



OECD Journal on Budgeting

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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, as well as special contributions from Finance Ministries of member countries and others, 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.

We regret we are unable to take unsolicited contributions to the Journal. We are, however, anxious to receive feedback from our readers. Your views on how to improve the Journal are welcome and can be sent to: The Editors, The OECD Journal on Budgeting, OECD, 2, rue André-Pascal, 75775 Paris Cedex 16, France. Fax (33 1) 44.30.63.34; email: pum.contact@oecd.org.

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Public Sector Modernisation: a New Agenda

by

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Executive summary

This paper argues that if governments are to adapt successfully to the changing needs of their society, they require better analytical and empirical tools, and more sophisticated strategies for change than OECD member countries have generally had to date.

The last two decades of public sector reform in OECD member countries have focused on the efficiency of government itself, and of the role of government in society. A range of new instruments and processes have been developed to this end and have been widely copied internationally.

It is now evident that such *instrumentalist* reforms can have unforeseen effects on government as a whole – and that the same instrument may perform very differently among countries.

Moreover, it appears that governments now face new pressures that require quite fundamental systemic adaptations. A concern for efficiency is being supplanted by problems of governance, strategy, risk management, adaptivity, collaborative action and the need to understand the impact of policies on society. This paper describes this new modernisation agenda, and suggests that new capacities need to be developed for addressing this agenda.

1. Introduction

Ten years ago the objective for reform of the public sector was greater efficiency. While first-generation reforms generally improved services, many reforms were ineffective and some, in some countries, impacted adversely on the government management system, and on governance values.

The need for improved governmental efficiency remains, but complex problems have emerged, creating pressure on governments for more profound changes to meet the requirements of contemporary society. As this next generation of reforms will be more concerned with “steering” than “rowing”, central government agencies themselves must become the objects of reform.

In some important respects the analytical tools and comparative information used in first-generation reforms were not up to the task. Member countries, and the OECD, need to build a new capacity to guide the systemic, cultural and governance dimensions of public management adaptation.

2. Public management in flux

The conditions under which OECD member countries operate are changing fundamentally. There are shifting relationships among state, market and civil society institutions, requiring “governance”¹ as well as management changes. With these new challenges, a government’s stance towards the nature of the public service is becoming a major policy issue across the OECD. Ten years ago only a few countries were seriously involved in public sector reform; now, the public sectors of all countries are having to be re-configured. Public management is receiving an unprecedented level of attention, and these pressures for change will not ease off in the next 10 years.

2.1. First-generation reforms – efficient but insufficient

*Many of these improvements are a matter of technical or operating efficiency – more outputs produced with fewer inputs... But as important as it is, efficiency in producing outputs is not the whole of public management. It also is essential that government has the capacity to achieve its larger political and strategic objectives... It will have to move from management issues to policy objectives, to fostering outcomes.*²

The first-generation pioneers of public sector reform faced similar problems in adjusting to a changing world economy. They looked for solutions in reducing public expenditure, freeing up the public sector labour market and greater use of market-type mechanisms in government. The rhetoric of the times had identified government as “the problem” rather than “the solution”, and the impression was created of there being a single generic problem – “bureaucracy” – to be addressed by a generic set of solutions – “reform”. It suggested a change from an unreformed to a reformed state, something coherent and purposive taking place over a limited time. Its primary goal was economic efficiency.

The flowering of public sector reform efforts in some English-speaking and Scandinavian countries in the late 1980s and 1990s brought new thinking and processes into public services to make them more efficient and more responsive to clients. The main policy differences among the countries involved were not in their goals, but in the degree to which the government did or did not seek consensus among those involved in the reforms.

The reforms were directed at “managerialising” the public sector. In the heat of rhetorical battle, the well-established term “public administration” became non-politically correct. It became fashionable to refer to public management because public administration was very much associated with rules – and part of the managerialist reform was to reduce the specificity of rules.

Have reforms in OECD member countries over the past two decades produced the desired results? The main impact of the reform period was to

change a long-standing view that public administration was unique to an individual country, and unique as a discipline. Shortly after a few countries undertook reforms to make government more affordable, there was a huge upsurge in interest in international comparisons, and in experimenting with processes and techniques from the private sector. It is argued now that some of this enthusiasm for international and private sector borrowing was naïve, but there is no doubt that the way public administration was thought about had undergone a deep and permanent change. From long being “closed shops”, governments opened up to new ideas on how to organise themselves.

In the course of modernising, many countries reduced their reliance on centralised regulation, giving managers autonomy in exchange for better accountability. A number of countries significantly reduced the cost of the public service by divesting activities and by using non-government service providers. Governmental processes moved away from the external control of cost, input and process to internal control and management by performance. These changes have, in many instances, led managers and staff to take more active and flexible approaches to the management of public services, breaking down the compliance-dominated culture that characterised some parts of government. In a number of countries, government agencies have introduced private sector approaches for dealing with citizens, building public image and mass communication.

Although there are different assessments of the practical results of modernisation, the most frequently noted achievement has been in public management efficiency – sizeable efficiency gains through reducing the range of activities in which government was involved, lowering staff levels and reducing real operating expenditures. However, these changes – though necessary in those countries facing fiscal problems – have not turned out to be a sufficient condition for better government. There have been two problems.

The first problem is that reforms have produced positive results but also some negative and perverse results when considering public management as a total system. For example:

- Decentralisation in some continental European countries contributed to renewed local democracy, but also increased problems of financial management and corruption at the local level.
- New Zealand’s tight output specification and accountability reduced unit costs for many services, but had perverse systemic effects on investment in future organisational capacity and attention to the outcomes of policies.
- In Australia, the deregulation of the public service and the adoption of an arm’s-length posture by the central agencies allowed management freedom but is currently considered to have deprived the Finance Ministry of the information necessary for it to adequately advise the minister.

- Privatisation of British railway services reduced costs, but also public confidence in service quality.
- In the United States, the capacity to contract in expertise provided flexibility in personnel policies but is considered by many to have had the perverse effect of running down the overall human capital of the federal public service (Paul Light, *The Troubled State of Federal Public Service*, 2002).

A second, closely associated problem has been that some reforms have had perverse impact on matters of governance – i.e. who takes public decisions and how these arrangements are safeguarded. For example:

- In the United Kingdom, the creation of Next Steps agencies gave rise to public concern about the relative responsibilities of ministers and chief executives.
- In the Netherlands, at the beginning of the 1990s, the use of independent administrative bodies (ZBOs) was criticised by the National Chamber of Audit for limiting ministerial responsibility and allowing a differentiation of management rules and administrative controls for unjustified reasons.
- In New Zealand, the creation of arm's-length non-commercial public bodies under decision-making boards raised public concerns about their accountability.
- In Canada, the use of one arm's-length organisational form had the unforeseen effect of removing some aspects of public expenditure from scrutiny by the Auditor General's Office.
- In a few countries, the movement of public accounts to accruals has so complicated the accounts that many parliamentarians feel their capacity to monitor public expenditure has been impaired.

Three different conceptual problems contributed to the insufficient attention to systemic and to governance effects of the first generation of reforms.

The first was the uptake of management ideas without sufficient attention to their inherent limitations. There has been a tendency towards reborn “scientific management”, with a strong emphasis on formal systems of tight specification and measurement. It is important to have better goals, targets and measures in government. However, the mensuration movement needs to be tempered by the fact that for complex activities – many of which are at the heart of what it is to be the public sector – a highly formalised approach to management has severe limitations. This approach failed decades ago in the private sector and in the public sector in command economies because it could not address problems of complexity and change, and because there are limits to how much information human beings can or do take into account when making decisions.

The second problem was failure to appreciate that, despite its size and complexity, government remains a single enterprise. Governments operate in a unified constitutional setting and coherent body of administrative law, and their performance is determined by the interaction of a few crucial whole-of-government levers such as the policy process, the budget process, the civil service management process and the accountability process, all within the ambient political/administrative culture. Because of that, a reform of one of these levers inevitably involves the others.

The third problem was a failure to understand that public management arrangements not only deliver public services, but also “institutionalise” deeper governance values and are therefore in some respects inseparable from the constitutional arrangements in which they are imbedded. For example, the idea of professional independence of the civil service, to ensure non-partisan continuity of policies, is most effectively expressed in the culture of the public service. Changing the incentive systems for senior civil servants may inadvertently undermine that professional independence, or some other important governance value such as the disposition of the civil service to work collectively.

Table 1. **A changing perspective in modernising government**

	Instrumentalist approaches	Systemic approaches
Environment	● Moderate uncertainty and risk ● Clear divisions of labour for actors ● Pressure to reduce public expenditure ● Pressure from market (transparency, anti-corruption)	● High uncertainty and risk ● Partnership among government, business, civil society ● Globalisation ● Pressure for credibility and predictability
Main Focus	● Delivery structures ● Management focus ● Incentives for efficiency ● Flexibility/autonomy ● Client/customer focus ● Specialisation ● Operational efficiency/accountability ● Output focus ● Short-term focus ● Single-purpose agency ● Differentiated issues/programmes ● Efficiency and service improvements	● Governance arrangements ● Policy focus ● Incentives for effectiveness ● Joined-up, whole-of-government perspective ● Citizen focus ● Integration, co-ordination (horizontal, vertical) ● Macro-efficiency – impact/accountability ● Outcome focus ● Longer-term focus ● Multi-purpose ministry ● Cross-cutting issues/programmes ● Risk management and fostering innovation
Challenges	● Poor macro efficiency ● Silo mentality ● Lack of co-ordination ● Weak in managing risk	● How to balance different approaches/values ● Capacity-building for adaptation to emerging challenges ● Creating new partnerships among stakeholders

3. The need for improved reflective capacity

The capacity of countries (and international organisations) to understand the dynamics of public sector modernisation, and its impact on public governance and management in the longer term, is still at an early stage of development. At this stage we lack both the conceptual tools and the empirical information to address this phenomenon. The following are proposals of areas needing further work.

3.1. Taking a whole-of-government perspective

The effort to improve efficiency has led to a reform discussion focused on instrumental/technical management tools. This “instrument fixation” has meant that changes have been made without due consideration of their effect on the wider governmental system – a deficiency noted in a number of recent reform evaluations. A key challenge is now to consider the use of these tools from a *systemic perspective* in order to promote the public sector’s overall capacity to adapt to challenges while keeping core values and public confidence.

3.2. Strengthened professional scrutiny

There is a fundamental problem in public management of separating rhetoric from reality, and hopes and aspirations from actual achievement. Much reform activity in governments exists in slogans and new formal processes but does not significantly change behaviour. Many more reform programmes are initiated than are ever followed through. There are a number of reasons for this to be so:

- First, public administration and its perceived shortcomings have become a more prominent item on political agendas. There is therefore a perpetual temptation for politicians and senior officials to be seen to be reforming, even if in reality not much is changing.
- Second, real change in government is very difficult. It requires important and upsetting changes to the *status quo*, and it must be consistently followed over a number of years if it is to become imbedded in the culture. There are political advantages in launching reform initiatives and political disadvantages in carrying them through. Hence the prevalence of reform initiatives that are abandoned before the critical mass-point of cultural change.
- Finally, it is intrinsically difficult to evaluate public management initiatives; and almost any fresh reform proposal, however ill-conceived, can produce a “Hawthorne effect” – the short-term benefit of giving a group of people more attention. This can generate a stream of initiatives that end up in a litter of redundancy in the management process. Human resource management is particularly prone to this (e.g. the introduction of

competency-based management, or 360-degree appraisal in organisations, without addressing fundamental issues of accountability). The growing popularity of performance measurement around the budget and reporting process is prey to some of the same problems – often creating superfluous information flows that nobody in fact uses in decision-making or monitoring.

Focusing on reality, not rhetoric or aspirations, presents a considerable professional challenge for the OECD and its member countries. The solution must lie in:

- developing a stronger capacity to reflect on governance and management issues from a whole-of-government and systemic point of view;
- gathering better empirical information on whether interventions are producing the desired behavioural change. Measurement is difficult in the complexity of public management, yet without it or some valid form of evaluation, we are slaves to theory, management fads and rhetoric. Upgrading professionalism requires collaborative work on how to identify, track and compare key behavioural changes;
- acquiring a better understanding of the time required for serious public management interventions;
- strengthening mutual assistance by putting relatively more effort into peer review and independent observation than country self-attestation, and by encouraging post-evaluation of major initiatives.

3.3. Diagnosis and risk analysis tools

Countries' responses to the pressures for change show that nations are very different. Their problems and reform options are determined by history and circumstances. Significant human problems rarely yield to a single intervention: there are no silver bullets. Effective remedial action not only requires orchestrated and sustained use of a range of means of influencing people's behaviour, but also an intervention strategy calibrated to local circumstances.

The implicit assumption of the heady beginnings of some first-generation reformers was that given political will, anything is possible. In reality, nations' choices are constrained by their social and political context, by "hysteresis" (the enduring influence of past traumatic events; *e.g.* a culture with tyranny in its past may resist allowing more centralised power) and by the presence or absence of political opportunities for major change.

Contextual variables of economic pressures, the influence of unionised labour, public attitudes to government, constitutional arrangements, vested interests and national culture mean that societies have different public sector

reform priorities and different areas where, for historical and cultural reasons, it is or is not possible for assertive action to be taken. We need to develop a stronger sense of the different contextual constraints within which different countries operate. For instance, those countries where agreement with organised labour is a *sine qua non* of civil service reform will have more to learn from each other than from countries where unions have much less influence.

Countries differ widely too in their **systemic characteristics**. Interventions that will work in one country may not work in another because of, for example, major differences in the public transparency of government action.

Finally, when a problem has emerged in government, it requires careful diagnosis to identify the possible *contributory factors* in the managerial environment. There is scope for tools to assist governments in:

- being precise about the problem they are trying to solve (reform is not an end in itself);
- identifying the factors in the managerial environment that give rise to the problem;
- formulating an intervention plan appropriate to the systemic characteristics and context.

Table 2 illustrates the four levels of analysis regarding the problem of corruption. Comparative international learning should go beyond generic instrumental solutions to sharing what does and does not work in government systems with similar characteristics and constraints. Country profiles drawn on this basis could be more useful than the current generalisations between groups of countries: *e.g.* Anglo-Saxon vs. Continental.

Table 2. **Factors potentially relevant to addressing corruption risk**

Risk	Contributory factors	Systemic characteristics	Contextual variables
Corruption	● Inadequate compliance with accounting and reporting rules	● Lobbying and party funding system	● Power of organised labour to resist change
	● Patronage in appointments	● Incentives and accountability of officials	● Capacity of the legislature to constrain Executive action
	● Undue influence by major vested interest groups	● Accounting and reporting standards and compliance	● Balance of power between head of government and ministers
	● Weak oversight of arm's-length public bodies	● Ethical and professional standards among officials	● Constitutional autonomy of lower levels of government
	● Secretive and unaccountable officials	● Senior civil servant system (elite/non elite, permanent or politically appointed)	● Citizens' interest in and expectations of official behaviour
	● Weak internal and external controls	● Official information disclosure regime	● Independence/assertiveness of judiciary
	● Weak safeguards for awarding government contracts	● Effectiveness of external invigilators	● Political capacity of Executive for hard decisions

3.4. Civil service culture and its place in good governance

The least systemically-oriented area of recent public management reforms has been human resource (HR) management. The deep incentives for public servants flow from civil service legislation and procedures, and from the culture which has, for most OECD member countries, developed over many decades, if not centuries. Yet contemporary public management attention tends to be on particular processes such as competencies, contracts, training or pay for performance. There is a danger that the constitutional, legal, cultural and leadership factors, which together create what is important and distinctive about public services, are not reflected on or are dismissed as the bureaucratic problem which must be “reformed”. Civil service governance, important to national governance, needs more attention.

The reason for the success of firms and organisations, over individuals acting independently, is that organisations allow the creation of a community in which mutual trust and a sense of joint purpose are developed, thus facilitating informal co-operation and information exchange. That community and the values and informal capacity for synergy it contains – the organisational culture – are the most important management assets of any organisation. Formal systems are designed to strengthen organisational culture, not displace it. In a well-functioning organisation, the aim should be to progressively lighten the burden of formal management arrangements, as members of that organisation “internalise” its mission and values.

Every organisation must rely on informal factors such as staff commitment and the sense of joint purpose if it is to be successful, even an assembly line manufacturer. In complex areas of activity where performance is impossible to measure in any comprehensive way, these informal cultural factors become the prime means of direction, motivation, co-ordination and control. There is no area of activity more complex than the policy domain of government, and despite progress in the areas of target-setting, performance contracts and measurement, this domain will always be governed by cultural means (Ouchi calls such control “tribal”).

3.4.1. Leadership and culture

That the core public service is controlled more by culture than by rules has long been recognised. Some administrations therefore attach high importance to building a closely-knit cadre of leaders and potential leaders with a strong shared sense of the national interest. This strategy of developing and socialising a hand-picked elite with generalist skills over the course of their careers has historically been a very successful way of assuring the co-ordination and continuity of the public service and of certain important governance values. In other administrations, leadership selection has been

less a matter of overt strategy than the result of informal assessment networks and patronage – including political patronage – among successful public servants who have attained the required level of seniority within their departments. This system of producing leaders also ensures cultural consistency and continuity, but with less attention to national vision and horizontality.

The first approach has come under fire in some OECD member countries because of perceived governance problems: the elite came to be seen as insufficiently representative of the people at large and/or unresponsive to new political direction. The second approach (sometimes caricatured as “Buggins’ turn”) tends to be criticised for producing leaders who lack innovation and are too bogged down in the *status quo*.

Both kinds of system are being modified in some OECD member countries by the introduction of market mechanisms such as term contracts, external appointments and performance management. There is also a trend in some countries away from in-house training and development of senior people and toward greater use of high-level short course management training, often at international business schools. There is also a countervailing trend to this movement towards the market, of politicians wanting greater use of party political appointments. That these innovations will eventually change public sector culture and therefore the civil service system is quite clear. What is less clear – but very important – is the long-term nature of that change. It is a matter for theoretical concern at least that the leadership model being pursued in some countries focuses on individual competencies rather than group socialisation around the national interest (except for political appointments, which imply some external socialisation process). Will this weaken the cultural glue of the future civil service?

3.4.2. Culture and change

Changing rules and processes can, but does not necessarily, change behaviour, and changed behaviour can, but does not necessarily, lead to cultural change. Systemic reform in the public sector requires clarity about the behaviour and associated attitudes and beliefs that are to be changed, an appreciation of how formidable the challenge of cultural change really is, and a multi-faceted intervention sustained long enough to achieve this change. Many public sector reform efforts have tended to be deficient in all three respects. Some HR interventions treat cultural change as if it can be readily and predictably achieved through the application of certain interventions – particularly speeches and training. This is a dangerous myth. Not only is cultural change very difficult, but its outcome is always uncertain.

Major change is uncomfortable and anxiety-producing, and because of this, organisations and their members have a natural instinct to resist it. They have a self-protective mechanism that gives priority to preserving their current interests. According to Schein (*The Corporate Culture*, 1999: 117), changing culture and behaviour has three stages:

- unfreezing: creating the motivation to change;
- learning new concepts and new meanings for old concepts;
- and internalising the new concepts and meanings so they are incorporated in self concepts and on-going relationships.

The distinction between behavioural change and cultural change is important because it includes the notion of critical mass in a reform process. Dedicated managerial attention can change officials' behaviour but it is only at the point where this behaviour has been internalised by the individuals and the groups – the point of cultural change – that it is likely to continue even without the dedicated managerial attention. Given that dedicated management attention is a critically scarce resource and therefore not sustainable in the longer run, a reform that does not reach the critical point of internalisation will slip back to the prior state once the dedicated change effort relaxes. Many attempted reforms do just that.

3.5. Implications for reformers

Considerations of culture, values and leadership have become more important in management generally, and are of particular importance in public management, especially at the interface between politics and administration. Examination of these issues within governments has suffered, however, from being seen as **too soft** – a poorly defined set of ideas superficially associated with certain HR interventions – but also as being **too hard** – involving deep and intractable issues of social behaviour beyond the reach of management. The challenge for governments is to recognise that the public service culture, and the relationship of leadership to it, matter a great deal; that certain public management policies do change the culture in important ways; but that these changes take place over a number of years and their impact is difficult to control or predict. What seems important is that governments develop a better understanding of culture and values in their public sector environment, and ensure that their instrumental interventions in the civil service system are informed by that understanding.

4. Towards improved intervention policies

4.1. Entry and sequence

Even within reforms relevant to the country's endowment and problem-set, public management literature provides very little guidance about how to decide the order in which reforms should proceed. Major changes in public management arrangements do not occur in a rationally planned and organised manner. Political opportunities for change open up in an unpredictable fashion – usually in response to high-profile public management failures or the emergence of new national challenges. What is important is that when such opportunities for change do emerge, the public sector advisers involved have a good understanding of the systemic consequences of different options, and a principled understanding of the sequence in which actions should be taken if the desired changes are to be effected.

The mistaken perception that countries share a common problem that needs reforming is often accompanied by the idea that there is a smorgasbord of public sector reform solutions available, any or all of which will be beneficial. This misconception under the label of “best practice” has had tragic consequences in some developing countries where reforms have tended to be pushed ahead faster than in OECD member countries because such reforms are imposed as conditions for loans and grants. Under the influence of such thinking there has been, for example, wholesale privatisation of public assets pursued in the absence of any wider legal and institutional framework, or public-private partnerships in countries where public and private interest are already inadequately distinguished, or public sector downsizing efforts which set off an anorexic spiral of reducing institutional capacity.

Fundamental to avoiding such problems is an intervention sequence, which is itself highly dependent on an understanding of the political/administrative culture of the country in question. Some broad lessons on sequence are beginning to emerge from work in developing countries. There is a growing consensus that:

- matters of constitutional governance should be dealt with before matters of administration;
- legal frameworks should be in place before dealing with administrative arrangements;
- a functioning core civil service is a pre-condition of more distributed public governance arrangements; and
- rule rationalisation and compliance enforcement should precede rule reform.

But these are still very general (and even now often overlooked by reformers hoping for quick results), and the area warrants a bigger investment in analysis and research than it has had to date.

5. Identifying and using “levers” of systemic change

One way of developing a better way of thinking about intervention policy is to be more clear on which kinds of change have systemic effects and which do not. Can we identify the systemic levers which will be of most importance for the coming decade?

On the basis of observing efforts in OECD member countries, we have concluded that much reform activity is relatively ineffective. There are two reasons for this.

The first, addressed above, is that reforms are often too narrow in their focus and do not address the underlying incentives and dynamics of the systems they are trying to change. For example, introducing a performance management system into an organisation without relating it in some way to the formal or informal incentives operating on senior managers, or of establishing the credibility of performance reporting, is likely to impose an added corporate overhead cost without the benefit of changed behaviour. Many public organisations have layers of modern-sounding management processes sitting uselessly and wastefully on top of systems operating according to traditional incentives.

Second, as also discussed above, the problem is compounded by the fact that public sector reform has become fashionable, and officials have incentives to exaggerate the degree to which it is being undertaken. A good deal of reform has more to do with rhetoric and presentation than substance.

There is therefore room for work on what interventions produce systemic change – and their strengths and weaknesses in different contexts. On the basis of the OECD's experience of reform to date, the following are the levers most likely to produce systemic change.

- **Major changes to the budgeting and financial management process.** In modern government the role formerly played by central planning has been taken over by the budget. The most powerful incentives for politicians and public servants are around the allocation and disposition of funds. The budget and accounting process has become the operational planning tool of government and provides the architecture for accountability. The role of the budget (and Finance Ministries) as a lever for change has been further strengthened by the current vogue for including performance targets and measures in the budget and accounts.

- **Major changes to the civil service system.** During the first-generation reforms, some of the biggest impacts – not always good – have occurred in those countries that have put large numbers of public servants outside the rules of the core civil service system through the creation of arm's-length public bodies. The other area of high impact has been major changes in the selection and incentives for senior public servants.
- **Major changes to public transparency and accountability.** Over the last decade the growing prevalence of laws requiring the disclosure of official information has been a powerful force in piercing the secrecy of government, and thereby closing the power gap between officials and the public. Also, more local transparency measures such as customer charters and remedies, public score sheets and “league tables” appear to have a high impact on behaviour – though most applicable to the more measurable functions of government. The public disclosure of evaluation and review reports, especially in areas such as health and education but also more generally, can have a high impact.
- **Changes in powers of departments vis-à-vis central agencies.** “Letting managers manage” is one of those areas where there is often more rhetoric than action – mainly because such delegations are often incomplete. For example, in the Netherlands, the first agencies created after 1994 were supposed to implement a results-oriented management model. At first, this only led to major frustrations, as the reporting policy department continued its inputs-oriented management. However, in those countries where departments have truly been delegated managerial power over both money and staff, real change does occur – sometimes to the point of the centre wanting to rein them back in after a few years.
- **The creation and closure of organisations.** This is a very powerful lever for change – and also a risky one. Political benefits are front-loaded in structural reform. Confronted with an issue of public concern, a minister or senior official can create new agencies or parts of agencies or invigilating units, or boards, and this demonstrates political or managerial assertiveness. The display becomes even more convincing when the new body is named after the problem being addressed. However, creating a new body does not of itself solve the problem, and may create new ones.

One risk is redundancy: if the new body is not integrated into how the system as a whole takes decisions, then, apart from the political benefits at the point of creation, the entity becomes a useless overhead cost. Also, the use of structural change as a lever of reform needs to take account of the high risks of new start-ups in areas of government where cultural controls are paramount. Such new organisations can face very serious problems in the absence of culture-carried assets such as institutional memory and

professional networks, and it can take several years before they become effective – and, in this weakened state, then may be vulnerable to scandals and further structural change.

- **Use of private sector service providers.** The use of private sector providers for both internal and external services has considerable impact, not just through displacing public servants but through putting pressure on government performance by allowing a comparison of cost and quality, and by providing government with greater operational flexibility. Generally, in-sourcing and out-sourcing seem to have worked well. Where problems have arisen, they have tended to be with complex projects (such as major IT investments) where government has lacked the capacity for adequate project management. Very large undertakings, however, especially those using private finance, have sometimes created governance problems when the activity has become politically sensitive (e.g. the use of the private sector in air baggage screening), when the private sector party has been seen as exerting too much influence on government actions, or when the political costs of project failure are such that private investors can ride free on a *de facto* government underwrite.
- **Devolution or centralisation of decision-making power.** As with delegation of management, sometimes formal changes are not accompanied by the reality of devolution. However, a real shift of decision-making responsibility has important consequences. An interesting comparison is that of the boards of arm's-length public agencies. Where these boards have, in effect, been advisory, these bodies have operated very much as delegates. However, some countries have introduced boards in non-commercial public bodies with decision-making powers analogous to those of the board of directors of private companies. This category of agency has given rise to numerous political and governance problems.

For the reasons discussed, because these levers can indeed change behaviour, they need to be operated judiciously with a clear sense of the problem being addressed, and an understanding of their dynamic, longer-term, cultural consequences. The converse of our hypothesis is that if a reform effort is not using one or more of these levers, it is most unlikely to be capable of systemic change. There are an array of instrumental interventions in such areas as strategic planning; evaluation; information technology; performance management; management information; performance pay; and visions, missions and values that will have real impact on behaviour only if used in support of one or more of the systemic levers above.

6. A new agenda – and a new capacity

The core capacity which needs to be strengthened if public sector modernisation is to be managed successfully in the future is the ability of governments to reflect on their public sector arrangements as a total system. This requires:

- better **diagnostic and risk analysis tools** (recognising the important differences between one governmental situation and another);
- deeper understanding of **civil service culture and leadership** and their critical place in public governance;
- more empirical **research and data on behavioural or attitudinal change** (recognising the prevalence of empty rhetoric and superficial action in this area);
- **improved intervention and change strategies** – which recognise both the difficulty of achieving sustained behavioural change, and the fact that change must proceed in a managed sequence.

Notes

1. “Governance” as used in this paper refers to the distribution and safeguarding of power and authority. Public governance deals with how state authority and decision-making are allocated, and how these arrangements are kept safe in terms of preserving constitutional values over time.
2. Schick, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, 1996: 87.

Improving Government Decision-making Practices for Risk Management

by

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1. Introduction

Conventional risks, such as environmental degradation, tend to take on new dimensions due to increasingly extreme weather conditions, growing geographical concentration of populations and wealth, etc. Emerging issues, such as new diseases, biotechnologies, bio-terrorism, are occurring, many of which are characterised by extreme uncertainty and the possibility of extensive harm. Government capacity to adjust to traditional and new risks seems increasingly challenged by modern complexities, while at the same time people seem more ready to accept risk resulting from “private” decisions rather than those resulting from “public” decisions (for example most consumers seem ready to assume the uncertainty resulting from the use of cellular phones or pharmaceuticals).

This paper will consider lessons for decision-makers, drawing mainly on the experience of managing global risks, particularly those threatening the environment and human health (financial and economic risks will be left mostly outside the scope of this paper). The focus is on lessons for improving internal practices for the management of government decision-making. Therefore, this paper deals primarily with the integration of risk management practices at the different steps of the decision-making process. It does not cover wider governance aspects, in particular consultation and participation mechanisms, transparency issues and the role of the media. However, it should be emphasised that these mechanisms are also key to the success of risk management as well as to well-functioning internal management mechanisms. Similarly the paper does not specifically address the complexity of the relationship between politicians, bureaucrats, citizens and scientists, who have various impacts and roles across the different steps of the policy process.

These factors require sustainable efforts to integrate risk management in decision-making practices. This is true at the different stages of the policy process. Policy-makers need to determine the nature of risks, to manage uncertainty, to take effective decisions and to learn from decisions in order to improve risk management practices. This presentation will follow this “cycle”.

2. Determining the nature of the risk

2.1. Definitions

Risk can be generically defined as “the probability that the actual input variables and the outcome results may vary from those originally estimated” (Remenyi, 1999). Thus, risk can inherently be both positive and negative.

First one should try to differentiate risk from hazard, which are two inter-related but distinct concepts, with different implications for policy-makers. A hazard represents an unpredictable event or a chemical, physical or biological substance that has the potential to harm the economy, health, the environment, etc. In terms of frequency and strength, true hazards remain broadly uninfluenced by the increase in human activity over time. Fortunately, many hazards can be contained, so not every potential hazard poses an actual risk. A risk, in turn, is *the likelihood of adverse effects (including arising from exposure to a hazard) resulting from two factors, the probability of exposure and the severity of the consequences*.

Box 1. Short typology of risks

In order to appreciate the nature of risk, a distinction is usually made between natural and man-made risks. This distinction is not always as easy to draw as it may first seem. For instance, flooding is usually considered as a natural catastrophe, whereas it can also result from a mistake (e.g. regrouping of lands).

Natural disasters and accidents constitute the first category where the public expects there to be well-developed plans to respond – and to ensure that in the case of accidents there is no recurrence. This category includes risks related to hazards (e.g. earthquakes). This is the “traditional” category of risks, although they may have increased in frequency and intensity in recent years (e.g. possible side-effects of climate change).

New technologies are a field of emerging risks where public aversion to risk at any level has been increasing. Technology-related risks are often an area where confidence in governments’ objectivity and the degree of reassurance offered is decreasing. This is particularly true of the consequences of accidents/failures in large-scale units (e.g. nuclear power plants, supertankers), major dysfunction of network technologies (e.g. cyberterrorism), and major accidents related to biotechnology (e.g. spread of harmful “rogue” genetically modified genes, bioterrorism).

Box 1. Short typology of risks (cont.)

In addition to these two major categories, the provision of services, particularly in the medical field, is also raising important issues related to potential risks. In general, the medical field is less tolerant of failure than in the past. That is especially true of state provision, but it also applies to private sector provision where there is an expectation of state regulation. The emergence of new diseases (*e.g.* AIDS, BSE), resurgence of diseases hitherto thought to be largely eradicated (*e.g.* TB, malaria), as well as issues related to possible pandemics (*e.g.* influenza) are very significant phenomena.

Risk is also a component of long-term planning and the evaluation and management of large-scale investments (*e.g.* IT investment). Long-term planning typically generates political risks, where particularly in the case of long-term strategies, early and unpopular action is required, but where the penalties for inaction appear remote or the benefits are not immediately evident.

2.2. Managing uncertainty

Linking risk to decision-making entails the implicit recognition that risk has “political” implications. Government response to risk cannot be considered as a purely technical matter to be solved by experts on the basis of scientific evidence. In most cases, the decision remains ultimately in the hands of decision-makers, who are accountable to citizens. Politicians, and more generally senior officials, need to exercise their judgment. The existence of sound management guidelines can therefore be a real asset in the formulation of the most effective policy responses.

Risk management implies that policy-makers have the capacity to identify the nature of the specific risk to be acted upon and to find the most appropriate response according to their own political choice and accountability. But uncertainty being at the heart of risk, risk management becomes much more challenging than “business as usual”. Therefore, managing risks is very much about sound management of uncertainty.

This cautious approach, while frustrating in its complexity, permits regulators and political decision-makers to evaluate various options for controlling risks, without being restricted to a predetermined risk estimate and a single control option. Thus, it should be clear that a series of crucial decisions are embedded within the risk management process and that these are the primary responsibility of the decision-makers. However this implies

two main steps for policy-makers in determining the nature of risks: *risk estimation* and *risk characterisation*.

Risk estimation is the quantification of the *likelihood* (i.e. probability) that adverse effects will occur. When the likelihood exists (e.g. environmental risks), the framework for risk assessment helps in organising the gathering of information and the scientific interpretation of facts that help formulate regulatory decisions and management strategies. It provides judgment on whether or not adverse effects will occur, and provides the calculations necessary to estimate the extent of such effects.

Risk can be estimated in one of two ways:

- According to one common technique, failure mode and effect analysis, analysts try to identify all the events that might contribute to a system breakdown. Then they compile a complete description of possible failure.
- For risks where bad outcomes rarely occur, they can be calculated indirectly, by estimating the theoretical level of human exposure and the potential severity of health effects as predicted by experimental studies (based on subjective judgment).

Interesting examples can be found in the health and the environment sectors. In the environment sector it is significant in the event of actual or predicted exposure to a substance. Ecological risk assessments evaluate ecological effects of natural events or human activities such as draining of wetlands or release of chemicals. Ecological risk assessment consists of three major phases: i) problem formulation; ii) analysis; and iii) risk characterisation. Methodologies for the estimation of health-related risks are presented in Box 2.

Risk characterisation is the combination of hazard identification, dose-response information, and exposure information. The final assessment should provide all information pertaining to the decision at hand, including such factors as the nature and weight of evidence for each step of the process, the estimated uncertainty of the component parts, and the distribution of risk across various sectors of the population.

Risk characterisation is the estimation of the incidence and severity of the adverse effects likely to occur in an environmental compartment, due to actual or predicted exposure to a substance, i.e. integration of the effects and exposure assessments. Risk characterisation integrates the exposure and effects profiles. Risks can be estimated using a variety of techniques, including comparing individual exposure and effects values, comparing the distribution of exposure and effects, or using simulation models. Risk can be expressed as a qualitative or quantitative estimate, depending on available data. In this step, the assessor also discusses the results with the risk manager. For instance, asteroids would have an enormous impact on environment and

human health (risk characterisation) but their probability (risk estimation) is very low. On the contrary, the impact of global warming is still indeterminate (risk characterisation) whereas its probability (risk estimation) is high.

Box 2. **Estimation of health-related risks**

Human health is an example of a sector where estimation is crucial. Human health can be threatened under many circumstances including the full range of unpredictable diseases, diseases with various levels of probability (e.g. epidemics and pandemics, but also for example diseases resulting from exposure in different circumstances, including in hospitals), exposure to toxic substance, etc. It can follow the methodology described below.

Hazard identification is the first step in the process of health risk assessment. It involves weighing the available evidence and deciding whether a particular substance has an adverse health effect. It may also involve characterisation of the behaviour of a chemical within the body and its interaction with organs, cells or even parts of cells.

Dose-response assessment is the process of characterising the relationship of the dose of the toxicant received and the incidence of adverse effects in the exposed population.

In the *exposure assessment*, exposure and dose to humans are estimated. Exposure occurs when humans come into contact with a toxic pollutant. The dose, on the other hand, is the actual amount of the substance taken into the body.

Exposure modelling provides useful support when inadequate research or epidemiological data exist.

2.3. **Ex ante evaluation**

Once the risk has been estimated and characterised, effective public decisions must be supported by a capacity to carry out evaluation prior to the decision (*ex ante* evaluation). This step will be the necessary precondition to taking the “political” decision of acting or not acting. Evaluation by policy-makers will need to be based on access to the most relevant information. This calls for facilitating access to scientific evidence. Efficient and sustainable solutions will of course not come easily from translating scientific “messages” but from the right balance between well-understood scientific evidence, strategic or political choices, and public acceptance.

Sound science requires that an observed pattern of events should not be accorded cause-effect significance unless confirmed by careful data and thorough statistical analysis. This is an attempt to minimise the likelihood of “false alarms” which accepts that a limited number of real effects may go undetected for a substantial period of time. The principle of sound science will restrain decision-makers from attempting premature or fallacious judgments about hazards that may not constitute meaningful threats. It requires that the decision to act be based on the reasonable probability of harm that constitutes a significant risk.

But determining the exact level of risk remains a complex task. Risk evaluation examines the economic and social issues influencing the selection of control options intended to ensure acceptable levels of risk. These considerations deal extensively with individual and societal values, and thus go far beyond the scientific notion of empirical (measurable) physical quantities. Instead, risk evaluation techniques focus on the exploration of “normative” issues related to what “ought to happen” in a society that seeks to provide citizens with effective health and environmental protection in an equitable but affordable manner. A scientific model can be built on the basis of policy processes where management decisions are based on stakeholder input but constrained by scientific efficiency.

The complexity of dealing with environmental risks means, for example, that scientific risk estimates have little meaning to non experts, who tend to focus on the severity of consequences for a given risk rather than the numerical probability of its occurrence. Risk is often evaluated according to a subjective perception of the threatening characteristics of a particular hazard. In order to compensate for such distortions in the public perception of risk, decision-makers and stakeholders must rely on a broad and systematic review of the economic and social dimensions of risk in order to provide a more pragmatic approach to the selection of effective risk-reduction strategies.

Despite the best efforts of scientists and economists to explain and defend the risk estimates and cost-benefit ratios that they have calculated, public acceptance of risk continues to be greatly influenced by factors unrelated to science or economics. Many of these are social factors, which include, among others, *risk perception* and *comparative risk*, i.e. in benchmarks between regulatory jurisdictions. It is particularly interesting to compare the consistency between different regulatory bodies regarding risk/exposure estimates, the relevance of risk estimates, and the expected impact of various risk reduction options. *Risk equity* requires a careful examination of the economic benefits and burdens especially when vulnerable subgroups or disadvantaged minority groups are disproportionately exposed.

Box 3. Examples from the environmental sector

Economic evaluation considers the projected costs of implementing a programme, together with corresponding benefits of expected future improvements. This approach provides risk managers with the ability to evaluate and select the best available environmental control strategy from a range of proposed options. It also involves assignment of subjective values, usually expressed in monetary terms, to quantify health benefits gained from the reduced incidence of disease and lessened risk of premature death. Several different types of economic analysis techniques can be used at the risk evaluation stage. The most comprehensive and most complex risk evaluation method is termed socio-economic impact analysis (SEIA). Its application in risk evaluation is usually restricted to evaluating the impact of major new regulatory initiatives proposed by government agencies. It contains the elements of a formal cost-benefit analysis and also examines effects that may include the anticipated impacts of proposed new government regulations on issues such as the distribution of income, technological progress, employment, etc.

Social evaluation is based on the notion of *acceptable risk*. It is an active value, wrongly influenced by societal norms and expectations about safety. Safety, therefore, does not denote the absence of risk, but rather the acceptability of risk under certain conditions defined by social influences. Acceptable risk is determined less by the objective level of risk than by the subjective risk tolerance of the exposed individual.

Ideally, *ex ante* evaluation should lead to a “middle ground” where the majority of substantial risks are effectively addressed and the majority of insignificant ones are dismissed. Of course this should be considered as a “goal” to be appreciated case by case.

3. Taking effective decisions

Once the decision has been “prepared”, decision-makers must take the most effective decision among the existing “options”. One possible option should be not to launch action if the risk is not considered sufficiently significant. Other options may be quick reaction or long-term measures. Options must be evaluated according to a value system that includes social, financial, economic and political considerations. These goals can be reached if specific criteria are identified to help managers develop adapted approaches, focusing for example on *exposure reduction* or *risk reduction*.

Policy-makers may then choose to apply a variety of methods ranging from *regulatory measures* to other *alternative measures*.

3.1. Precaution

When scientific evidence does not exist, a well-defined management process also needs to include precautionary methods in order to facilitate public choices. Past confidence in the capacity of policy-makers to take fully reliable decisions on the basis of advice from scientists is no longer accepted by the public. The lack of certainty of the “good response” (e.g. genetically modified organisms, GMOs) is a good illustration.

This development calls for “precautionary approaches” to risks, based on the idea that fundamental requirements (e.g. environmental and human safety, public health, etc.) are irreplaceable human goods. Protection of our surroundings, of public health, etc., should be treated as the paramount concern for regulatory organisations and governmental decisions. All other concerns, such as the cost of control or adverse economic impact, would then become secondary in public policy, although it is necessary to consider the cost-effectiveness of the proposed control measures.

Precautionary approaches are easy to define but far less easy to put into practice. For example, they impel decision-makers towards action in situations where a serious or irreversible health hazard is considered to be a possibility, although the probability of the suspected hazard is imperfectly understood.

Major efforts are currently being made at the international level to clarify those situations in which precaution would be considered appropriate. The main question is not so much about the legal definition of a “precautionary principle”, as about the capacity to harmonise decision-making practices and regulations in order to make precaution possible.

3.2. Risk control methods

The risk control phase focuses on choosing a particular course of preventive or remedial action from a number of possible control options, all of which are intended to reduce risks through various strategies. In contrast to the apparent objectivity of the previous analytical steps, risk control should consider a myriad of inherently economic, social and political issues, as well as carefully reviewing the critical scientific findings contained in the risk characterisation report. For reasons of democracy and efficiency this would require monitoring a process open to civil society. It is important that risk control deliberations take place within an open and transparent participatory process that involves continual consultations with all stakeholder groups as

well as the general public, using the full range of available risk communication and consensus-building tools.

The basic objectives of risk control will include consideration of the following major issues:

- determining if a hazard represents a level of risk greater than society, as represented by the participating stakeholders, is willing to accept;
- considering and developing what risk minimisation actions are available;
- selecting a feasible and effective course of action to reduce or eliminate unacceptable risks.

Control options for consideration could include many different types of initiative such as revision of regulatory standards, introduction of consensus guidelines or adoption of voluntary codes of practice.

Alternative strategies for controlling risk are identified as risk control options. They will all be evaluated in terms of their effectiveness in reducing harmful environmental effects, the cost of implementing the option, and the anticipated impact of the proposed control measures on other stakeholder objectives, including the possible introduction of new environmental/socio-economic problems.

3.3. *Determining the right costs and benefits*

After various potential options have been identified, each option must be appraised according to its effectiveness, feasibility, costs and anticipated benefits. There are several key questions that will routinely be addressed when stakeholders consider each possible option:

- What are the option's expected benefits and costs?
- Who benefits and who bears the cost? What are the equity and environmental justice considerations?
- How feasible is the option, given the available time and resources for its implementation? What are its legal, political, economic and technological limitations?
- Does the option increase certain risks while reducing others?

The expected costs and benefits of each control option will usually be estimated by quantitative economic analysis. However, the technological and social feasibility of a particular option is more difficult to determine by formal quantitative measures.

A particularly contentious issue when evaluating the *feasibility* of an environmental control option is a *political* one – the fair distribution of costs and benefits, often termed risk equity. It is therefore crucial to review the likely impact of various control options on specific disadvantaged groups –

those with disproportionate environmental exposure, pre-existing medical conditions or identifiable socio-economic liabilities.

3.4. *Intervention: choosing the right tools*

Regulatory approaches have been the traditional policy response to risk, particularly in situations of unacceptably high risks associated with high exposure. A range of traditional regulatory approaches is available to risk managers as risk-control options. A common feature of all such measures is that they maintain emission and exposure standards through the force of law, with potential economic or criminal penalties for serious infractions.

The development of air quality initiatives over the past 25 years is a good illustration of how risk reduction options evolve as the issues become more complex. Air quality regulations allow the pollutant emitter to be given a permit or license that identifies an acceptable emission level or effluent concentration. It is important to note that emission permits and approvals are developed and managed on a case-by-case basis. Consequently, facilities and industries may be regulated in a non-uniform manner, and a variety of factors may influence the specific provisions of the permit.

Systemic risks imply co-ordinated responses at the international level. Accordingly, national governments' freedom of action tends to be increasingly restricted by international regulations. This is particularly true at the European level, the more recent example being food safety. In this case, the question is to find a balance between disguised protectionism and protection of consumer health through European regulations.

Box 4. European Commission regulations on BSE

The European Commission has put in place a comprehensive set of community measures in relation to BSE:

- the requirement to remove specified risk materials (SRMs like spinal cord, brain, eyes, tonsils, parts of the intestines) from cattle, sheep and goats throughout the EU starting 1 October 2000 from the human and animal food chains;
- the introduction of targeted testing for BSE, with a focus on high-risk animal categories, starting 1 January 2001;
- prohibiting the use of dead animals unfit for human consumption in feed production starting 1 March 2001.

Box 4. **European Commission regulations on BSE (cont.)**

In response to the crisis in consumer confidence that followed the introduction of the rapid BSE tests, and the confirmation of the first cases in countries that had not yet detected BSE cases until then, the Commission has taken a series of additional measures:

- a ban on the use of ruminant meat and bone meal and certain other animal proteins in foodstuffs for all farm animals, to avoid risks of cross-contamination, at least until end June 2001;
- the testing of all cattle aged over 30 months destined for human consumption;
- the extension of the list of specified risk materials to include the entire intestine of bovines and the vertebral column;
- a ban on the use in feed and food of mechanically recovered meat derived from bones of cattle, sheep and goats; and
- a proposal to tighten up treatment standards for ruminant fats is expected after the relevant scientific advice has been updated.

In addition to new regulatory approaches, there has been a noticeable development of alternatives to regulations for managing emerging risks, particularly in the field of environmental protection. These include, for example, voluntary agreements, market-based incentives, auditing, economic incentives and taxes, consumer education, and labelling. For some of these instruments, particularly in the case of voluntary agreements, it should be emphasised that efficient measures cannot rely solely on good will, but require provisions to ensure the “binding effects” of voluntary commitments.

Box 5. **Non-regulatory approaches in the chemicals field**

- *Voluntary pollution management initiatives*: The chemicals producers’ RESPONSIBLE CARE programme is a leading example of a voluntary initiative adopted by the chemical industry associations in Canada, the United States and Europe, to encourage cross-fertilisation of best practices and innovative solutions for control of industrial emissions during the production and use of chemicals.
- *Emission release inventories*: Industries report the emission of the most common toxic chemical pollutants from their industrial facilities. Publication of such inventories provides a powerful voluntary incentive for industries to reduce emissions of toxic chemicals in response to public reactions to the published inventories.

Box 5. **Non-regulatory approaches in the chemicals field** (cont.)

- *Market-based incentives:* More recently, an innovative non-regulatory approach termed “emissions-reduction trading” has been encouraged by some government regulators. A corporation that has significantly reduced its environmental emissions may receive financial credits of trading value that can be sold to other industries that are otherwise unable/unwilling to reduce their own emissions.
- *Environmental taxes:* Attempts have been made in many countries to internalise the costs of pollution according to the “polluter pays principle”, requiring producers and consumers to assume the full costs of harmful environmental impacts by including these costs in the price of the product or service sold. Externality costs are often added to the selling price of goods as an environmental tax (a so-called “green tax” or “eco-tax”). It is expected that producers will be encouraged to act in rational self-interest to minimise the pollution effects.
- *Environmental auditing:* This involves the systematic examination of business properties (land, buildings and equipment) and production activities for any potential environmental hazards that could represent future liabilities to the company. Audits constitute an almost obligatory step in the legal requirement for diligence – a process which demands that the owners and managers of a business take all the necessary steps to ensure that their properties and production activities meet the legal requirements for public health and safety.
- *International agreements and conventions* under the auspices of the World Health Organisation, the United Nations Environmental Program, the OECD and other multinational bodies.
- *Consumer education and labelling:* The promotion of pollution prevention concepts and public awareness can include information and educational programmes to modify behaviours by alerting consumers and technology users of environmental risks.

Source: Environmental Health Risk Management, a Primer for Canadians.

4. Key public management issues for improving risk management

Efficient risk management is only possible if the public sector is engaged in the “learning process” of adapting its overall management practices in a favourable way. This requires efforts to ensure policy integration, to create the conditions for effective implementation of the decision, to ensure good communication and to monitor *ex post* evaluation.

4.1. Improving policy integration

Risk as an element in decision-making is not always fully understood at senior policy levels in government. Those that do understand the nature of risk and its assessment are often outside the central group of decision-makers, sometimes unable to communicate their conclusions in a non-technical form, and frequently do not fully appreciate how the process of decision-making works. Nor are the principles of risk management well embedded universally at the centres of government, although the appreciation of its importance is growing as the number and magnitude of disasters and perceived threats increases. Equally important is the rising expectation that governments have a central responsibility either for risk prevention or for managing the consequences. Finally, as the BSE inquiry in the United Kingdom showed, there is a need to examine ways in which risk and its implications for decisions and action can best be communicated to Parliaments and the public.

Increasingly, risks have to be dealt with at the regional and international levels as they affect all countries and ignore borders. Indeed, unless international co-operation is institutionalised, systemic risks can spread and entail a series of adverse effects in several countries. Recent examples in the heart of Europe have illustrated this evolution, including attempts to adapt the role of the European Commission to deal with safety issues.

4.2. Implementation issues

In the past, the action phase for stakeholders focused primarily on complying with regulations. There has been a shift towards voluntary compliance and greater involvement of stakeholders in developing both risk management strategies and implementation plans. These new conditions create challenges in terms of the public sector capacity to manage good implementation.

The assignment of roles, responsibilities and accountabilities should be agreed upon early in the process including:

- how and when the risk management strategy will be carried out;

- the roles, responsibilities and accountabilities of individuals and organisations;
- plans for communication and involvement of interested stakeholders;
- criteria that will be used for monitoring and evaluation;
- training, staffing and financing requirements.

In the specific case of a major emergency, achieving a combined and co-ordinated response requires the emergency services to be closely linked with those of local authorities and other agencies. For instance, in the United Kingdom, a national structure called “the strategic co-ordinating group” has been established. It ensures that involved parties understand their role in the combined response and how arrangements across different levels of management inter-relate in the event of an emergency.

Similarly, international co-ordination is not an easy process when dealing with long-term risks like global warming, as the absence of a sense of emergency can lead to inaction. Risk perception may vary across different countries (*e.g.* in the field of environmental protection), which makes things difficult.

4.3. Communication issues

Good communication has become essential to the success of complex and sensitive policies, and is therefore essential for managing risk. Good communication must be closely associated with existing consultation and participation processes, and should contribute to informing the public, overcoming differences in the evaluation of risks, developing alternatives to top-down controls and overcoming opposition to decisions. The first task of any communication strategy is to identify the “recipients” of risk communication. These should cover groups of stakeholders already associated with consultation and participation processes, and may include groups that are affected or may potentially be affected by the risk, risk managers and groups that are affected by any efforts to manage the source of risk. Stakeholders may include the decision-maker(s), community groups, local governments, public health agencies, businesses, labour unions, the media, individuals and groups, environmental advisory organisations, and provincial and federal government agencies.

Risk communication is also required in order to select a formal risk assessment procedure. The various options (*e.g.* risk assessment, risk benefit assessment, etc.) should be considered and the criteria for choosing an appropriate procedure should be clearly defined. The objectives of all stakeholders should be made as explicit as possible.

Risk management options such as science-based standard-setting or the various precautionary measures are often a controversial issue in risk debates. If the stakeholders do not reach a consensus about which management options to focus on, the result may well be confusion and a deterioration of communication.

In the end, risk communication should enhance the view that determines what is and is not an acceptable or tolerable risk is a political and societal decision, not a technical one (*Developing Dialogue-based Communication Programmes*, Wiedemann and Schütz).

Table 1. **Guidelines for Communication in Environmental Health Risk Management**

Risk management step	Risk communication task
Risk identification	● Identify stakeholders ● Determine their level of involvement
Risk assessment	● Consult stakeholders in defining scope of issue ● Develop stakeholder analysis for ongoing verification and refinement ● During the risk estimation process: ◆ discussion of source and exposure issues ◆ communication of results to stakeholders ◆ assessment of changes in knowledge/perception in light of new information
Risk evaluation	● Elicit stakeholder perceptions of the risk and benefits, and the reasons for these, if possible ● Assess stakeholder acceptability of risks
Risk control	● Consult with stakeholders to gain input into identifying and evaluating control options ● Inform stakeholders of chosen strategies for risk control and financing ● Inform stakeholders of benefits, costs and any risks associated with proposed control options ● Evaluate acceptance of control options and residual risks ● Determine if risk trade-offs might be possible
Implementation (action)	● Communication of risk control decision and implementation
Monitoring	● Ensure implementation of communication strategies ● Monitor changes in needs, issues, concerns of existing and new stakeholders

Source: Environmental Health Risk Management, a Primer for Canadians.

4.4. Ex post evaluation

The *ex post* evaluation of the project is the last stage of the risk management process but its importance is crucial. It will enable the necessary “learning process” to improve future decisions. We suggest the identification

of three objectives of monitoring and auditing environmental risk programmes, as follows:

- *Improvement of scientific knowledge* is a prerequisite for any evaluation. For example, feedback from prediction accuracy audits should be used systematically to improve predictions for future projects, and monitoring programmes can improve scientists' understanding of cause-effect relationships.
- *Access to information* is also crucial; capacities should be developed to better connect decision-makers to the relevant information. This effort must be sustained over the longer term. Government should also develop a longer-term view on issues, which is particularly challenging considering the short-term priorities resulting from the pace of electoral cycles.
- *Better public acceptance*: ongoing monitoring and audit programmes may allay public concerns about the effects of a particular activity or project and lead to improved public acceptance of proposals. The results of such programmes may also legitimise the decision-making process.

4.5. Ensuring accountability

The consequences of managerial choices may have critical implications for citizens. Unlike academics, decision-makers will be held politically and even judicially accountable for their appreciation of risks. Accountability is a cornerstone of democratic risk management. It should rely on clear responsibilities for decision and action.

Of course, a well-functioning judicial system is a precondition. But specific mechanisms should also be developed to evaluate both collective (e.g. as a member of government) or individual accountability. For example, compliance audits can verify that projects have been correctly implemented and are being operated in accordance with approval conditions and relevant environmental standards. Monitoring programmes provide feedback on the actual impacts that arise from a project, thereby enabling these to be understood and managed.

5. Conclusion

Risk management presents clear challenges for decision-making. Sound risk management is necessary to prevent, detect, manage and learn from risks at policy level. It becomes particularly important with regard to the emergence of new risks. It is also a challenge to traditional decision-making: to be truly efficient, risk management practices must be supported by coherent policy frameworks, which is not always the case. Inter-sectoral co-ordination and good horizontal information flows are critical factors in achieving a reasonable degree of coherence. In many countries, for example, the fact that

the Ministry of the Environment and the Ministry of Agriculture have had conflictual and uncoordinated views on issues has sometimes weakened capacities to deal with emerging risks (*e.g.* food safety). Future efforts should focus on improving internal management practices, building public trust and developing longer-term capacities in the public sector.

Accrual Accounting and Budgeting: Key Issues and Recent Developments

by

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1. Introduction

Cash and accruals represent two end points on a spectrum of possible accounting and budgeting bases. The cash end of the spectrum has traditionally been applied by OECD member countries for their public sector activities. In recent years there has been a major trend towards the accruals end of the spectrum in member countries. About half of member countries have adopted accruals to one degree or another. The tables at the end of this paper provide details on practices in individual member countries. Several general comments can be made about the use of accruals in member countries.

There is much greater acceptance of accruals for financial reporting than for budgeting purposes. This does not appear to be a temporary snapshot as countries migrate to accrual budgeting but rather a firm view among a number of member countries. Two reasons are most often cited for this. First, an accrual budget is believed to risk budget discipline. The political decision to spend money should be matched with when it is reported in the budget. Only cash provides for that. If major capital projects, for example, could be voted on with only the commensurate depreciation expense being reported, there is a fear that this would increase expenditures for such projects. Second, and somewhat contradictory to the first reason, legislatures have often shown resistance to the adoption of accrual budgeting. This resistance is often due to the sheer complexity of accruals. In this context, it is noteworthy that the legislatures in those countries that have adopted accrual budgeting generally have a relatively weak role in the budget process.

The problem, however, with applying accruals only to financial reporting and not to the budget is that it risks not being taken seriously. The budget is the key management document in the public sector and accountability is based on implementing the budget as approved by the legislature. If the budget is on a cash basis, that is going to be the dominant basis on which politicians and senior civil servants work. Financial reporting on a different basis risks becoming a purely technical accounting exercise in these cases.

Notwithstanding these concerns, more and more member countries are adopting accruals for their financial reporting. This typically proceeds with individual ministries and agencies first adopting accruals for their own reporting. Over time, more and more ministries and agencies adopt accruals, and then the financial statements for the whole-of-government are presented on an accrued basis.

The objective of moving financial reporting to accruals is to make the true cost of government more transparent; for example, by attributing the pension costs of government employees to the time period when they are employed and accumulating their pension rights rather than having this as an unrelated expenditure once they have retired. Instead of spikes in expenditures when individual capital projects are undertaken, these are incorporated into the annual operating expenditures through an allowance for depreciation. Treating loans and guarantee programmes on an accrual basis fosters more attention to the risks of default by those who have been granted them, especially if there is a requirement for such default risks to be pre-funded. Outstanding government debts can be designed in such a way that all interest expenditure is paid in a lump sum at the end of the loan rather than being spread through the years when the loan was outstanding. All of these examples show how a focus on cash only can distort the true cost of government.

A further objective for adopting accruals is to improve decision-making in government by using this enhanced information. This needs to be seen in a wider context. The countries that have adopted accruals have generally been at the forefront of public management reforms. These reforms aim to hold managers responsible for outcomes and/or outputs while reducing controls on inputs. In this context, it is expected that managers should be responsible for all costs associated with the outcomes and/or outputs produced, not just the immediate cash outlays. Only accruals allows for the capture of these full costs, thereby supporting effective and efficient decision-making by managers. In short, when managers are given flexibility to manage their own resources (inputs), they need to have the necessary information to do this. The adoption of accruals is therefore an inherent part of these wider reforms. The use of accruals for financial reporting would appear to be more successful in member countries that have significantly reduced input controls.

A number of issues arise when moving to accruals. First, the government has certain types of assets and liabilities that do not exist in the private sector. This paper will discuss heritage assets, military assets, infrastructure assets and the treatment of social insurance programmes. Second, having decided to move to accruals, a decision then has to be made regarding the valuation methods to be used, i.e. historical cost or current cost. Third, the issue of who sets the accounting standards is especially relevant as accruals requires a number of judgments to be made. In this context, it is noteworthy that international standards are being developed. Finally, there are a great number of implementation issues that arise; the paper will discuss a number of these.

2. Key recognition issues

A number of specialised recognition issues arise when accruals is applied to the core public sector. This is because certain types of assets and liabilities simply do not exist in the private sector. These include heritage assets, military assets, infrastructure assets and social insurance programmes.

2.1. *Heritage assets*

Heritage assets include historical buildings, monuments and archaeological sites; museum, gallery and archive collections. The recognition issues associated with these assets are generally not very significant in their overall impact on fiscal finances. They do, however, often evoke great passions. This passion generally flows from the fact that accruals is viewed by some as imposing a “market” value on something whose value is inherently cultural and not monetary.

From a more technical point of view, heritage assets are very different from other types of assets. They have very long life cycles – generally measured in hundreds of years. Their value does not diminish over time due to wear and tear (but there can be significant upkeep costs); in fact, they are more likely to increase in value over time. Their acquisition costs are generally not known and are in most cases totally irrelevant for today’s valuation purposes. The acquisition of the assets may have occurred through non-orthodox means, such as being appropriated during wars. The assets are generally not marketable in any sense, as their sale is generally prohibited by law. And, by their nature, they do not have any replacement value.

Defining what constitutes a heritage asset is often quite difficult. A further complication is introduced when historical buildings have dual uses: for example, government offices being located in historical palaces. Should these be treated as a normal asset or as heritage asset? Or should the asset be separated notionally so that part of the building’s value is accounted as a normal asset with the remainder being treated as a heritage asset?

Contents of museums and galleries are another special issue. Some countries take a very comprehensive approach. For example, New Zealand values the contents of its National Archives with the values of exceptional items being based on a valuation supplied by an international auction house. The contents of art galleries are in many respects the most marketable of all heritage assets, as a vibrant international art market exists. Practices, however, vary widely. Some member countries do so while others do not; some member countries do not do so for existing collections but do so for new acquisitions.

Little consensus is emerging in this area. Even within countries there appears to be great variation in the treatment of individual heritage assets. In

cases where values can be supplied rather easily, the emotional component of attaching market values to a nation's heritage treasures makes this very difficult in practice. It should, however, be borne in mind that in most member countries, heritage assets will not have a material effect on their fiscal finances.

2.2. Military assets

The treatment of military assets is another uniquely public sector issue. The international direction is clearly in favour of their recognition as any other asset.

If they are to be treated differently, defining what constitutes a military asset needs to be made clear. It is possible to differentiate between the military's general purpose assets and its military-specific assets. The latter are prone to premature destruction, either through loss in combat or due to obsolescence if an enemy could develop counter-measures that render them useless. The criteria defining what constitutes a military-specific asset can be further tightened. For example, support items (such as military transports) could be capitalised and depreciated whereas combat items (such as jet fighters) would not be capitalised and depreciated, *i.e.* they would be expensed.

The United States used to employ the above approach for its military assets. They have now decided – as other OECD member countries generally have – that all military property, plant and equipment should be capitalised and depreciated. It was believed that the change was conceptually correct and would assist management and the calculation of the full cost of producing outputs. This also avoids the problems associated with having to define what exactly constitutes a military asset. It is accepted that military assets are prone to premature destruction for the reasons noted above. But the approach adopted is to depreciate them on a normal basis and then to write them off as a loss if they are destroyed or become obsolete early.

A number of other military-specific issues have been identified. First, it is difficult to capitalise research, especially when performed in-house when new military systems are being developed. This is both due to the military's reluctance to supply the information and also to problems that the military often has in tracking its costs. Second, the military often hold a disproportionate share of surplus assets – such as decommissioned facilities – which are carried at the value of nil, but in effect should be given a negative value due to the military's cost of holding them. Third, the military's exclusive use of parts of the spectrum for its communications and its use of exclusive airspace represent a huge opportunity cost for the government as these would have great commercial value. The question arises as to how – and if – the last two issues could be specifically treated in an accrual environment.

2.3. Infrastructure assets

Infrastructure assets are another mainly public sector category of assets. This principally encompasses highways and other network assets. These assets often have very high value, although they are frequently the responsibility of lower levels of government.

The key issues identified with infrastructure assets are as follows. First, what is the impact of the extremely long useful lives of these assets on deciding the appropriate depreciation schedules. In this context, there are examples of member countries that do not depreciate these assets but rather certify that the assets are being maintained to such an extent that they have infinite life-spans. Second, the recognition of infrastructure assets also highlights the need for maintenance expenditures, expenditures that are often neglected in member countries. Third, it is often very difficult to estimate the original acquisition costs of such assets if the historic cost method is being used. This is both due to their old age and the difficulties in separating out original investments and maintenance costs. Fourth, the selection of valuation methods (historic cost vs. current value, discussed later in this paper) has an exceptionally high impact on these assets.

2.4. Social insurance programmes

The treatment of social insurance programmes, such as general old-age pension programmes, is a very contentious issue in an accrual environment. It is important to emphasise that this does not refer to the treatment of government employees' pension programmes; these are contractual obligations and their treatment as a liability is clear-cut.

There are two schools of thought on this subject: those who believe social insurance programmes should be treated as a liability for the government and those who do not. These programmes represent a huge obligation for the government in the future, especially in the circumstances of an ageing population. The former school of thought believes that not including them as a liability would be very misleading when judging the financial condition of the government. They further point to certain characteristics of these programmes (often containing contributory elements) in support of their inclusion, and to the historical and political experience with these programmes which show that governments do in practice treat them as liabilities that they honour.

Although this is a strongly expressed point of view, no member country has accepted it. In no cases are social insurance programmes treated as a liability. The reasoning for this is manifold. The most compelling is that these are not contractual exchange transactions; if the government were to reduce the level of benefits paid in the future, those affected would have no recourse to the courts to seek damages for this loss of benefits. It is noted that these

programmes are income transfers financed by compulsory taxation (contributions) and that the level of benefits often bears a very indirect or even disproportionate relationship to the levels of taxes actually paid.

The point is generally accepted that historical and political experience have shown that governments honour their “promises” in this area. However, with ageing populations, strong reforms are needed to ensure the sustainability of these programmes. A recognised liability, based on current levels of benefits, would serve to hinder such reforms. In a roundabout way, this shows how the adoption of accruals can impact on behaviour.

The compromise between these two schools of thought is generally for the government to issue a large amount of supplementary information on the long-term finances of the social insurance programmes. These can either be included as notes to the government’s financial statements and budget documentation or issued separately. There are, however, great measurement problems in this area. Changes to the discount rate or changes to the assumptions about take-up rates and benefit levels can have a huge impact.

There is, however, opposition by some to even including such supplementary information about social insurance programmes. They note that the government has equally important long-term commitments, for example, in the field of health care and education. Why are social insurance programmes being granted this special status? This raises fundamental conceptual questions concerning the scope of the accounting model.

3. Valuation issues

The traditional basis for valuation has been historic cost. There is, however, a growing movement to adopt more current approaches to valuation. Conceptually, current valuations are generally viewed as superior, but practical considerations have often led to the continuation/adoption of the historic cost approach. However, there are problems regardless of which approach is adopted.

The historic approach is based on assets valued at their acquisition costs with subsequent depreciation. This can be viewed as a more objective approach as it is based on the amount actually paid for the asset. It is also easier to handle from a practical point of view. The problem with the historic approach is, however, that the asset values are out-of-date, more so the longer the time elapsed since the original acquisition. Another major problem is inconsistencies in the treatment of individual assets, both between entities and within entities. For example, two identical buildings can be valued very differently if they were purchased at different times. A further problem – especially in the public sector context – is that insufficient records often mean that the original acquisition costs are not known.

Current valuations are meant to alleviate this problem. By their very nature, they are more relevant, i.e. the information is not out-of-date. As a result they are viewed as a better indicator of the level of resources tied up in an entity and a better basis to evaluate the performance of an entity. This is especially so when calculating the true cost of services provided (i.e. the flow-through from the balance sheet to the operating statement in the form of depreciation). Current valuation is also of much greater value for economic analysis. The use of current valuation methodologies does, however, require many professional judgments to be made.

There are a number of different methodologies for applying current valuations. These include depreciated replacement cost, value-in-use and net realisable value. Each of these has their own problems. Depreciated replacement cost assumes that one would purchase exactly the same asset in the future, which most likely is not the case. Value-in-use methodologies are very dependent on management intent. Furthermore, when this approach is adopted in non-competitive environments, an entity can raise its charges and thereby the cash flows from an asset. As a result, the value of the asset would increase. This can therefore become a circular and rather meaningless exercise. The problem with the net realisable value approach centres on specialised assets, where markets may not exist or may not be reliable.

A further difficulty with current valuations is that they can fluctuate significantly from one year to another, creating windfalls when values go up, but short-falls when values go down. This can have a great impact on the reported bottom line of governments. Will politicians be willing to accept that the government's bottom line can be determined by such fluctuations? Also, is there a danger that fiscal discipline may be undermined if the windfalls from such fluctuations are used to increase other expenditures? This again highlights the behavioural impact that the adoption of accruals can bring about.

4. Accounting standards

Who sets accounting standards is especially important in an accrual environment since a number of judgments are made about the treatment of individual transactions, more so than with a cash environment. The independence of such standard-setters is therefore important. A recent OECD meeting of Chairpersons of Parliamentary Budget Committees revealed that this was very much a concern for parliamentarians.

Accounting standards in the public sector have historically been set by the Minister of Finance. In some cases, this is an explicit or implicit constitutional requirement and the level of permitted or accepted delegation of this authority is small. This, however, is at odds with the need for

independence of the accounting standards-setter. Member countries have reacted to this in a rather similar fashion. The common response involves the establishment of an independent *advisory body* on government accounting standards. This is a professional body, generally with representatives from both inside and outside government. It recommends to the Minister of Finance in a transparent manner the accounting standards to be used. The minister has the final decision whether to accept or reject the recommendations of this body. If the minister does reject them, the onus is on the minister to justify that. Experience is that this rarely – if ever – happens.

There are two very noteworthy exceptions to the above manner of setting accounting standards. In both Australia and New Zealand, there is one professional accounting standards-setter for both the public and the private sector. The government follows the decisions of this independent standards-setter.

4.1. International Public Sector Accounting Standards

International Public Sector Accounting Standards are being developed. The project to set these standards was launched in 1996 and is largely financed by the World Bank. In the first phase of the project, existing International Accounting Standards (private sector) are being reviewed and any necessary amendments are being made so that they can be applied in the public sector. The development of accounting standards unique to the public sector is in the initial stages. The focus of these standards is exclusively on financial reporting and not on budgeting.

The standards are being developed by the Public Sector Committee of the International Federation of Accountants (IFAC). IFAC is the international professional body of the accountancy profession. The Public Sector Committee has 12 members that set these standards. The membership of the committee is decided by IFAC and is drawn from professional accounting bodies in the various countries, or nominated by them. The audit offices of three member countries are represented on the Committee (Canada, France, New Zealand). Currently, only one OECD member country is represented on the Committee by its Finance Ministry (the Netherlands). The low level of Finance Ministry involvement does raise serious questions regarding the promulgation of the standards and their acceptance and credibility in OECD member countries.

The OECD is an observer on this Committee and has sought to enhance co-operation between it and the Finance Ministries of member countries. For example, the Committee was invited to the OECD Accrual Accounting and Budgeting Symposium. The Committee has formed various study groups on specific issues and has invited representatives from the Finance Ministries of member countries to be members of them.

5. Implementation issues

There are a number of implementation issues that arise when adopting accruals. One of the benefits of not being in the first wave of countries to introduce accruals is the opportunity to learn from their experience.

5.1. *Fostering a “cultural change”*

Perhaps the overriding lesson is that implementing accruals cannot be seen as a technical accounting exercise. It needs to involve a “cultural change” in government and be linked with wider public management reforms. For accruals to be worthwhile and successful, the new information that accruals brings forth needs to be used to improve decision-making in government. This change will not necessarily happen automatically. It needs to be actively promoted, especially at the level of policy-makers and senior officials.

5.2. *Implementation models*

A number of implementation models exist. Implementation can be accomplished in phases with a certain proportion of ministries and agencies switching to accruals each year. This makes the switch-over more manageable but it may impede the “cultural change” that is an important part of accruals, especially in central agencies. Also, the lessons learned in one agency are not necessarily transferable to another.

Implementation can be done in a “big bang” approach with all ministries and agencies switching to accruals at the same time. This is a heavy load. Last-minute decisions will often have to be made as new issues arise, but with the accruals system improving in each successive year until it is “perfected”. The advantage is that the “big bang” may assist the cultural change to start immediately with the result that the system might, a few years from implementation, generally be in better shape than would otherwise be possible. There are, however, many risks involved and much depends on the political tolerance for handling any mistakes during the transition.

Finally, accruals can be tested for a number of years “behind the scenes” until finally unveiled. During this time, the cash system will be maintained as well and the financial reports and budget will remain on a cash basis during the transition. This is also a heavy load and can simply be overwhelming. The advantages are that many problems will be solved behind the scenes. The disadvantages are the costs of running two accounting systems in parallel, the risk that “cultural change” may not take hold, and the possibility that the momentum behind accruals can be lost during this phase, especially if it takes an extended time period.

5.3. *Need for communications*

The countries that were the first to move to accruals generally cite the need for more and better communications as the single biggest factor that was underestimated in the implementation of accruals. Communication includes promoting the “cultural change” as noted above, but extends to all facets of the implementation cycle.

It is essential to have the specific new accounting policies available early so that line ministries and agencies can prepare for them from the earliest possible moment. The use of task forces on specific issues composed of officials from a range of ministries and agencies serves to obtain their buy-in more readily than otherwise possible.

Close communication with the audit office is also necessary if it is to reinforce the reform and attest to the accounts on an accrual basis. Communication allows the Finance Ministry to understand their concerns and the audit office to understand better the motives and rationale of the government for the decisions it takes as it implements accruals.

Communicating with politicians, notably parliamentarians, is a continuing challenge for most member countries that have introduced accruals. This has manifested itself in two ways. In some instances there was widespread buy-in from politicians when accruals was originally introduced, but with successive elections new politicians were not communicated with adequately and their understanding of accruals was low as a consequence. In other, more common, instances, a small group of ministers and members of legislature have been responsible for the decision to adopt accruals. When information started arriving in accrual form, there was great confusion among other politicians as very little effort was expended in communicating with them. This is a dangerous trend because it undermines the legislature’s ability to effectively hold the Executive to account and it will slowly erode accruals. The lesson is to have a strong communication strategy when accruals is being introduced and to maintain it over time.

Experience in member countries has also revealed a great communications gap with the media, and by extension with the general public. Confusion has often reigned when accrual budgets and financial statements were first introduced. There is very little understanding by the media of the figures and the underlying concepts. As a result, it is difficult for them to interpret the figures appropriately. Conducting training sessions for the media and having experts available in the media “lock-up room” when the budget is introduced, are strategies that some member countries have adopted.

5.4. Accountancy skills

There will be a need to hire trained accountants in accruals and to improve the skill levels of many accountants in government who have been trained in the cash basis of accounting. There can be an absolute shortage of these skills in the country as a whole and this needs to be taken into consideration when implementation schedules for accruals are being made.

It is also important not to over-invest in training. Different levels (sophistication) of skills are required by the different actors in the accruals process. There has been a tendency in some member countries to over-estimate the need for training of some of these actors.

5.5. Selection of IT equipment

A major investment in information technology equipment often accompanies the introduction of accruals as the computer systems need to be upgraded in order to handle the additional information associated with accruals. Governments generally have a poor track record in managing such acquisition.

The clear lesson emerging from member countries is to opt for commercial software that is currently available on the market and to adjust internal processes in government to those systems. Problems start arising – and costs mounting – when governments decide to build their own systems or to make significant changes to commercial software.

6. Conclusion

About half of all member countries have adopted accruals to one degree or another. There are great variations, however, in the extent to which member countries have adopted accruals, from doing so for agency and ministry-level financial reporting exclusively, to whole-of-government financial reporting, to budgeting. The migration to accruals has been remarkably quick if one considers that it has only been about 10 years since the first member country adopted full accruals.

Although accruals has been used in the private sector for a very long time, it is not possible to simply adopt private sector accruals to the public sector in bulk. There are a number of unique issues that arise when governments move to accruals. The government has certain types of assets and liabilities that do not exist in the private sector, including heritage assets, military assets, infrastructure assets and the treatment of social insurance programmes. What valuation methods are used is very important, especially from an economic analysis point of view. What institutional structures are in place for setting accounting standards is very important, especially the need to maintain their independence while respecting the constitutional

responsibilities of the Finance Minister. And, a great number of implementation issues arise when accruals is being adopted in the public sector.

Finally, it must be emphasised that accruals is not a “magic bullet” for improving the performance of the public sector. It is simply a tool for getting better information about the true cost of government. It needs to be used effectively and in tandem with a number of other management reforms in order to achieve the desired improvement in decision-making in government.

Box 1. **Timeliness of financial reports**

The timeliness of financial reports varies across member countries. The “OECD Best Practices for Budget Transparency”^{*} call for annual financial statements to be available three months following the end of the fiscal year. Indeed, this is current best practice in member countries. A number of countries introducing accruals are, however, far from this goal. In the United Kingdom, the requirement is for the accounts to be presented to Parliament 10 months following the end of the fiscal year. In the United States, the accounts are made available six months following the end of the fiscal year. The later the information is available, the less value it has – simply because the information is “obsolete”.

The reasons for these delays are numerous. In many cases, it is due to the late transmission of information to the centre (Finance Ministry) from the various accounting units (line ministries/agencies). The quality of this information may also be low, with a number of adjustments needing to be made. Some member countries have adopted the practice of keeping league tables of when the various accounting units submit this information and the number of adjustments that have to be made. This has proven to be a strong tool for the centre to increase the timeliness and accuracy of the information it receives. As a result, the final accounts can be produced earlier.

Notes

^{*} *OECD Journal on Budgeting*, Vol. 1, No. 3, 2002.

Table 1. **Accounting basis applied for budget approved by legislature**

	Full accrual basis	Accrual basis, except no capitalisation or depreciation of assets	Cash basis, except certain transactions on accrual basis	Full cash basis
Australia	X			
Austria				X
Belgium				X
Canada		X		
Czech Republic				X
Denmark			X ⁽¹⁾	
Finland		X ⁽²⁾		
France				X
Germany				X
Greece				X
Hungary				X
Iceland		X		
Ireland				X
Japan				X
Korea				X
Luxembourg				X
Mexico				X
Netherlands				X
Norway				X
New Zealand	X			
Poland				X
Portugal				X
Spain				X
Sweden				X
Switzerland				X
Turkey				X
United Kingdom	X			
United States			X ⁽³⁾	

Notes:

1. Denmark – Interest expenses and employee pensions treated on accrual basis.

2. Finland – Transfer payments not on accrual basis.

3. United States – Interest expenses, certain employee pension plans and loan and guarantee programmes treated on accrual basis.

Source: OECD Budgeting Database.

Table 2. **Plans to move budget to accrual basis**

	Full accrual basis budgeting to be introduced	Additional accrual basis information to be presented
Denmark		X
Germany		X
Korea	X ⁽¹⁾	
Netherlands	X	
Portugal		X
Sweden	X ⁽¹⁾	
Switzerland	X ⁽¹⁾	

Notes:

1. Under active consideration.

Source: OECD Budgeting Database.

Table 3. Accounting basis applied for consolidated (whole-of-government) financial statements

	Full accrual basis	Accrual basis, except no capitalisation or depreciation of assets	Cash basis, except certain transactions on accrual basis	Full cash basis
Australia	X			
Austria				X
Belgium				X
Canada		X		
Czech Republic				X
Denmark			X ⁽¹⁾	
Finland	X			
France			X ⁽²⁾	
Germany				X
Hungary				X
Iceland		X		
Ireland				X
Japan				X
Korea				X
Luxembourg				X
Mexico				X
Netherlands				X
Norway				X
New Zealand	X			
Poland			X ⁽³⁾	
Portugal				X
Spain				X
Sweden	X			
Switzerland				X
Turkey				X
United Kingdom				X ⁽⁴⁾
United States	X			

Notes:

1. Denmark – Interest expense and employee pensions treated on accrual basis.

2. France – Interest expense and certain other transactions treated on accrual basis. Full accrual basis to be introduced.

3. Poland – Employee pensions treated on accrual basis.

4. United Kingdom – Statements on full accrual basis effective fiscal year 2005-06.

Source: OECD Budgeting Database.

Table 4. **Additional use of accruals in departmental/agency level financial statements**

	Departmental/agency level financial statements on full accrual basis	Financial statements on full cash basis but supplementary accrual information is presented
Belgium		X
Denmark	X ⁽¹⁾	
Germany		X
Hungary		X
Ireland		X
Japan	X	
Netherlands	X	
Portugal	X	
Switzerland	X	
United Kingdom	X	

Notes:

1. Denmark – To be progressively introduced in agencies starting in 2003.

2. This refers to departments/agencies that prepare separate financial statements for their own operations and where such financial statements contain more accrual information than the consolidated (whole-of-government) financial statements. In cases where the consolidated (whole-of-government) financial statements are on full accrual basis (Table 3), departmental/agency level financial statements would also be on full accrual basis.

Source: OECD Budgeting Database.

1. Objectives, scope and context

1.1. Introduction

The OECD E-Government Project takes as its basic premise that e-government provides the capacity to reform the way public administrations operate and can result in more customer-focused, responsive government. This requires overcoming major challenges. The forthcoming OECD report "The E-Government Imperative" examines the potential and impact of e-government and the changes required to maximise its benefits. This article is based on the forthcoming publication, and examines the **case for e-government** as well as the **budgetary barriers** that must be overcome in order to successfully implement e-government.

As this article shows, e-government has broad benefits and requires a whole-of-government perspective for successful implementation. Issues of co-ordination and collaboration, including regarding budgetary issues, need to be addressed to maximise the benefits of e-government.

Governments are major users of information and communication technologies (ICTs). In OECD member countries, government use of ICTs is now well established and an integral part of how governments do business. From an initial focus on mass processing tasks, using mainframe computers in areas such as collecting national statistics and processing taxation returns, government use of ICTs has widened to encompass a full-range of technologies and applications. For almost a decade, governments have used Internet-based technologies, particularly the World Wide Web and e-mail. There is scarcely an aspect of government activity that does not involve the use of ICTs.

It would be surprising if this were not the case. ICTs have become a crucial element of national infrastructure, underpinning economic and social activity in all OECD member countries. Given the scale of their activities and the diverse nature of their business across all forms of economic activity, governments have derived significant benefits from embracing ICTs. They have often been at the forefront in the adoption of specific applications and have used their scale and position in local markets to foster the development of ICT production industries.

Governments have embraced the Internet. The emergence of the Internet and parallel developments in processing capacity and data storage over the 1990s have significantly altered the environment for ICT use across society

and in government. While the longer-term effects of this digital revolution are likely to be profound, these developments have already increased pressure on governments to perform and provided them the capacity to do so.

Governments were not immune to the attractions of what is now seen as the dot-com bubble. However, they now better understand that real value can be obtained through the use of ICTs, but that the need for basic assessments of benefits and costs, risks and opportunities remains.

In response to these new capabilities, OECD member country governments have issued e-government strategies, set targets and established e-government co-ordination bodies. In a number of countries, e-government is the specific responsibility of a minister; in others, it is part of the information society or other ministerial responsibilities. These responses suggest that, primarily owing to the emergence of the Internet, there has been a qualitative shift in the role governments assign to ICTs. This parallels similar responses in the broader economy, where the Internet's potential had led to the information society and e-commerce policies, initiatives and co-ordinating structures.

1.2. Definitions

Defining e-government. There are many definitions of e-government, and the term itself is not universally used. The differences are not just semantic and may reflect priorities in government strategies. The definitions fall into three groups:

- E-government is defined as Internet (online) service delivery and other Internet-based activity such as e-consultation.
- E-government is equated to the use of ICTs in government. While the focus is generally on the delivery of services and processing, the broadest definition encompasses all aspects of government activity.
- E-government is defined as a capacity to transform public administration through the use of ICTs or indeed is used to describe a new form of government built around ICTs. This aspect is usually linked to Internet use.

Definitions and terms adopted by individual countries have shifted as priorities change and as progress is made towards particular objectives. This is as it should be; the area is a dynamic one and policies and definitions need to remain relevant. In the context of the OECD E-Government Project, the term "e-government" is defined as:

The use of information and communication technologies, and particularly the Internet, as a tool to achieve better government.

While the relative importance of the Internet in the overall framework of ICT use in government will be a matter for debate for a long time to come, this article focuses more on use of ICTs that involves the Internet than other, more established ICT applications. This is in recognition of the fact that use of the Internet is in its relative infancy, and as such raises more issues for public administrators and governments generally than the use of more established technologies. The Internet, building on the established base of ICT use by governments, offers new opportunities for governments to do their job better, and it is primarily for this reason that governments are focusing on it. However, e-government is more than Internet use or online service delivery. Internet use by governments cannot, and indeed should not, be isolated from the broader digitisation of government activity as a whole; the issue is therefore one of emphasis.

1.3. Objectives

As demonstrated in the report "The E-Government Imperative", merely introducing ICTs into existing organisations and work processes will not produce the desired improved outcomes. This article aims to identify the benefits of e-government in the broadest sense, as well as the budgetary barriers that need to be overcome if e-government benefits are to be maximised. It is designed to assist e-government practitioners and those concerned with the modernisation and reform of public administrations. It analyses country experiences and good practices, identifies key challenges and impacts, and sets down possible strategies and guidelines as a framework for action by individual countries. There is no single path to good governance outcomes via e-government, and each country's action will reflect its individual governance and economic and social circumstances and priorities.

The OECD E-Government Project focuses on **governance issues and impacts**. E-government can help administrations do their job better by reinforcing good governance objectives, and administrative reforms are necessary if e-government is to be successful. E-government and reform are therefore mutually reinforcing. This article takes the perspective that the value of e-government initiatives can be assessed against long-standing governance principles, such as efficiency and accountability. It recognises that introducing e-government initiatives will challenge aspects of existing governance frameworks, for example budgetary frameworks, and considers potential solutions.

1.4. Methodology

The findings and observations presented in this article emerge from the deliberations and guidance of the OECD E-Government Working Group. This group consists of 12 countries: Australia, Canada, Denmark, Finland, France,

Germany, Italy, Japan, Korea, Mexico, the Netherlands and the United States. The findings of the article also stem from the series of project seminars, involving commissioned papers and the seminar deliberations; from papers and information prepared by member countries; and from analysis of countries' e-government strategies and other material. As will appear, there are major deficiencies in data on e-government activities, so it has been impossible to carry out a detailed analysis of comparable quantitative information.

The examples and information used in this text come largely from the OECD E-Government Working Group. The OECD also undertook an in-depth pilot study of e-government in Finland, and many examples and case studies stem from the report "E-Government in Finland". Country examples in the article are taken from all levels of government.

2. The case for e-government

Public management reforms to enhance performance continue to be an important issue for all OECD member countries. The need to respond to changing pressures resulting from globalisation, fiscal demands, evolving societies and customer expectations has meant a continuing process of reform, notwithstanding significant changes over the last two decades. While common elements can be identified, particularly the need to do more with less, the timing, pace and nature of reforms have been diverse, reflecting the conditions for reform and the strategies adopted in each country.

Reforms have addressed the full range of good governance objectives, seeking legitimacy, rule of law, transparency, accountability, integrity, effectiveness, coherence, adaptability, participation and consultation. In many areas, ICTs have been an important enabling tool for reform. While the pursuit of efficiency gains and the effective delivery of programme outcomes have been main drivers of ICT use in government, the focus has turned more recently to other good governance objectives, such as improving services, increasing accountability and transparency and facilitating consultation and engagement.

This section looks at the reasons for embracing e-government as a means of reforming public management and contributing to broader policy objectives. In practice, while a specific e-government initiative can be driven by a single major goal, such as cost savings, most aim to achieve a number of often competing objectives. Drawing on information submitted by Working Group members, this section discusses the case for e-government:

- **E-government helps improve efficiency in government.** ICTs are a necessary enabler of reforms to the ways in which public administrations work. Improving internal operating systems – financial systems, purchasing

and payment arrangements, internal communications and sharing of information – and programme processing and delivery arrangements can generate operating efficiencies and improve performance.

- **Enhanced quality of service** has been a major component of public administration reform over the past two decades, and the use of ICTs to generate improvements in services has been a primary driver for e-government activity. In particular, the use of the Internet has given a major boost to customer-focused, seamless services, which aim to transcend the structure of public administrations. Online services are increasingly seen as part of a broader services strategy, with important customer and efficiency benefits. As users of public services are often obliged to interact with government, user dissatisfaction with the quality of government services can quickly become a major political issue.
- ICTs can support **more effective outcomes** in key policy areas such as health, welfare services, security and education. Ultimately, governments and public administrations exist to deliver policy outcomes, and ICTs are a major enabler across all major policy areas. The use of the Internet to deliver value in these areas is a major preoccupation in member countries.
- Better governance arrangements in themselves will **promote economic policy objectives**. More specific effects may range from impacts on ICT production, e-commerce diffusion and business productivity to indirect effects such as reduced fiscal requirements owing to more effective programmes and efficiencies flowing through to the broader economy.
- E-government can help **forward the reform agenda**. When aligned with modernisation goals, implementing e-government can help administrations focus on the additional changes needed to meet service delivery and good governance concerns. At the same time, it provides some valuable reform tools and builds support from high-level leaders and government employees for achieving those objectives.
- Through citizen engagement, e-government can **improve the overall trust relationship** between government and public administrations. E-government, by improving information flows and encouraging active participation by citizens, is increasingly seen as a valuable tool for building trust between governments and citizens.

These objectives may involve trade-offs between efficiency and effectiveness, efficiency and openness, accountability and customer focus. When this is the case, priorities will need to be set, but it should not be assumed that such trade-offs are inevitable. Several Nordic countries have put in place specific offices (ombudsmen) to handle citizen complaints with regard to privacy and citizen trust, this supports both privacy protection and efficient use of data.

Box 1. Italy: Transforming the relationship with business suppliers to government

In order to increase programme efficiency, effectiveness and to stimulate e-commerce, in 2000, the Ministry of Economy and Finance adopted an e-procurement system. This was the result of a study which identified areas in which procurement processes could be made more efficient. It reflected one of the goals of the Italian E-government Action Plan to improve economic development, promote change and modernisation in the public administration, and develop the information society.

In the new e-procurement system, the approach to procurement has been transformed, and ICT applications and re-engineered business processes have been introduced. Three procurement channels or "platforms" have been introduced: online product catalogues, e-auctions and e-marketplaces.

In order to introduce the new procedures, new legislation had to be introduced to provide a legal basis for the e-procurement project. Based on this, a new organisational model for procurement management and a new online website were introduced. While reforming and centralising policies and procedures, care was taken to respect the budget autonomy of agencies – purchasing decisions remain within the authority of the respective agencies, while the e-procurement system simply enables a more effective process for the authority to be exercised. A new online procurement website was also introduced, based on the platform model, which provides a fully transactional and e-enabled capacity that allows bids and purchases to be made online.

The e-procurement system has meant a 30% reduction in the total cost of goods and services procured for the government. The end-to-end transactional capacity has meant that suppliers wanting to secure government business have had to adopt e-commerce business practices, and the increasing use of e-procurement will eventually provide further business opportunities, such as collaboration with suppliers on inventory requirements and new applications to automate purchasing.

Source: Culbertson (2002).

2.1. E-government and efficiency

The search for **efficiency gains** is a major driver of ICT use in government, and most national strategies specifically address this goal. ICT use in government has often been driven by the need to reduce the call on resources, either to reduce overall spending or to allocate funds to higher priority areas. Mass processing tasks, distributed networks of service outlets, payment

processes and internal public administration operating processes such as procurement, payroll and human resource management all depend on ICTs to operate and will continue to be targets for efficiencies.

More recently, Internet-based applications have been deployed, using online filing to reduce costs of data re-entry and checking, to save on communications costs with customers and within government, to use scarce resources such as skilled staff or facilities more efficiently by improving booking arrangements, to replace paper-based application processes and to reform payment and procurement.

With the increasing introduction of seamless online government services, significant future efficiencies are likely as a result of greater sharing of data within government and between government and private sectors such as health care and welfare services. Arrangements which allow for re-use of data (ignoring for the moment service quality and greater effectiveness) can create efficiencies by reducing the need for multiple collections from the same customer, data reconciliation and checking, and indeed, from the point of view of the customer, for the need for some services at all. If progress is to be made, the key issues are privacy protection and the need for agencies to operate in a common framework to enable inter-operability.

Additionally, major savings can be obtained by transforming business processes. More recently, the focus has turned to the Internet and online applications in areas such as online data collection to reduce data entry costs, the use of e-procurement and other e-commerce applications, reductions in government publication and distribution costs and data through online publication. Sharing of common data within and between agencies to reduce collection and data reconciliation costs is emerging as a major focus of efforts to reduce costs within government. It also provides considerable benefit to customers of government services.

It is generally thought that greater efficiencies are generated from ICT projects that involve a major transformation of business processes than from those that do not. While this is broadly true, the cumulative contribution of **micro-efficiencies** should not be ignored, even though the absolute amounts involved may not be significant.

Box 2. Improved efficiency in statistical offices

One example of improved efficiency as a result of e-government can be seen in international and national statistical institutions.

Changes have occurred in national statistical offices (NSOs) in response to growing citizen demand for more statistical data, disseminated on a more cost-effective basis, in order to take decisions or evaluate the performance of governments. The developments have been made possible by recent technological advances in ICTs. Changes in work practices have been so fundamental that NSOs are usually at the fore of the e-government process in their countries in providing information, interactive services for data manipulation or information sharing with other agencies.

Advanced technology, and the Internet in particular, have enabled national statistical authorities to disseminate data more rapidly, and more cost-effectively. They have provided new opportunities to create national knowledge bases by placing large databases on the Internet, as well as to create and manage very large databases. These databases are accessible through the Internet and allow products to be tailored to individual users. The databases are updated in real time. Many governments have also developed national one-stop statistical portals, which offer statistical information to users without them having to know the agency that produced it, providing integrated information across administrative boundaries. They often operate within the framework of a wider government portal.

National statistical offices also use ICTs to use the expanding range of statistical tools to elaborate elementary data and to make ready-to-use products available to clients, to respond to the requirements of international bodies and comply with international standards regarding both data and metadata, and to disseminate more data free of charge in recognition that official statistics can often be a key public good. Due to ICTs, as well as a commitment to change, many statistical offices are now using data sourced from administrative records instead of direct collection. This reduces the compliance burden on citizens and businesses, and has achieved budget savings. ICTs have also enabled NSOs to use different variations of legal, administrative, methodological and technical measures to collect and disseminate data in a way that protects the privacy of respondents by preventing primary and secondary disclosure. It also provides efficiency gains when disseminating data that may require enhanced security measures. While there is no such thing as zero risk of disclosure, NSOs are now able to minimise this risk while at the same time making better quality data available.

Box 2. Improved efficiency in statistical offices (cont.)

Statistical offices are using ICT advances to make efficiency gains in the area of public service delivery for which they are responsible, i.e. the collection, compilation and dissemination of statistics. But success has been achieved as much due to issues such as leadership, commitment, planning, and involvement of many different actors as to the use of ICT.

Source: Finn and Giovannini (2002).

Box 3. The Nordic "Green Corridor" – international data sharing for increased efficiency

An example of increased efficiency is the Nordic "Green Corridor" system, in which electronic sharing of information has helped customs officials manage processes with greater speed and at reduced cost. In co-operation with Swedish trade, Finnish customs, Finnish trade and Russian customs, Swedish customs have developed a system to facilitate border crossing when entering Russia for compliant operators. The Green Corridor is based on the accreditation of customs processes and a fully electronic chain of information, starting with the Swedish or Finnish trader and ending with the Russian customs officers at the point of entry. Via the Internet, Russian customs have access to the trader's customs declaration submitted online and thus can better plan and perform control measures. This makes mutual risk analyses possible and ensures that control measures are performed only when high risk is perceived.

An approved Swedish or Finnish trader joining the Green Corridor enjoys a release time of a maximum of two hours when entering Russian territory, since all necessary information is already available when the merchandise appears at the border. Special measures ensure the authenticity of submitted information, and electronic signatures guarantee consistency from consignor to consignee.

The Green Corridor promotes compliance on the international level and makes use of the e-solutions implemented within the Virtual Customs Office of Swedish Customs. True partnership applies since the services of the Virtual Customs Office are also available to approved traders in Finland and the information submitted is available for the three customs administrations in Sweden, Finland and Russia.

Source: OECD E-Government Working Group.

Box 4. **Germany: Online services and the Federal Education Assistance Act (BAFög)**

BAFög is aimed at promoting schooling and higher education. It enables children of low-income families to finance their education through a loan. Beneficiaries have to repay their loans upon completion of their studies. Currently, some EUR 650 million are provided annually in the form of loans for the education of school and university students. For the first time, students repaying their BAFög loans are given the opportunity to obtain information on their applications, questions and requests over the Internet. This includes early repayments, performance-related partial remission of debts as well as release from or deferment of loan repayment. Using BAFög online, beneficiaries can apply online for performance-related or social reductions before paying off their loans.

The aim is to develop co-operation between the federal, Länder (states) and municipality levels on BAFög matters, and to further standardise relevant management processes. The electronic processing of repayments has already led to savings of EUR 4.5 million in the first year of operations. These savings are primarily due to process optimisation efforts, and investments in this e-government service paid for themselves in less than one year. Further savings can be achieved across the various administrative levels.

Source: OECD E-Government Working Group.

While improvements in efficiency are a major factor in the decision to implement e-government programmes, a focus on efficiency through the use of ICTs requires consideration of the following:

- Assessments of efficiency in government are difficult. **Government outputs are difficult to quantify**; as with other service industries increases in quality are difficult to measure; the political satisfaction of particular projects or policies may legitimately outweigh more mundane considerations of cost and savings; measures of productivity such as multi-factor productivity and labour productivity raise issues of the valuation of capital and the influence of staffing practices such as outsourcing.
- These concerns apply to the assessment of efficiency gains as a result of e-government, as do issues around assessing the impacts of ICT use more generally. At the individual project level, assessments of potential efficiencies are often made at the project initiation stage, although it is not uncommon in government for an ICT-enabled process to be introduced within tight timelines to meet a specific policy and political imperative, with efficiency concerns of lesser importance. However, while individual

project-level efficiencies can be identified, at the aggregate level the **lack of an accepted methodology and comparable data** make it difficult to draw conclusions as to the scale of the aggregate impact of e-government on efficiency.

- Notwithstanding these problems, at the project level efficiencies need to be able to be identified and estimated prior to the endorsement of the project, to enable the assessment of competing proposals. As part of this, the **need** for the particular service or process should be examined. Invariably such assessments are made within an agency, but should take place on a whole-of-government basis. It may be possible for an agency to remove the need for users of a service to contact government by re-using data already collected by a different agency, or to build on existing processes.

2.2. *E-government improves service quality*

The improvement of government services is an objective of all e-government policy statements examined in this study. Indeed, given the emphasis in both policies and in commentary more generally on online service issues and online service targets, one might assume this to be the sole objective of e-government. It has been useful as a way of raising public interest in e-government, by articulating a vision (for example, services online by a specific date) often with the broader aim of engagement with information society initiatives more generally. Online service targets have also been effective in mobilising public administrations to examine the potential of the Internet and related technologies by applying them to existing services.

Specific service delivery policies have been developed by governments to improve the quality of their services to customers. Key elements here have comprised quality charters, incorporating timelines for specific services, agency/customer service standards, benchmarking with private sector service organisations and customer surveys. While a certain desire can exist to have e-services for their own sake or for their demonstration effect, such services are increasingly being developed in the context of broader, multi-channel service policies.

A core element of member countries' reform agendas and e-government strategies is the adoption of a **customer focus**, with the specific objective of providing citizens and businesses with a coherent interface with government which reflects their needs rather than the structure of government. This customer focus has long been an element of broader public management reform, and predates the generalised use of the Internet as a service delivery mechanism. One-stop offices, advice bureaux, whole-of-government telephone call centres and services such as information kiosks have attempted to bring together information and services from different

governmental agencies. The provision of case management services, drawing together a range of programme resources to address individual needs, also reflects this approach.

The availability of the Internet has led to a quantum leap in efforts to provide a cross-government customer focus, and member countries are active in developing initiatives that draw together information and services for specific customer groups. Citizens benefit from online services because they can learn about policy changes that may affect them or specific community activities or proposals at local level and can carry out routine transactions with government, such as payments, on a more convenient basis.

The development of the Internet and ICTs generally has enhanced governments' capacity to **focus services on specific groups of customers**, and the majority of OECD member countries' e-government strategies reflect this goal. Providing one-stop shops, facilities and services for people with disabilities and information in different language communities are among the approaches adopted in OECD member countries.

From the point of view of users, ICTs have made it easier to integrate the services of individual agencies. To date, this has overwhelmingly concerned Web-based information services, such as overall government portals and sub-portals focused on a particular subject or customer group. Such services require co-ordinated activity across agencies, with agreement on standards for metadata, for example. Integrated cross-agency transaction services are starting to emerge and are under active consideration in many member countries.

Specific initiatives adopted to improve service quality include:

- development of **online portals** focused on particular topics or groups which bring together information and transactions relating to that particular topic or group;
- measures that provide **targeting** within customer groupings, such as the ability to select information by size of business from a business portal, which helps small businesses find relevant information more readily, or access to information by geographical area;
- use of **e-mail listings** to provide information, for example release by national statistical agencies of new statistical information customised for specific groups of customers;
- services that allow **identified users** (without authentication) to access customised-information and services. For example, a log-on name or password allows for customisation (e.g. by socio-demographic data);
- services that allow individual **authenticated users** to submit taxation or other forms, to apply for assistance and to file compliance returns online.

Such services require some form of authentication related to the confidentiality and security requirements of the transaction involved. Many countries have realised the benefits of cross-agency authentication systems, and the United Kingdom's Gateway and Ireland's Vault projects aim to provide a common authentication point for a range of services. They also provide an important enabler for online mass customisation of services.

Box 5. Canada: Guide for the Service Improvement Initiative

This guide is a managerial tool for implementing the Service Improvement Initiative. It is directed to programme managers responsible for service delivery in federal departments and agencies. It offers a detailed, holistic method for planning and implementing service improvement, based on the client's perspective and the establishment of service standards. It includes step-by-step descriptions of suggested activities with associated evaluation tools, questionnaires and guidelines in the appendices.

Source: Service Improvement Initiative:

http://www.cio-dpi.gc.ca/si-as/howto-comment/howto-comment00_e.asp

Box 6. Mexico: Customer-focused portals

The Government of Mexico recently launched www.gob.mx, a government-wide portal that organizes information and services in a thematic rather than institutional fashion. The system concentrates more than 1 500 informative and transactional services from over a hundred government institutions. Under the theme "work", for example, users will not only find the expected matchmaker service between employers and prospective recruits, but also information about labour rights, taxation on labour services, public housing and soft financing for low-income workers, and so on. Furthermore, contents are linked among themselves to produce contextual connections such as "youth" and "drug prevention", or "household" and "security". The bundling of information and services in thematic channels has been possible thanks to the horizontal co-ordination of sixteen leaders – one for each thematic channel – and the work of several dozen agencies.

Source: OECD E-Government Working Group.

2.3. E-government increases policy effectiveness

Although access and convenience are important drivers of much e-government activity, there is increasing awareness that e-government initiatives can also help achieve important outcomes in major policy areas such as health, education, anti-crime initiatives and security. In fact, efforts to improve enhanced policy outcomes will encompass the full-range of the policy sectors addressed by governments. The contribution of e-government to policy outcomes may take many forms, but a characteristic of effective initiatives is the use of the networking potential of the Internet to share data more effectively among a range of dispersed stakeholders.

E-government initiatives may involve online services that interact directly with end-users, for example to provide information and enrolment facilities to boost take-up of a welfare payment programme or online information on education and training options. Initiatives may also involve sharing information among various units of government and intermediaries, for example in the health sector where arrangements are made to capture and share more efficiently information on pharmaceutical use and medical services in order to reduce aggregate costs and provide better care to individuals. Such initiatives are being developed in Finland and Australia.

Improved collection of taxes, reduced demand for health services through better use of health information or reduced unemployment payments owing to better matching of the unemployed to vacancies via online job registers can also have a significant impact on a government's fiscal position.

Additionally, e-government can help improve social policy. For example, e-government can help administrations promote the use of native languages and provide information about indigenous peoples. It can help form communities of interest around public issues and provide information to specific and disenfranchised groups.

An increase in programme effectiveness through the use of ICTs will require attention to the following:

- A framework for identifying and assessing the potential contribution to the relevant policy target. Many e-government initiatives have been developed from a supply-side "build and they will come" focus. While this is understandable in the early stages of online service rollout, initiatives need to meet a clear business need if they are to be effective. There is a need to be able to measure potential demand, policy outcomes and quality improvements that can result from e-government initiatives.
- Recognition of the fact that capturing the benefits of better information flows and networking in general is complex in sectors such as health and welfare services and will require both patience and full engagement by

stakeholders. Timeframes must be realistic, and there may be considerable lags before benefits accrue.

- Sharing of information about individuals between different units of government and between governments and non-government organisations and enterprises raises issues of privacy protection. The need to justify such sharing reinforces the need to articulate clearly the benefits to be reaped.

Box 7. Denmark: User benefits expected from health portal

A collaborative effort to establish a common public health portal on the Internet is a fundamental element of the introduction of digital administration in Denmark. Based upon the initiative of the Danish regions, the health portal initiative became a part of the 2002 economic agreement between the government, the regions and certain local authorities and stressed the project's importance as a framework for electronic communication in the area of healthcare. Phase one of the portal is expected to be launched at the end of 2003 and run through 2004.

The health portal's overall purpose is to support the general aims of Danish National Health Service (NHS), including better information and service, quality assurance and improved use of treatment and care resources. It is intended to give targeted access to the NHS, affording users opportunities for information and communication in order to gain insight when necessary into their possibilities for treatment. At the same time, the principle that healthcare problems must as far as possible be solved at the primary treatment level (typically general practitioners – GPs) must be respected.

As a means of facilitating communication between the parties involved in the NHS, it is crucial for the health portal to be seen as a tool capable of being integrated into clinical work in such a manner as to allow healthcare professionals to solve the tasks supported by the portal in a quicker and/or better way.

Security is the first concern for the health portal. Patients may only access their own data following individual authentication via digital signature. Healthcare professionals may access patient data after obtaining the relevant consent and local authentication.

The search engine is expected to be the most frequently used access mode. The quality of search results for the large amounts of varied data that the portal will contain will be highly dependent on the accessibility and quality of metadata. Automatic generation of metadata and use of classifications that match the NHS's usage are therefore essential.

Box 7. Denmark: User benefits expected from health portal (cont.)

The portal must support a coherent patient treatment process, including supporting patient opportunities for attending to their own healthcare and their own treatment and for contacting relevant healthcare professionals, and supporting transfer procedures between healthcare professionals involved in the treatment process. Support of patients with chronic illness through home monitoring and telemedicine is envisaged.

To avoid duplication, the portal where possible uses information produced under the auspices of the public healthcare authorities. This principle will be reinforced through the establishment of a central editing function and through regional editing environments. The editors will be responsible for further developing and updating a range of information, including profile areas for NHS actors, national waiting list information, patient guidelines, information on healthcare and prevention, etc.

During the first two years, selected counties' electronic patient medical records are to be integrated. In addition, to ensure more appropriate use of medicines and remedy inappropriate polypharmacy, personal medical profiles will contain a review of the use of prescription medicines. This information will be adapted and used for communication between healthcare professionals.

Patients will also be able to communicate with their GPs through electronic appointments, e-mail consultations and ordering of repeat prescriptions. There will also be a pilot project on GPs' receipt of test results from medical laboratories. The health portal will also support communication between general practitioners and hospitals concerning examination information, clinical guidelines, etc.

Source: OECD E-Government Working Group.

2.4. E-government contributes to economic policy objectives

The New Economy: Beyond the Hype (OECD, 2001) assessed the impact of ICTs on economic growth and indicated that assessment is difficult in this area, particularly for activities within the government sphere. E-government activity may generate savings for governments by reducing the need for outlays, but the economic impact will depend on how these savings are used. Accordingly, no firm conclusions as to the scale of aggregate impacts can be drawn; moreover, as will be seen, assessment of impacts at the specific project level presents significant difficulties.

Online services have already played a strong role in **improving business productivity** and assisting in the start-up of new enterprises. In many OECD member countries, administrative simplification is a priority, especially regarding policies and services for small businesses, as government requirements can have a major impact on their viability. Initiatives have involved reducing compliance burdens by making business registration requirements accessible online and enabling online filing of taxation forms directly from accounting software used by businesses. They also concern providing online access or filing of forms relating to unemployment insurance or statistical reporting and sharing data collected from businesses among different agencies. Governments have also developed online business portals to provide more efficient access to information produced by business assistance agencies on issues such as market trends, export opportunities and assistance programmes. Portals have been used to draw together information from a range of agencies, often at different levels of government.

**Box 8. Spain: The Tourism Portal:
a market place for tourist products and services**

Developed by the government and launched in June 2002, the Spanish tourism portal www.spain.info aggregates information and services from public and private sector databases (i.e. the central government, the 17 regional autonomous administrations, local authorities, private tour operators, travel agents, individual hotels, restaurants, etc.). It shares information and services with vertical and horizontal portals, such as municipal web sites, commercial portals, travel sites and government tourist offices. The portal provides tourists and travel agents with quantified and co-ordinated information to plan, organise and book trips in nine languages and a wide range of formats (e.g. multimedia and 3-D virtual imagery), and allows tourist office staff to deliver up-to-date information tailored to each tourist's needs. The portal allows regions, municipalities and private operators to pursue their own tourism strategy without having to duplicate efforts. An e-commerce extranet allows tourism businesses and communities to buy and sell their products, and provides a reservation system, with financial transactions conducted at the point of sale.

Source: Holmes (2002).

E-government is also seen as a means of promoting broader **information society and e-commerce policies**. Government use of online applications for service delivery and government business processes can provide a

demonstration effect which can help lead to the take-up of e-commerce and the Internet across the economy more broadly. This is a common goal of countries' information society and e-government strategies, though its success remains difficult to assess. Elements of this policy may include:

- Government acting as a **leading-edge user**, adopting emerging applications to assist in their broader take-up across the economy. For example, governments have been urged to adopt smart card or specific security applications in the hopes that this will provide a critical mass for broader use. In a context of promoting innovation, these approaches can be worthwhile, particularly if specific funding is forthcoming.
- Developing or adopting **policies and standards** which can be applied across government and broader public sector applications, in order to promote common standards and influence the potential market. Sweden and Australia, for example, have adopted policies to share authentication infrastructure between government and the banking sector to defray costs and promote take-up, and thus improve the business situation for both parties.
- E-government services can be seen as a rationale for **take-up of the Internet**, thus contributing not only to social policy objectives to reduce the digital divide but also, more broadly, to the value of online access in the community (the network effect) and thus to the demand for e-services and e-commerce.
- Government **direct consumption of ICT goods and services** can be significant and is often more stable than private-sector demand. Government demand for communications capacity, particularly in non-metropolitan areas, can influence market decisions to roll out capacity. Additionally, government demand for ICTs can increase demand for locally produced ICT products and services, and government ICT procurement policies often take into account this objective. Governments can also help develop ICT skills in the economy.

2.5. *E-government can help forward the public reform agenda*

The promised benefits of e-government do not take place simply by digitising information and placing it online. E-government services continue to be embedded in the environment of today's public administrations and therefore remain limited by what these administrations are capable, and willing, to do. The term "e-government", as used by the OECD E-Government Project, applies to the use of ICTs as a tool to *achieve better government*. Thus, e-government is not about business as usual, but should instead focus on using ICTs to transform the structures, operations and, most importantly, the culture of government.

Reform of the public administration has been on the agendas of most OECD member country governments well before the advent of the term "e-government". But e-government is an important component of today's reform agendas because it: i) serves as a tool for reform; ii) renews interest in public management reform; iii) highlights internal inconsistencies; iv) underscores commitment to good governance objectives.

As a reform tool, ICT use in government makes it easier to monitor the efficiency and effectiveness of service delivery, tying individual output to overall project objectives. It has been used to simplify and make more transparent financial, case management and human resource management processes. Such tools are only effective, however, if they are linked to public management objectives and used as part of an overall change management strategy.

E-mail and electronic communications technologies have laid the groundwork for the much heralded "webbed" or non-hierarchical administration by allowing collaborative editing of documents, broader sharing of information and the tracking of documents waiting for clearance. One of the most important implications for e-government is its potential for integrating services and processes in order to achieve more seamless government. Seamless government cuts across the boundaries that separate different jobs or functions in the public administration. E-government can create networks of information flow among the different parts of the administration, irrespective of legislative or administrative boundaries and/or hierarchies. In fact, one can question whether or not government agencies can maintain their current internal divisions and territories while trying to maintain a single, simple interface with the citizen through e-government.

E-government has also helped to renew interest in public management reform by capturing the imagination of political leaders and government employees alike. While there is a danger of overselling the benefits of e-government, there is interest in both the potential for service improvements and the participatory aspects of e-government. Public sector trade unions in many countries have been supportive of the transition to e-government. Especially in the context of shrinking working populations, e-government may offer more skilled employment for some even as some less-skilled jobs are eliminated. Government interest in ICTs has also renewed focus on developing employee skills and on recruitment and retention.

E-government also increases pressure for reform by promising service improvements. Once countries begin implementation, they realise that technology alone is insufficient and that workplace practices and structures need to be reformed as well. E-government raises citizen expectations, putting further pressure on government. For example, Statskontoret, the Swedish

Agency for Public Management, notes that serving citizens 24 hours a day, seven days a week is not simply about having a web presence: "the 24/7 agency, must, through its choice and implementation of service channels and electronic services, become part of the larger context that is central e-government. This calls for voluntary collaboration between agencies or government-led development and strategy throughout the central public administration." (The 24/7 Agency, Statskontoret, 2000.)

Finally, e-government raises good governance issues that are at the heart of many current debates on how to improve relations between government and citizens. As noted by the OECD Ministerial Council (2001), good governance is an essential ingredient of the mix of policies that underpin economic growth and development. By contributing to reduced corruption, greater openness and trust in government institutions, e-government can help to meet economic policy objectives and build citizen trust in government.

Much has been said about the potential for new technologies to increase the transparency and accountability of government. One cannot assume, however, that making services available online will automatically increase the transparency of the public administration. Undeniably, the enhanced information dissemination capacity of the Internet increases the pressure on government to be more transparent. But it is up to governments to decide, in dialogue with citizens, business and civil society, how best to safeguard the public interest, reconciling the search for better knowledge management with the demand for data privacy and responding to pressures for greater transparency and disclosure at reasonable cost.

It is worth keeping in mind the incentives, opportunities and constraints of the public administrations that are being asked to carry out e-government initiatives. In the wake of the events of 11 September 2001, for example, legitimate policy objectives of security have, in many instances, superseded concerns about transparency. The question is not whether one is more important than the other, but rather have countries laid out the appropriate criteria for deciding among diverse governance concerns?

Modernising government structures and processes to meet e-government demands will have some fundamental impacts on how services are delivered. The current model of the public administration in most OECD member countries, for example, restricts information sharing because the collection and use of data is segmented along with the structure of government. This separation according to functions, however, also serves to protect the privacy of citizens' data. In creating a more seamless government, government will have to strike an equilibrium between protecting citizens' privacy and better meeting their needs with more efficient, pro-active services. What starts as an

exercise aimed at developing more responsive programmes and services becomes an exercise in governance (Lenihan, 2002).

Box 9. Switzerland: "Live+" – Internet transmission of parliamentary debates

Live+ transmits the live debates of the National Council (lower house) and the Council of States (upper house) of the United Federal Assembly (the Swiss Parliament), along with supplementary information to put the debates into context. Web users follow debates live in one window of their computer screen and, on a second and third window, interactively call up information about the speaker and the issue being debated. It is up to viewers to decide how deeply they would like to investigate a particular subject.

Live+ is an audiovisual Internet relay system, produced by the Swiss Parliamentary Services in conjunction with Swiss Television. It was launched in 1999 as a result of demands for greater transparency in the work of both houses of Parliament from citizens, the media and cantonal authorities who increasingly wanted to follow the debates. Live+ makes the debates accessible to a wider audience than television. For instance, Swiss embassies and citizens living abroad can now follow the debates live. From the same web site, users can also call up other parliamentary information, such as the schedule of sessions, the Official Bulletin of the Federal Assembly, and data relating to committee work.

Parliament's web site: www.parlament.ch

Source: Holmes (2002).

Box 10. United Kingdom: Engaging the Citizen in a "New" Government – The Scottish Parliament

Since 2000, the Scottish Parliament has committed to using ICTS to advance its principles of openness, accountability and citizen engagement in the parliamentary process, and implemented an innovative e-government strategy to engage the citizen and assist the operations of the new Parliament and the government administration.

The use of the web by the Scottish Parliament www.scottish.parliament.uk is an innovative and evolving model for how ICTs can be used to inform and engage citizens in the democratic process, with an open approach to information and reporting on parliamentary processes, which helps to strengthen the transparency and accountability of Parliament to citizens. It includes public education about Parliament's functions and mandate. It uses webcasting to broadcast parliamentary session and committee meetings. Parliament also uses ICTs to better engage citizens directly in the democratic process, by enabling citizens to petition Parliament online. The website contains extensive material and resources on petitioning, including how to petition, a registry of petitions, and actions taken. Direct citizen participation is also encouraged through interactive "Discussion Boards" on the website. Other web-based resources enable citizens to contact their Members of Scottish Parliament (MSP), and lists the portfolios and committees in which the MSP serves and links to them.

Source: Culbertson (2002).

2.6. Citizen engagement and trust

Citizen engagement can help build and strengthen the trust relationship between governments and citizens. This is fundamental to the achievement of good governance and in turn to fulfilling broader economic and social goals. In the absence of trust, the rule of law, the legitimacy of government decisions and specific reform agendas may be called into question. While the overall relationship involves a complex web of factors, ICTs can act as an enabler to engage citizens in the policy process, promote open and accountable government and help prevent corruption. Citizen engagement at a basic level includes information, consultation and feedback by service users. At a more advanced level it includes citizen engagement for policy-making.

Access to information, consultation and participation mechanisms can have a pervasive impact on promotion of good governance. In themselves, they identify willingness by governments and administrations to not only

accept public scrutiny and accountability, but to actively facilitate it, by improving the scope and efficiency of these processes. This makes good sense: opening up decision-making processes can improve the quality of decisions by improving decision-makers' understanding of the context and impact of options before them. In themselves, they indicate governments' and administrations' willingness not only to accept public scrutiny and accountability, but their desire to facilitate this by improving the scope and efficiency of these processes.

The nature of online services facilitates the collection of information on user experiences. At one level, data on Web use can provide information on pages accessed, user pathways through information and points where users abandoned the application. More active feedback from short online questionnaires or feedback contacts, while not representative, can provide qualitative information directly based on user experiences. Fine-tuning the presentation of online information can reduce the number of costly follow-up contacts, for example if applications are not filled in correctly. Transactions that can be completed online effectively can generate considerable savings.

Feedback from users can help refine service arrangements to make them more effective. For example, user feedback on the design of forms or the way information is presented can help ensure that citizens are aware of entitlements and requirements.

Consultation and informed participation can help lead to policies that better address constituents' needs and also increase support for, and trust in, public institutions and their policies. Governments are actively developing online applications in these areas, and many countries are also developing e-democracy policies, which may include e-voting and political engagement issues.

However, while new ICTs offer significant opportunities for greater stakeholder engagement in policy-making, they also raise a host of new questions for government. How are citizens' rights of access to information to be ensured in the online era? What aspects of government's current structure, organisation and resource allocation need to change to respond to new standards for their interactions with citizens? What is the status of civil servants' online responses to citizens' queries or their submissions to an electronic discussion forum?

Box 11. Korea: Improving transparency by building an electronic procurement system

In the past, suppliers for government procurement projects obtained bid information through personal networks and placed bids that were pre-arranged by the supplier and procuring organisation. In addition, this involved many visits to the procuring organisation to receive payment. This kind of interaction, which depended on direct contact between the supplying firm and procuring public entity, always meant the possibility of corruption.

System G2B (Government to Business) makes possible total online processing of government procurement, from placing bids to final payment. The procurement portal gives access to procurement information in one stroke (www.g2b.go.kr). Through the use of this system, direct contact to place bids and receive payment has been drastically reduced and the procurement process is disclosed to the public, thereby improving transparency and the credibility of procurement practices.

Source: OECD E-Government Working Group.

Box 12. Mexico: Preventing corruption in procurement

The site www.compranet.gob.mx was created to handle all purchases by the federal government and has expanded to include states and some cities. The system has been crucial for ensuring the transparency of the government's procurement process. It includes capabilities for electronic tendering, special searches, and research on both vendors and buyers. Citizens can readily find out who has bought what, from whom and at what price.

Source: OECD E-Government Working Group.

3. Budgetary barriers

Identifying potential gains from e-government is one thing; actually realising them is another. Implementing ICT projects, particularly large-scale projects that can have a major impact on service quality improvements or efficiencies, can raise a number of problems, many of which relate particularly to operating within government. External e-government barriers often concern breakdowns, missing components or lack of flexibility in the government-wide frameworks that enable e-government. The result is oftentimes the inability to

achieve a whole-of-government perspective in e-government implementation. The issue of budgetary barriers is one such problem that requires the co-operation of multiple actors in order to be overcome.

OECD member country governments operate within vertical funding structures, in accordance with the core public management principle of holding an agency accountable for achieving organisational objectives and giving it the resources to accomplish those objectives. However, such budgetary frameworks may not take into account the specific needs of certain e-government projects, particularly those involving long-term funding requirements and collaboration across agencies. ICT projects are of a different nature than traditional projects, especially with regard to infrastructure and the need for collaboration. For this reason, budgetary needs are different, and current budgetary arrangements can in fact be a barrier to e-government. In order to maximise the benefits of e-government, financing issues must be addressed.

One commentator (Harvard Policy Group, 2001) considers there is a virtually inverse relationship between traditional government budgeting and ICT investments.

Table 1. Traditional budgeting and budgeting for ICT investments

Focus of traditional government budgeting	Characteristics of high-value ICT investments
Single-year (or biennial) expenditures	Multi-year investments
Programme-by-programme performance	Enterprise or cross-boundary performance
Financial costs/benefits	Financial and non-financial costs/benefits
Level of effort within existing work flows	Changes in the flow of work
Ongoing operations	"Start-up" operations
Control	Innovation

3.1. Specific budgetary issues

A number of features of current budgetary arrangements in OECD member countries work against efficient implementation of e-government. Current budgetary frameworks provide financing for individual projects, but do little to account for the shared responsibility inherent in many e-government projects.

E-government funding:

- To the extent that an explicit choice is made, the implementation of e-government is often unlikely to win out in competition with other compelling public policy objectives such as education, security and health. While most e-government proposals will be argued for in terms of

programme outcomes rather than in terms of advancing e-government *per se*, the level of resources devoted to e-government is ultimately a matter for governments to determine in light of their overall priorities.

- The difficulty of measuring costs and potential benefits for e-government projects makes it hard to develop funding cases for projects and compare alternatives in a budget-setting context.
- The treatment of certain ICT spending as capital rather than recurrent expenditure is a major challenge. Not all ICT expenditure is of a capital or investment nature. Nor does it all involve maintenance, associated recurrent staffing costs, or small-scale projects. However, if major projects are not considered as investment, they will need to compete with other more pressing recurrent funding proposals, and in this context will seem to involve large levels of expenditure.
- Budget time horizons can pose problems for e-government. Many e-government projects will be multi-year in nature, and thus require commitments to spend resources over a long period, sometimes well beyond the annual or multi-year budgeting horizon. Such projects represent a commitment to spend future revenues, and governments are understandably reluctant to tie up future spending. Projects that do not require such a commitment may be favoured.

E-government collaboration:

- There are a number of **budgetary rigidities** that prevent shared funding arrangements. The vertical nature of current arrangements means that it can be difficult to request joint funding, to pay into a project being done by another agency, or to pool funds. There are few mechanisms for shared funding, and it can be difficult to assess the extent to which agencies are benefiting from (and hence should contribute to) a shared project.
- The use of **performance-based budgeting** can create disincentives for collaboration, by rewarding independent behaviour at the expense of shared projects.
- There is no framework for **profit-sharing**. Agencies have no incentives to eliminate redundant systems by sharing systems with other agencies unless they can share in some of the savings generated.

3.2. Possible solutions

A number of steps can be taken to help overcome the aforementioned budgetary barriers. **E-government funding** can be assisted by the following measures:

- Major ICT projects could be usefully **classified as capital investment**, involving a single or a series of up-front capital outlays, with a consequent

stream of benefits. This would enable a fairer comparison of such proposals with recurrent spending alternatives, or in some systems remove the capital project from recurrent budget frameworks. Classifying such major projects as capital investment helps with funding of e-government projects. This will also help with problems of budget time horizons.

- In a number of countries, spending on e-government requires **separate** approval by the e-government co-ordinating office to ensure that there is no duplication or inconsistency with broader strategies and architectures. Clear rules and structured consultation processes will help maintain agency confidence in this approach.
- **Public-private partnerships** can be used to bypass budgetary constraints and thus respond to a number of barriers, including obtaining capital, budget time horizons and disincentives for innovation and collaboration. For example, using a private partner to build the required infrastructure, and then leasing it, or otherwise paying on a user-pays basis will reduce the need for up-front capital, but with the risk of greater long-term cost.
- Specific central **funding for innovation** can be used to fund innovative and high-risk demonstrations that otherwise would not receive funding. Arrangements could be used to augment this funding through linked (or matching funds) from other agencies, private partners, or by using seed financing from a central fund with the expectation that the investment will be repaid (in part or in full).
- An agreed approach to the **assessment of costs and benefits** of e-government can help evaluate and fund successful projects.
- The ability of agencies to **retain savings** generated from e-government initiatives will be important as an incentive for agencies to look for efficiencies.

Box 13. **United Kingdom: Innovative funding mechanisms**

In 1998, the government set up a Capital Modernisation Fund, separate from allocations to individual departments, to finance innovative investments based on project proposals. This fund, which was available as a result of under-spending of conventional capital allocations, has been used extensively for ICT projects. According to the Treasury Web site, "the Capital Modernisation Fund was set up to support capital investment to improve public services. For 2000-01, GBP 200 million were added to the fund as part of the budget 2000 announcement to take the fund to GBP 2.7 billion between 1999 and 2001-02". Funding is allocated on a competitive basis and on the following criteria:

Box 13. United Kingdom: Innovative funding mechanisms (cont.)

- extent to which the project applies genuinely innovative approaches to service delivery;
- quality and strength of the economic appraisal of the project;
- impact on the efficiency and effectiveness of the service;
- how far the project contributes to the department's objectives;
- how far the project is genuinely additional;
- robustness of arrangements for delivering, managing, accounting, monitoring and evaluating the project.

Successful projects have included e-government initiatives. In the first round (1999-2000), e-government projects funded included: GBP 470 million as part of the National IT Strategy to provide 1 000 IT learning centres across the country; GBP 1.1 million to leverage various e-commerce procurement initiatives, in particular to develop a government "shopping mall" to provide electronic tendering for low-value transactions to and from government which could save over GBP 10 million a year; and GBP 600 000 for electronic procurement by Foreign and Commonwealth Office posts overseas. In the second round, GBP 23.3 million were allocated to transform the Crown Court and reduce delay in the criminal justice system by more effective management of cases through the Crown Court while improving the quality of service to court users. This involved: a PC-based system for electronic presentation of evidence, producing significant savings in court time in complex cases; electronic transcripts of court proceedings through a digital audio recording of the official record; and improved distribution of information by displaying relevant information on how cases are progressing on public information kiosks and on a read-only access IT source.

Source: OECD E-Government Working Group.

The linked nature of many e-government projects across traditional programme and organisational lines means that shared budgetary arrangements are essential. On the basis that the bulk of funds for e-government will (and should) be provided through agency budgets, the budget process can be used to promote co-ordination of e-government initiatives. **E-government collaboration** can be aided by the following measures:

- A **central register** of e-government initiatives seeking funding would enable agencies and e-government co-ordinators to see the range of new proposals and identify potential duplication.

- **Central funds** can be used to encourage certain activities, such as collaborative initiatives by agencies.
- Under the **lead agency model**, an agency funds a project that benefits other agencies as well as itself.
- Another possibility is that a number of **agencies co-ordinate their approach** to obtaining funds. This may be done, for example, by dividing a project into segments. (However, this approach can lead to implementation problems regarding the division of the project, especially as some agencies may be successful in obtaining funding while others fail.)
- Under **pooled funding** arrangements, agencies share funding for a common project. It is important to be able to formalise such arrangements in quasi-contractual arrangements, to provide clarity for all parties and to allow for a unified project management and implementation approach.
- **Agency payment models** involve arrangements in which the co-ordinating agency funds the development of the project, and agencies that use the service then pay to use it. The advantage of operating on a voluntary basis is that agencies will join if they feel the service is of value. This approach also incites the co-ordinating agency to meet agency needs.
- **A mandatory levy** on agencies may enable some projects to proceed that otherwise would not. However such a levy could be difficult to negotiate.
- Performance-based budgeting should **take into account shared responsibility** in order to create incentives for shared projects.

Box 14. **Canada: Central funding criteria**

The objective of the Canadian Government Online (GOL) initiative is to encourage the re-engineering and integration of services so as to better meet the needs of individuals and businesses, and to achieve operational and delivery efficiencies within government. Government Online is client-focused and takes a “whole-of-government” view for clients, with significant economies of scale, while still maintaining ministerial accountabilities and responsibilities.

Central funding has been the catalyst for horizontal co-operation among federal departments and extends into other jurisdictions. The ability to transfer incremental funding into departmental accounts has permitted the government to look for collaborative opportunities, sometimes more complicated and expensive up front, but which clearly promise an eventual return on investment stemming from the horizontal nature of the project. It has also allowed the government to insist on high standards of documentation, governance and

Box 14. Canada: Central funding criteria (cont.)

reporting. The centralised approach has accelerated the successful delivery of Internet-based services, including in departments where tight discretionary budgets did not allow for the early introduction of such capabilities. There is now a large and growing network of key personnel who co-operate outside of departmental boundaries and stimulate the efficient sharing of best practices, technical tools and key lessons learned.

Early projects were carefully screened by interdepartmental review committees and successful projects received appropriate central funding. In most cases, this central funding covered only part of the project's total cost, with the balance contributed by sponsoring departments and their contributing partners. Three examples of successful projects that have substantially benefited from the centralised approach to GOL are:

- Seniors Canada OnLine, a project led by Veterans Affairs Canada (VAC) and involving multiple partners and jurisdictions, responds to the need for more and better information specifically tailored to the needs and the realistic computer capabilities of Canadian seniors, their families, caregivers, service providers and supporting organisations.
- e-Client Status Query, a project led by Citizenship and Immigration Canada (CIC), allows individuals to check electronically on the status of their immigration applications. This project involves the safeguarding and transmission of personal information and was therefore a logical choice to act as a prototype for a highly secure electronic communications network.
- The Canada Site, a project led by Communications Canada which includes input from virtually all federal departments, is a layered portal comprising three "gateways" and a single point of entry to all information holdings that are pertinent to interactions between government and its various clients. This major undertaking has absorbed large amounts of funding for development, maintenance and marketing, amounts that only became possible with central direction, co-ordination and funding.

GOL supports a "whole-of-government" approach by funding departments to work with partners on common solutions. Incremental funding, even if on the margin, can influence the pace or approach to the re-engineering of services by departments. The approach has accelerated the move towards greater horizontal management across departments and opened a new channel for communication and collaboration.

Source: OECD E-Government Working Group.

Box 15. Italy: The co-ordination of financial resources for e-government

In 2002 the Italian Ministry for Innovation and Technology launched an initiative for the implementation of e-government at local level to co-finance (up to EUR 120 million) projects proposed by the different local governments (regions, provinces, municipalities). A specific objective of the initiative was to co-ordinate the different financial sources so as to maximize the use of the limited financial resources available at central level. To this end, in the call for tender which was launched to select the local government projects to be co-financed, specific criteria were proposed to favour those projects which were coherent with the regional strategic plan for the development of e-government.

In response to these criteria, the proponents of the projects began to co-ordinate their initiatives with the strategic regional plans, while most regional governments provided additional financial resources for the selected projects. Through this mechanism, most of the projects selected were financed from three different financial sources: national funds, regional funds and local administration funds.

Each of these sources represents a specific commitment for the success of the projects. Furthermore, the regions in the South of Italy decided to use the European Union Regional Development Structural Funds, adding a further strong element of commitment.

To sum up: the use of a call for tender, as opposed to the traditional transfer of funds, brought about a stronger commitment by the local governments who were proposing e-government projects; the requirement for projects to be coherent with regional strategic plans (in addition to being coherent with the national e-government action plan) brought about a convergence of the different financial resources for e-government development.

Source: OECD E-Government Working Group.

Box 16. **United States: "Pass the hat" – pooled agency funding of projects**

The Clinger-Cohen Act (formerly known as the Information Technology Management Reform Act) implicitly encouraged multi-agency projects by directing the Office of Management and Budget (OMB) to issue "guidance for undertaking ... multi-agency and government-wide investments in information technology...", thereby prompting the OMB to issue guidance on capital planning as part of its omnibus policy document on information resources, "Managing Information Resources" (OMB Circular No. A-130). The act also gives OMB the authority to redirect funds from one agency to another to finance multi-agency projects. Finally, the act permits joint agency funding of projects, known as "pass the hat" funding, a practice otherwise prohibited under most US appropriations laws, which tend to require single agency funding and accountability for projects.

The authority to redirect funds has, until recently, not been used. In May 2002, OMB did invoke this authority in support of an e-government initiative, online rulemaking management. In July 2002, OMB announced its intent to use its Clinger-Cohen authority to support the realignment of government functions envisioned by the administration's proposed Department of Homeland Security by limiting individual agency investments in projects that will need to be consolidated.

The "pass the hat" authority has also played a role in financing e-government initiatives in at least two important ways. It is being used to finance the activities of the federal Chief Information Officers (CIO) Council (www.cio.gov), the principal co-ordinating body for federal ICT activities, and to fund the FirstGov initiative (www.firstgov.gov).

Source: OECD E-Government Working Group.

Box 17. **Mexico: Co-ordination of the government budget process**

The Mexican government established SAETI, a system for planning, budgeting and evaluating ICT projects from all federal agencies. The system helps match ICT projects against overarching objectives, detects overlaps and aids in evaluating the performance of ICT investments.

Source: OECD E-Government Working Group.

4. Conclusions and future challenges

Pressures will continue for governments to be responsive to social changes, find efficiencies and address citizens' concerns. Both citizens and businesses expect governments to adapt, and their expectations will grow as the information society becomes more widespread. Governments must rise to the challenges of new technologies as these technologies continue to evolve. Decisions taken today will determine future capacity. The initial impressive visible results of e-government (government websites, a number of sophisticated transactional services, and the development of portals) contrast with the next stage of e-government, which requires the development of hidden infrastructure, connected back office arrangements, and more complex services. Greater collaboration across levels of government, higher funding levels and deeper organisational change will be needed, for example when dealing with budgetary issues. However, governments adapt slowly, and tend to treat the information revolution and e-government as only one among multiple challenges with which it is confronted.

In order to make the right decisions and avoid falling behind, governments must identify and resolve the different issues raised by the continuous process of e-government implementation and improvement. Rather than just focussing on introducing ICTs, governments must also decide on, guide and control the transformation of government into e-government. This radical change in structures and traditional methods of government operations takes place by establishing real collaboration between agencies and between the different levels of government. Service provision, which is the focus of strong attention, is only part of the potential of e-government. Evaluating results is an essential tool for policy-makers to limit the margins for error when putting future strategies in place. The use of ICTs to strengthen the involvement of citizens and businesses in public decision-making must progress at the same time. As long as these steps have not been successfully implemented and the necessary tools put in place, e-government will remain a misleading, cosmetic operation.

Capturing the benefits of e-government will continue to be difficult, and will require co-ordinated action across a range of implementation issues. The **Guiding Principles for Successful E-government** below, taken from the OECD report "The E-Government Imperative", set out a framework for such future action.

Guiding principles for successful e-government

Vision/political will

1. **Leadership and Commitment:** Leadership and commitment, at both political and administrative levels, are crucial to managing change. Committed leaders are required to deal with disruptive change, to persevere when benefits take time to emerge, to respond when things go wrong, and to establish visions and plans for the future.
2. **Integration:** E-government is an enabler, not an end in itself. It needs to be integrated into broader policy and service delivery goals, broader public management reform processes and broader information society activity.

Common frameworks/co-operation

3. **Inter-agency collaboration:** E-government is most effective when agencies work together in customer-focused groupings of agencies. Agency managers need to be able to operate within common frameworks to ensure interoperability, maximise implementation efficiency and avoid duplication. Shared infrastructure needs to be developed to provide a framework for individual agency initiatives. Incentives can help encourage collaboration.
4. **Financing:** ICT spending, where appropriate, should be treated as an investment, with consideration of projected streams of returns. E-government requires a level of certainty of future funding to provide sustainability to projects, avoid wasting resources and gain maximum benefit from given funding levels. A central funding programme could help foster innovation and allow for key demonstration projects.

Customer focus

5. **Access:** Governments should pursue policies to improve access to online services. Many advantages of online government information and services are not replicable offline, so that those who lack access will be excluded unless action is taken.
6. **Choice:** Customers should have choice in the method of interacting with government, and the adoption of online services should not reduce choice. A principle of "no wrong door" to access the administration should be adopted. Services should be driven by an understanding of customer needs.
7. **Citizen engagement:** E-government information and services should be of high quality and engage citizens in the policy process. Information quality policies and feedback mechanisms will help maximise the usefulness of information provision and strengthen citizen participation.

Guiding principles for successful e-government (cont.)

8. **Privacy:** E-government should not be delivered at the expense of established expectations of privacy protection, and should be approached with the goal of protecting individual privacy.

Responsibility

9. **Accountability:** E-government can open up government and policy processes and enhance accountability. Accountability arrangements should ensure that it is clear who is responsible for shared projects and initiatives. Similarly, the use of private sector partnerships must not reduce accountability.
10. **Monitoring and evaluation:** Identifying the demand, costs, benefits and impacts of e-government is crucial if momentum is to be sustained. E-government implementers cannot expect support if they cannot articulate potential benefits.

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Budgeting in Brazil

by

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Introduction

During his September 2002 visit to OECD Headquarters in Paris, Mr. Guilherme DIAS, the Minister of Planning, Budget and Management, requested the OECD to carry out a review of the Brazilian budgeting system in a similar fashion as it does for its member countries.

The OECD responded positively to this request, recognising that Brazil is an established observer of the OECD Working Party of Senior Budget Officials and a key partner in the OECD's overall programme of co-operation with non-members.

In view of the short timeframe available for conducting the review, it was agreed that the report would not discuss Brazil's system of fiscal federalism.

A mission visited Brasilia in October 2002 to carry out the review. During this visit, the mission met with senior officials from the Ministry of Planning, Budget and Management; the Ministry of Finance; the central bank; the Ministry of Internal Control; and line ministries, including the Ministry of Education and the Ministry of the Environment. The mission also met with senior officials from the Brazilian Congress and the Court of Audit.

The mission would like to express its gratitude and appreciation for the warm and cordial reception by the Brazilian authorities and the uniformly frank and useful discussions with Brazilian officials. In particular, the mission would like to express its thanks to Minister DIAS for the generous time he shared with the mission during its stay in Brasilia.

Finally, the mission would like to thank Mr. Joaquim LEVY, Chief Economist and Ms. Giulia PUTTOMATTI, Ministerial Advisor, Ministry of Planning, Budget and Management, for organising the mission's visit and for their excellent and invaluable assistance throughout this review.

The views expressed in this report are those of the OECD Secretariat and should not be attributed to governments of OECD member countries, or to any organisation or individuals consulted for this review.

The review was completed in December 2002.

1. Budget formulation process

1.1. Introduction

The macro-economic environment for budgeting in Brazil has undergone profound change in the past eight years with the introduction of the *Real Plan* in 1994. Its cornerstone was to bring down inflation and nurture macro-economic stability. Inflation went down from 5 014% in the 12 months preceding the *Real Plan* to 22% in the next 12 months (1995), then to 9% in 1996, 4% in 1997, and 2.5% in 1998. It rose again to 8.4% in 1999, the year of devaluation and the introduction of a floating exchange rate (brought on by the Russian crisis), before dropping back to 5.3% in 2001.

After decades of inflation, the country's budget had come to rely on the "inflation tax" as a significant source of revenue. The government in effect indexed the revenue side of the budget, while a significant portion of the expenditure side of the budget was non-indexed. This price differential was an artificial means of maintaining expenditures. With the sharp drop in inflation achieved by the *Real Plan*, it was no longer possible to finance the same level of government expenditure.

At the state level, the impact of the loss of the "inflation tax" was exacerbated by the fact that the states had accumulated large debt as a result of previously enjoying easy access to the financial markets. This created a crisis for the states as they would no longer be able to service/repay their debts. As a result, the federal government embarked on a large debt-restructuring programme for the states in 1997. The federal government assumed the states' debt to banks and the bond markets, issuing Treasury bonds to the states' creditors and entered into contractual agreements with the states for their eventual repayment of the debt that had been assumed. These contracts were on much more favourable terms than those offered by the market, but they were conditional on a set of states' commitments to fiscal adjustment. These conditions were also enshrined in the Fiscal Responsibility Law of 2000, along with other provisions.

The net result for the federal government is, however, that its level of debt increased significantly by this assumption of debt. The debt profile of the federal government is also characterised by a short maturity and the fact that a significant part of it is indexed either to short-term interest rates or the exchange rate.

For the federal government, it is essential to bear these two factors in mind: first, the funding constraint brought by the loss of the "inflation tax" and the volatile debt profile.

Budgeting is generally viewed as having three functions. First, the maintenance of the aggregates. Second, the allocation (and reallocation) of

resources to sectors where they are most needed. Third, the efficient use of resources in each sector. There are generally tensions between these three functions, with countries forced to choose which one they place more emphasis on. It is evident that Brazil's budget formulation process puts a large emphasis on the maintenance of the aggregates. This is well justified as stabilisation of the aggregates is a prerequisite for overall economic stability which is essential for all other activity in the economy.¹ In addition, several institutional constraints limit the scope for discretionary changes in allocations across programmes or sectors.

Box 1. **Fiscal Responsibility Law**

The Fiscal Responsibility Law enacted in 2000 evolved from the “hands on” experience of the renegotiation of state debts. As such, it is a practical and pragmatic law that consolidates previous directives and introduces a comprehensive set of provisions to foster fiscal responsibility. Among the key features of the law are maximum limits on the level of personnel expenditure and the level of debt, as a proportion of net current revenues, and the principle that any new medium-term expenditure has to be “affordable.”

The limits on personnel expenditure are identified for each branch of government in the three levels of the federation (union, states and municipalities) and include both active and retired public servants. Ceilings on the debt are also set by level of government.

“Affordability” is demonstrated in several ways. In some cases, it is sufficient to show that new expenditure will fit within the established budget expansion baseline (i.e. room created by GDP growth keeping constant policies).

For the case of new mandatory expenditure, the requirement is strengthened by the rule that the room has to be created by replacing other expenditure or introducing new taxes. (This is similar to the PAYGO rules applied in the United States.) Similar rules also bind any new tax expenditure and subsidies to the private sector.

The law also contains extensive provisions for increased budget transparency and the monitoring of budget implementation. The law also provides for extensive corrective measures to be taken in case of any breaches, including both institutional and personal sanctions. The latter includes fines and incarceration for the officials responsible.

This section is divided into two parts. Section 1.2 presents several distinctive features of the Brazilian budget formulation system. Section 1.3 builds on these and discusses the main steps in the annual budget process.

1.2. *Distinctive features*

This section reviews three distinctive features of the Brazilian budget formulation process compared to those generally found in OECD member countries. They are the high degree of rigidity in the system, the operation of a separate planning function and the lack of rolling multi-year expenditure frameworks.

1.2.1. *High degree of rigidity*

The Brazilian budget is very rigid. This is due to the large amount of expenditures that are mandated by the Constitution, the earmarking of tax revenues to specific uses and the designation of certain expenditures as “mandatory”. The effect is to insulate a very large proportion of the budget from effective scrutiny each year. It is estimated that over 90% of the budget is subject to these rigidities.

1.2.1.1. Constitutionally mandated expenditures

The Brazilian Constitution contains provisions that guarantee the funding of three types of government expenditure:

- revenue-sharing with states and municipalities;
- salaries (and pensions) for government employees;
- interest on, and repayment of, the public debt.

From a budgetary point of view, the first two items pose challenges. The protection of government employees’ salaries has the effect of largely insulating them from fiscal adjustments and from critical scrutiny during the budget formulation process. Once an individual is in a certain position, it is “for life”. This is discussed further in Section 3 – Management. A constitutional amendment has been approved to change this provision, but it is currently being challenged in the courts and has not become operational.

Revenue-sharing with municipalities and states is not detailed in the Constitution itself but elaborated in a “complementary” law. Such laws require a super-majority (two-thirds) in Congress in order to amend them, which is generally an insurmountable hurdle. Furthermore, the interpretation of the Constitution is that virtually all existing or new *non*-earmarked taxes have to be shared with states and municipalities.

1.2.1.2. Earmarking of tax revenue

Earmarking of tax revenue to finance certain categories of expenditure is widespread in Brazil. It is estimated that about one-half of total revenues is earmarked. In terms of amounts, it is focused mainly in the social sectors (education, health care, housing, social benefits) but is prevalent in all sectors. In order to avoid double-counting, it is important to note that part of the expenditure for education, salaries for example, is counted as a constitutionally mandated expenditure as well. This double binding serves to further illustrate the rigidity in the Brazilian budget formulation process.

There would appear to be several major reasons for the widespread use of earmarking – both historical and contemporary.

First, during Brazil's high inflation years, earmarking was essentially meaningless to have a specific appropriation in the budget in nominal terms. By linking expenditures with a revenue source, it was possible to “insure” the expenditures against the effects of inflation, as the revenues would rise in line with inflation.

Second, with the end of high-inflation, it was a reaction against the system of presidential budget implementation decrees, which are discussed later in this section. The Brazilian budget is “authoritative”, i.e. it sets the “maximum” level of expenditure for each appropriation, but the government is not obligated to spend the full amount appropriated. It can reduce certain appropriations made by the Congress (impoundment). Appropriations linked to earmarked taxes are less susceptible to such actions.

Third, because of the revenue-sharing imposed on most non-earmarked taxes due to the legal interpretation of the Constitution, the federal government is sometimes compelled to introduce an earmarked tax, despite their lower efficiency.

The effect of earmarking varies greatly according to how specific it is. Earmarking in bulk to large sectors such as education – which most objective analysis would agree is an area in need of additional resources – is the equivalent of setting expenditure ceilings, or rather “floors”, for those sectors. Budgeting then consists of allocating that aggregate amount among the various programmes within the sector. This type of earmarking appears to be largely harmless in individual cases. However, taken together they impose serious rigidities on the budget formulation process.

Earmarking for very specific purposes imposes rigidities of a different order. For example, royalty taxes for the exploitation of a certain natural resource were earmarked to conducting environmental impact studies. When the world market price for this natural resource rose significantly, the revenue made available to conduct environmental impact studies multiplied. This type

of very specific earmarking undermines effective budgeting and measures should be taken to avoid them.

The overall effect of earmarking is to insulate a large proportion of the budget from scrutiny each year. In fact, seeking earmarked status has become the major budgeting battle in recent years. For example, health care has recently been linked to an earmarked tax and therefore escapes potential cuts during the annual budget cycle.

A unique measure was introduced in 1993 to overcome the rigidities. A “tax” was introduced on all earmarked taxes at the rate of 20% (except revenue-sharing arrangements with the states and municipalities). The proceeds of this tax are made available for general purposes as decided in the annual budget each year. This arrangement expires at the end of 2003. While alleviating some of the symptoms of the rigidities in budgeting, this tax does not address its underlying causes.

1.2.1.3. “Mandatory expenditures”

A third level of rigidity is introduced in the budgeting system by the existence of expenditures established by law as “mandatory,” (e.g. entitlements). The major effect of being so designated is to insulate the appropriation from cuts in the presidential budget implementation decrees. Mandatory expenditures can be divided into two groups: those deriving their status from constitutional mandates, as discussed above, and those deriving their status from ordinary law (notably the Budget Guidance Law – see Section 1.3.1). The latter are reviewed annually and are therefore of a different nature than the former ones.

Mandatory expenditures are largely funded by earmarked revenues, but the link may not be direct or comprehensive. A recent constitutional amendment establishes that a minimum percentage of GDP should be spent on health activities (circa 1.7% of GDP). However, only relatively little specific revenue is formally earmarked to health expenditure (circa 0.4% of GDP). Moreover, Congress has in recent years designated several other expenditure programmes as “mandatory” in the Budget Guidance Law, in order to protect them from cuts in the presidential budget implementation decrees.

Efforts should be made to reduce the level of rigidities in the budget process. This will likely be a slow process as the rigidities have built up over many years. The annual budget process needs to show that it can resolve competing claims for resources. It should simply not be necessary to have such rigidities in a well-functioning budgeting process, especially if previously agreed priorities established within a multi-year framework are established between Congress and the government, including its different ministries.

1.2.2. *Central planning function*

In recent years, Brazil has developed an elaborate central planning function in addition to the budget. In relation to the budget process, the plan can be seen in at least three lights.

First, it can be seen as an attempt at results-oriented budgeting, to complement the regular input-based budget. The plan comprehensively covers all government expenditures – current, capital and transfers – in several hundred outcome- or output-based programmes.²

Second, it explicitly highlights the political priorities of the government. About one-fourth of the total number of programmes are designated as priority programmes. This has two major effects. First, priority programmes are automatically designated as “mandatory” programmes and protected from cuts in the presidential budget implementation decrees. Second, their designation as priorities in the plan should be viewed as an attempt to improve the management of those resources that would in any case be spent. In contrast to ordinary programmes, which are subject to the discretion of individual ministries, spending on “priority” programmes is aided by the Ministry of Planning, Budget and Management, which can optimise the allocation of scarce resources over the whole portfolio of such programmes.

Third, it serves as a marketing device for attracting private sector investment in various capital projects (public-private partnerships) by officially listing desired projects and showing how private sector investment may be leveraged by public investment in related areas.

The Brazilian planning system is therefore not the classic “central planning” model.

The plan and the budget should complement each other. In reality, however, they operate in parallel and largely disconnected ways. Both the budget and the plan are the responsibility of the Ministry of Planning, Budgeting and Management, although they are located in two very distinct secretariats within the ministry. These are both impressive organisations; but in their separateness they detract from each other.

It is difficult to rationalise one system for deciding the outcomes/outputs of government and a separate system for deciding the inputs of government. The two are dependent on each other, both conceptually and practically. The practice in Brazil is for decisions to be made in the budget and in the accompanying budget implementation decrees, and only subjected to perfunctory consistency with the plan. One reason for this disconnection is that the plan is for a fixed period in time, rather than for a rolling multi-year horizon (see Box 2).

Brazil has a unique opportunity to unify its budget and plan, and integrate its budgeting and planning apparatus. This would create a truly results-oriented budget process that would provide important advantages over the present system. It would strengthen policy co-ordination. It would assist in resource allocation by having clear linkages between inputs/results. Over time, this would serve to lessen the reliance on the rigid measures detailed above. It would also avoid the duplication of effort – both at the centre and in the spending ministries – and end the non-clarity of the dual budgeting/planning system.

Box 2. Preparing the plan

The plan is a fixed four-year instrument. Each President must present a plan to Congress during the first year in office. The plan thus covers three years of each presidency plus the first year of the subsequent presidency.

Prior to elections, meetings are held with representatives from all presidential candidates to inform them of the process of preparing the plan and to get indications of the possible directions of the plan, given the election of each candidate. Line ministries are then informed about the likely priorities of the different candidates in regard to the plan.

In parallel with these consultations, policy studies are undertaken, primarily by hired external consultants. In addition, civil servants are trained in how to contribute to the making of the plan. Finally, a number of more general projects as regards planning techniques are typically initiated. As part of the preparation for the 2003-2007 plan, for example, a unit has been established to investigate how a new approach to public-private partnerships can be applied in the plan.

Attempts to strengthen the results-oriented aspects of the plan have already resulted in the setting of quantitative targets for each programme, typically measured by changes in social indicators computed by independent agencies.

The actual drafting of the plan is undertaken in an iterative dialogue between line ministries, the Ministry of Planning, Budget and Management and the President's Office. The Ministry of Planning, Budget and Management is responsible for ensuring consistency between programmes.

1.2.3. Lack of rolling multi-year expenditure framework

There is no rolling multi-year expenditure framework in place in Brazil.³

In OECD member countries, medium-term budget frameworks form the basis for achieving fiscal consolidation. They need to clearly state the government's medium-term fiscal objectives in terms of high-level targets such as the level of aggregate revenue, expenditure, deficit/surplus and debt. They then need to operationalise these high-level targets by establishing hard budget constraints for individual ministries and programmes over a number of years. This lends stability and credibility to the government's fiscal objectives.

By their very nature, high-level fiscal targets are set in a medium-term context. They aim to achieve a certain fiscal outcome over a number of years. However, budgets are enacted for a time period of one year and are notorious for their short-term focus. This short-term time horizon is often criticised for impeding effective expenditure management; decisions on resource allocation are said to be made on an *ad hoc* or piecemeal basis with the implications of past and present decisions beyond the next year being neglected. This is not a new criticism. Medium-term budget frameworks aim to bridge this gap. Their successful implementation has been nothing short of a “cultural revolution” in public expenditure.

Although the level of detail of such frameworks varies from country to country, they generally mirror the format of the budget, i.e. the medium-term frameworks are at the same level of detail as the annual budget. This means that a formal framework (or hard budget constraint) exists for each and every appropriation, most often for three years beyond the current fiscal year. These are rolling frameworks that are presented with the budget each year; year-1 in the previous year's framework becomes the basis for the budget and a new year-3 is added. This has greatly increased the effectiveness of planning and eased the annual budget process.⁴ These frameworks are not, however, enacted into legislation; they are planning documents that reflect the political commitment to fiscal discipline.

It should also be emphasised that these are living documents. The fact that a three-year budget framework is in place does not mean that no changes can be made to the document. In fact, shifting appropriations within ministries has been key to their success in member countries. However, it is imperative that all such changes be clearly depicted and explained, e.g. whether the changes are the results of changed economic circumstances or new policy decisions. Most countries publish detailed reconciliation between year-1 in the previous year's framework and the current budget proposal.

There is every reason to believe that such a framework would be effective in Brazil. In fact, to the extent to which the budgetary process has moved in this direction – i.e. the imposition of high-level fiscal targets and aggregate revenue and expenditure estimates – results have been positive. The framework, as already implemented, has helped to introduce greater transparency to the conduct of fiscal policy and facilitate the discussion of the annual budget, despite localised resistance and scepticism.

1.3. Annual budget process

The annual budget process in Brazil can be divided into three phases. The first phase concerns the setting of aggregate multi-year fiscal targets in the draft Budget Guidance Law that is presented to Congress in April, including the review of previously set targets. The second phase is the development of the annual budget that is presented to Congress in August. The third phase concerns the presidential budget implementation decrees, which can markedly change the budget as enacted by Congress, together with other supplementary measures throughout the year.

1.3.1. The Budget Guidance Law

On 15 April, a draft Budget Guidance Law must be submitted to the Congress for approval. Congress has until 30 June to pass this as law. The law contains three major features.

According to the Fiscal Responsibility Law, the Budget Guidance Law must present a target for the primary surplus for the next year and the two subsequent years. This is currently set at 3.75% of GDP for the public sector as a whole, with specific targets for the federal government consistent with the overall target. In addition, projections of aggregate revenues and expenditure are to be presented in the law.

The main purpose of the law is for Congress to approve the level of the primary surplus as proposed by the government, which it has always done. This sets the stage for the development of the budget.

Second, the draft Budget Guidance Law stipulates which expenditures are to be designated as mandatory, meaning that they are protected from cuts in the presidential budget implementation decrees. Even though these could be changed by the annual budget, the list does give a comprehensive overview of the annual priorities. The bill also contains information concerning the lending policies of various government financial institutions.

Box 3. The “primary” balance

Budgetary policy in Brazil focuses on the primary balance, i.e. before interest expenditure. As noted, the goal of fiscal policy is currently a primary surplus of 3.75% of GDP in 2003-2004 (3.88% of GDP in 2002). By contrast, the actual balance, i.e. after taking into account interest expenditure, is the main measure used in all OECD member countries to judge fiscal policy. By this conventional measure, Brazil's fiscal deficit was 3.54% of GDP in 2001. The evolution of these two measures over the past several years is summarised in the following table.

Non-financial public sector
Nominal and fiscal balance (% of GDP)

	Nominal	Primary
1998	- 7.46	0.01
1999	- 5.83	3.28
2000	- 3.64	3.55
2001	- 3.54	3.75
Jan-Oct 02	- 3.1	5.07

The use of the primary balance as a fiscal target is explained by Brazilian officials as a response to the volatility of exchange rates and interest rates. Furthermore, the level of the primary balance is designed to stabilise and reduce the level of outstanding debt in the medium term. The choice of the primary balance as the target was originally made by the Brazilian authorities themselves, and now forms an integral part of Brazil's current agreement with the International Monetary Fund.

The focus on the primary balance in Brazil does not obscure the transparency of the true state of fiscal finances because of the simultaneous emphasis on the debt dynamics. This approach captures the change in the government net worth caused by the impact of the exchange rate on the stock of the net public debt, i.e. it captures not only changes in flows but also one-off adjustments in the stock of debt, which can be significant.

Monthly statistics on the primary and nominal balance, including the change in gross and net public debt of the federal, state and local governments, as well as of the consolidated public sector, are published within four weeks of the closing of every month. The Treasury and the central bank hold press conferences at the time of the release of such statistics, discussing the factors contributing to the relevant changes.

Finally, the Budget Guidance Law contains a number of procedural issues that in OECD member countries would be found in an organic budget, or similar, law. Further discussion of this law, including its treatment in Congress, is presented in the next section.

1.3.2. *The annual budget*

The starting point in each year's annual budget process involves internal reviews by the Planning Secretariat and Budget Secretariat of the Ministry of Planning, Budget and Management. The exact process has evolved in recent years, as fiscal targets have become more binding and the role of mandatory expenditures increased.

The Planning Secretariat reviews the results of the previous year's activities in terms of outcomes and outputs. The Planning Secretariat also proposes amendments to the list of priority programmes and transmits this list to the Budget Secretariat. As mentioned, such programmes are essentially immune from cuts in the presidential budget implementation decrees and define the political priorities of the government.

The Budget Secretariat's review incorporates the results of the Planning Secretariat's review but focuses more on the amount of resources needed to carry out each organisation's activities. It also carries out a review of previous years' spending, using internal models for certain categories of expenditures and other analytical methods. At the end of May or early June, the Budget Secretariat will issue a maximum level of expenditure for each ministry. This is the culmination of the Budget Secretariat's review of resources and will incorporate discussion in Congress on the Budget Guidance Law, i.e. whether new expenditure programmes are being identified as "mandatory".

It should be noted that the Budget Secretariat's review of resource needs is a very formalised process with an internal two-volume dossier prepared for each spending ministry. It is prepared by the sectoral specialists in the Budget Secretariats and is reviewed by the Director himself in extensive internal meetings. Before issuing the maximum level, the Minister of Planning and Budget and the Executive Secretary of the ministry (top civil servant) will review it. It is noteworthy that the President does not review these spending levels prior to their being issued.

Box 4. Annual budget process timetable

March-April	Budget and Planning Secretariats review programmes and individual appropriations.
15 April	Budget Guidance Law is presented to Parliament.
May	Preliminary revenue estimates. Letters of totals discussed with minister.
End May/ Early June	Letters of totals sent to each ministry.
3 weeks later	Spending ministries come back with proposals.
End June	Budget Guidance Law voted by Congress.
July	Refined revenue estimates. Appeals process by spending ministries.
30 August	Budget presented to Congress.

Spending ministries are then given three weeks to input their detailed allocations in the computerised budget formulation system. The computer system will not accept allocations that are in excess of the overall maximum allowed. Spending ministries will appeal against their allocations, but this is not reviewed in the three-week timeframe. The Budget Secretariat will itself input the detailed allocation information based on its own views if the spending ministries fail to do this.

It is striking that spending ministries do not submit detailed budget proposals to the Budget Secretariat before the maximums are issued, although there are informal discussions of priorities and needs. This may be a function of the fact that the professional capacity of ministries varies greatly. It may also be because of the fact that a great number of items are “mandatory” in nature. However, it does offer the Budget Secretariat important tactical advantages *vis-à-vis* the line ministries.

The Budget Secretariat keeps a small “kitty” in order to finance additional expenditures in the appeals process. The appeals process operates on three levels. First, the Executive Secretary of the respective spending ministry will meet with the Executive Secretary of the Ministry of Planning, Budget and Management. This invariably occurs and can be described as an integral part of the budget process. A spending minister may appeal to the Minister of Planning, Budget and Management, but this is rare. Finally, a spending minister may appeal to the President, but this is extremely rare. The President has made it clear to members of the Cabinet that the Minister of Planning, Budget and Management speaks for him.

The Budget Secretariat is then responsible for finishing the budget documentation and this is presented to the Congress on 15 August each year. The deliberations in Congress are addressed in the next section.

1.3.3. *Presidential budget implementation decrees*

In constitutional terms, the budget as enacted by the Congress sets a “maximum” on the amount of funds that can be disbursed under each appropriation. For non-mandatory items, ministries have the flexibility to spend any amount – including none – up to the limit set by the Congress for each appropriation. More specifically, whenever the President deems that there is a risk to the achievement of the fiscal targets in light of information prepared by the Ministry of Finance and the Ministry of Planning, Budget and Management, he/she can limit the aggregate spending of individual ministries.

According to the Fiscal Responsibility Law, a decree should be issued within 30 days of Congress enacting the budget which provides a monthly schedule of revenues and expenditures. This schedule can subsequently be revised every two months in light of the performance of revenues, with adjustments in annual cash limits for each ministry as well as the amount of commitments that each ministry can enter into during each month.

The reasons for using this device are manifold. First, it is part of Brazil’s commitment to meeting its fiscal targets. Brazilian officials emphasise that due to the volatility of the economy, there is great uncertainty about the achievement of the fiscal targets and it is deemed better to be able to adjust spending levels during the year rather than to take an extremely cautious stance at the beginning of the year.

Second, the initial presidential decree is often in direct response to actions by the Congress which are deemed in need of “correction”. Constitutionally, the Congress may only increase funding for one appropriation by reducing funding for another appropriation. There is, however, a “loop-hole” that allows Congress to identify “errors” in the revenue estimates presented by the government. Invariably, Congress identifies such “errors” and increases the revenue estimates of the budget. This “new” revenue is then all used to fund increased expenditures, most notably for infrastructure and other capital projects. The initial presidential decree may take out the bulk of these new expenditures. In some cases these factors have resulted in a significant reduction in limits in the first decree issued after the approval of the budget.

Third, there would simply appear to be a general tendency in Brazil to adjust the budget frequently during implementation. Adjustments (increases or reallocations) that are less than 10% of the initial appropriations do not require specific legislative authorisation.

The volatility argument may appear to be overplayed in Brazil as justification for the presidential budget implementation decrees, as the primary fiscal target already excludes interest expenditure. However, it has been the case that the government has had to respond swiftly to changes in the domestic or international macro-economic scenario arising during the year. Also, delays in the passage of some necessary legislative actions have required a precautionary reduction in expenditure to ensure that the annual fiscal target was not jeopardised. It should be noted that in most cases these actions do not reflect the early adoption of unrealistic economic assumptions. Indeed, the economic assumptions are professionally prepared by the Executive using appropriate techniques and have proved to be reasonably accurate in recent years, as discussed in Box 5.

One serious drawback of this adjustment process arises from the rigidity of the budget mentioned above. Expenditure reductions do not reach mandatory expenditure. As a result, any reductions deemed necessary hit a limited number of programmes very forcefully, most notably infrastructure and other capital projects that are not classified as mandatory. In many cases, these cuts are concentrated on amendments made in Congress to the original budget.

Box 5. Preparing the economic assumptions

The economic assumptions are established by the Ministry of Finance, in co-operation with the Ministry of Planning, Budget and Management and the central bank. They have increasingly reflected market expectations regarding the main variables for the monetary, real and external sectors. These are gathered and published monthly by the central bank, which compiles data produced by some 80 leading domestic and foreign banks, as well as from research institutions and international organisations.

For the purpose of the economic assumptions used in the budget, the “consensus” forecast is confronted with hard data from the forward and future markets. The alignment of official projections with market estimates for some key variables is deemed to increase the credibility of the budget.

The Ministry of Finance also prepares a detailed explanation of how it projects tax revenues and their linkages to macro-economic variables. The Ministry of Social Security estimates its receipts and outlays independently, although based on the same macro model used by the Ministry of Finance. A commentary on the sensitivity of fiscal estimates to macro-economic variables (*e.g.* the interest and exchange rates) is also presented in the annexes of the Budget Guidance Law and the methodology used for estimating tax receipts is presented with the budget. Congress has increasingly relied on this methodology during budget discussions, even when identifying “errors and omissions”.

1.4. Conclusions

There are several conclusions to be drawn about the Brazilian budget formulation process in comparison with those found in OECD member countries.

First, there is no rolling medium-term expenditure framework in Brazil. OECD member countries have found such frameworks to be an indispensable part of an effective budgeting process and there is no reason to believe that this would not be the same for Brazil. Despite the high volatility of some macro variables, the current control systems and the high professional standards of the relevant officials strongly suggest that such a move forward is already feasible.

Second, budgeting and planning functions are separate. Both are highly developed and impressive operations. Their separateness, however, detracts from each other. Brazil has a unique opportunity to merge the two and create a results-oriented budget process on par with that found in OECD member countries. Results in the case of “priority” programmes are encouraging.

Third, there is a high degree of rigidity in the Brazilian budgeting system. Efforts need to be made to reduce those rigidities. The budget formulation process – for example, in terms of a new results-oriented focus – could assist in making that transformation. However, it will take time to build up trust in such a new process. Of course, the preservation of economic stability will be essential for that progress.

Fourth, there appears to be relatively little interaction between spending ministries and the Budget Secretariat. On the one hand, budgeting appears to be very much a top-down operation with very limited opportunities for spending ministries to have any input. On the other hand, the Budget Secretariat does not control the execution of individual programmes after the budget is adopted. The capacity of different spending ministries varies, but efforts should be made to increase their role in the budget formulation process. This is further discussed in Section 3 – Management.

Fifth, the system of budget implementation – including Congress’ role – needs to be reformed. This is discussed further in the next section.

Having said that, Brazil’s budget formulation process has produced budgets that deliver in accordance with the aggregate fiscal objectives set for them. They have thus contributed markedly to solidifying the relative economic stability that Brazil has enjoyed in recent years. The next phase for the budget formulation process is to build on that and to improve the quality of public expenditures – fostering reallocation and efficiency. The above recommendations will contribute towards that end.

2. Role of Congress

2.1. Introduction

The legislature plays a vital role in the budget process. The taxing and spending power of national legislatures is at the core of democratic accountability, and the “checks and balances” function of the legislature on the Executive is irreplaceable.

The role of the legislature in the budget process varies greatly in OECD member countries. However, it is clear that the general trend is for the legislature to take a more active role in the budget process. It is a hallmark of legislatures in OECD member countries that they establish elaborate processes for discussing the budget as they assume a greater role in the budget process. These processes focus on fostering fiscal discipline. Quite simply, legislatures have to demonstrate that they are able to take an active yet responsible role in the budget process. The challenge facing Brazil is to strengthen the institutional arrangements in Congress in order to foster fiscally responsible interventions and a greater role in the effective and efficient allocation of resources.

Historically, the role of Congress in the budget process has been limited in Brazil. Until 1989, Congress could not make any changes whatsoever to the budget proposed by the Executive, and extra-budgetary spending was quite prominent. The 1988 Constitution gave Congress powers to modify the budget and this resulted in thousands of amendments proposed each year. As a consequence, a more responsible system for examining the budget was designed, setting limits both on the number and on the content of amendments.

Box 6. The Brazilian Congress

The Congress is composed of two chambers: the Chamber of Deputies and the Senate. The Chamber of Deputies has 513 members elected for four-year terms. Each state forms a single electoral district. The number of deputies per state is based on their respective populations, although the more populated states tend to be under-represented because of the ceiling on the number of representatives that each state can send to Congress. The Senate has 81 members, comprising the representatives of 26 states, plus the federal district of Brasilia. Senators serve eight-year terms, but elections are held every four years for either two-thirds or one-third of the seats.

Brazil has a very fluid and fragmented party system: a large number of political parties are represented in the Congress, and the practice of members of Congress switching political parties is common. Regional alliances can, however, be strong and most legislative proposals, including the budget, are viewed in terms of their regional impact.

2.2. Budget approval process

The budget approval process focuses on debating, amending and approving the Budget Guidance Law and the budget itself.

Detailed congressional scrutiny of the budget takes place in the Joint Committee on Plans, Public Budgets and Auditing (the Joint Committee). The Joint Committee has a dominant role in examining the Executive's proposal. It consists of 84 members from both houses of the Congress: 21 senators and 63 deputies. Its chairman is elected each year, alternatively from the Senate and the Chamber of Deputies.

The Committee is assisted by a Research Office, consisting of about 35 professionals. However, they are not exclusively focused on providing services to the Joint Committee. The Congress also has full access to budgeting and accounting databases of the Executive branch.

Box 7. Budget approval timetable

15 April	Budget Guidance Law proposal submitted to Congress.
30 June	Budget Guidance Law approved by Congress.
30 August	Budget proposal submitted to Congress.
September – December	Budget hearings by the Joint Committee.
Early October	Joint Committee approves the preliminary opinion. Deadline for submission of amendments.
Early November	Joint Committee approves sectoral reports.
Early December	Joint Committee approves the final report.
15 December	Vote by both the Chamber of Deputies and the Senate.
End December	Presidential signature.
1 January	Start of fiscal year.
End January	Presidential budget implementation decree.

2.2.1. Budget Guidance Law

The draft Budget Guidance Law is presented to Congress by 15 April and should be approved by 30 June. In general, it is approved after the deadline, but the delay has been decreasing in recent years, hovering around a week.

Hearings are held within seven days from the distribution of documents, and usually members of the Executive are called to testify. The discussion on the macro-economic context is becoming more and more relevant, but the main interest remains on sectoral aspects.

As noted in the previous section, the Budget Guidance Law can be characterised as three laws in one. First, it is a pre-budget document with the same purpose as those found in OECD member countries, i.e. to encourage debate on the budget aggregates and how they interact with the economy. As such, it serves to create appropriate expectations for the budget itself. The draft Budget Guidance Law presents targets for the primary surplus for the next year and the two subsequent years. The current overall target for 2003-05 is set at 3.75% of GDP. In addition, projections of aggregate revenues and expenditure are presented. In recent years, however, rapid changes in the macro-economic environment have sometimes resulted in important changes in these estimates during the period leading to the presentation of the budget proposal in August. A wealth of information on economic developments and projections is also presented in this document. Among the most important items are those related to the long-term viability of the social security system (including an actuarial estimate of the net worth of the public servants' scheme), a list of existing and proposed tax expenditure, and a list of issues pending court decisions that could have fiscal implications, as well as a summary of other contingent liabilities, including guarantees made by the government. Legal disputes can have a significant fiscal impact due to the numerous outstanding cases regarding the constitutionality of de-indexing various claims as the country was moving from the inflationary environment of the past.

Second, it sets out which expenditures are to be considered "mandatory" for the coming year. This simply means which programmes should be exempt from any reductions in the presidential decree. Even though these could be changed by the annual budget, the list does give an idea of the annual priorities. The bill also contains information concerning the lending policies of various government financial institutions.

Third, it contains a number of "housekeeping" provisions, which would appear to belong more appropriately in an organic budget law.

Members of Congress often show little interest in the aggregate information. A limited debate takes place on the overall direction of budget policy and most of the action is focused on the micro issues. In that sense, the objective of involving members of Congress in discussion on the economic linkages of the fiscal policy has not been fully achieved. The absence of a rolling multi-year expenditure framework and the large role of earmarked and "mandatory" expenditure accentuates this.

The most important function of the Budget Guidance Law should be the focus on aggregates and economic linkages. Consideration should be given to ending the practice of identifying mandatory programmes in this law and shifting the discussion to the annual budget law. Similarly, the housekeeping issues that are also dealt with in the Budget Directives Law should be moved into an organic budget law.

2.2.2. *Annual budget law*

The budget is presented by the Executive to the Congress by 30 August and should be approved by 15 December.

Following the speech by the Minister of Planning, Budget and Management, the budget is referred to the Joint Committee. The Joint Committee commences hearings within 14 days that focus on the macro-economic scenario. In the public hearings, ministers, officials and other members of the Executive are called to testify. Although the committee meetings are generally open to the public, neither representatives of interest groups nor independent research institutes are normally invited. Occasionally, sectoral experts are called to participate in the hearings.

The first concrete action of the Joint Committee is to issue a preliminary opinion setting parameters and criteria for the budget examination (for example, the maximum amount allowed for individual amendments). In addition, the preliminary opinion discusses the revision of the macro-economic scenario. A deadline – to be fixed within 15 days of the issue of the preliminary opinion – is determined for the submission of amendments.

There are two types of amendment: individual amendments, presented by a representative, and collective amendments, presented by a group of representatives. The aggregation may reflect a geographical area or the membership in a sectoral committee. The following limitations are currently in place:

- Up to 20 individual amendments for each representative, each one not reallocating more than a certain amount (last year's preliminary opinion fixed the amount to 2 million Reais, i.e. about 750 000 Euros/Dollars).
- Up to five amendments for each sectoral committee either from the Senate or the Chamber of Deputies, with no monetary limit.
- Between 15 and 20 amendments (according to the dimension of the state) proposed by two-thirds of the representatives elected in each state, with no monetary limit.

The amendments are reviewed in tandem with a review of the President's budget proposal by up to five sub-committees⁵ with the help of the general and the sectoral rapporteurs. During the discussion of the preliminary

opinion, the budget proposal is divided into 10 areas. A rapporteur for each sector is appointed and charged to evaluate the amendments related to that area. He/she then prepares a report, recommending amendments for approval or rejection. The Joint Committee will examine these reports separately and vote on them. The report being approved, the amendments given a positive opinion are considered approved, and the amendments with a negative opinion rejected. Any representative who does not agree with the rapporteur's opinion may ask, with the support of a given number of colleagues, that his/her amendments be subject to a specific vote by the Joint Committee. Rejected amendments will receive no further attention, unless the proponent, with the support of a given number of representatives, demands a specific vote by Congress.

Constitutionally, the Congress is only allowed to increase one appropriation by decreasing another one. This, however, does not take place. As mentioned previously, resources are increased by taking advantage of a "loophole" in the Constitution that allows Congress to alter revenue figures when it concludes that the Executive has made "errors or omissions" in the economic assumptions used. These findings can be said to be political in nature, rather than the result of a purely technical analysis of the government's economic assumptions. The difficult choice between funding alternative proposals (by reallocating funds) has been transformed into an easier process of adding resources in order to finance them. This, however, must be seen in the context of the presidential budget implementation decrees and the limited role that Congress enjoys in regards to supplementary budgets, as discussed in the next section.

The general rapporteur collects the sectoral reports, co-ordinates them and prepares his/her general report, being authorised to include other changes within the limits stated by the resolution and the preliminary opinion. In addition, this report co-ordinates some of the proposed amendments in order to utilise the eventual additional resources found through the above revision. The general report is discussed and voted on by the Joint Committee and then submitted to the plenary session of Congress.

The decisions of the Joint Committee are passed by the plenary of each chamber, first the Chamber of Deputies and then the Senate. In general, once the general report is approved by the Joint Committee, the final vote by the plenary is just a formality. Rarely, and due to exceptional circumstances, have new amendments been approved by the Chamber of Deputies and subsequently ratified by the Senate.

Box 8. **Constitutional restrictions on amending the budget**

According to Article 166, Paragraph 9 of the Brazilian Constitution, amendments to the budget proposed by the government may be approved only if:

- *They are compatible with the plan and the Budget Guidance Law, and they are related to the provision of the budget law's text.*

The provision regarding compatibility with the plan and the Budget Guidance Law is interpreted as ensuring that it does not jeopardise the target for the primary surplus and respects the commands of the Fiscal Responsibility Law. Some officials of Congress indicated that the plan was “largely irrelevant” to the deliberation of the budget.

The provision regarding “related” business is very much respected; the Brazilian budget is not an opportunity for other omnibus legislative changes.

- *They specify the necessary funds, allowing only those resulting from the annulment of expenses. Additional funds may be raised with the correction of errors or omissions.*

As noted, Congress generally does not annul appropriations, but rather finances new ones through concluding there are “errors or omissions” in the economic assumptions in the government’s proposed budget.

- *They do not refer to allocations for personnel and their charges (civil service payroll and pensions), debt servicing and constitutional tax transfers.*

Congress cannot make any changes for these items.

The system in place for discussing the Executive’s budget proposal could be improved by two institutional changes. First, the Congress could adopt a two-step budget approval process, where the aggregates are voted on first and specifics decided later, constrained by the targets previously agreed in the Budget Guidance Law. The Budget Guidance Law should continue the current practice of setting targets as a percentage of GDP with these then translated into nominal amounts in the budget, with Congress first voting on the nominal aggregates before beginning debate on the specifics.

Second, consideration should be given to re-assessing the roles of the Joint Committee vis-à-vis the sectoral committees. In a number of OECD member countries, the Budget Committee acts as “the policeman” of the parliamentary budget process. It discusses the aggregates and divides the aggregates among the different sectors.⁶ Then, the respective sectoral committees would propose amendments within their specific sector. This would institutionalise further the Joint Committee’s focus on the aggregates

and the economic linkages; the greater role for sectoral committees could improve the prioritisation of programmes and lead – through an effective use of the available performance information – to a more efficient use of resources.

2.2.3. *Presidential budget implementation decrees and supplemental budgets*

As noted above, the practice of Congress to deem “errors or omissions” in the economic assumptions and thereby fund additional expenditure must be seen in light of the presidential budget implementation decrees and the limited role that Congress has in supplemental budgets.

The presidential budget implementation decrees are discussed at length elsewhere in this report, but initially often authorise the spending of only about 90% of the budget as enacted by Congress. In some cases, subsequent decrees increase this amount. They are based on the notion that in the presence of uncertainty, prudent budgeting demands that expenditures be decided only when the revenues have become certain.

Congress believes that the Executive underestimates revenues so that when additional revenues come in during the year, it can spend them through decree. This can be done constitutionally provided that the proposed increase in expenditure does not exceed 10% of any individual appropriation. Above this limit, the legislation requires the Executive to propose a supplementary budget to Congress for approval. Moreover, the Executive may present special budget appropriations for new expenditures, which are not included in the budget to Congress.

The Brazilian Congress has a limited role in the spending decisions adopted during the year. Asking Congress to adopt more prudent economic assumptions is equivalent to asking it to give up a part of its decision-making power on the allocation of the additional resources that could emerge during the year. Therefore, Congress has an incentive to revise upwards the economic assumptions employed in the budget proposal. If the overall revenues match the figure set by Congress, it will have a strong say in how the “additional” revenue is allocated – since the enacted budget includes appropriations based on the higher revenue.

If the actual outcomes correspond to the Executive’s assumptions, the budget approved by the Congress remains a mere political statement on the desired allocation. The actual expenditure will then reflect the choices of the Executive as emerging in the presidential decrees and the decisions of individual ministries concerning specific appropriations (the presidential decrees only state limits for ministries, which remain in charge of allocating the available resources, respecting the “mandatory” expenditure allocated to their ministry). Congress also plays the political “game” of asking for the

inclusion of certain priorities in the presidential decree in exchange of the approval for other bills presented by the Executive. Representatives may directly lobby for the release of certain appropriations during the year.

The consolidation of all changes into a formal mid-year budget review could allow Congress to play a role more equal to that of the Executive during the year. According to some observers, such a decision on the allocation of emerging revenues in a more comprehensive context may lead to the adoption by the Congress of more prudent economic assumptions in the budget process.

In such a context, Congress will benefit from using professional advice on economic assumptions, possibly through creating an independent body on the model of the United States Congressional Budget Office. Benefits could also emerge from opening the hearings to external institutions.

2.3. Conclusion

Although the Brazilian Congress presently has an active role in the budget process, its “check and balance” function on the Executive could be strengthened. First, the adoption of a two-step budget approval process, where the aggregates are voted on first and specifics decided later, would serve to establish Congress’ commitment to fiscal discipline. The Budget Guidance Law should focus on the aggregates and their economic linkages only; the identification of priority programmes should be shifted to the annual budget law; and the “housekeeping” issues moved into an organic budget law. At the time of the budget, the Congress should first vote on the aggregates, including updated aggregates in nominal terms in order to establish an operationalised ceiling for total expenditures, before beginning deliberations on specific appropriations.

Second, consideration should be given to reassessing the roles of the Joint Committee *vis-à-vis* the sectoral committees. The Joint Committee would discuss the aggregates and divide the aggregates among the different sectors. Then, the respective sectoral committees would propose amendments within their specific sector. This would further institutionalise the Joint Committee’s focus on the aggregates and the economic linkages; the greater role for sectoral committees could improve the prioritisation of programmes and lead – through an effective use of the available performance information – to a more efficient use of resources.

Third, the consolidation of all in-year changes in the budget into a formal mid-year budget review would give more effect to Congress’ legitimate role in the budget process during the year. Such a decision on the allocation of emerging revenues in such a context may lead to the adoption by Congress of

more prudent economic assumptions and to greater transparency in the actual budget implementation.

In such a changed context, Congress would greatly benefit from using professional advice on economic assumptions, possibly creating an independent body on the model of the United States Congressional Budget Office. Benefits could also emerge from opening the hearings to external institutions.

3. Management

3.1. Introduction

Management practices in the federal government are characterised by a high level of centralisation: the Ministry of Planning, Budget and Management – together with other central organisations – exercises near total control over line ministries. This has both advantages and disadvantages, and must be seen in the context of Brazil's recent history and unique constitutional restrictions.

Brazil is a young democracy: the end of military rule came only in the mid-1980s. During military rule and in the immediate years following the return to democracy, professionalism in the federal government was low.

During the past eight years, important progress has been made in improving the professionalism of the federal government. However, this has been tempered by the need for fiscal austerity. Very rigid constitutional provisions in the area of human resources management have accentuated these fiscal dimensions. As a result, recruitment of new staff on a competitive, professional basis has been largely limited to certain ministries where the need for “upgraded” staff was viewed as urgent.

The result is a mismatch in the managerial capacity of the different ministries. Some are professional and very much ready to take on increased managerial flexibility. However, others are largely mired in old patterns where increased managerial flexibility would clearly be inappropriate.

The federal government's overall managerial model, although in transition, still has to grapple with the latter group of ministries. This entails a uniform application of rules across the federal government, fostering accountability and transparency. It does, however, come at a cost: individual managers in different ministries often do not have the flexibility to use resources in the way they judge most effective and efficient. In a country where resources are severely strained, this may entail a very heavy cost. This section reviews the main management systems within the federal government.

3.2. Organisational structure

Brazil has a presidential system of government: the Executive branch is organised into 19 ministries and six ministerial-level secretariats that are located within the Office of the President.⁷ This top tier of the Executive branch is quite fluid – ministries are merged, abolished or created at a more rapid rate than in OECD member countries. Each new President in effect re-organises the structure of ministries to align them with his priorities. The last major re-organisation took place in 1999.

The ministries are considered the “direct” government administration. Their internal structure is established in presidential decrees and tends to follow a uniform pattern: they are divided into an “Executive Secretariat” directly attached to the minister’s office, and a number of functional “secretariats”. In practice, however, the boundaries between the two are often a grey area. Indeed, in some ministries, the “Executive Secretariat” has mainly a general oversight role of the functional secretariats. In other ministries, the Executive Secretariat focuses on policy formulation whereas the functional secretariats focus on implementing those policies. The senior level of the Executive Secretariat is generally staffed with presidential appointees, whereas only the head of each functional secretariat is a presidential appointee. Individual functional secretariats may have a very distinct identity within the ministry, almost akin to an “internal agency”. In addition, there are 163 “indirect administrative units” within the federal government. The vast majority of these – 128 – are universities, technical learning institutions, schools for vocational training and other institutions of learning, located within the Ministry of Education. It needs to be borne in mind that Brazil is a federal system where the vast majority of government services are provided by states and municipalities – the role of the federal government is often limited to policy formulation and financing of activities provided by states and municipalities. The federal government is, however, responsible for higher education, thus explaining the large number of federal entities in this sector. (The larger states also have their own system of state universities.)

The remaining 35 agencies include federal entities implementing policies on the instruction of their “parent” ministries. All but one of these entities have a very long history, often pre-dating the creation of their parent ministry – and should not be seen in the same light as the agencies model in Scandinavia or the United Kingdom.

In 1999, however, a presidential decree established that the government’s general administrative model should entail a split between policy-making ministries and agencies that execute policies. This administrative model was also to introduce a contractual approach to management between the ministries and the agencies. However, only one such agency has been

established – the Weights and Measures Agency. Several reasons appear to explain the limited use of this model. The functional secretariats within ministries already enjoy distinct identities. This new administrative model did not relax any central input controls. Quite the contrary, it introduced a new layer of controls – a contractual approach to management. On a different dimension, the contractual approach was met by “massive” distrust among staff as the contracts were seen as potential first steps towards privatisation.

Concurrent with the government's privatisation programme, the federal government did establish nine independent regulatory agencies, in sectors such as telecommunications, petrol, electricity, water and transport. These agencies are different in nature from the other indirect administrative units: they participate in both policy formulation and policy implementation. Their creation was meant to demonstrate that there would not be any political interference in the decisions of these bodies. This applied especially in sectors where foreign investment was sought. These bodies do enjoy genuine managerial flexibility, which has created some tensions *vis-à-vis* the other bodies – most notably in terms of salaries.

Since 1997, the federal government has also encouraged the creation of partnerships with so-called “social organisations” which are in effect non-governmental, not-for-profit organisations. The federal government has concluded contracts with seven such organisations in the health care, education and research sectors. These entities deliver services to the federal government on the basis of private law contracts and their employees are not considered government employees.

A notable feature of the federal government administrative structure is the prevalence of “consultative councils”. There are often several of these councils attached to each ministry. They consist of representatives of government ministries, other levels of government and non-governmental organisations. These councils typically have no decision-making roles but are a forum for policy development and for identifying areas where government action is needed or in need of improvement. These councils are to a significant degree related to the return to democracy and the government's wish to demonstrate increased transparency and participation by civil society.

As noted in the introduction to this section, the formal organisational structure of the government only tells half the story. The degree of professionalism varies tremendously between individual ministries and entities. Aside from the regulatory agencies, all these entities face the same central input controls.

3.3. Human resources management

There are three key human resources management issues in the federal government. The first is to upgrade the professionalism of the civil service. The second is to increase the degree of flexibility. Nowhere is the centralised nature of management in the federal government more evident than in the field of human resources management. The third is to reform the overly generous system of pensions for civil servants.

In accordance with a 1998 constitutional amendment, all government employees are hired by means of competitive entry examinations except for “confidence positions”, as described in Box 9. This has reduced, if not eliminated, the traditional patronage basis for hiring employees. As a result, the educational standards of government employees have increased markedly. In 1995, a total of 39% of government employees had university degrees. By 2002, that percentage had increased to 53% of the total workforce. Fiscal constraints severely limit the possibility to hire new employees, and the government has been very selective in identifying which sectors should be “upgraded” in terms of skills. At the same time, the system of assigning individuals to rigidly-defined “careers” and “career paths” has been made more flexible for the “new” employees.

The fiscal constraints for hiring are accentuated by rigid constitutional restrictions in the human resources management field. Once hired, there is a three-year probation period after which it is, in practice, impossible to dismiss an employee except for cases of corruption. These provisions are interpreted very narrowly in Brazil to mean tenure in an individual position. For example, it is near impossible to re-deploy unwilling staff from one ministry to another where they may be more needed. If the move would require a change of domicile, it is “totally” impossible.

For example, when the government’s printing service modernised its equipment, it resulted in one-third of its staff becoming redundant. It was proposed to transfer the affected employees to other parts of the government. A number of successive legal cases were filed, which the government eventually won, but these cases postponed the effects for years. Similar legal action is taken in each and every such case in Brazil.

A constitutional amendment in 1998 did authorise the hiring of contractual employees. However, the amendment has been challenged on constitutional terms and a case is pending before the Supreme Court. The federal government decided not to apply the provisions until the Supreme Court has ruled on this issue.

A decision to hire staff is therefore a fiscal commitment for up to 60 years, or the sum of their time in government service and retirement. The Ministry of Planning, Budget and Management must approve each individual hiring.

Seeking approval for new staff by line ministries is a primary feature of the appeals system in the budget formulation process, as described in Section 1.

Box 9. “Positions of confidence”

Positions within the federal government are divided into “positions of confidence” and career positions. The positions of confidence include the minister, all officials within the Executive Secretariat, the heads of each functional secretariat, and the heads of each indirect administrative unit. A position of confidence entails that the President has the prerogative to appoint and remove those officials at any time. This, however, does not automatically mean that they are filled with political individuals. In fact, ministers are often not politicians, and in some ministries career civil servants are routinely appointed deputy ministers (Executive Secretaries). This is also the case for many other confidence positions. All in all, 70% of all confidence positions are filled by professional civil servants.

Salaries are determined unilaterally by the Ministry of Planning, Budget and Management. There is no system of collective bargaining for government employees.

Remuneration of civil servants consists of three elements: a basic salary, an individual performance bonus (up to 30% of basic salary) and an organisation-wide performance bonus (up to 20% of basic salary).

Brazilian officials assess that the actual element of performance is limited due to cultural resistance among civil servants. In practice, almost all staff receive the bonuses. In the case of individual bonuses, an informal rotating system is operated where alternative staff members receive part of the bonus in alternative months. It should, however, be noted that this practice does not apply to all organisations. The introduction of the bonuses was not accompanied by a significant increase in total remuneration, because the basic salary has risen quite moderately.

Any general salary increase has large fiscal implications, because public servants’ pensions are very generous, even more so before limited reforms which were introduced in 1998. All pensions were based on 100% of an employee’s last year’s wage and were adjusted annually in line with that reference wage and related benefits.

In order to qualify for a pension, men needed 35 years “in service” and women 30 years. These requirements were five years less for teachers. The concept of “in service” did not only apply to government service: only one year

in government service was needed. For example, a person could have worked in the private sector for 34 years, joined the government for one year, and then received 100% of that one year's wage in perpetuity.

These benefits were all stipulated in the Constitution. Following many years of negotiations, a constitutional amendment was approved in 1998 which introduced limited reforms in this area. It required 10 years of government service and five years in the reference post last held in order to receive a full pension. It also introduced a minimum retirement age of 53 in order to receive a full pension.

Human resources management is a key area in need of reform in Brazil. The pension system for civil servants needs to be rationalised (which requires a constitutional amendment), and the 1998 constitutional amendment concerning contractual employees needs to be implemented (which requires a ruling from the Supreme Court). With those reforms in place, the process of improving the professionalism of the civil service could be accelerated, and increased flexibility by line ministries in the area of human resources management could be introduced.

Box 10. Monitoring and evaluation of programmes

The plan presents results information on all government programmes parallel to the budget. An elaborate web-based infrastructure has been established to facilitate feedback of implementation of the plan. This infrastructure, SIGPLAN, allows programme managers to enter progress against pre-established performance indicators, to comment on implementation issues and to highlight risks for programme success.

In addition to the ongoing reporting on progress of “priority” programmes, the plan is evaluated annually prior to the introduction of a revised list of priority programmes in the Budget Guidance Law. Evaluation of each programme in the plan is initiated in December each year. This evaluation is organised as a self-evaluation by programme managers and must be completed by mid-April the following year when a consolidated evaluation of the plan is published.

The present purpose of the evaluation is not to introduce “hard” mechanisms of accountability on programme managers and entities implementing the programmes. No sanctions are applied for bad performance as measured by the self-assessment, especially if it can be argued that failure to reach targets is related to unexpected cuts in resources. Rather, the stated purpose is to facilitate improvement, to provide decision-making support, to entertain a learning process and to strengthen public transparency.

Box 10. Monitoring and evaluation of programmes (cont.)

These self-evaluations are supplemented by “performance audits” undertaken by the Internal Control Secretariat. Furthermore, the Planning Secretariat of the Ministry of Planning, Budget and Management is undertaking reviews on a case-by-case basis. In addition, the secretariat prepares a consolidated assessment of the implementation of the plan and has a designated task force closely following the implementation of priority programmes.

It is difficult to assess to what degree a results-oriented culture has been introduced in the federal government. Brazilian officials generally hold that there is still a long way to go to firmly establish a performance culture. Some observers note that the reporting structure of SIGPLAN is more suitable for reporting on the implementation of capital investments than in more “soft” areas. Related to this is the observation that the plan and SIGPLAN rest on what several Brazilian officials term a Cartesian view of the world – i.e. that everything can and must be quantified and measured. This, however, could be said of any results-focused management and budgeting system around the world.

It is clear, however, that Brazil has invested heavily in promoting a results-oriented culture in its public administration. This investment has been focused on the plan. The payoff from this investment will likely increase significantly by linking the plan directly with the budget, as outlined in Section 1.

3.4. Financial management

The government’s financial management practices are of a high standard. This is both a legacy of the high inflation years where the necessity for timely and accurate information on receipts and outlays was of paramount concern and the government’s volatile debt management profile which places a premium on timely and accurate financial information.

Cash management is the responsibility of the National Treasury, which is part of the Ministry of Finance. As such, it is the agent of the Ministry of Planning, Budget and Management in executing the government’s cash management policies. All government revenue and expenditures are paid into or disbursed from the Treasury single account, which is maintained with the central bank. Commercial banks that receive government revenues have up to two business days to complete the transfer of funds to the account. All payments are made directly from this account through payment requests from individual ministries.

The Brazilian budgeting and financial reporting system uses two bases of accounting: obligations basis for entering into commitments and cash basis for settlement and payment. Accruals is not employed in Brazil.

There are no incentive instruments in place to promote improved cash management by line ministries (such as carry-forwards of unused appropriations, borrowing against future appropriations, interest paid on cash balances) nor incentive systems to promote good asset management (such as a capital charge). Nor are there possibilities of transferring appropriations between line items, for example between purchase of goods and services and staff costs or between investments and transfers.

Financial reporting in Brazil is very extensive, both in terms of the quantity and the quality of information made available. Brazil's current practices compare favourably to the provisions of the *OECD Best Practices for Budget Transparency*.⁸

3.5. Conclusion

Management practices in the federal government have evolved quite significantly in recent years with a strong improvement in professionalism. Entrance to the public service is now through competitive examinations, and efforts have been made to reward effective performance throughout the federal administration. Nonetheless, capacity is still unevenly distributed across ministries, and management practices are thus still characterised by a high level of centralisation: the Ministry of Planning, Budget and Management – together with other central organisations – exercises near total control over the management practices of line ministries.

It is urgent for the government to reform the rigid constitutional restrictions regarding human resources management, including the “for life” appointment of government employees and the overly generous civil servants’ pension scheme. Once these reforms are in place, a more rapid improvement in civil service professionalism across ministries can evolve. The government can embark on a “second generation” of reforms and increase managerial flexibility. This should lead to more effective and efficient government services, based on the experiences of OECD member countries. The demand for improved government services in essential areas in Brazil, coupled with the limited resources available, make these reforms truly urgent.

ANNEX 1

**List of Ministries and Ministry-level
Presidential Secretariats**

1. Ministry of Agriculture, Fisheries and Livestock
2. Ministry of Communications
3. Ministry of Culture
4. Ministry of Defense
5. Ministry of Education
6. Ministry of the Environment
7. Ministry of Finance
8. Ministry of Foreign Affairs
9. Ministry of Health
10. Ministry of Industry and International Trade
11. Ministry of Justice
12. Ministry of Labor
13. Ministry of Mines and Energy
14. Ministry of National Integration
15. Ministry of Planning, Budgeting and Management
16. Ministry of Rural Development
17. Ministry of Science and Technology
18. Ministry of Social Assistance
19. Ministry of Transportation

There are also several Secretariats within the Presidency that have the status of ministries:

1. The Civil House (Chief of Staff)
2. The Institutional Security Secretariat
3. Secretariat-General of the Presidency
4. Secretariat of Communication
5. The Attorney-General's Office
6. The Internal Control Secretariat

Notes

1. For a discussion of Brazil's economy, see *OECD Economic Surveys – Brazil*.
2. All expenditures except interest on the debt are covered. The Constitution mandates a plan to be issued for capital expenditures but the inclusion of other expenditures is discretionary.
3. There is a three-year high-level fiscal framework attached to the Budget Guidance Law. This is, however, a high-level macro-economic framework with the macro variables not being operationalised.
4. For further elaboration of such frameworks, see *A Longer-term Focus to Budgeting*, OECD, GOV/PUMA(2002)1.
5. Three out of the five sub-committees are permanent: the Committee for the Budget Revenue Evaluation, the Committee for the Amendments Evaluation, and the Committee for the Evaluation of the Information sent from the Audit Office.
6. For further information on such a system, see Blöndal, J., “Budgeting in Sweden”, *OECD Journal on Budgeting*, Vol. 1, No. 1, 2001.
7. A list of these entities is provided in Annex 1.
8. See “OECD Best Practices for Budget Transparency”, *OECD Journal on Budgeting*, Vol. 1, No. 3, 2002.

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