source of risk, the scale of fiscal exposure, and the likelihood of crystallisation. (…).
5. Disclose the fiscal risk to parliament and the public to raise awareness and ensure accountability for management of potential threats to public funds. (…).
6. Mitigate fiscal risks where this can be done cost-effectively and without detracting from wider policy objectives. Risk mitigation tools can include discouraging risky behaviour (e.g. through financial regulation), encouraging actors to pool risk (e.g. through institutions like the Pension Protection Fund), or placing limits on the extent of government exposure (e.g. through limits on the issuance of export guarantees).
7. Provision for risks that cannot be mitigated but whose size and timing is relatively certain. (…).
8. Accommodate those risks whose size or timing is too uncertain to explicitly provision for in advance. (…)" (HM Treasury, 2018[63])

Since the publication of the first Fiscal Risks Report, the government considers that it has enhanced its capacity to monitor and manage fiscal risks, including more transparent reporting on the balance sheet and better management of contingent liabilities with a new approval regime for contingent liabilities. For example, in March 2020, the Treasury published a report in which it outlines how the government, acting as insurer of last resort, manages contingent liabilities with the objective to reduce the associated risk and

how it can improve this role. The four typologies of contingent liabilities identified are financial guarantees, explicit government insurance, legal cases and purchaser protections. The first two categories are covered by the government's insurer of last resort function (HM Treasury, 2020[68]). In April 2020, the Treasury updated and published the Green Book, which provides guidance on how to appraise and evaluate policies, projects and programmes.

Other key risk management reforms included a new financial oversight framework for the Bank of England and a comprehensive bank resolution regime. In 2017, the Treasury launched the Balance Sheet Review to assess the government's management of assets and liabilities and identify opportunities to reduce balance sheet risks. The government also decided to end public finance initiative schemes and the sale of student loans, and took steps to lower the costs of clinical negligence in the National Health Service; tackle tax avoidance, evasion and non-compliance; and reduce the issuance of inflation-linked government debt (HM Treasury, 2018[63]).

COVID-19 crisis

The Contingencies Fund Act 2020 allowed the Contingencies Fund to be topped up with a further 48% of 2019-20 spending so that the UK government could make immediate payments from it. The government's proposal for the Finance Bill 2019-21, which included an increase in public spending and a GBP 12 billion emergency fiscal stimulus to counter the shock of the COVID-19 pandemic, became a law on 22 July 2020.

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Notes

[1] Most OECD countries use a medium-term expenditure framework, with only three countries reporting that they do not make use of this tool (Belgium, Mexico and Norway).

[2] The Netherlands' taxonomy of fiscal risks, dating back to 2011, also identifies pandemics as one of the potential large shocks to the Dutch economy and public finances.

[3] Prevention should be understood as policies to decrease the likelihood that a risk will materialise while mitigation policies aim at reducing the financial impact of a fiscal risk materialising.

[4] When there is more than one provision or reserve, one is for funding unexpected events while the other is for funding new programmes or policies over the course of the budget execution.

[5] According to the Treasury, net debt would rise by between 5% and 15% of GDP under the three stress test scenarios done in 2018 and would go as high as 20% in the case of a major shock. These estimates have led to a view that "a net debt buffer of at least 20 percent of GDP below [the] upper net core Crown debt limit of 50 to 60 percent of GDP would be reasonable based on the current state of the evidence".

[6] In the former case, it will identify certain risks, such as macroeconomic risks, based on its own analyses, but may have to rely on government for information on certain categories of fiscal risks.

[7] https://www.oecd.org/naec/events/systemic-linkages/building-resilient-systems-in-21st-century.htm.

[8] The *Risk Potential Assessment Tool* requires in particular that contingent liabilities such as warranties, guarantees and indemnities; personal injury or property damage arising from implementation; or a highly litigious stakeholder group be identified.

[9] The Department of Finance and the Treasury are also in charge of monitoring a range of specific risks falling under their respective areas of responsibility.

[10] Contingent liabilities are either guarantees (one party promises to be responsible for the obligations of another party if that party defaults), indemnities (legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer) or other types of contingent liabilities (e.g. legal claims, tax disputes, uncalled capital subscription).

[11] The government specified that "A strong balance sheet provides the government with flexibility to respond to unanticipated events, such as financial crises or economic shocks. There are a range of measures of the government's financial position. All are expected to improve over the forward estimates period and medium term."

[12] In 2015, the report only briefly analysed risks other than those arising from liabilities with dedicated chapters about risks associated with macroeconomic development and with the composition of government assets (real assets vs. financial assets). In 2016, an additional section described broadly the risks affecting general government revenue, expense and balance sheet. The description of risks related to liabilities was further improved in the 2017 with a classification of liabilities as either "direct" or "contingent" to analyse the different kinds of risk incurred. Changes made to the 2018 report included more details about risks related to government assets and the addition of a new section about stress test scenario to analyse the impact of a potential shock on government finances. The structure of the 2019 report remained unchanged compared to 2018, but integrated the results of a balance sheet stress test.

[13] The Study Group on Fiscal Space was established in 1971 and is composed of senior civil servants from ministries, the CPB and the central bank.

[14] See the budgetary rules adopted by the current Cabinet at: https://www.rijksoverheid.nl/documenten/kamerstukken/2017/11/03/bijlage-1-bij-startnota-%E2%80%93-begrotingsregels-2018-2022.

[15] The CPB has a more comprehensive role than comparable institutions in other OECD countries. This includes, for example, providing the official estimates on economic growth and purchasing power, analysis of the sustainability of Dutch public finance, cost-benefit analysis of major infrastructure projects, analysis of the economic effects of the election plans of Dutch political parties, and all kinds of analyses on the Dutch economy and the role of the government.

[16] See Budget Memorandum appendices 2019, pp. 387-393 at: https://www.rijksoverheid.nl/documenten/begrotingen/2018/09/18/bijlagen-miljoenennota-2019.

[17] The last stress test realised in 2018 concludes that "the stress testing presented in this statement be broadly tolerant to large but plausible adverse shocks, in the form of a major earthquake, a widespread agricultural disease outbreak, or an international economic downturn" (New Zealand Treasury, 2018[52]).

[18] Imprest supply is an approval from parliament to incur expenditure in advance of a subsequent appropriation, when the executive will make the full details of the spending available for parliament's scrutiny. Cabinet, or in some specified cases, joint ministers, must approve expenditure that is to be incurred under imprest supply. The process for doing so is set out in the Cabinet Office Circular – Proposals with Financial Implications and Financial Authorities.

[19] Separate from the imprest supply authority, the Minister of Finance may approve expenditure to meet an emergency or disaster, whether or not there is any other authority available for the purpose, under Section 25 of the Public Finance Act 1989. A state of national emergency was declared on 25 March 2020 and, on 27 March, the government exercised its ability to use Section 25. Although parliament does not specify the amount or type of expenditure that can be incurred under this provision, it may be used only to meet the emergency. Given the nature of this authority, the Treasury (and the audit office) expect it to be used only as a last resort for emergency expenditure needed immediately (that is, when government departments cannot wait for Cabinet approval to use imprest supply).

[20] The 2011 Budget Responsibility and National Audit Act specifies that "the Treasury may from time to time modify the charter (…). When the charter is modified the Treasury must lay the modified charter before parliament."

[21] The OBR published a discussion paper in 2016 entitled "What should our Fiscal Risks Report cover?" that sought answers on a number of key questions in relation to existing and good practices on fiscal risks definition, classification, etc. Before publishing its own first response to the OBR's report, the Treasury conveyed round tables of experts, including from national fiscal institutes, the IMF and the OECD.

[22] For example, risks around infrastructure and major projects are addressed and monitored by the recently established Infrastructure and Projects Authority. The Ministry for Housing, Communities and Local Government follows a framework to manage risks associated with its financial portfolio, in particular the credit risks associated to loan, guarantee and equity products. The Debt Management Office analyses risks in relation to interest rate, refinancing, inflation, liquidity and executive risks.

[23] The *Orange Book* was last updated and published in February 2020 and is available at: https://www.gov.uk/government/publications/orange-book.

OECD scan of equality budgeting in Ireland: Equality mainstreaming and inclusive policy making in action

This article takes stock of actions that the government of Ireland has taken to mainstream equality considerations into the budget process. It provides options and recommendations on future directions for equality budgeting in Ireland, in light of national developments and international experience. These take into account the standards set out in the 2015 *OECD Recommendation of the Council on Gender Equality in Public Life* and the 2015 *OECD Recommendation of the Council on Budgetary Governance*. The scan also provides guidance to strengthen Ireland's institutional approach to equality proofing more holistically.

This paper was prepared by Scherie Nicol and Pinar Guven of the OECD Directorate for Public Governance.

JEL codes: H50, H61

Keywords: equality, budgeting, gender budgeting, gender-responsive budgeting, public financial management, budget reforms, performance budgeting

What is an OECD scan?

An OECD scan is an abridged version of a full-fledged OECD review. It is rooted in the sound methodological approach of a review, and builds on relevant OECD Recommendations. The scan aims to deliver a diagnostic in a shorter period of time and in a format with more concise output. Data collection is based on an OECD survey and complemented with a fact-finding mission. The output for an OECD scan focuses on:

1. key actors and core procedures
2. ongoing reform initiatives
3. observed challenges.

The scan uses this information to offer preliminary suggestions for the way forward.

A scan is particularly appropriate for countries that want a solid but succinct assessment to kick start an evidence-based debate on future reform priorities before a more in-depth assessment takes place.

Why an OECD Scan of Equality Budgeting in Ireland?

There is a strong and high-level commitment in Ireland to promote equality. At the same time, the public expenditure framework in Ireland has undergone profound reforms in recent years, including the introduction of performance budgeting in 2012. With a commitment to equality budgeting clearly articulated in the Programme for a Partnership Government (May 2016), the ongoing development of performance budgeting has served as a natural anchor to support the development of equality budgeting. Ireland has already made substantial progress in this regard. The first generation of equality budgeting was introduced in 2017 on a pilot basis and expanded in 2018 for Budget 2019.

Building on these developments, the Department of Justice and Equality and the Department of Public Expenditure and Reform requested that the OECD take stock of actions that the government of Ireland has taken to mainstream equality considerations into the budget process. This scan provides options and recommendations on future directions for equality budgeting in Ireland, in light of national developments and international experience. These take into account the standards set out in the 2015 *OECD Recommendation of the Council on Gender Equality in Public Life* and the 2015 *OECD Recommendation of the Council on Budgetary Governance*. Recommendations build on: the strengths of the existing budgeting framework in Ireland; the momentum of ongoing and planned public financial management reforms; and the progress made in shaping an equality and inclusion agenda across several policy domains. The scan also provides guidance to strengthen Ireland's institutional approach to equality proofing more holistically.

The OECD Experts Group on Gender Budgeting discussed an initial draft of the OECD Scan of Equality Budgeting in Ireland, and their feedback has informed the final recommendations.

Summary of findings

Ireland introduced equality budgeting on a pilot basis in 2017 as part of a commitment in the Programme for a Partnership Government (May 2016) to "develop the process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights".

The pilot builds on Ireland's framework for performance budgeting by encouraging departments to identify programmes where they can set performance targets relating to one of nine equality dimensions. Initiatives such as poverty proofing government policies and the addition of a gender module to the tax-benefit model complement the introduction of an equality lens to the performance framework.

The implementation of equality budgeting in Ireland has benefited from the fact that equality is currently high on the national political agenda. Equality budgeting has been emerging alongside a number of high-profile developments in recent years to advance equality and inclusion within society, such as the constitutional referendum to provide for same-sex marriage and the recent announcement of a Citizens' Assembly to consider the issue of gender equality.

There is also a relatively strong institutional framework in place for delivering equality budgeting. The Department of Public Expenditure and Reform (DPER) leads the equality budgeting initiative with support from the Department of Justice and Equality (DJE). A number of government departments are implementing the pilot initiative. These efforts are also guided by an Equality Budgeting Experts Advisory Group that includes representatives from across government departments and agencies, as well as from academia and civil society.

The pilot itself has been relatively successful in pushing for equality considerations to be on the radar of government departments when they set performance metrics as part of the annual budget process. The equality budgeting pilot has already helped advance performance budgeting in Ireland, by encouraging departments to set specific targets where they would otherwise set indicators and by improving the collection of performance data. While these efforts are laudable, the Irish government faces a number of hurdles in rolling the initiative out more broadly across departments, and in particular:

- Equality is a very broad concept, for which there is no overarching strategy or set of goals in Ireland. This makes it difficult to judge the extent to which equality goals currently being set by departments are in line with real needs or if they are sufficiently ambitious.
- The roll out of the equality budgeting pilot has been steady, but time-consuming for the DPER. Efforts to engage departments have been hindered by the fact that equality budgeting is not obligatory; departments have limited incentives or capacity to participate, and they are unclear of the ultimate goal of the initiative.
- While gender can be a more straightforward construct in terms of data collection, the wider equality brief brings a range of challenges. For example, data and information in the disability space are more complex because they rely on self-disclosure, and there is substantial variation in the range and nature of disabilities.
- The government still faces challenges in implementing performance budgeting, on which equality budgeting is built. Stakeholders would like to see performance budgeting go further, with indicators and specific targets that link to key national indicators.

In this context, the OECD proposes a path forward for Ireland in relation to equality budgeting, focusing on the following elements:

- Developing a set of national equality goals and indicators that citizens and policy makers alike can use as an authoritative frame of reference for policy action, resource prioritisation and accountability. This may form part of an improved performance budgeting framework for Ireland in

which departments set out the policy actions they are taking to contribute towards national objectives for the country as a whole.

- Expanding equality budgeting beyond the performance budgeting foundation to link it with other robust budget policy tools used in Ireland. This should include expanding *ex ante* poverty proofing of policies to look at how poverty intersects with different equality dimensions. Such *ex ante* assessment should be complemented with *ex post* equality impact assessment, to track whether policies are meeting equality objectives or, indeed, whether general policies have unanticipated equality-related effects. There is also scope for integrating equality-related analysis in a more structured manner within the process of spending review.
- Designing a data strategy to support equality budgeting. Such a strategy would focus on improving the extent to which official statistics and administrative data provide insights into equality gaps and assess the impact of different government interventions. Efforts should build on the existing Open Data Strategy 2017-2020, the Public Service Data Strategy 2019-2023 and the work of the National Statistics Board in setting priorities.

In rolling out the next iteration of equality budgeting, the government should take time to communicate its vision to departments and wider stakeholders so that they understand what the initiative is ultimately trying to achieve and how. A strengthened framework for equality budgeting will rely on the DPER providing clear instructions for departments in the annual budget circular. The extent to which departments engage with equality budgeting can be improved by building in incentives, such as multiannual funding for departments implementing minimum criteria in relation to equality budgeting. In addition, it may be useful to consider how to overlay some legal provisions, formalising the requirement that equality should be taken into account in a structured manner as part of budget policy deliberations.

Equality in Ireland: Recent developments

Ireland has placed equality issues in the forefront of its political agenda in recent years. The Programme for a Partnership Government (May 2016) gave expression to this commitment by making public pledges in the fields of equality and inclusiveness; empowering women and reducing the gender pay gap; supporting low-income families; protecting children and youth; and empowering the lesbian, gay, bisexual, and transgender (LGBT) community.

In the last five years or so, several high-profile constitutional amendments have been passed by referendum, critical pieces of legislation have been enacted or initiated, and other supportive developments have been taken to promote equality. Specifically:

- In 2014, the Public Sector Equality and Human Rights Duty was enacted requiring all public bodies to have due regard to promoting equality, preventing discrimination and protecting human rights in carrying out their functions (S.42 IHREC Act 2014).
- In 2015, Ireland legalised same-sex marriage by referendum.
- In 2017, the Irish Women's Parliamentary Caucus was established to provide a platform for parliamentarians to discuss and campaign on issues predominantly affecting women. The government also rolled out its National Strategy for Women and Girls 2017-2020 and began an equality budgeting pilot, with gender as a primary axis of equality.
- Also in 2017, the state formally acknowledged Travellers as a separate ethnic group.
- In 2018, the abortion ban was removed from the Constitution by referendum, which empowered the legislature to deal with all aspects of this sensitive issue. In the same year, the government enacted the Domestic Violence Act, improving the protections available to victims of domestic violence under both civil and criminal law. This paved the way to the ratification of the Council of Europe’s Istanbul Convention in 2019.

- Also in 2018, Ireland ratified the UN Convention on the Rights of Persons with Disabilities.
- In 2019, the government published the Gender Pay Gap Information Bill 2019, which the lower House (Dáil Éireann) is currently examining. The bill is set to require certain employers to publish information relating to the gender pay gap in their organisations. It will also require employers to publish details on the measures they are taking to eliminate or reduce the gender pay gap.
- Also in 2019, Ireland voted to liberalise divorce laws by referendum. A new Citizens' Assembly was established to consider advancing gender equality and to report back with recommendations.

These developments have been accompanied by the adoption of national strategies in a number of equality areas, such as gender, disability, LGBTI, youth, migrant integration, Traveller and Roma inclusion, and social inclusion. Other notable events included a special Cabinet Meeting in March 2019 to mark International Women's Day, at which ministers secured government agreement on a range of new measures to promote gender equality.

Despite notable progress, important equality gaps remain in Ireland. By way of example, women's representation remains low in the Dáil Éireann (22%), ministerial posts (26%), minister of state positions (15%) and in the High Court (26%) (OECD, n.d.[1]). Labour force participation is lower for women (55% in 2017) (OECD, n.d.[1]) and for members of the Traveller community (57% in 2016) compared to that of the general population (61% in 2016) (Central Statistics Office, 2017[2]). Employment rates for those with disabilities (36.5% of the working population aged 20-64, compared to general population of working aged 72.8%) (Central Statistics Office, 2018[3]) and migrants (45% for African nationals in 2017) (Mcginnity et al., 2018[4]) are also lower compared to the employment rate for the population as a whole (65% in 2016) (Central Statistics Office, 2018[3]). The female share of seats on boards of the largest publicly listed companies also remains low (17%), compared to the EU-28 average (26%) (Balance for Better Business Review Group, 2019[5]), and the gender wage gap persists (10%) (OECD, n.d.[1]). If implemented effectively, equality budgeting can support the identification and implementation of policy measures aimed at closing gaps such as these in the years to come.

Equality budgeting: Progress so far

High-level commitment to equality budgeting

Ireland expressed its commitment to equality budgeting in the context of its Programme for a Partnership Government (May 2016). Specifically, it stated that the government will:

> "develop the process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights".

It also contains a commitment to:

> "ensure the institutional arrangements are in place to support equality and gender proofing in the independent fiscal and budget office and within key government departments". (Government of Ireland, 2016[6])

In line with this commitment, the National Strategy for Women and Girls set the goal to undertake measures to build capacity within the civil and public service with regard to gender mainstreaming and gender budgeting.

Delivery partners for equality budgeting

A robust institutional infrastructure is required to ensure effective implementation of a tool such as equality budgeting (OECD, 2019[7]). In Ireland, equality budgeting efforts are led by the DPER with strong support from the DJE. The initiative also benefits from political support from the Taoiseach (prime minister).

The government has established an Equality Budgeting Expert Advisory Group to provide ongoing strategic guidance on the implementation of equality budgeting (Box 1). The Irish Human Rights and Equality Commission (IHREC) is furthermore available to provide general expertise in relation to the equality proofing of policies. The National Women's Council of Ireland was also instrumental in providing strategic guidance for equality budgeting.[1]

Equality budgeting is implemented by the spending department, through setting relevant performance targets across their policy jurisdictions. The Irish Government Economic and Evaluation Service (IGEES) can provide technical support to departments in this process through undertaking economic analysis and evaluation.

The Department of Finance is responsible for incorporating equality considerations into tax policy. It is supported in this work by a newly developed module for the SWITCH model (the Economic and Social Research Institute's tax-benefit model), which allows analysis of the gender impacts of tax and benefit changes.

Finally, the Oireachtas has shown an interest in holding the government to account for its actions in relation to equality budgeting. In particular, the Parliamentary Budget Office and the Dáil Committee on Budgetary Oversight have looked at equality budgeting as part of their work programmes. Non-governmental organisations and other civil society actors also have an informal oversight role.

Box 1. Ireland's Equality Budgeting Expert Advisory Group

An Equality Budgeting Expert Advisory Group was established in 2018 to assist with the roll-out of equality budgeting in Ireland. The objectives of the group are to:

- provide constructive, critical feedback on the equality budgeting initiative
- provide expert guidance and informed insights on the future direction and areas of focus for equality budgeting
- promote a coherent, cross-governmental approach to equality budgeting
- identify existing strengths of the Irish policy-making system that can be leveraged in support of equality budgeting, along with potential shortcomings that need to be addressed.

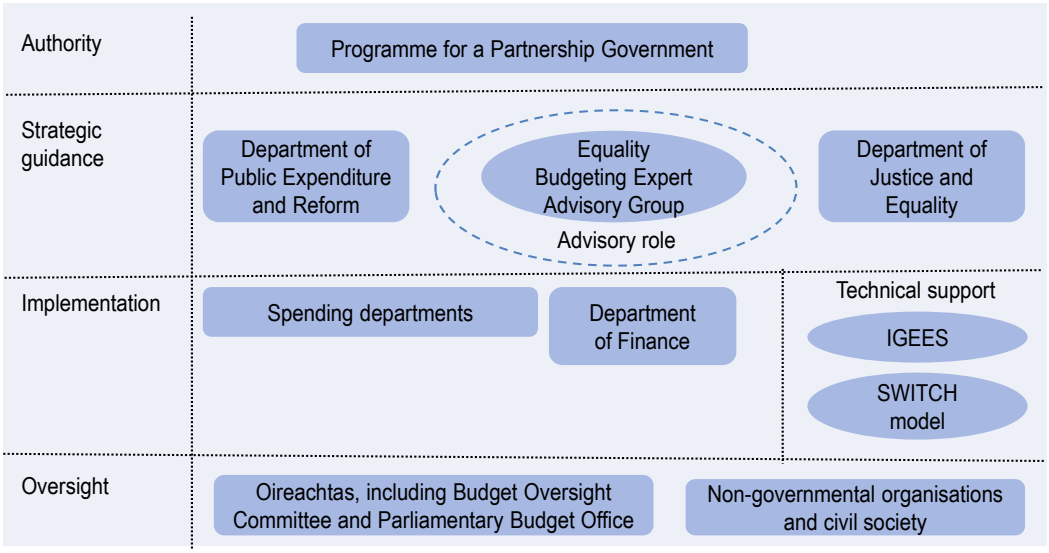
The group draws on a range of independent and academic perspectives to lend momentum to equality budgeting. It is chaired by the Department of Public Expenditure and Reform and includes government officials from the Department of Justice and Equality, the Department of Finance, the Department of Employment Affairs and Social Protection, the Central Statistics Office, and the National Economic and Social Council. It also includes representatives from the Irish Human Rights and Equality Commission and civil society as well as independent experts, including a representative from the Economic and Social Research Institute and the National Women's Council of Ireland. The group has recently been extended to include experts from the National Disability Authority. As the work on equality budgeting

progressively expands to other equality dimensions, it is anticipated that the composition and expertise of the group will also reflect these broader equality dimensions.

Source: Department of Public Expenditure and Reform (2019[8]).

Figure 1 provides an overview of the current institutional set-up for equality budgeting.

Figure 1. Institutional set-up for equality budgeting in Ireland



Note: IGEES: Irish Government Economic and Evaluation Service.

Ireland's approach to equality budgeting

The approach to equality budgeting in Ireland builds on the country's existing performance budgeting framework (Box 2).

Box 2. Performance budgeting in Ireland

Performance budgeting was introduced in Ireland as one element of the government's broader programme of public service reform. Following a pilot exercise in 2011, the annual estimates of expenditure were produced in a new format. Detailed "line items" of expenditure were removed to make room for new performance information and subheads of expenditure were rationalised and regrouped into "programme" areas which mirror the organisation's statement of strategy. Each programme is associated with output indicators as well as "context and impact indicators" showing the three-year historical trend in the overall outcomes which the programme supports.

The Department of Public Expenditure and Reform also introduced an annual Public Service Performance Report in 2017 to help enhance the focus on performance and delivery by presenting relevant performance indicators in a dedicated, focused document. The Performance Report is now a central document within the budgetary cycle.

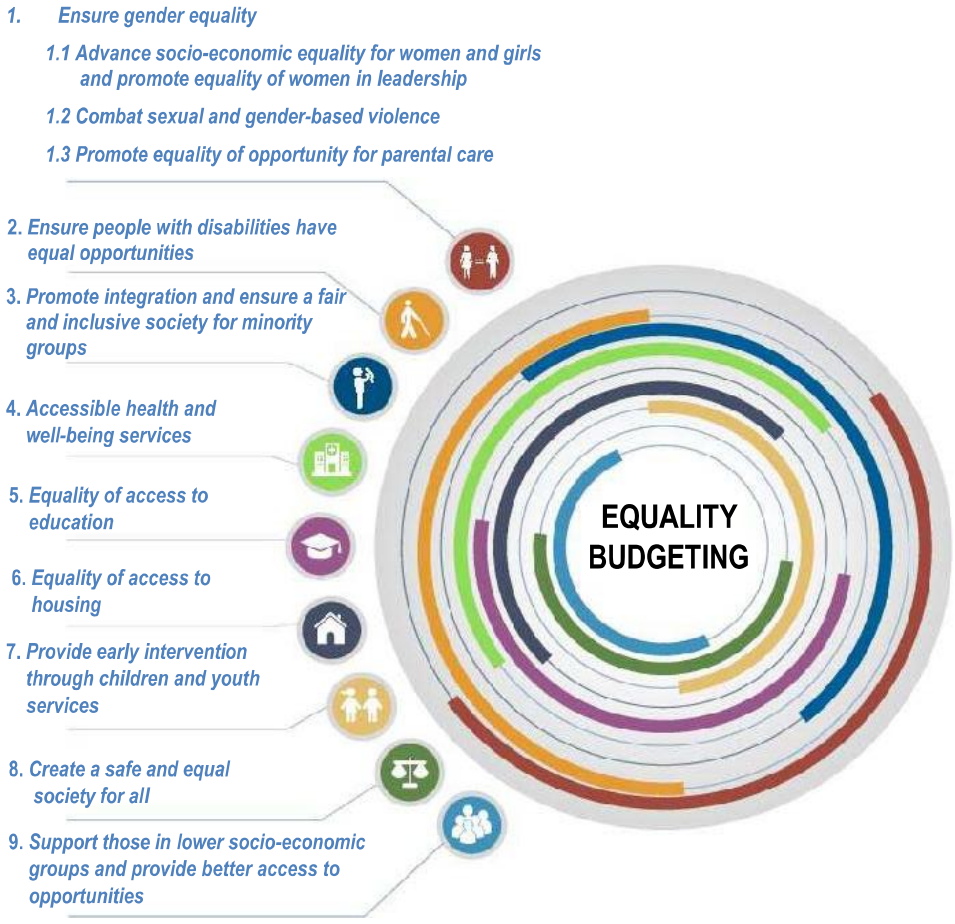
Sources: Downes, R. and S. Nicol (2016[9]); Department of Public Expenditure and Reform (2019[8]).

The first iteration of equality budgeting was introduced in 2017 on a pilot basis, with gender as a primary axis of equality. As part of the pilot, departments were asked to voluntarily identify programmes with an equality dimension, and set out performance targets in relation to these. These targets were included alongside the other performance indicators in the Revised Estimates Volume (REV). In total, six equality budgeting objectives and performance indicators were set across six different departments. These objectives focused on apprenticeships, participation in sport, representation in scientific research, representation in films and screen, smoking, and childcare. Progress on achieving the objectives was reported in the *Public Service Performance Report 2017* that was published the following year.

In 2018, the scope of the equality budgeting initiative was extended to additional dimensions of inclusiveness. This extension is unique in the OECD context and brings considerable opportunities in terms of inclusive policy making. However, an ambitious move like this also inevitably gives rise to implementation challenges, especially when departments are still in the process of adjusting to the introduction of a gender perspective to the budget process.

For this second phase, a series of equality budgeting themes were identified (Figure 2). The identification of themes was informed by the various government strategies that are currently guiding policy development across many different equality dimensions, such as the National Strategy for Women and Girls. The number of equality budgeting objectives included in the project more than doubled, to 14 across 9 departments. Each equality budgeting objective was mapped to an equality budgeting theme in the *Public Service Performance Report 2018*.

Figure 2. Equality budgeting themes in Ireland



Source: Department of Public Expenditure and Reform (2019[8]).

The idea behind the pilot is that it plants a seed and, going forward, encourages departments to bring an equality lens to bear on the performance budgeting process more systematically.

Complementary tools

Ireland's approach to equality budgeting is complemented by a number of other tools across government, specifically:

- **Policy "poverty-proofing":** When Ireland introduced poverty proofing in 1997 it was regarded as a trailblazer in Europe (Murphy, 2017[10]). Nowadays, the process of "proofing" policy proposals to analyse their impacts in relation to key social outcomes is a well-established practice in Ireland. In the current social impact assessment framework, households may be broken down into different groups based on income, economic status, household composition (e.g. children) and age. These assessments are published on Budget Day, providing a comprehensive overview of the incidence and impact of budget measures on particular groups. Additionally, the IGEES has established a social impact assessment series of analytical papers that provides systematic analysis on the demographic characteristics of people receiving public services.
- **Spending review:** Over recent years, Ireland has implemented a spending review process whereby specific programmes of expenditure are subject to *ex post* evaluation, along with additional analytical studies that assess particular areas of public policy from the viewpoint of value-for-money and sustainability, in order to inform budgetary allocations. IGEES personnel have been central to the delivery of the Spending Review programme to date.
- **Tax expenditure reviews:** Since 2015, the Department of Finance, which is responsible for tax policy, has prepared an annual Tax Expenditures Report, which sheds light on the nature and scale of this area of public policy and includes reviews of particular tax expenditures.
- **Regulatory impact assessment (RIA):** Since 2009, official guidelines set out that RIAs should consider the potential impact of regulation on "people of different genders, marital status, family status, ages, disabilities, sexual orientation, race, religion and on members of the Traveller community … Where significant impacts under any of these headings are identified, a higher level analysis will be required". However, implementation of these guidelines remains somewhat limited and ad hoc.
- **Public sector equality duty:** Since the enactment of the Irish Human Rights and Equality Commission Act in 2014, all public sector bodies in Ireland have a statutory duty to promote equality; prevent discrimination; and protect the human rights of their employees, customers, service users and everyone affected by their policies and plans. In their strategic plans, public bodies are required to: provide an assessment of the human rights and equality issues they believe to be relevant to the core functions, outline existing or proposed policies to address identified issues, and report on developments. The duty stands alongside and underpins the government's commitment to developing the process of budget and policy proofing as set out in the Programme for a Partnership Government 2016. However, some stakeholders highlighted concerns that the duty is focused on process, with limited enforcement so far. To support implementation of the duty, the IHREC has published case studies and guidance material for public bodies (Irish Human Rights and Equalities Commission, 2019[11]).
- **SWITCH tax-benefit modelling:** At the request of the Parliamentary Budget Office, the Economic and Social Research Institute developed a gender module for its SWITCH tax-benefit model in 2018. This development allows the Irish stakeholders, including the Departments of Finance and Employment Affairs and Social Protection, to carry out gender impact assessments of tax and social welfare measures that are being considered for inclusion in the budget.
- **Cabinet procedures:** Cabinet procedures require that all memoranda for decision submitted to the government outline the impact that the proposal will have on a number of different aspects,

including gender equality. The memoranda should include a statement on the likely effects of the policy on both men and women and, if necessary, steps taken to ensure that the policy promotes gender equality. Unlike other jurisdictions, this provision is not matched with a corresponding duty to conduct a gender impact assessment of policy proposals, and accordingly, the practical impact of this provision appears to be somewhat limited.

Equality budgeting: A comparative perspective

The following section provides an overview of how Ireland's approach to equality budgeting compares to the approaches of other OECD countries. It should be underlined that Ireland is currently the only OECD country that practises equality budgeting, addressing a broad range of equality dimensions beyond gender alone, and that this poses significant extra challenges compared to other countries that only focus on gender-responsive budgeting. Nevertheless, there are some commonalities between equality budgeting and gender budgeting that can be considered in assessing how Ireland's framework compares to practice across other OECD countries. In particular, it is useful to consider the three key elements of an effective practice, set out in the OECD publication "Designing and implementing gender budgeting (Downes and Nicol, 2020[12]):

1. **strategic framework:** the political commitment and governance arrangements for gender budgeting, including the legal framework and institutional roles and responsibilities
2. **operational tools:** the tools that are used to apply a "gender lens" at different stages of the budget process (i.e. *ex ante*, concurrent and *ex post*)
3. **enabling environment:** the elements that help support more effective gender budgeting, including the availability of gender-disaggregated data, investment in capacity building and parliamentary oversight.

Strategic framework

Addressing inequality requires a well-designed strategic framework and institutional arrangements that establish and define clear roles and responsibilities (OECD, 2016[13]). Key elements for an effective strategic framework for gender budgeting include a national gender equality strategy with measurable goals and targets; a legal basis for gender budgeting; guidance detailing how to implement it; and cross-governmental co-ordination mechanisms. Table 1 highlights the elements of an effective strategic framework that are in place in Ireland, compared to OECD countries that implement gender budgeting.[3]

[3] OECD countries that implement gender budgeting are: Austria, Belgium, Canada, Chile, Finland, Germany, Iceland, Israel, Italy, Japan, Korea, Mexico, Norway, Portugal, Spain and Sweden.

Table 1. Comparative overview of the strategic framework for equality budgeting in Ireland

Elements of an effective strategic framework	Do OECD countries have it?	Does Ireland have it?
National gender equality strategy	71%	🟢
Legal basis for gender budgeting	53%	🔴
Annual budget circular with details and instructions on the application of gender budgeting	53%	🔴
Inter-agency group to ensure co-ordination and/or exchange of good practices on gender budgeting	47%	🔴

Notes: OECD column refers to the percentage of OECD countries that perform gender budgeting and that have each element in place.
🔴 = no; 🟢 = yes; 🟡 = in some cases.
Source: OECD (2018[14]).

Assessment

The majority of OECD countries that practise gender budgeting have a national strategy that drives their efforts. While Ireland does not have an overarching equality strategy, there are relevant strategies in place that can potentially guide its equality budgeting efforts. One of the main strategies that guided equality budgeting in the initial pilot – when gender was a primary axis of equality – was the National Strategy for Women and Girls 2017-2020. Other thematic equality strategies also exist for disability, LGBT, youth, migrant integration, Traveller and Roma inclusion, and social inclusion.

While there is strong political will for equality budgeting, and importantly, a commitment within the Programme for a Partnership Government, Ireland does not have a legal grounding for its equality budgeting initiative. Nor does the Irish government provide instructions on its implementation through the annual budget circular, as is the case in most OECD countries practising gender budgeting. Ensuring that the practice is embedded in legislation can help ensure that the system, in particular its objectives and systems of accountability, has been democratically proofed. It can also help insulate the system from economic and political changes. In addition, providing guidelines for its application within the budget circular can give the practice added legitimacy and ensure consistency in implementation across government departments.

Finally, in Ireland, there is no formal inter-agency working group on equality budgeting, despite this being in place in almost half of the OECD countries practising gender budgeting. Strong vertical and horizontal co-ordination mechanisms can help ensure a cohesive and consistent approach to equality budgeting and facilitate the exchange of good practices.

Operational tools

Gender budgeting tools are used to systematically embed gender considerations within the overall context of the budget process. As the "budget process" is an annual (or indeed multiannual) event, there are several opportunities across the cycle in which the gender perspective can be brought to bear:

- *ex ante* phase: during the preparation of the budget
- concurrent phase: during the tabling and implementation of the budget
- *ex post* phase: after the budget year ends.

Table 2 shows the operational tools used by the Irish government in order to implement equality budgeting across the different phases of the budget cycle, compared to those used by OECD countries.

Table 2. Comparative overview of the operational tools for equality budgeting in Ireland

Operational tools	Do OECD countries have it?	Does Ireland have it?
***Ex ante* phase: Budget preparation**		
Ex ante gender impact assessment of all major policies included in the budget	53%	🔴
Ex ante gender impact assessment of selected policies included in the budget	76%	🟡
Gender dimension in resource allocation	53%	🔴
Gender dimension in performance setting	59%	🟢
Concurrent phase: Tabling of the budget		
Gender statement: General statement	47%	🔴
Gender incidence analysis of the budget as a whole	18%	🟡
***Ex post* phase: After the budget year ends**		
Ex post gender impact assessment of all major policies	18%	🔴
Gender dimension in spending review	24%	🔴
Gender audit of the budget	29%	🔴
Audit of gender budgeting systems/processes	24%	🔴

Notes: OECD column refers to the percentage of OECD countries that perform gender budgeting and that have each element in place.
🔴 = no; 🟢 = yes; 🟡 = in some cases.
Source: OECD (2018[14]).

Assessment

In Ireland, as is the case across the OECD more generally, equality budgeting is largely implemented during the *ex ante* phase of the budget process. The main tool used in Ireland is the application of an equality dimension to performance setting, which is one of the most commonly applied tools across the OECD countries that practice gender budgeting.

Another common tool of gender budgeting across the OECD, however, is gender impact assessment of policies and this is notably not a core feature of equality budgeting in Ireland. “Poverty proofing” of policies is a regular feature of the planning process in Ireland, but while this practice considers the “socio-economic situation”, it does not specifically focus on broader equality dimensions. In addition, Cabinet procedures and RIA guidelines require assessments of proposals on some equality dimensions, but the implementation of these requirements is weak and they do not include all aspects of equality.

Other tools that are relatively common across the OECD countries implementing gender budgeting but that are not yet in place in Ireland include applying a gender dimension to resource allocation and tabling a gender statement with the budget.

Enabling environment

Countries implementing gender budgeting can strengthen the practice by ensuring that it has a supportive enabling environment. This includes providing guidelines on how to apply gender budgeting, engaging with civil society to better understand gender equality needs, putting in place an expert group to advise on the implementation of gender budgeting, training government staff and ensuring the availability of gender-disaggregated data. Table 3 shows the enabling environment put in place by the Irish government in order to implement equality budgeting, compared to what is in place in other OECD countries.

Table 3. Comparative overview of the enabling environment for equality budgeting in Ireland

Aspects of an enabling environment	Do OECD countries have it?	Does Ireland have it?
Standard guidelines from central budget authority on how to apply gender budgeting	71%	🟡
Structured engagement with civil society on gender equality issues	41%	🟡
Expert/consultative group advises on the application of gender budgeting	41%	🟢
Training and capacity development in the application of gender budgeting	59%	🟡
General availability of gender-disaggregated data	65%	🔴*
Sector-specific availability of gender-disaggregated data	65%	🔴*

* For Ireland, this score reflects the availability of equality-disaggregated data, not gender-disaggregated data.
Notes: OECD column refers to the percentage of OECD countries that perform gender budgeting and that have each element in place.
🔴 = no; 🟢 = yes; 🟡 = in some cases.
Source: OECD (2018[14]).

Assessment

A strong element of the Irish government's enabling environment for equality budgeting is its Equality Budgeting Expert Advisory Group, which provides guidance on the future direction of the initiative – 41% of OECD countries have a similar expert or consultative group in place (OECD, 2019[15]). The Irish government has also begun to engage in training and capacity development, having already held a number of awareness-raising events for government staff in relation to equality budgeting. This type of training and development is in place across the majority (59%) of OECD countries (OECD, 2019[15]).

Furthermore, Ireland is increasingly introducing mechanisms for civil society engagement in relation to equality policy. For example, the National Strategy for Women and Girls was developed based on a public consultation process and the new Citizens Assembly on gender equality will provide opportunities for citizens to engage in shaping policy. On equality budgeting, the Equality Budgeting Expert Advisory Group includes some (albeit limited) independent representation from civil society, and an inquiry by the Oireachtas Budget Oversight Committee provided opportunities for civil society to contribute their views.

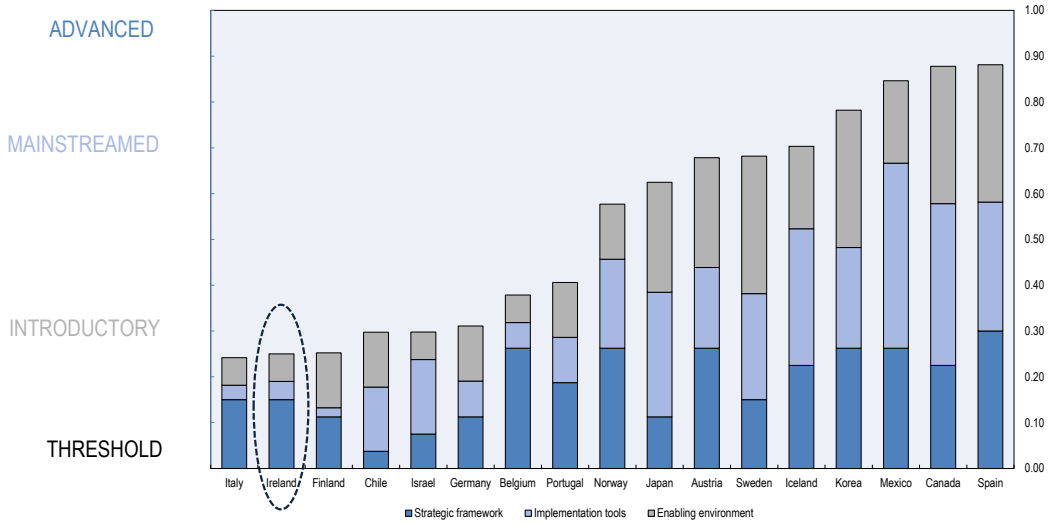
While a majority of OECD countries (71%) have guidelines for gender budgeting, in Ireland specific guidance is not yet in place for equality budgeting. Nevertheless, the DJE has developed guidance on gender mainstreaming in general.

A key area for development in Ireland is improving the availability of data disaggregated by different equality factors. While the availability of gender-disaggregated data is relatively good, it is more difficult to obtain data in relation to other equality groups, such as data on disability, which relies heavily on self-reporting. It is good practice for OECD countries implementing gender budgeting to put in place efforts to ensure the availability of sufficient data.

Summary

The composite index presented in Figure 3 shows how the Irish approach compares to other OECD countries across the three dimensions assessed: 1) strategic framework; 2) operational tools; and 3) enabling environment. Overall, Ireland's approach to equality budgeting is still in its early stages and compares similarly with other OECD countries that have recently introduced gender budgeting, such as Italy and Portugal.

Figure 3. Composite index on gender budgeting



Source: Downes, R. and S. Nicol (2020[12]).

Key findings

Strengths of equality budgeting in Ireland

The implementation of equality budgeting in Ireland has demonstrated that the initiative benefits from a number of strengths, in particular:

1. **Equality is high on the political agenda in Ireland.** In particular, the Programme for a Partnership Government (May 2016) sets out the current government's detailed commitments, including to "develop the process of budget and policy proofing as a means of advancing equality".
2. **There have been high-profile developments relating to equality in recent years.** The legalisation of same-sex marriage, removal of abortion from the constitutional to the legislative domain, and liberalisation of divorce laws are some key developments that have created strong momentum for reforms to advance equality, inclusion and responsive policy making in Ireland.
3. **A range of national strategies relating to different equality dimensions are in place.** This includes strategies such as the National Strategy for Women and Girls 2017-2020 and the National Disability Inclusion Strategy 2017-2021. Although equality budgeting is not directly linked to these strategies, their specific recommendations can be useful as a guide to action.
4. **There is a relatively strong institutional framework for delivering equality budgeting which incorporates external perspectives.** The DPER is taking the lead on equality budgeting, with support from the DJE. They are guided by inputs from the Expert Advisory Group on Equality Budgeting, which brings cross-government and civil society viewpoints, albeit these civil society "challenge" perspectives are limited at present.
5. **The first generation of equality budgeting was introduced in 2017 and is now on the radar of government departments.** The equality budgeting pilot has shown year-on-year progress and introduced the idea of adding an equality lens to performance budgeting to departments. This provides the foundation for more substantive and mainstreamed efforts in the future.
6. **The approach to equality budgeting builds on the existing performance budgeting framework, creating potential for positive externalities.** Equality budgeting has already helped

advance performance budgeting in Ireland by encouraging departments to set specific targets where they would otherwise set indicators, and by improving the collection of performance data.

7. **Equality budgeting can draw on additional strengths such as the IGEES professional cadre, the SWITCH tool and the Social Impact Assessment Framework.** These improvements to the government's analytical capacity provide strong options for broadening the scope and impact of equality budgeting.
8. **The Oireachtas has shown interest in tracking the implementation and impact of equality budgeting.** Part of the Committee on Budgetary Oversight's mandate is to monitor and oversee the implementation of equality budgeting and ensure that the momentum from the pilot is maintained (Houses of the Oireachtas, 2018[16]). The Parliamentary Budget Office has supported the committee in this role, including through the provision of research briefings on equality budgeting.

Challenges related to equality budgeting in Ireland

In continuing to roll out equality budgeting, the government of Ireland would benefit from addressing a number of challenges associated with the current arrangements. These include:

1. **Equality – and thus the scope of equality budgeting – is broad with many dimensions.** Equality encompasses many different grounds for potential inequality. There is perhaps an argument that Ireland has moved too quickly from gender budgeting to equality budgeting. The broad coverage of equality budgeting relative to gender budgeting has certainly made it more complex for departments to implement.
2. **Lack of an overarching equality strategy.** While there are strategies dealing with individual dimensions of equality, these do not link up and therefore there is no one overarching strategy to guide equality policy or equality budgeting efforts.
3. **The current approach to equality budgeting is limited in nature.** The approach focuses on ensuring there is a gender dimension to performance budgeting, but the supporting tools are somewhat limited, with no equality budgeting statement or equality impact assessments of policy yet in place, although social impact assessments are an important step.
4. **There is no legal framework or guidance in an official circular or the annual budget circular on equality budgeting.** In consequence, there is no requirement for departments to comply with equality budgeting practices. Legal frameworks and official guidance regularly underpin gender budgeting in other OECD countries.
5. **There are limited incentives to engage departments in equality budgeting.** Departments question what equality budgeting is trying to achieve and whether it is a worthwhile exercise. The current approach to equality budgeting relies on individual relationships between the DPER and departmental staff.
6. **Equality budgeting is built on the performance budgeting system, which faces its own set of challenges.** The implementation of performance budgeting in Ireland has been challenging, with departments resistant to setting targets that correlate with budget allocations, and that could serve as a solid basis of performance scrutiny and accountability (Parliamentary Budget Office, 2019[17]).
7. **Departments have limited competence and capacity in relation to equality budgeting.** There is no one with responsibility for equality budgeting across each department, and departments report that they have limited capacity to engage more substantively with the initiative. In addition, the expenditure tracking system does not allow spending with an equalities impact to be identified or tracked.

8. **The impact of equality budgeting efforts to date is still limited.** The current approach is not only time consuming for the DPER, it has also yielded limited rewards so far. There is concern that spending is being "repackaged" as part of the initiative, rather than it driving any meaningful change in the focus of government policies or programmes. For equality budgeting to be successful, it must aspire to go beyond a re-presentation of existing spending priorities and inform different approaches to policy making and to resource allocation decisions.
9. **It remains difficult to obtain information on equality needs.** In particular, sample sizes for some of the main social surveys are insufficient for the collection of robust equality-disaggregated data. Civil society groups – which are also an important source of information – have experienced significant reductions in their level of public funding over the last decade and consequently, the political advocacy and analysis capacities of such associations have decreased. This trend is starting to reverse though, with increased funding now being allocated to women's groups.

Ongoing reform priorities

The budget process in Ireland has undergone profound reforms during the last quarter of a century, particularly since the 2008 global financial crisis. Together these changes have facilitated fiscal consolidation, introduced medium-term planning, increased transparency, and allowed greater parliamentary and public participation in the budget process.

There are a number of ongoing reform priorities in Ireland which will affect budgeting and can be useful to take into account when taking decisions on how to strengthen the existing approach to equality budgeting:

- **Green budgeting and Sustainable Development Goal (SDG) budgeting.** The DPER has committed to the progressive implementation of green budgeting in Ireland to promote and achieve improved environmental outcomes through the budgetary and estimates process (Cremins and Kevany, 2018[18]). In addition, the Department of the Environment, Climate and Communications has set out in its Sustainable Development Goals National Implementation Plan 2018 that departments will consider how they can "tag" expenditure which supports specific SDGs (Department of the Environment, Climate and Communications, 2018[19]).
- **Financial reporting reform.** Ireland is currently in the process of reforming its financial reporting and accounting practices and underlying financial systems. This reform focuses on three main changes: 1) modernising and improving the completeness of the financial information by adopting accrual accounting; 2) shortening time frames for the publication of key financial reports; and 3) harmonising accounting practices across the Irish government (Moretti et al., 2019[20]).
- **Value-for-money reforms.** This includes the introduction of a rolling programme of spending review to test the effectiveness and efficiency of government spending programmes, including through the conduct of *ex post* evaluations and social impact assessments, and the introduction of IGEES to professionalise the approach to value-for-money analysis in public policy making.
- **Public communication and engagement.** Initiatives such as the ongoing redesign of the Annual Performance Report and the development of a Citizen's Guide to the Budget are aimed at fostering greater public understanding of, and engagement with, budgetary policy issues that affect them.

Path forward

Ireland's equality budgeting pilot has helped test the governmental infrastructure for delivering such an initiative on a larger scale and has raised awareness of where the strengths and challenges lie. Given these insights, this section presents a path forward for equality budgeting in Ireland in the form of

12 recommendations that aim for the initiative to become an effective mechanism that ensures that budget measures help to address equality needs (Box 3).

Box 3. The path forward for equality budgeting in Ireland: Key recommendations

1. To focus equality budgeting on areas most in need, departmental actions should be linked to national and international equality goals.
2. These equality goals may form part of an improved performance budgeting framework for Ireland.
3. Departmental implementation would be supported by establishing a network of equality budgeting contact points in each department and providing the relevant training.
4. To allow the Oireachtas and civil society stakeholders to track the actions and impact of equality budgeting, it would be useful to table an equality budgeting statement alongside the budget.
5. The development of tagging and a tracking functionality for departmental expenditure would support parallel developments in relation to equality budgeting, green budgeting and SDG budgeting.
6. The operational tools of equality budgeting should expand beyond the performance budgeting foundation to engage other budget policy levers where Ireland has significant strengths.
7. Equality proofing of policies and programmes and equality budgeting should be complementary tools to achieve equality objectives.
8. Equality budgeting developments on the expenditure side should be complemented with parallel efforts on the tax side.
9. The development of an equalities data strategy can further bolster the impact of equality budgeting.
10. In rolling out the next iteration of equality budgeting, the government should take time to communicate its vision to stakeholders and provide the necessary training.
11. Instructions for equality budgeting should be crystallised for departments in the annual budget circular, and institutional incentives should be enhanced.
12. In the medium term, legal foundations could help embed equality budgeting as a valued and enduring feature of public policy making in Ireland.

These recommendations are outlined in more detail below.

1. **To focus equality budgeting on areas most in need, departmental actions should be linked to national and international equality goals.** There are a number of different national strategies that relate to equality dimensions, as well as international commitments such as the SDGs. There would be merit in distilling from this overall corpus of material a core set of high-level equality goals and indicators that citizens and policy makers alike can focus on as the authoritative frame of reference for policy action, resource prioritisation and accountability. For example, the existing equality budgeting themes could be developed further, with enhanced government-wide buy-in, to serve such a role. Box 4 provides the example of the Gender Results Framework – the high-level goals that guide gender budgeting efforts at the federal level in Canada.

Box 4. Gender goals in Canada: The Gender Results Framework

Canada introduced the Gender Results Framework in 2017 to support the implementation of gender budgeting. The framework sets out the government's key priorities in relation to gender equality, including goals relating to:

- education and skills development
- economic participation and prosperity
- leadership and democratic participation
- gender-based violence and access to justice
- poverty reduction, health and well-being
- gender equality around the world.

The framework provides a whole-of-government tool that allows tracking progress against gender equality objectives over time, and helps identify where the greatest gaps remain. Government stakeholders reported that the Gender Results Framework helped guide departments in policy development and the Minister of Finance in budget allocation.

Source: OECD (2018[21]).

2. **These equality goals may form part of an improved performance budgeting framework for Ireland.** Good equality budgeting is good budgeting, and, in particular, a more effective performance budgeting framework will provide robust foundations upon which future equality budgeting efforts can be built. This would ideally involve departments identifying the actions they are taking to address key priorities in their area, and to contribute towards a clearly articulated set of national objectives for the country as a whole. The example of the Scottish National Performance Framework is provided in Box 5.

Box 5. The Scottish National Performance Framework

The Scottish National Performance Framework sets out "national outcomes" that describe the kind of Scotland that it aims to create. These outcomes reflect that the values and aspirations of the people of Scotland are aligned with the United Nations' Sustainable Development Goals and help to track progress in reducing inequality.

Figure 4. The Scottish National Performance Framework

The framework measures Scotland's progress against the national outcomes using "national indicators" covering economic, social and environmental factors. The Scottish government's Draft Budget highlights the national outcomes that each portfolio supports.

Source: Scottish Government (2019[22]).

3. **Departmental implementation would be supported by establishing a network of equality budgeting contact points in each department and providing the relevant training.** The contact point would ideally be a senior member of staff within an appropriate unit. This would ensure that there is somebody in each department with ownership for implementation and reporting on progress. The network would also facilitate exchanges of good practice.
4. **To allow the Oireachtas and civil society stakeholders to track the actions and impact of equality budgeting, it would be useful to table an equality budgeting statement alongside the budget.** This statement could track performance against national equality goals and set out the key budget measures being taken by departments to further advance progress.
5. **The development of tagging and a tracking functionality for departmental expenditure would support parallel developments in relation to equality budgeting, green budgeting and SDG budgeting.** Modernisation of the E-Estimates system would be timely so that tagging can become automated and systematic rather than manual and ad hoc. Tagging of gender-related expenditures is a feature of gender budgeting efforts in many OECD countries, including Belgium, Israel, Italy, Japan and Spain.

6. **The operational tools of equality budgeting should expand beyond the performance budgeting foundation to engage other budget policy levers where Ireland has significant strengths.** Expanding poverty proofing to look at how poverty intersects with different equality dimensions would help raise awareness of equality needs in the policy development process. *Ex ante* assessment of this nature should be complemented with *ex post* equality impact assessments to track whether policies are meeting equality objectives or indeed whether there are unanticipated equality-related impacts from general policies. In particular, there is scope for integrating equality-related analysis into a more structured manner within the spending review process. There is also the potential to leverage the IGEES to develop professional and routinised approaches in both of these areas; drawing also on previous foundations that have been laid by the IHREC and others.
7. **Equality proofing of policies and programmes and equality budgeting should be complementary tools to achieve equality objectives.** To ensure that equality proofing is done properly and is not just a "tick the box" exercise, it would be useful to develop a central challenge function to check the quality of departmental efforts. To maximise the effective implementation of equality proofing, consideration should be given to matching Cabinet handbook requirements, with a corresponding duty to conduct equality impact assessments of policy proposals, and to establishing a criterion for assessing the quality of such equality analysis. In the short term, to support a results-focused impact assessment framework, consideration could be given to linking the equality proofing exercise to existing equality strategies, such as the National Strategy for Women and Girls. In addition, leveraging the equality agenda by assigning authority and responsibility at the Cabinet Committee level can provide impetus to line ministries to make effective use of equality budgeting and equality proofing of policies. An example of equality proofing of policies across the OECD is provided in Box 6.

Box 6. Canada's approach to Gender-Based Analysis Plus

Gender-Based Analysis Plus (GBA+) is an analytical tool used to assess how diverse groups of women, men and gender-diverse people may experience policies, programmes and initiatives. This means that analysts, researchers, evaluators and decision makers are able to continually improve their work and attain better results for Canadian men and women by being more responsive to their specific needs and circumstances. The "plus" in GBA+ acknowledges that GBA goes beyond biological (sex) and socio-cultural (gender) differences. It examines how sex and gender intersect with other identities such as race, ethnicity, religion, age, and mental or physical disability.

The Ministry for Women and Gender Equality plays a leadership role in the government-wide implementation of GBA+. However, the commitment to GBA+ is a shared responsibility across all departments and agencies. All federal departments and agencies are required to provide evidence that they have taken GBA+ considerations into account and to report relevant findings in their memoranda to Cabinet and Treasury Board submissions. GBA+ can be used to inform the entire policy process, from research and early investigation through to the development of options and strategies. It should also inform implementing, monitoring, evaluating and communicating an initiative. Central government agencies play a challenge function in relation to the GBA+, provide guidance on incorporating GBA+ into Cabinet documents and apply GBA+ to their internal work.

Source: Status of Women Canada (2019[23]).

8. **Equality budgeting developments on the expenditure side should be complemented with parallel efforts on the tax side.** As a starting point, the new functionality in the SWITCH tax-benefit model could be used to incorporate gender impact assessments into future tax strategy papers and to elaborate the quality of assessments in Annex 2 of the Economic and Fiscal Outlook that covers "income tax, inequality, and progressivity issues". In addition, and reflecting the analogous recommendation in respect of spending review, the annual programme of tax expenditure reviews could incorporate an equality dimension.
9. **The development of an equalities data strategy can further bolster the impact of equality budgeting.** Better equality-disaggregated data are essential. They will enable departments to gain insights into equality gaps and the impact of different government interventions. An equalities data strategy would focus on improving the extent to which official statistics and administrative data provide insights into equality gaps and assess the impact of different government interventions. Efforts should build on the existing Open Data Strategy 2017-2020, the Public Service Data Strategy 2019-2023 and the work of the National Statistics Board in setting priorities through its publication *Strategic Priorities for Official Statistics 2015-2020*. Examples of efforts to advance equality statistics across the OECD are provided in Box 7.

Box 7. Efforts to advance equality statistics across the OECD

Scotland's Equality Evidence Strategy 2017-2021

The Scottish government published its Equality Evidence Strategy in July 2017. The strategy is a four-year plan that outlines Scotland's general approach to strengthening it equality evidence base and filling evidence gaps. It sets out where there are evidence gaps and, where possible and applicable, it links the evidence gaps identified to the relevant policy, programmes, legislation and measurement frameworks.

Canada's Centre for Gender, Diversity and Inclusion Statistics

The new Centre for Gender, Diversity and Inclusion Statistics launched in May 2019 aims to address gaps in the availability of information by gender, sex and other intersecting identity factors, such as disability status, indigenous identity (First Nations, Métis and Inuit) and other ethno-cultural characteristics. It aims to enable users to easily access and analyse a wealth of statistical information relevant to the evaluation of programmes, policies and initiatives from a gender, diversity and inclusion perspective.

10. **In rolling out the next iteration of equality budgeting, the government should take time to communicate its vision to stakeholders and provide the necessary training.** This vision should include a clarification of roles and responsibilities across the board, including the DPER, the DJE, the Department of Finance, the Department of the Taoiseach, the IHREC, and the various line departments and agencies. All line departments should be included in the initiative and should be provided with training and capacity development opportunities to ensure consistent and high-quality implementation.
11. **Instructions for equality budgeting should be crystallised for departments in the annual budget circular, and institutional incentives should be enhanced.** Setting out instructions for departments on how to meet their public sector equality and human rights duty, including within the annual budget circular, and underlining the need for action on key equality goals, would give equality budgeting added authority and direction. Using the budget circular to guide departmental

participation has proven to be an effective means of compelling departments to implement gender budgeting in OECD countries such as Canada and Sweden. In both of these countries, the circular sets out the gender-related information that must accompany any new budget proposals in order for the Minister of Finance to consider them. The extent to which departments engage with equality budgeting can be improved through parallel developments to build in incentives. There is a range of possible options available, with some suggestions provided in Box 8.

Box 8. Potential incentives to engage departments to implement equality budgeting

- Multiannual funding for departments implementing equality budgeting: Locking in budget arrangements for those departments that fulfil certain minimum criteria relating to equality budgeting, in particular for those programmes within their vote that qualify under the rubric of equality budgeting.
- Ring-fenced funding for new equality programmes: departments could apply for extra budget allocations through a fund for new equality programmes.
- Establishing an annual Cabinet meeting on equality: this might coincide with an annual event, such as International Women's Day (as was the case with the special Cabinet meeting on gender equality in 2019). Ministers would be encouraged to showcase the actions they are taking to promote equality.
- Starting a civil service excellence and innovation award for equality: this would be awarded to those civil servants who have advanced impressive policy developments in the area of equality.

12. **In the medium term, legal foundations could help embed equality budgeting as a valued and enduring feature of public policy making in Ireland.** Legal provisions could formalise the requirement that equality should be taken into account in a structured manner as part of budget policy deliberations. It may be that these legal provisions are incorporated into a new organic budget law for Ireland or are adopted through a stand-alone piece of legislation. Legal foundations help ensure the longer term sustainability, relevance and impact of equality budgeting. Box 9 highlights how Canada embedded gender budgeting into its legal framework.

Box 9. Legal foundations for gender budgeting in Canada

Canada has a Westminster model of government. This means that the prerogatives of the executive branch in preparing its budgetary proposals, and the role of parliament in scrutinising and authorising the budget, are governed by convention rather than by an organic budget law. Nonetheless, the Canadian government decided to codify gender budgeting into legislation to help embed it as a long-term government practice. The Canadian Gender Budgeting Act was passed in December 2018 and requires the annual publication of three reports:

1. Report on new budget measures: a report on the gender and diversity impacts of all new budget measures described in the budget plan.
2. Analysis of tax expenditures: analysis of the gender and diversity impact of tax expenditures, such as tax exemptions, deductions or credits.

3. Analysis of programmes: analysis of the gender and diversity impacts of existing expenditure programmes.

Source: Government of Canada (2018[24]).

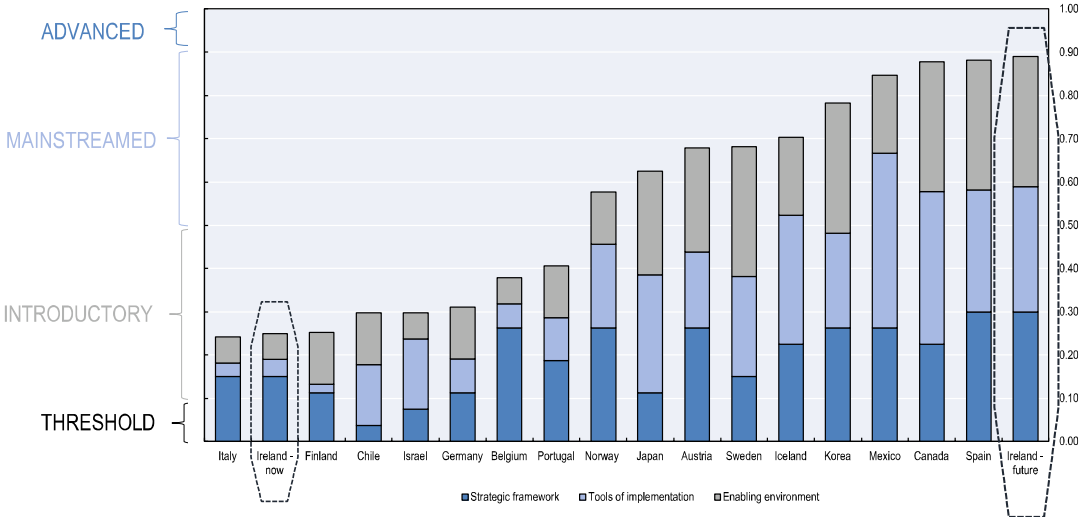
Implementation

The series of actions listed above are intended to be mutually supporting. Putting such a package of measures into effect will require clear leadership, and the DPER and the DJE will be important actors in this regard. However, other departments and the Oireachtas are also crucial implementation partners.

Implementation will undoubtedly need to take place over a number of years. There is a range of options for how the different actions could be prioritised. One option would be for the DPER to prioritise developing a vision for equality budgeting and setting out instructions for departments in the budget circular. At the same time, the DJE could provide useful support by providing training and capacity development across departments, particularly with regard to equality proofing. Thereafter, the establishment of higher level equality goals and improvements to the availability of equality-disaggregated data would help better focus government actions.

Over time, from a position of shared commitment to action, Ireland has the potential to implement an equality budgeting practice that responds to the needs of society, helping support the identification and implementation of policy measures aimed at closing equality gaps. Figure 5 shows how Ireland's approach to equality budgeting would compare to OECD peers if these reforms were implemented. The reforms would bring Ireland's approach in line with gender budgeting efforts in countries such as Canada and Spain.

Figure 5. Composite indicator on gender budgeting, pre- and post-reform



To move to into the "advanced" category of equality budgeting, Ireland would need to further develop the implementation tools beyond the expansion proposed earlier in Recommendation 6. Potential additional tools in the *ex ante* phase of the budget cycle would include analysis of the gender impact of baseline government expenditure and the introduction of a gender dimension to resource allocation. When the budget is laid before parliament, a civil society-led social audit of equality budgeting efforts would also be a useful addition to the equality budgeting initiative. In the *ex post* phase of the budget cycle, potential

additional tools include the application of an equality dimension to evaluation and performance audit, and external audit of equality budgeting systems.

To have a system of equality budgeting that brings meaningful change, actions will require detailed and deliberate planning. This scan set out initial ideas on next steps for equality budgeting in Ireland. The government of Ireland may wish to benefit from a more extensive review that sets out in more detail the incremental steps that will help the realisation of these reforms in the medium to longer term.

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The limits of accrual accounting applied to public accounts: A French view

The French system of public accounts continues to function at its current state with little doubt. The gap between information provided on the one hand, and users' vague expectations on the other however, is insistent and continues to widen. At its current state, the public accounts system is not only costly but is also starting to prove inadequate in addressing the challenges of the future. This article aims to determine the extent to which this system could be enhanced – and at what cost – or whether the development of a new system built on different principles should be considered.

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Introduction

The information system for public finance is primarily based on public accounts, which outline an array of information on the public finance situation. However, criticism and discontent remain, and this can limit the use of these accounts by decision makers, as well as in the public debate as a whole. Despite major improvements as a result of reforms undertaken over the past several years, this situation persists. The question that therefore emerges at this juncture is how can we determine the right path forward to close the insistent gap between information provided on the one hand, and users' expectations on the other: these expectations do, however, remain relatively vague, making this choice more challenging. We have probably reached certain limits of the current set-up, and while its continued implementation is not in doubt, it is costly and will not be adequate to address all of the questions. It is therefore vital to understand the intrinsic limits of this system, and this article will aim to determine the extent to which it can be enhanced – and at what cost – or whether we should consider the development of a new system built on different principles.

Public accounts are established using various systems: budget accounting, accrual accounting and the system of national accounts. The question of the limits should therefore be addressed differently depending on the system.

With respect to budget accounting, the question is integral to the requirements related to both the form and content of budgets, so any potential progress should thus be closely linked to considerations on the nature of budgets themselves. However, this question cannot be raised intrinsically, unless we believe that a reference budget model exists; this paper does not intend to deal with this extensive question.

When it comes to the system of national accounts, the question of the limits should be set against the general model's structure, which also includes issues related to calculating gross domestic product (GDP), households and corporations, and additionally involves the need for an approach incorporating concepts that can apply to all economic stakeholders. This requires separate deliberation and is not the issue at hand in this paper.

Accrual accounting standards are deemed to be based on general and universal principles that can be applied to all entities. However, they can also take on board the main features of the entities they apply to, through developing specific interpretations and adaptations where necessary. They play a crucial role in the general set-up by enabling users to go beyond the limits of budget accounting and providing extensive data that are used directly or indirectly in national accounts. So the question of the limits is first and foremost an issue of the limits of accrual accounting as applied to its "natural" recipients, before considering the limits of their transposition to public sector entities.

Features and limits of accrual accounting

"*Comptabilité générale*" – or general accounting principles – is the term broadly used in France to embody the notion of "financial accounting" used in English-speaking countries. This type of accounting is based on accruals, as opposed to the cash basis. By purposefully taking a very general approach with the ensuing questionable approximations and associations, we can describe this accounting method as being designed to provide data for third parties on an entity's financial position and results that are useful or necessary for said parties in assessing the outcome of transactions that they conduct or may conduct with the entity. It is also a management and control tool for "managers". This accounting approach relies on general and universal principles, but was developed to assess the financial position of private and commercial companies, and some of the key features of this accounting model are a result of this prior context.

Accounting, reporting entity, scope for net assets and capital

Accounting is a system for recording and producing information with precise technical features that provide specific quality to this information. It is therefore important to briefly outline these features with a view to better understanding them. This system uses the double-entry bookkeeping principle to recognise past events that affect the entity's financial position. These events are classified into consistent categories and measured in monetary terms, applying rules that then enable users to add them by category and calculate the balances between the various totals. These recorded figures are subsequently rounded out by inventory operations, thereby ensuring that all significant events that took place during the period in question are included.

Two prerequisites are essential to achieve the goals set out for accrual accounting requirements, and these will help determine their framework and some of their limits: it is crucial to define the nature of the reporting entity, and to determine the type of events that must be recognised in the financial statements.

Determining the reporting entity

The accounting process must apply to a clearly identified entity, which is sufficiently independent in its decision making and responsible for the commitments it undertakes to ensure that consideration of its financial position is relevant. The accounts for an entity that is controlled by another entity that can consequently impose its own policies may not be significant. Consolidated accounts are therefore deemed to provide superior information in these circumstances, even if individual accounts are still relevant to some extent. In this respect, it is important to note the close connection between an entity's degree of independence and responsibility and the relevance of its accounts. These two aspects are meaningful to being accountable for an activity and for its allocated resources.

Determining the nature and scope of events

The definition of what is referred to as the financial position – or net assets – dictates the type of events that are recorded. In practical terms, this range of events involves lists that define the scope of events to be booked: simply referring to a general list of rights and obligations is insufficient. If we look at implementation of accounting standards and actual practices, we can see that the concept of net assets or the notion of financial position depend partly on the purpose assigned to the reporting documents produced, as well as on the nature of the entities in question. All rights and obligations are not necessarily included in the financial position as defined from an accounting standpoint, and only those that meet the overall definitions of assets and liabilities feature in the accounts: these definitions are thus set up to meet the objectives of reporting "accounting" financial information.

These features are important and they set the accrual accounting process apart from the production of financial information based on collecting statistics or varied pieces of information.

Private sector accrual accounting and the concept of private sector entity

Two models for corporate accounting

Practically, these principles and rules apply to private sector entities through two main models: 1) a reporting-based model that is designed for investors or potential investors and focuses on assessing the financial performance of shareholders' investments; and 2) a model based on recording and measuring a company's guarantees to third parties, where the company's responsibility is limited to the amount of its equity. The first reporting-focused model is recommended under international financial reporting standards (IFRS) and this approach is based on general principles consistent with the way international financial markets and investors operate. The second model reflects a more legal and national view of companies. There are few differences between the two models, but those are important. They primarily derive from

differences in time frames, as well as measurement bases. The IFRS model strives to recognise all events that could have an impact on the financial position – even where this effect is remote or uncertain – and uses valuation methods that focus on measuring these impacts. Meanwhile, the national model focuses on events with more direct and certain effects, drawing on more "legal" pronouncements. Two examples clearly illustrate this difference. First, international financial reporting standards recommend accounting for income tax relating to a given period on the basis of an estimate of what the company should pay by applying the tax rate to income for the period, even if part of this payment is deferred and contingent on future developments in the company: this method involves developing assumptions on these future developments. Conversely, the national model recommends booking these taxes based on whether they fall due during the fiscal year. A second example of these differences is the way lease contracts are accounted for: international accounting standards hold that they create debt for the lessee in most cases, while national standards in France consider that the lessee's commitment is not a long-term liability in general, and take a narrower view of this concept.

Similar features and limits of these models

However, a company as defined in these models is always seen as having a legal personality tasked with utilising capital provided by partners with the aim of generating profit, or at least maintaining capital. The financial position – or net assets – that defines the scope of elements that are accounted for is dictated at the outset by this capital, which offers a clear, but only partial, view of the company. Rights and obligations embodied by assets and liabilities depend on the legal, economic and social environment that the company operates in, while the effects of this context – as well as the impacts of the company's actions on its environment – are not outlined in the financial statements, or if they are, then it is only partly and indirectly.

This is the case for the entire range of company's externalities, yet these factors can have a central role when assessing the company's financial position and any changes therein. It is difficult to measure their effects, particularly as they can vary depending on the business sector, the company size and a number of other factors. Those include very general aspects such as the quality of infrastructure, the general level of staff qualifications, legal security and the quality of institutions, the state of the environment and applicable regulation, as well as other properties that characterise the economic context of the company's operations. They can also involve more specific aspects that only affect certain companies that work in more regulated sectors. Companies themselves also generate a footprint, with both positive and negative effects. All these various aspects have direct, indirect or potential consequences on a company's financial position, yet none of these is explicitly reflected in the financial statements. This situation not only results from the difficulties involved in measuring the effects of these externalities, it is first and foremost the result of the choice of accounting's primary objective, i.e. prepare the financial statements for a legal entity – operating in a given context – that is founded by ownership contributions with the aim to enhance this capital by conducting commercial economic operations and managing the rights and obligations related to this activity.

This reference to capital is vital in developing the key categories on the balance sheet, i.e. assets, liabilities and equity. Regardless of whether the goal is to assess financial profitability or the degree of guarantees for third parties, the primary aim is to outline and measure any changes in capital over successive accounting periods. Assets equate with productive capital, in that it is the double entry to invested capital booked in equity, while liabilities equate to third parties' rights on capital. The accounting model assumes full consistency between these two visions of capital.

The accounting model therefore does not apply to the company as a whole, but rather to a certain vision of the company in a given environment, whose effects cannot all be taken into account.

Balance sheet and capital

The balance sheet is the preferred tool for measuring capital as it lies behind the creation of the legal person "corporate entity" as a reporting entity. It recognises the initial capital, then measures how capital evolves through changes in equity over successive accounting periods. Thus, equity is not just the difference between assets and liabilities, but first and foremost it is the position of invested capital as at the end of the accounting period.

However, all standards systems provide for other uses for accrual accounting, either implicitly or explicitly. In addition to the fact that information related to the composition of capital not only interests shareholders or other investors, accounting in the sense of a financial reporting system can provide other information that is useful to a range of users. However, even if consideration of other needs reduces the relevance of the measurement of capital from an investor's standpoint, this approach is still retained. This is explicitly outlined in international accounting standards, and the same also naturally applies to the national model due to its legal, fiscal and prudential dimensions, meaning that the capital measurement goal is a guarantee of the rights of shareholders and third parties. While the rules for measuring these net assets differ partly from one model to the other as a result of different priorities in measuring rights, these differences do not jeopardise the pre-eminence of financial information over equity.

Moving beyond the balance sheet or beyond accrual accounting

Recent changes in the concept of a company – seeking to extend its scope of responsibility to social and environmental aspects with a view to taking on board certain externalities, and not merely be limited to its legal definition of a company with share capital – obviously raise a central problem in view of this general-purpose priority. However, efforts to provide information on these aspects have not so far entailed an in-depth change of the presentation of the balance sheet: any change would be tantamount to seeking to internalise these externalities. Solutions put forward all involve providing additional information in the notes to the financial statements. A reason for this caution is the resolve to preserve the model's consistency with its initial assumptions. Certain aspects can only be internalised following a change in the context – for example the creation of taxes on pollution. Internationalisation cannot take place in the absence of external constraints that create new rights or new obligations, otherwise the concept of the company that sits at the heart of the accrual accounting model would be jeopardised. Nevertheless, this change, however limited it may be, has an effect on the extent and the very nature of private sector accrual accounting.

The notes to the financial statements were initially intended as a way to comment on the balance sheet by setting out more detailed information – although implicitly contained in the balance sheet – and explaining the underlying assumptions used for some measurements or providing additional details on specific points that do not feature on the balance sheet, such as contingent items. The scope for this additional information is clearly set out in the conceptual framework where it exists, or in the general principles. All commitments therefore do not feature in the notes, but rather only those equating to contingent liabilities.

The current trend is to take the process much further and add into the notes any information that cannot be included in the balance sheet from an investor's point of view or even from broader viewpoints that are not really delineated. This change fosters the risk of a breakdown of the accrual accounting model, which could lead to the preparation of two (or more) so-called true and fair views. From a technical standpoint, this clearly reflects a major difference in nature between two approaches:

- Setting up the balance sheet based first on the identification and recognition of elements that make up partners' and third parties' rights to net assets, and that are deemed to be sufficiently consistent to be added together within each of the two columns assets and liabilities, then on subtracting the total of assets from that of liabilities. This process assumes that identification and recognition are consistent in substance and as regards time frame.

- The preparation of the notes to the financial statements, setting out lists of diverse data which cannot usually be added together to provide meaningful information and therefore cannot be used to produce relevant synthetic indicators such as subtotals that may show on the face of the financial statements.

Thus the question here is whether these two approaches can be included in the "accounting reporting" category. International accounting standards went the route of shifting from IAS (International Accounting Standards) to IFRS (International Financial Reporting Standards) without further elaborating on the effects of this development. The French term used for reporting is "*compte rendu*", which literally means giving an account, and which further heightens the ambiguity: should this term be understood as referring to accounting in the technical sense or rather as literally describing events that took place over the period? This change was further pursued by introducing a distinction between "basic" or "primary" financial statements (balance sheet, income statement/surplus or deficit statement, cashflow statement, statement of changes in equity) and the notes to the financial statements.

There has been no analysis of the effects of this change on the nature of accounting itself. Providing financial information in the notes is not an accounting process in itself in theory, and offers more of a descriptive or statistical approach, which can also involve projections. The accounting process is the recording of events that are actual, backed up by supporting evidence; this process is based on a key difference between these actual events, with monetary value, that will have future consequences, and future events that are very likely at the end of the reporting period that will have as predictable and important future effects as actual events. Actual events are featured in the financial statements, while future events cannot be.

We can understand that standard-setting bodies, when setting a clear framework for financial reporting, are not only concerned about the type of tools to use, but also about the relevance for users. As such, all parties agree that forward-looking information is extremely interesting for users, while the legitimacy of standard-setting bodies is built on the benefits of accounting techniques that cannot take this information on board. A piece of information may be useful, but this is not sufficient for it to be considered an accounting item. This question of defining the scope and nature of accounting cannot be left unclear: beyond the issue of standard-setters' authority, "accounting" financial statements potentially have specific legal consequences that are different in nature from that of mere financial information. It is also crucial to ensure comparability of accounts between various entities and thus guarantee the "conceptual purity" of accounting information.

Our intention is not to discuss further the potential consequences of this emerging dichotomy for the future of corporate accounting, but rather to seek to consider how these problems can affect public accounts based on accrual accounting. However, the effects of this change also depend on the scope of application of the accrual accounting model from the private sector. These two questions must be tackled simultaneously: is the accrual accounting model relevant to address public sector entities? And how should we approach the issue of the relationship between primary financial statements and information in the notes to the financial statements for public sector entities?

Specific features of public accounts in light of the accrual accounting model and its developments

When applying accrual accounting principles and rules to the public sector, it is key to bear in mind that this accounting approach was developed to establish the financial statements of private sector commercial entities if we are to avoid transposing purposeless provisions. The legitimacy and scope of direct transposition of corporate accounting standards should therefore be considered in light of previous developments, and this raises several questions:

- Why apply accrual accounting standards?
- How should reporting entities be defined in the public sector?
- How should we define the scope for the accounting patrimonial position that equates to “capital”, both at individual entity level and for groups or combinations of entities?
- How should the question of externalities be addressed?
- How can we address the question of moving beyond the balance sheet or accrual accounting in the public sector?

The nature of the choice of accrual accounting based on private sector accrual accounting

If we are to gain greater insight into this aspect, it is important to first consider the meaning behind the reference to accrual private sector accounting: is this choice based on purely technical considerations or is it guided by an ideological goal?

We cannot find a clear answer by looking at debates on the various reforms that have brought traditional public sector accounting closer in line with private sector accounting. Some advocates of these reforms were clearly keen to take the first option, while others sought to take the approach further and believed that the private sector accounting model would encourage sound public finance management, in addition to its ability to provide useful information for management and control. Additionally, these attempts at convergence date back some time and have taken several different forms, making motivations particularly difficult to decipher. We will therefore not seek to look back nor attribute any type of ulterior motives to such reforms, but rather we will merely strive to define the main features of these two points of view, while bearing in mind that they have never been promoted nor even expressed from a purely conceptual standpoint.

The technical approach

Adopting accrual accounting principles from a technical standpoint may be defined as an attempt to move beyond cash accounting – or budget accounting – by recording transactions with third parties based on the consideration of rights and obligations, including those that are neither approved nor provided for in the budget. This recognition process uses the double-entry bookkeeping method and adopts a stable nomenclature to book all events that affect the net financial position, as implicitly defined in a restricted approach. This extension looks fairly logical and is difficult to oppose, although its legal scope is open to discussion. Recognising tangible assets, expenses to be paid, the correct measurement for receivables, provisions for risks and impairment of assets – to mention just a few basic examples – seem to make for obvious progress in providing insight into the public finance situation and in potentially improving management tools. Similarly, using consistent categories makes for time-bound comparisons, which are more difficult to establish if we take on board the restrictions of purely budgetary nomenclatures, as these must keep up with changes in public policy organisation. These developments are now widely recognised as vital and acted as the driving force behind accounting reforms wherever they were implemented, which is the case in most OECD countries.

However, we can see that this – undisputable and significant – progress addresses aspects that are not merely specific to the public sector. Assets and liabilities thus recognised are key components that largely make up the “technical” resources used by public sector entities to drive the policies entrusted to them. It is critical to both understand and monitor these aspects, and accounting practices reliably support these two processes. However, applying accrual accounting from a merely technical standpoint reaches certain limits. It involves accounting for specific patrimonial items of public sector entities in a similar way as assets and liabilities created and operating in a market environment. Thus, taxes are recognised as receivables from taxpayers with recognition criteria similar to contractual receivables, while the power to levy future

taxation is not recognised as an asset. Similarly, commitments related to citizens' rights to protection against certain social risks are usually only recognised when the related expenses are incurred in the reporting period, since the future commitment to guarantee social benefits in the long term cannot be recognised as a liability. The public domain is perceived only through the taxes and royalties received from its usage.

Ideological option

The ideological option, while not casting any doubt over previous justifications, should immediately raise the question of capital equivalent: what should be valued or maintained, and why? However, interestingly, even the staunchest defenders of this approach do not openly raise this question. Some seem to feel that there is no deep-rooted difference between a company's net assets, which equate to its equity, and net assets from the recognition of public sector entities' assets and liabilities. They fail to realise, or profess not to realise, that defining the financial position merely as the difference between assets and liabilities restricts the process to a circular reasoning. A private sector's financial position equates to its equity, which exists and is defined before showing on the balance sheet. For non-commercial public sector entities that were not set up with an initial funding allocation recognised at one point in time, this "capital" only exists in the form of net assets built up over time. This is also the opening net assets/equity in the opening balance sheet when applying accrual accounting for the first time. However, there is no indication that these net assets/equity equate to the rights or guarantees from shareholders or third parties. This very notion of shareholders is indeed obviously meaningless for government entities. As for third parties, the guarantees that they may seek out lie in entities' political stability more than in their net assets/equity, all the more that the impact of the incomplete nature of net assets/equity would seemingly contradict this stability. Therefore, net assets are merely net assets. What they are made of depend on the capacity to identify and recognise all assets and liabilities, without drawing on a reference to an initial scope defined by invested capital. The ideological take thus appears to be a stance rather than a real justification, as it does not offer answers to these questions: we have therefore defined this approach as ideological, rather than conceptual.

Efforts made both in France and elsewhere so far to transpose standards that apply to companies have in practice thus been restricted to the technical option; however, justifications have sometimes accompanied these moves, pointing to the possibility of later developments offering an operational basis to the goals pursued by proponents of the ideological approach. Yet these goals remain fairly vague and this confusion fuels the misunderstanding that has surrounded the introduction of accrual accounting standards for the financial reporting of public sector entities since the outset.

Nature of public sector reporting entities

Accrual accounting as a technique can be applied to all sorts of entities. The scope and usefulness of financial statements that it produces will, however, depend on the features of the entities that it applies to. Accounting principles and standards do not directly define the type of entities they apply to, but rather are based on the prior assumption that these entities are independent: they particularly have to control their assets and liabilities, as this is the primary requirement for these to be recorded to the balance sheet.

The question of companies' autonomy was raised when groups began to emerge, bringing together a number of entities with legal personalities in a grouping with no legal personality. The group is usually "borne" in a legal sense by an entity that holds investments in the companies controlled, thereby affording this "entity" control of these companies. Consolidated accounts are accounts of the controlling entity, "extended" to the accounts of the companies it controls. This means that the value of the investments featuring on the controlling entity's balance sheet is replaced with the corresponding assets and liabilities of the controlled entities. This process raises a number of technical questions, although they will not be addressed here as this aspect does not have any bearing on our discussion. We would merely note that the question of the absence of autonomy – which remains relative – of a set of entities tied together by

control relationships has been recognised as a limitation of accounting principles: recommendations that accounts be established for that set of entities and borne by the controlling entity have helped move beyond this.

Some public sector entities may encounter this type of situation. For example, the government controls private sector companies through investments in those companies. It may also control public establishments, although there is no share capital in those types of entities. In this case, the principles of consolidation can – and should – apply, with any necessary adaptations. However, these scenarios do not cover all relationship configurations between public sector entities, raising the question of their autonomy when considered on an individual basis.

Public sector entities are therefore involved in groups that make up other entities, with or without a legal personality, while control relationships cannot be established within the group. This is particularly true of the local authorities sector. Such situations occur in the private sector, though less frequently, and the methodology of combined financial statements was developed to address these scenarios, applying and adapting consolidation techniques. Here again, this approach can apply to the public sector with likely significant adaptations, although this does not jeopardise the actual principles of the methodology.

Yet, there is another reason to consider the concept of the autonomy of public sector entities. All of these entities are subject to a sovereignty principle – though to varying degrees – and we can see aspects or delegations of sovereignty in some of them, although none embody this fully. The government, even in its broadest definition, which incidentally is not the definition used in its accounts, is not “the sovereign”, i.e. the entity that decides on the rights and obligations that it recognises and the public policies that operationalise those rights and obligations. Public sector entities are merely executing bodies of the sovereign power. In this respect, their autonomy is limited both in terms of the resources they have to conduct their action and of the obligations they must fulfil. These limits may be ignored when it comes to recognising public sector entities’ non-specific assets and liabilities (real estate, receivables, debt, etc.), but they are a of critical importance when it comes to addressing specific rights and obligations for public action (right to levy taxes, nature of the public domain, obligation to provide or maintain public goods or services, etc.).

The question of capital

While bringing together and classifying “technical” or non-specific resources and commitments used by a non-commercial public sector entities in a statement identifying assets and liabilities can provide a measure of net assets, this figure is not a concept with the same properties as capital or equity for a private sector company. Additionally, the fact that these net assets are structurally or even massively negative for large public sector entities, such as governments, indicates that either they are incomplete or that the way public sector entities operate is not based on their net assets being maintained or properly measured, or on whether third parties consider this figure of key importance (otherwise, how could the “dollar privilege” existence alongside the United States’ massive negative net assets be explained?). One of the major difficulties, which partly explains why these data are not extensively used, also comes from the fact that no one knows to what extent these attempted explanations, which are not exclusive, are justified. The limitation of the technical reference lies in the difficulty of tackling the question of the range of events to recognise.

The notion of capital for the entity

From a microeconomic standpoint and for some public sector entity categories, there can be an equivalence or some (limited) similarities with private sector companies as regards the idea of capital. For example, this is the case for public establishments that are created via a funding allocation to equity. This looks more difficult though to apply to the largest public sector entities as they bear some features of sovereignty. Because accountants cannot recognise sovereignty in the financial statements, those features

can only appear in these entities' financial statements in a diminished form that does not reflect those entities' sovereign power, even though those features make for a decisive aspect of the resources those entities use and of the responsibilities they carry. Their financial statements are therefore automatically incomplete and net assets cannot be interpreted as a corresponding entry to the capital that would equate to the sovereign rights reflecting sovereign power. Endeavouring to record this aspect would be all the more meaningless that, while sovereign power is admittedly clearly identified in the Constitution, the actual features of sovereignty are subject to debate and remain very difficult to define.

Problem considered from a macroeconomic standpoint

The situation for public finances is also a macroeconomic question. Numerous major indicators are defined at the macro level based on an aggregation of public accounts drawn up for national accounting purposes. Considering whether this matter can be dictated by accrual accounting standards or not is becoming increasingly important, particularly as national accounting is not accounting in the full sense of the term, but rather a compilation of statistical and accounting data set in an accounting framework. National accountants prefer accounting data, and particularly accrual accounting information where it exists for the reasons outlined above, i.e. these data are deemed to be more comprehensive and more reliable than other data. We can, therefore, raise the question as to whether the calculation of these indicators could – or should – be obtained directly via a "consolidation" of public sector entities' financial statements that would replace the aggregation of accounts carried out under national accounting processes.

However, there is a key difference between consolidation and aggregation. For example, we can aggregate companies' accounts to obtain statistics and thereby come to an amount that represents the "capital" of the group of companies, but this remains a statistical aggregate that has no accounting meaning, as the group of companies is neither a company nor a reporting entity. The aggregate obtained is therefore not capital as such. The situation for public sector entities is even more complex. An aggregation of public accounts does not equate to a public sector entity's financial statements, and even less so to the sovereign's accounts, yet aggregation (or even consolidation) of public sector entities' liabilities does equate to public debt. Even though this debt is not the debt of a reporting entity in the strictest sense of the word, it is still more than just a sum of liabilities. This debt is also subject to hefty political commitments, mainly on a supranational level. It is information on public finance provided through the accounting process, which also guarantees its reliability, but from which its relevance does not flow, because the aggregation of accounting data over a different scope than that of a reporting entity is not covered by the accounting framework. The fact that this aggregation uses consolidation techniques to cancel out debt that, for example, public sector entities' hold on other public sector entities does not change this conclusion. The result of this process is not the debt of a reporting entity. As a consequence, its use in financial analyses should be justified in its own right and cannot result from properties of accounting principles that relate the debt of an entity to its assets or equity.

The question of externalities

Accounting's inability to account for the effects of sovereignty also explains the difficulty in determining public sector entities' positions on externalities. The question is admittedly irrelevant when we take a purely microeconomic view of entities that merely operate public action from a technical standpoint. However, if we expect accrual accounting to provide summary data on the public finance situation broadly speaking, then we cannot overlook the issue of externalities and their consequences, unless we restrict consideration to highly fundamental but also extremely limited aspects, such as the financial debt. Unlike companies, especially how they are pictured in the current accounting model, public authorities' remit is to organise the environment for the economic activity in general as well as for their own activity, at least to a certain degree. They can therefore decide to internalise certain externalities. The decisions or lack of decisions on this aspect have consequences for the public finance situation both now and in the future. However, this is the responsibility of the sovereign as a political body, which partly delegates implementation to public

organisations. Applying accrual accounting standards only at the level of these organisations is tantamount to putting them on an equal footing with companies in terms of externalities, while overlooking the importance of their role in the exercise of sovereignty.

Example of income tax or tax on profits

Difficulties encountered practically in all countries in accounting for income tax – or rather interpreting the meaning of this accounting – provide a sound illustration of these aspects. The traditional method, still actual in budget accounting, involves recognising a tax due in the same period as the period in which it is collected. Beyond the fact that this is cash accounting, which by definition does not follow the principles of accrual accounting,this method also bears specific drawbacks. As a hefty proportion of this tax is collected in advance, it is impossible to assume that the amounts received are definitively revenue. In this latter example, cash accounting is not a way of measuring revenue generated after the event, as it is for transactions such as sales, but rather it may lead to overestimating revenue for the period.

Methods developed to record this tax in accordance with accrual accounting standards have been – and still remain – subject to intensive discussions between experts that are largely unheard of in broader circles. If we assume that the right to levy tax could not be booked as an asset, then there are very few options for recognising this tax other than cash accounting. Applying accrual accounting principles leads to recognise a receivable in the accounts of the beneficiary public sector entity as soon as the authorisation to tax has been granted and the taxable base has existed. Impairment on receivables may be booked subsequently on statistical bases upon initial recognition, or during inventory operations, to take into account the recoverability risk.

These rules that are set out in the standards, are difficult to apply for a variety of reasons: the need for a reliable estimate of the taxable basis and the existence of tax deferral mechanisms related to future events such as tax credits, which may be repayable or simply deducted, make the calculation of receivables highly uncertain. The necessary assumptions must include information on taxpayers' current and future behaviour, which is usually unavailable. This is why a diminished approach is often taken, such as using the reference to the tax payable for the year rather than to the tax due. This involves drawing on documents that set out the tax commitments (such as roles or declarations from taxpayers) and leads to a critical lag in accounting. The effects of this lag, which generally involves recognising the tax payable in one year during the following year, can be viewed in several ways. If we assume that accounts recording these taxes are the financial statements of the entity responsible for the technical aspects of tax collection, then this lag raises no specific problems. Accounts outline the result of the entity's action, operating in the environment that applies to it. However, if we assume that accounts that feature these amounts are the financial statements of the entity responsible for implementing public policy by using taxes to finance expenditures incurred, then the lag is more problematic and makes the result difficult to interpret. If we look at sustainability or at the sovereign, then the relevant information is the measurement of the capacity to raise taxes. In this case and in many others, accrual accounting can only offer diminished information, albeit useful.

Using the notes to the financial statements to host specific items

The notes to the financial statements, as currently defined in the strictest sense of the word, complete the balance sheet by providing for information on contingent items, in addition to certain technical explanations on balance sheet elements. Contingent items generally represent a very small portion of the company's transactions. They do not feature on the balance sheet as they have no bearing on the financial position, except for some confirmed external events that entail the recognition of provisions in the case of contingent liabilities. We may thus wonder whether some specific items that cannot be recognised in the balance sheet should be included in this category. The usefulness of this approach therefore hinges on whether it

can be applied to items that are specific to public sector entities. The effects on the structure of the financial statements as well as some legal and operational effects must then be assessed.

Of course, the same type of operations exist in the public sector with the same accounting approaches, and the question here is whether specific items are covered by these definitions. Exhaustive research into the nature of these items would be required to provide a robust answer, but this research would require the list of these items to be clearly delineated, which is remote. However, it is possible to provide a general idea by looking at some illustrative examples.

Commitments related to fundamental rights recognised in constitutional texts and implemented through public policies are obvious candidates for being labelled contingent liabilities. Commitments such as those to pay benefits in cash to beneficiaries when they meet certain criteria could be included in this category.

Under current standards, a liability only exists where the beneficiaries are identified and fulfil all of the conditions required to receive the benefit. These conditions include annual checks, so liabilities are generally considered limited to accruals, i.e. the amount of annual benefits due but that have not been paid before the end of the period. There is still some debate as to what should be considered a yearly criterion and there are some disputed cases that are difficult to assess, but overall, current rules lead to recognise few liabilities for these commitments.

Yet, it is often possible to reliably estimate the amount of commitments that equate to rights "acquired" by beneficiaries at the end of the accounting period, assuming that current programmes will continue. There is therefore a potential obligation resulting from past events. To label this obligation a contingent liability, it should be determined whether its existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events that are not wholly within the control of the entity. This is where the main difficulty lies: everything hinges on the choice of the reporting entity in question, and how it operates. In most cases, entities responsible for paying out benefits operate under the "*répartition*" principle and within the confines of budgetary authorisations. The limits to paying out future benefits closely relate to the existence of future revenue and/or future authorisations provided for in budgets for the following years. Events that will effectively trigger the obligation to pay benefits are therefore not under the control of the entity in the working framework so far. We could therefore consider that this is a potential obligation, but the question is "of whom"? When a company issues a guarantee, it decides to take the commitment of its own accord, yet in the example of a mandatory pension "*répartition*" system, the retirement fund responsible for paying out pensions did not set up the system or take the related commitments. However, the fund applies rules set by the sovereign and is a component of the public authorities system. In this respect, while it is true that events that dictate future pay-outs – for example, the amount of contributions or that of benefits – are not under the control of the entity in question in the strictest sense of the word, it also holds true that these events depend on decisions taken within a larger group that includes (and controls) the entity. Setting such "commitments" on a par with potential obligations is therefore a matter of form rather than one of substance. It actually depends on how one would consider the "substantive" nature of an entity. The downside of this approach, though, is that in complying with standards set for the private sector, it sustains an ambiguity on the scope of accountability of the entities whose financial statements are being prepared.

Lastly and most importantly, if we take on board this approach, then this raises the problem of it being applied in a more general way and in particular its extension to contingent assets. If commitments to pay benefits in the future are to be considered contingent liabilities, why not view future revenues as contingent assets? We can see why including these amounts in the notes to the financial statements actually leads to the same type of difficulties as the extension of the scope of financial reporting for companies. Considering that specific elements as contingent elements would drive to include estimates of future revenues and expenses in the notes to the financial statements. This involves considerable amounts that cannot be added discreetly on the pretext of a formal analogy.

Herein lies the problem that is raised for companies: is the extension of the scope of financing reporting – wished for by all stakeholders – an accounting issue, or a matter that goes beyond accounting? However, the debate takes place in a different context, as we saw that "traditional" accrual accounting standards that focus on the balance sheet are less relevant for public sector entities than for companies due to the difficulty of giving a full meaning to the concept of equity.

Conclusion

The development of reporting on public finances with the aim of closing the gap between expectations and actual data is a prerequisite for this information to be more broadly used in the public debate, and hence for the public debate to be conducted under better auspices. This programme could be elaborated along two approaches:

1. The relevance of applying an accounting model drawn from the private sector should be assessed against entities' specific features. Scope for interpreting results and providing an operating dimension to the concept of equity are the criteria for assessing its degree of relevance. In any case, this involves restricting the approach on items to be booked to the balance sheet to non-specific items (except for certain exceptions that should be justified). Data from these financial statements can naturally be used in other systems, but following rules that no longer pertain to accrual accounting standards and to those who use them in their capacity as standard-setters, preparers or auditors. Specific consideration should be made of the option of using the notes to the financial statements to set out information that lies outside these limits, in conjunction with the active discussions on the same issue in the private sector. These debates involve the status of accounting and that of the actors involved, rather than the definition of the accounting model, which remains fundamentally the same and safeguards its properties. The notes to the financial statements, or a second set of notes if we wish to maintain the traditional notes in accordance with the current accounting principles, would then be considered an extra-accounting document from a technical standpoint. However, the contents of this specific set of notes should still comply with recommendations or rules set out by standard-setters and should be elaborated by accountants within their remits. Finally, the status of this document should relate to certification requirements and diligence. This approach would offer useful information on the situation for public finances, without jeopardising the accounting tool, and would avoid misinterpretations that would hamper the notes' use.
2. Reconsider the accounting model while striving to maintain the principle of primary information set out in the balance sheet. This involves redefining the concepts of asset and liability by fully taking on board the specificities of public sector entities. This approach does not jeopardise previous achievements, but recognises their limited scope and completes the set-up outlined in the previous point by developing an accounting model that addresses these specific aspects. This model would not apply to individual entities, which would continue to apply the current standards. It would rather be developed at a broader categories level that would still need to be defined. This would ensure that debates on standards take place at the correct level, avoiding formal interpretations beyond their substantive validity, with the risk of confusing users or preparers. This involves better setting out the accounting consequences of the specific aspects involved in public management. We noted that the existence of negative net assets/equity, for the most specific entities, could be attributed to two reasons that are not mutually exclusive i.e. an incomplete balance sheet or its inability to describe the way these entities operate. In fact, this boils down to the same reason: the balance sheet as prepared in accordance with the current standards, which themselves derive from the transposition of private sector accounting standards, does not include elements that are used in the way these entities operate. Public action does not use capital, whether financial or productive, or at least not in the majority of cases. We would therefore advocate the development of a balance

sheet that would record the operating resources used and the ensuing responsibilities. This would also require consideration of the scope, nature and identification of the entities that should be included.

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