

New Public Management
in Transition Countries

Romania Improves
Citizen Access to
Administration

Enhancing the Quality of
National Accounts

Latvia's System for
Managing EU Funds

Engaging the Citizen Leads to Better Results

by Joanne Caddy

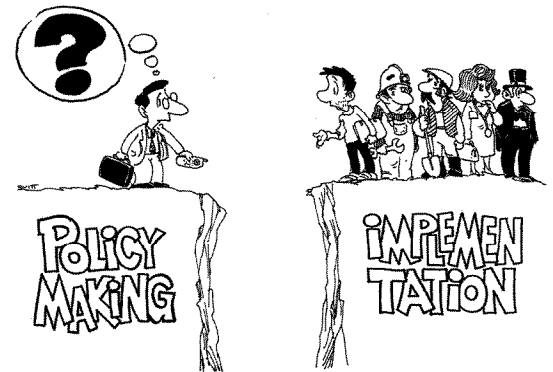
The relationship between citizens and their public administration is a central issue of strategic importance to improving governance. Better channels of communication and greater citizen engagement increase both the effectiveness and the legitimacy of public administration – and hence its capacity to deliver results.

Achieving policy goals depends not only on the efforts of government but, to a large extent, on the numerous actions undertaken by citizens, firms and other non-governmental organisations (NGOs). Successful implementation relies heavily upon their voluntary compliance which is in turn facilitated by timely, reliable and full information on new regulatory requirements.

How laws and regulations are designed greatly influences the overall costs of implementation. Given that the majority of these costs will be borne by private actors, ensuring consultation at an early stage of design will allow for subsequent savings once regulations are applied in practice.

The issue is one of vital importance for candidate countries faced with the need to adopt and apply the *acquis communautaire* (the extensive body of EC legislation) in preparation for membership. The volume, scope and complexity of national regulatory frameworks will grow significantly as legislative approximation progresses. At the same time, relations between the public administration and the private sector will not only intensify – they will change substantially. Regulatory relationships, based largely upon voluntary compliance and reinforced by official inspection, will replace direct hierarchical control. Such developments will require far-reaching modifications in policy instruments and approaches to implementation.

Not only will the public administration require input from those affected by new regulatory requirements when carrying out its own tasks (issuing secondary legislation, setting up new institutions, and training staff), but it may also delegate



Illustration/Linda Quinn

certain functions to private actors (e.g. record-keeping, monitoring professional standards, and service delivery).

While the functional demands generated by the *acquis* are the same for all Member States, both current and prospective, significant scope remains with regard to how they are met in practice. Designing implementation frameworks which meet the requirements of the *acquis* at least cost will require the active involvement of government and society alike.

Incorporating opportunities for consultation with target groups during policy-making and designing measures for putting policy into practice are two ways of ensuring better implementation from the start. Other actions include improving information on, accessibility to and simplification of the public administration and its procedures.

Information

Compliance with regulatory requirements presupposes knowledge of their existence, scope and application. The majority of citizens, individual entrepreneurs, and small and medium-sized firms (SMEs) in candidate countries have only limited capacity to keep pace with the continuous stream of newly approximated legislation, interpret its implications and develop strategies for compliance.

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Head, SIGMA Programme
Bob Bonwitt

Editor-in-Chief
Bart W. Édes

Managing Editor
Pamela Edwards

Production Assistant
Françoise Locci

French Translator
Denis Winckler

Design
Imp.act, Paris, France

Printer
A&M Conseil, Bron, France

Illustrations (page 1,4 and 10)
László Quitt

Public Management Forum

SIGMA-OECD Information Services
2, rue André-Pascal, 75775 Paris Cedex 16, France
Tel: (33.1) 45.24.79.00 - 45.24.13.76
Fax: (33.1) 45.24.13.00

e-mail: sigma.contact@oecd.org
Website: <http://www.oecd.org/puma/sigmaweb>

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Putting the Financial Books in Order

European integration is spurring important changes in the expenditure management practices of central and eastern European countries. Governments from across Central and Eastern Europe have been putting into place the European System of Accounts 1995, a framework for recording and producing national accounts data. In EU Member States, government budget data are coming under increasing scrutiny as their use widens (e.g. for monitoring countries' compliance with the Maastricht criteria). Candidate countries are expected to improve the quality of their national accounts to ensure accuracy and consistency. Paul McCarthy reports on this subject on pages 18-20.

Over the coming years, the EU will provide billions of Euros in pre-accession funds to aspiring Member States, which they will be expected to manage on a decentralised basis. To assist countries in this major endeavour, the European Commission has developed the "National Fund System." As Bettina Rafaelsen explains on pages 21-22, Latvia has upgraded existing administrative structures within the State Treasury to comply with the requirements of the new system.

The successor states to the former Yugoslav federation present a special case, as they have begun to move away from the centralised accounting facilities for financial management which they had inherited. They now are exploring the adoption of inter-bank payment structures similar to the payment processing systems of other European countries and more capable of supporting a market-driven financial sector. On pages 16-17, Roger Connell comments on the reasons for – and implications of – such developments in Bosnia-Herzegovina, the former Yugoslav Republic of Macedonia, and Slovenia.

Beyond the realm of state budget and accounting practices, this newsletter issue addresses two other broad themes: the rapprochement between the administration and the citizens it serves, and the implications of New Public Management for candidate countries. We revisit this latter topic because of the great interest expressed by readers in our cover story on "NPM" in the January-February issue. To accommodate the broad range of commentary included herein, we have expanded this issue to a record 24 pages. We hope you enjoy it and welcome your reactions.

Bart Édes, Editor-in-Chief

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The January-February issue of *PMF* featured the cover article, "New Public Management: Pitfalls for Central and Eastern Europe". This piece, written by SIGMA Senior Counsellor Richard Allen, stimulated strong and divergent feelings among newsletter subscribers about the relevance to transition countries of public management practices presently in vogue. In light of reader interest, we expand on the issues raised in Allen's piece with contributions by two experts (Helen Sutch and Jim Brumby) with first-hand knowledge of New Public Management in the country most closely associated with its use, New Zealand, and from someone who has monitored major changes in the Slovene public administration, Mirko Vintar of the University of Ljubljana. Below, we begin this special seven-page "Dossier on New Public Management" with reflections by Helen Sutch, a World Bank official who has worked in countries of the former Soviet Union and Central and Eastern Europe since 1992.

The Relevance of New Public Management for Transition Countries

by Helen Sutch

Central to the New Public Management (NPM) is the idea that a significant amount of public sector activity can be specified in terms of outputs and managed under contracts that define clear and unambiguous incentives and performance standards for good public policy and good public service delivery. Great benefits can be generated from a closer focus on the nature, costs and timeliness of results desired and the intermediate targets they entail. But this idea has to be handled very carefully, even in an advanced market economy with a long tradition of public service characterized by high standards of integrity, well-developed accountability mechanisms, and – at least relative – openness of information. This description does not fit transition countries, and the application of NPM in these countries is therefore hazardous.

Experience Teaches Moderation

Even in advanced market economies, some of the early enthusiasm for separating policy and delivery, purchasers and providers, and writing contracts between them, has been moderated by experience. This experience includes the discovery that the government would not be exonerated

by the electorate from its responsibility for outcomes simply because it had written a contract and thereby placed an activity at arm's length. Indeed, governments might end up with the worst of both worlds by losing immediate control over outcomes while still being held responsible in the public eye for failures of policy delivery and loss of fiscal control.

Experience with contracting in advanced economies also includes the weakening of information and feedback mechanisms between policy and delivery. Roles should be clear and conflict of

which resisted separation of policy and service delivery for some years.

Linked to this experience is the recognition that both policy-makers and providers need to share the same culture of values and service if they are to act acceptably in circumstances which contracts cannot anticipate. This is perhaps why the agency model works well in Sweden but less well in countries with a less cohesive and socially responsible culture. Countries emerging from Soviet systems of public administration characterised by strong control (if not actual repression) and

"Even in advanced market economies, some of the early enthusiasm for separating policy and delivery, purchasers and providers, and writing contracts between them, has been moderated by experience."

interest should be avoided, but both sides of the contractual divide need to have a clear and shared understanding of both objectives and procedures, of what works and what doesn't, if better policy and better service are to be attained. Reducing informal communications and interchange can leave both sides impoverished. This was well recognized by the New Zealand Department of Labour,

weak and venal service to the public (if not actual antipathy to service) still have some distance to travel before this culture is achieved.

Limits of Contracting

Nor can all activities be contracted easily. There is now a range of studies showing the kinds of activity that can



Illustration: Jaszi Quitt

be well specified under contracts: easily quantifiable and predictable, low on political sensitivity and the need for discretion. But even then, contrary incentives can arise. If pay is linked to simple measures of output, the benefits officer will not want to deal with the difficult cases because they lower the disbursement rate over time. Some other measures must be added. If one is to introduce quality standards of case handling as well as production line standards, the difficulty of specifying the contract becomes much greater, as does the difficulty of monitoring it accurately and fairly. Outputs have to be disaggregated further into strategic results areas (SRAs) and key results areas (KRAs). Complexity multiplies and so do transaction costs.

Some of my former colleagues in New Zealand complain about the expenditure of time and the artificiality of converting what they do – and have always done – into SRAs and KRAs. And people who are paid according to what is in the small box labelled KRA will have an incentive to minimise the contents of the box to be sure of delivering it 100%. Nor do they like to be responsible for only one cog in the machine. As we have learned from the Japanese, people work better if they feel jointly responsible for the quality of outcomes. In other words, government activity is often complex and not always easily disaggregated; and disaggregation can produce contrary incentives and a reduced sense of responsibility. These are reforms to be handled with care.

“Process standards” – competitive recruitment and promotion, ethnic and gender fairness, honesty and transparency, impartiality in the use of control rights conferred by regulatory power, exercising the state’s monopoly of coercion with restraint and decency – are also an important part of what governments should deliver. Reducing this complexity to a line item – in both financial and service terms – can open government activity to abuse and corruption and leave the public vulnerable. This is particularly true in countries where public distrust and cynicism about government are well justified by past experience.

Capacity to Manage

Capacity constraints matter too. Few transition countries have the capacity yet to write reasonably complete contracts and manage them. The capacity needed to define performance ex ante and measure it ex post, as well as to determine the value of rewards accordingly and in ways perceived to be fair, is something that comes with clarity about public objectives and experience in attaining them. Again, no such capacity characterises countries in a state of flux between a planned economy and a market economy, in which the role and scope of the state are being freshly defined.

Budget allocations are difficult too if one loses sight of input costs – and input costs need to be known before

contracting out: usually, a formal agreement between a government ministry or agency and a commercial entity for the delivery of services previously provided “in-house” by public servants.

service delivery: the provision of a public service for a user or recipient – individual citizen, business, other. One can distinguish between direct provision to a user/recipient by a public sector organisation from indirect provision on behalf of a public sector organisation by a third party, e.g. a sub-contractor.

output prices can be estimated. Many transition countries have yet to achieve efficient and transparent input budgeting, with appropriations linked to the entities that will actually spend the money rather than to Soviet "spheres" of activity. In this financially uncertain context, funds voted to a contractor are likely to be related to the amount of leverage the contracting agent has with the contracting principal and to the extent of the principal's ignorance about what the service costs.

None of this means that outcomes and outputs do not matter. But there are diminishing returns to be gained from elaborating the superstructure, especially when the foundations are not yet secure. There are also significant risks if budgetary and other core standards still have to be firmly established – which is the case in many transition countries, notwithstanding the progress that has undoubtedly been made in recent years.

First Things First

Central and Eastern Europe still has deeper problems than capacity constraints or underdeveloped budget analysis. Many central and eastern European countries have not yet completed the separation of powers that characterizes western democracies. Political, administrative and judicial power is too often intertwined and is often linked to economic interests; the nomenklatura is still powerful. In some cases the agents of the state are also linked to criminal networks operating across the territory of the former Soviet Union and extending into Europe. Introducing managerial discretion in this context can be a licence for

favoritism, theft of public money, abuse of procurement procedures, and other forms of corruption. Care is therefore needed in the use of contracts and managerial discretion.

On the other hand, some aspects of the New Zealand model would be welcome here: fiscal discipline, fiscal transparen-

There is a growing weight of opinion that the Australian emphasis on strategic objectives and reliable medium-term budget frameworks has something to offer to this region. European models of civil service development are clearly relevant. But the starting point must also be understood. Most central and eastern

“Most central and eastern European countries still have to put in place the building blocks that will be necessary to manage policy and resources efficiently and serve their publics well, in short to attain western European standards of public administration.”

cy, and in due course, medium-term expenditure frameworks. The Fiscal Responsibility Act does have something to offer at this stage of the transition, stopping short, however, of accrual accounting and capital charges in countries where basic budget management skills are still being developed. As Professor Schick has advised: cash accounting before accrual accounting, input accounting before output accounting. And external controls must be effective before they can be relaxed in favour of internal controls.

Finally, much of the New Public Management is indeed new. Wholesale advocacy of this model for transition countries before more experience has been accumulated would be rash. The UK Government recently questioned the extent to which it had placed the great bulk of government activity under agency contracts; New Zealand has seen a continuous process of refinement and improvement of the initial model. Selective use of experiences in advanced market economies can, however, be useful.

European countries still have to put in place the building blocks that will be necessary to manage policy and resources efficiently and serve their publics well, in short to attain western European standards of public administration. Later – when they have well-trained public servants who share core public service values and when they have good accounting systems so that they define and measure performance and can remunerate it fairly and transparently – they will be able to make an informed choice about the directions they want to take and they can then start from a secure base. ♦

Helen Sutch, a former senior civil servant in the New Zealand public administration, is Senior Economist for Public Economics in the Office of the World Bank Country Director for Poland and the Baltic States. She can be reached in Warsaw at tel: (48.22) 520.80.00; fax: (48.22) 520.80.01; e-mail: msutch@worldbank.org.

OECD Countries Find that Performance Contracting Pays

by Jim Brumby

A major international trend in public management is a shift away from complete reliance on traditional employment contracts to selective use of performance contracts. The OECD's Public Management Service is developing an analytical framework to bring clarity to the lively debate among public managers as to when performance contracts are appropriate and to identify the kinds of contracts suitable in different country settings.

Many OECD countries have started using performance contracting as a means to encourage more responsive, accountable and efficient administrations. Performance contracts are management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. To fit each country's specific institutional context, performance contracts take a variety of forms.

Unlike private sector contracts, public sector performance contracts are usually not legally enforceable. In most cases it makes little sense for one public sector to sue another public entity, and in many countries it is legally impossible. The only exception might be in the case of entities owned by different jurisdictions.

“...the trend towards a greater use of contracts shows that countries believe that their interests are not served best by relying on traditional bureaucratic forms. The wide variation in the type and degree of specification shows that countries are experimenting and learning from contracting.”

The OECD's Public Management Service (PUMA) is examining this emerging trend in a current study. Investigating aspects of performance contracting in nine Member countries (Australia, Belgium, Canada, Denmark, Finland, France, New Zealand, Norway and Spain), the study draws lessons and develops an analytical template for considering which would be the best contract to use in different circumstances.

Reasons to Contract

There appear to be a number of reasons why countries have started using contracting to design transactions and relationships in the public sector. Reasons most often given include:

- increased clarity of objectives
- stronger focus on results
- improved responsiveness to changing circumstances

Certainly, the frustrations with traditional bureaucracies have been well documented, and unfortunately for many of us, experienced first-hand. The control device in a bureaucracy still tends to be in the form of an employment contract. The use of performance contracts marks a very significant shift away from this kind of control. It is a shift that many countries are clearly demonstrating they want.

For some, however, the shift to using the language and structure of contracts in the public sector is controversial. For the newer democracies in Central and Eastern Europe engaged in modernising their public sectors, a number of traps are associated with such a

shift, as warned in PMF's lead story in the January/February issue.

PUMA's work also suggests that the use of the contracting approach will not be appropriate in all circumstances. An analytical framework developed by a PUMA consultant, Murray Petrie, Principal of the consultancy firm Economics and

Strategy Group New Zealand, underlined the importance of relating each country's broader context to the potential of contracts to deliver public management gains. Petrie notes that “the role and limits to contracting are themselves a critically important determinant of whether transactions in the public sector can be more effectively mediated across quasi-markets or need to be controlled within a more direct hierarchical relationship.”

PUMA is acutely aware of the considerable debate among public managers as to when performance contracts are appropriate and when they are not. The PUMA framework gives form to this debate by applying analytical approaches from new institutional economics. One of the problems is the increase in observable costs. Performance contracting solves some problems with traditional bureaucracy, but creates others. Practice has led theory in this area, as many countries are already experimenting with this new approach, while literature on the subject is lacking. Public managers want to know which sort of contract is most likely to be the most beneficial in their particular circumstances. PUMA's work is a start in answering those questions.

Forms of Contract

PUMA identifies a number of different forms of performance contracts, including:

- framework agreements
- budget contracts and resource agreements
- organisational performance agreements
- chief executive performance agreements
- purchaser-provider agreements
- intergovernmental partnership contracts
- customer service agreements
- private supplier contracts

The unifying theme is that the contract leads to greater clarity in the expectations of the

parties, and even when executed in a hierarchical relationship, it aims to rely on mutual agreement. At a general level, the trend towards a greater use of contracts shows that governments believe that their interests are not always served best by relying on traditional bureaucratic forms. The wide variation in the type and degree of specification shows that countries are experimenting and learning from contracting. PUMA hopes that its work will speed up this process of learning, reducing the number of copied mistakes and preventing repeated "reinventions of the wheel".

PUMA is exploring practice. It is not saying that one model of public management will dominate another in all circumstances. But it is saying that countries – through their actions – are demonstrating a large appetite for new approaches based on notions of contracting and for information about which contracting approaches work and why.

Evidence to Date

While this project does not attempt to estimate the actual costs and benefits of contracting, it is evident that many governments believe that this approach provides real economic benefits. One study in New Zealand showed considerable increases in productivity following the introduction of the contracting approach in a number of typical government outputs. Several countries are also now experimenting with the use of output indicator-based methods for both budgetary management and productivity measurement purposes. As time goes on these experiences will add to the set of data and allow more rigorous quantitative assessments of the relationship between changed institutional structures and productivity.



Image Bank/Michael Murphy

Policy Conclusions

PUMA's work suggests a spectrum of specification, from an unconditional grant at one end to a tightly defined contract at the other. The question becomes: what are the net benefits and costs associated with shifts along that spectrum?

PUMA has developed a number of rules of thumb to assist in determining the degree of specification of expected performance required, given the nature of the interests of the entities signing the contract. In only two cases is it generally recommended to use an enforceable contract: when the supplier of the goods and services is not owned by the government and is not itself a lower-level

government, and when the supplier is a commercial state enterprise.

This is an important conclusion, as it suggests that recourse to legally enforceable contracts should occur only in these special circumstances and should not apply to the great bulk of public sector behaviour. ♦

Jim Brumby heads the Budgeting and Management Division of the OECD's Public Management Service. He can be reached in Paris at tel: (33.1) 45.24.90.85; e-mail: jim.brumby@oecd.org. For other views on New Public Management, see: "Lessons from the New Public Management in Commonwealth Nations" by Sandford Borins, and "New Public Management Reform in New Zealand: The Collective Strategy Phase", by June Pallot, in the inaugural issue of International Public Management Journal, Vol. 1, No. 1, 1998. See also, "Reinventing Government, the New Public Management and Civil Service Systems", by Richard C. Kearney and Steven W. Hays, in Review of Public Personnel Administration, Vol. 18, No. 4, 1998, pp 38-54; and "The New Zealand Model: Lessons from a Trade Union Experience", by Peter Harris, in Focus on the Public Services (quarterly magazine of Public Services International), 1/89, 1999, pp 9-13.

The Theory and Reality of New Public Management in Slovenia

by Mirko Vintar

Slovenia has not been immune to the international spread of New Public Management (NPM) theory and practice. Yet adoption of NPM methods has been inconsistent, and in some areas – such as public procurement – it seems that more fundamental reforms should take precedence over adoption of practices such as contracting out.

The public sector in Slovenia started moving towards profound change in 1991, with independence and the introduction of a new economic and political system. Tremendous pressure for reforms in legal and institutional structures left little room or time for more strategic thinking about the main course of changes, guiding principles, priorities and so on.

“Once the budget is allocated and distributed there is very little control of the quality of realisation of programmes and the rational use of public money.”

The first few years of developing a new administrative system were managed by “crisis”. The economy, which had been blooming in the 1980s, was falling to pieces, national GNP had dropped by 40%, unemployment had doubled, and the number of retired citizens had also nearly doubled, as had the number of public servants. As a consequence, public expenditures were soaring. These were the developments which guided the course of action.

New Public Management (NPM) ideas have been around for quite some time, but it would be hard to say that the government has made systematic attempts to implement any well thought out programmes based on those ideas. Nevertheless, many reforms and changes which have been launched in recent years ran parallel or were related to NPM, while some reforms moved in a quite opposite direction.

Decentralisation and Decision-making

This is not one of the model areas for comparison of reform developments in Slovenia with the guiding principles of NPM. In 1994 Slovenia initiated Local Self-Government Reform, by which 65 largely autonomous old municipalities were dissolved and 192 new municipalities created. In addition, to perform state functions at the local level, so-called “administrative units” were established in all seats of old municipalities as deconcentrated units of ministries. Many competencies of the old municipalities were transferred to the “administrative units” and indirectly to the ministries. The declaration of decentralisation, which was

the main political argument for the reform, ended with de facto centralisation of the decision-making process. There are numerous other areas where central administration increased its power during the change in the administrative system.

Privatisation and Contracting Out

Privatisation of the commercial sector is nearly finished, while practically all providers of public services to citizens remain mainly attached to the public purse. For example, the entire education system is under the public umbrella, from primary and secondary schools to institutions of higher education (universities), constituting the so-called “national educational programme” financed through the state budget. Only in a few recently established private institutions providing secondary and

higher education programmes are students required to pay tuition. I personally believe that in general this situation should stay the same in the future.

In the health system, private practices have mushroomed in recent years, and some sort of competition between public and private health institutions has started to develop. It should be pointed out that Slovenia used to have a well-developed public health system, which started to disintegrate soon after transition began. So far private initiative has not greatly improved the situation, since most of the private clinics are rather small, modestly equipped and incapable of offering more than simple medical treatment.

The reform of the pension system is under way and is expected to be finished by the end of this year. Other “big systems” managing public services and infrastructure, such as electricity, water and gas supplies, telecommunications, post and transport systems, i.e. railways and roads, are still entirely in the state’s hands. Even construction of a new highway is still financed through the state budget, which probably contributes to the fact that the cost of one kilometre of new highway in Slovenia is one of the highest in the world.

Contracting out has been widely implemented between ministries and agencies on the one hand and private companies on the other. There is no real “contracting out” between ministers and heads of agencies although some steps in that direction have also been made. It has become common practice that agencies prepare at the end of the year an annual programme of activities for the following year, which serves as a basis for negotiations with the relevant minister, as well as with the Ministry of Finance for their share of the budget pie. However, once the budget is allocated and

distributed there is very little control of the quality of realisation of programmes and the rational use of public money.

The Law on Public Procurement has been in place for several years now, yet it would be difficult to say that it has contributed considerably, if at all, to more rational public spending. Several other instruments would need to be in working order at the same time in order to render that law effective. I agree entirely with Allen Schick's statements referring to New Zealand reforms in this area and the dangers of contracting out. [*Why Most Developing Countries should not try New Zealand Reforms*, World Bank, Washington, DC, USA, March 1998, 9pp.] In order to make it work, Slovenia would need: 1) a much better law; 2) stronger

sense of public service ethics and loyalty; 3) well-developed and competitive market; 4) very active Court of Audit; and 5) body with a great deal of independence to control public tendering processes.

In a small country with a relatively closed economy many vital sectors have only one competent private service provider. Thus there is often no real choice, regardless of the price. This considerably narrows the space for optimising public procurement, and sometimes makes the whole process of selection among bidders a farce.

New Public Sector Managers

New Public Management actually means seeking a new type of public manager. It is

the key personnel in the public sector who will determine the success or failure of implementation of NPM methods and principles. However, it must be admitted that so far in Slovenia we have not been very successful in changing the profile of these people. What is needed are entrepreneurs who are willing to take risks and are well equipped with modern managerial skills (although not yet very well paid) on the one hand, and on the other, dedicated people with high ethical standards and concern for the common cause. It seems as if we are seeking a "creature" which does not exist. ♦

Mirko Vintar is Head of Chair for Organisational Sciences and Informatics at University of Ljubljana, School of Public Administration. He may be reached in Ljubljana at fax: (386.61) 168.63.74 or e-mail: mirko.vintar@vns.uni-lj.si.

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Under such circumstances, the ability of the public administration to provide information in a proactive manner may prove decisive in raising compliance levels, reducing the number of fruitless encounters with the public administration and maximising limited resources – both public and private.

Citizens also need to know how the public administration works and to whom they can turn to obtain information. The administration can enlist the support of its own structures (e.g. schools) and external bodies, such as NGOs, to disseminate information on government policy, structure and services. In doing so, limited public resources can be "multiplied" at little cost to the public purse. NGO involvement can be particularly important in reaching groups affected by specific sectoral policies such as small and medium-sized enterprises (SMEs).

An important corollary to information prepared on government initiative and disseminated by the public administration is the provision of information on demand. This means that administrative bodies must create the capacity to manage individual requests for information, furnish satisfactory answers to specific queries and provide tailor-made advice. Means of delivery may include information offices, on-line services, telephone hotlines and direct correspondence by post or e-mail. To maintain public trust, it is essential to ensure the quality, as well as the quantity, of the information, services and advice provided.

While measures to improve information delivery can contribute to effective policy implementation, such measures are substantially reinforced by the existence of a clear legal basis for access to information. Legal rights in turn are best enforced by ensuring concrete opportunities, through

administrative courts or ombudsman offices, to challenge refusals by the public administration to provide information.

Accessibility

Reducing the amount of resources (time, personnel and financial) needed to obtain information, advice or technical assistance on new regulatory requirements widens the scope of the target population, facilitates their compliance, and raises the chances of successful implementation.

Improving access to the public administration may require actions on a number of fronts, including facilitating physical access, extending opening hours and ensuring clarity of administrative language. To be meaningful, however, such changes must go beyond the façade to address the underlying structural issues, such as information flows, decision-making

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and co-ordination, which determine the quality of interactions at the interface. Just as the success of an actor's performance on stage depends on the smooth functioning of backstage operations (lights, costumes, artistic direction), so the administration's performance depends on the quality of its management structures and capacity for co-ordination.

Efforts to improve accessibility are likely to result in a greater variety and volume of contacts between citizens and the public administration (see Hella Bara's article, page 11). If the capacity for simple but systematic analysis can be introduced, these interactions may become a valuable source of information and feedback on policy implementation and public administration performance.

Simplification

When adopting the *acquis*, efforts should be made to clarify and consolidate rules and regulations to eliminate contradictions, duplications and overlaps. Such an approach supports implementation by making regulations more comprehensible to target groups, and by promoting their more consistent application by the public administration. The integration of regulatory requirements is further enhanced by actively soliciting the views of target groups and adopting a client focus when undertaking reforms.

Reducing administrative burdens on households and enterprises is another important undertaking which, if successful, may "free" scarce resources, encourage

entrepreneurship and enhance competitiveness. Producing user guides to legal and administrative obligations in a specific field (e.g. the registration of a new enterprise) is itself a useful exercise – serving to highlight the cumulative burdens placed on private sector actors and identify areas for change. Small and medium-sized enterprises (SMEs) are of particular importance in this regard. While acclaimed

"stop shops" (read about Portugal's experience in this area on pages 12-13).

Consultation

Participation in policy-making may facilitate subsequent implementation by ensuring that the views of those expected to comply with new regulations are incorporated from the outset. The establishment of permanent channels for communication and consultation also facilitates the provision of information and guidance on, as well as monitoring of, implementation.

Consultation with target groups offers an effective means of assessing the impact of proposed policies and decisions. Significant insights may be gained from those who are likely to be affected by a given policy, regulation or decision, which may usefully supplement established sources of scientific and professional expertise. Consultation allows

such information to be accessed and incorporated into government decision-making procedures in a timely and effective manner.

Achieving Results

Implementing the *acquis* is a major challenge for all candidate countries – the task is formidable and resources are limited. Governments need to mobilise all possible sources of support, whether internal or external to the public administration, in achieving tangible progress toward this goal. ♦

Joanne Caddy is Administrator in SIGMA's Public Administration Development Strategies unit, and can be reached in Paris at tel: (33.1) 45.24.13.77; fax: (33.1) 45.24.13.00; e-mail: joanne.caddy@oecd.org.

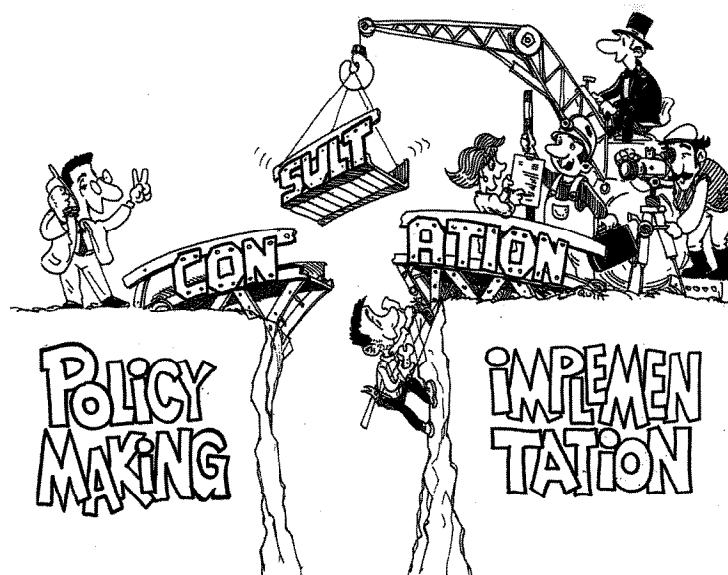


Illustration: Jack Quinn

as a major source of Europe's future employment and economic growth, SMEs are also recognised to be disproportionately affected by administrative burdens, including those generated by EC legislation.

As SMEs lack the human resources to cope with the demands of a complex regulatory and administrative environment, they can benefit from measures which both support their establishment and development and ensure compliance with regulatory requirements at the least cost. These include simplified procedures, reductions in paperwork through improved information management within the public administration, and the provision of tailor-made information and services via "one-

Improving Citizen Access in Romania

by Hella Bara

To improve public access and speed up the processing of citizens' petitions to authorities, the Government of Romania established the Centre for Relations with the Public in 1998. Plans are now under way to strengthen the centre's information processing capacity to provide policy-makers with feedback on administrative performance.

The Government Programme of the new Romanian Cabinet, approved in 1998, sets out a number of strategic aims for public administration reform and emphasises the role of the public administration as a provider of services to citizens. The programme recognises that consumers of government services have gradually become much more consistent in asserting their requirements. In exchange for paying taxes and fees, the citizen expects the quality of services provided by the central administration to be comparable to that of the private sector.

Opening of Service Centre

To demonstrate the government's commitment to this concept of the public as client, the Prime Minister himself opened the Centre for Relations with the Public (CRP) on 15 July 1998. This facility, attached to the Office of the Secretary-General of the Government, is situated in the Government building in central Bucharest, and boasts a large, bright and modern reception area. The centre offers information leaflets, and displays posters setting out its objectives and providing directions to users.

The centre's main goal is to deal swiftly with all inquiries and comments in order to give the competent authorities, to whom the citizen input is forwarded, as much time as possible to reply. A copy of

all replies is also sent to the CRP, whose permanent staff consists of a head, four experts and two administrators. In addition, arrangements have been made to employ, on a part-time basis, a legal advisor and as assistants, six undergraduates studying public administration at Bucharest University.

"In exchange for paying taxes and fees, the citizen expects the quality of services provided by the central administration to be comparable to that of the private sector."

Donor Support

Crucial to the successful launch of the CRP was the openness of government officials to change. Equally important was the support of donors. The project was started by the Secretary-General of the Government, with support from the UK Department for International Development (DFID).

In addition to supplying the CRP with new IT hardware and software, UK technical assistance has been provided through three short-term consultancy assignments, focusing mainly on the development of the Citizen's Charter concept and philosophy, workload improvements, and information processing. [For examples of charters used by UK state bodies, see: www.servicefirst.gov.uk/index/list.htm.]

A contribution was also made by an EU Phare project which included a component on civil service ethics. Within this framework, the centre conducted a survey on how and why citizens petition the government, hired architects to re-design the facility's premises and carried out the refurbishment work.

At the beginning of this year, work with the UK experts led to adoption of a practical definition of a petition: "an expression of dissatisfaction, a request, suggestion or report; whether received in writing, by post or in person, or by telephone, fax, etc., which will require a response by the authority. Such expressions

are a free form of research information for identifying deficiencies and improving the provision of public administered services. To this end, use of the right to petition should be encouraged."

The CRP receives 15,000 petitions a year. Most clients are citizens who inquire about personal matters involving state bodies, in particular public services, social protection, judicial and legal matters.

With the support of the UK DFID, further work is being done on staff training, liaison with other administrative departments (including the Ombudsman), citizens' workshops, and the installation of a new computer database system in the autumn of 1999. Similar initiatives will be encouraged in ministries and local public administration. Whilst bringing about further improvements in the service to citizens, the new database will also make it possible to compile data on administrative performance. All of these activities will further enable the CRP to contribute to improving the government's responsiveness to its client, the public. ♦

Hella Bara is the Head of the Centre for Relations with the Public in the Office of the Secretary General of the Government of Romania. She can be reached in Bucharest at tel: (40.1) 222.36.82; fax: (40.1) 222.69.98; e-mail: pubadmi@starnets.ro.

Portugal Helps Small Businesses to Fulfil Administrative Requirements

by António Souta

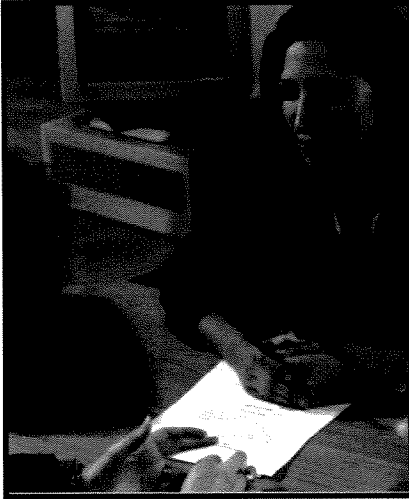


Foto: Centro de Produção Audiovisual do IAPMEI

Business Formality Centre
Centro de Formalidades das Empresas

Reducing administrative burdens on small and medium-sized enterprises (SMEs) is recognised as an important policy objective for economic development and administrative reform throughout Europe. Portugal's experience illustrates how pilot projects to establish "one-stop shops" may be a first, practical step towards reform. The experience acquired through such initiatives may then provide the basis for subsequent regulatory reform.

The riskiest and most difficult period in the life of a business is usually its first five years, the period in which the great majority of new firms perish. The reasons for such attrition become clear when we consider such factors as weak financial structure, lack of familiarity with markets (customers and suppliers), unequal competition with established firms, the fledgling business culture, absence of a clear image, and so on. For the entrepreneur, this early period is a time of unremitting daily struggle, efforts to secure social and economic

standing, some rewards and, at times, harsh disappointment.

No one can take the entrepreneur's place in this struggle. At the same time, it is up to government to create a favourable and facilitating environment. It must be remembered that employment and wealth creation comes from business. Each step which aims to improve the competitiveness of firms, and hence provide economic growth, will lead to greater employment and prosperity. We believe that support for business creation and launch needs to be provided right from the outset, and not just once firms have been established.

It is common knowledge that it takes an enormous effort to set up a business in Portugal, whether that business be a joint stock company, partnership or single person enterprise. The pathway on which an entrepreneur embarks in order to register his or her firm and obtain the permits and approvals required is a lengthy one, calling for

cruel inefficiency of government departments which send them shuttling from one office to another. Traditional administrative procedures to establish a company take three, four and, in some cases, six months to complete.

Initial Pilot Projects

Against this background, the first two business formality centres or CFEs (Centros de Formalidades das Empresas) opened in Lisbon and Oporto in late October 1997, within specially designed offices belonging to IAPMEI (Institute for Support to SMEs and Investment). The centres bring together, under the same roof, units or delegations of those government departments and agencies most directly involved in procedures relating to business creation, changes to labour agreements, firm closure and similar matters. The aim was to assist businesses in completing the entire range of compulsory formalities in a simpler and more effective manner and, above all, in a way more compatible with economic realities.

"It must be remembered that employment and wealth creation comes from business. Each step which aims to improve the competitiveness of firms, and hence provide economic growth, will lead to greater employment and prosperity."

money, time and above all a great deal of patience. It has traditionally been a long, drawn-out process that has discouraged many potential entrepreneurs. If they do not withdraw when they realise what lies ahead, aspiring business persons fall by the wayside crushed by the weight of bureaucracy and, in many cases, by the

The establishment of these first two centres marked a serious attempt by government to modernise its methods and reduce bureaucracy. They were pilot projects that have had significant success in their communities, as demonstrated by the substantial public demand with which they have met. After a settling-in period, the

ements

government decided to establish CFEs throughout the country, while at the same time rectifying a few practical weaknesses which were to be expected in an innovative project of this kind.

Consolidation and Expansion

The National CFE Network comprises the centres themselves and any extension offices that may be established. Today, the network consists of centres in Lisbon, Oporto, Coimbra and Setubal, and the Covilhã extension of Coimbra CFE. In addition, the government plans to open others. A manager reporting to the Ministry of Economic Affairs coordinates the network, while co-ordination within each CFE is the responsibility of a deputy to the network manager.

The IAPMEI is the "host agency" for the CFEs, providing offices and equipment, human resources for the information and ancillary services, the administrative structure, and a contribution to running costs. So-called "reception agencies" make offices available to CFEs. The Business Council for the Centre Region (Conselho Empresarial do Centro), for example, serves as the reception agency for Coimbra CFE.

The registry and deeds departments, tax authorities and regional social security centres participate in the network. These agencies each have their own office space in the CFE, backed up by a computer network or direct link-ups to their respective databases. The Inter-ministerial Team for the National CFE Network is made up of members appointed jointly by the Ministers of Finance, Justice,

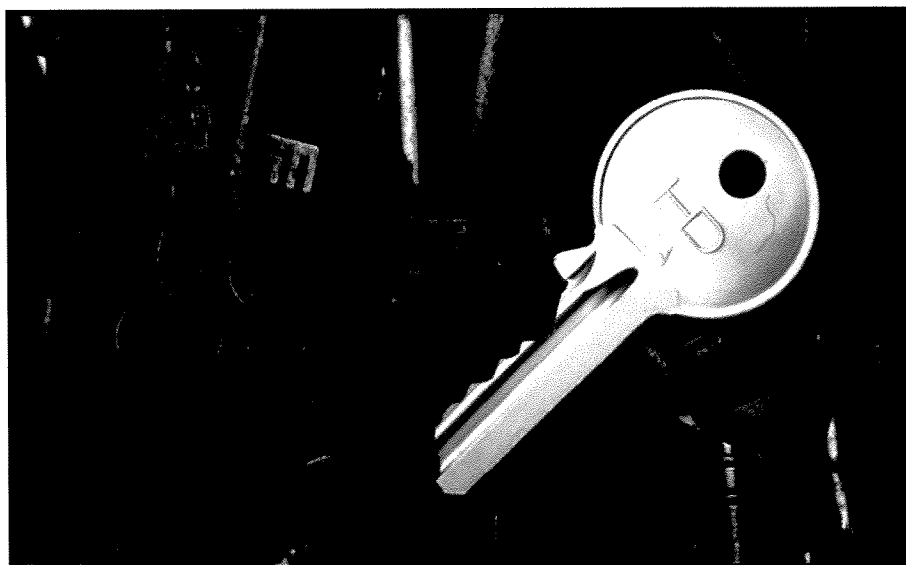


Image Bank/Patrick Eden

Economic Affairs, and Labour and Solidarity and the Minister attached to the Prime Minister's Office. The team is responsible for drawing up the procedures handbook, overseeing the

example, permits they have applied for are ready.

Each CFE also has technical staff, mainly people with legal qualifications. Moving

"A key change from past practice of the Portuguese bureaucracy has been the adoption of a proactive posture towards clients. Instead of waiting for entrepreneurs to contact a centre, CFE staff will contact them when, for example, permits they have applied for are ready."

installation and operation of CFEs, and making proposals for more effective intervention. It also gives opinions on semi-annual reports submitted by each CFE.

CFE managers have faced the challenge of developing a common, service-oriented culture among the centres. A key change from past practice of the Portuguese bureaucracy has been the adoption of a proactive posture towards clients. Instead of waiting for entrepreneurs to contact a centre, CFE staff will contact them when, for

beyond its logistics function, the IAPMEI delivered a specially designed training course to CFE staff, covering company law, permits and approvals, computer systems, forecasting and marketing, which was prepared with the involvement of all participating agencies. The aim was to ensure that front office staff, in addition to handling customers' applications, could provide practical information, such as apprising entrepreneurs of formalities required by other agencies, and assisting them to apply for grants.

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Impetus for Structural Reform

This experiment in bringing agencies together into a single, specially designed set of offices has yielded marked productivity gains and has also highlighted a number of inconsistencies in the statutory framework. Bringing these inconsistencies to the attention of ministers will in due course lead to appropriate amendments or clarifications, and improve the procedures affecting entrepreneurs.

We believe that setting up the National CFE Network in the field has proved highly successful, as demonstrated by the large number of applications successfully completed, and by clear reductions in the time

needed to establish or amend labour agreements. The model now needs to be replicated in other parts of the country, with the same or, if possible, better standards of service.

Each CFE is capable of assisting in the establishment of 5,000 companies annually. Given that approximately 25,000 companies are set up in Portugal each year, we consider that the number of CFEs which the government intends to establish in order to complete the National Network will be sufficient. These additional CFEs will be strategically located to respond effectively to local demand and to relieve pressure on existing centres.

Enthusiasm, creativeness and the determination to improve service remain the hallmarks of all the

agencies involved in this resolute drive to cut bureaucracy and simplify administrative procedures. The benefits of this endeavour will accrue to entrepreneurs and to the economy as a whole. ♦

António Souta directs Portugal's National Network of Business Formality Centres. He can be reached in Lisbon at tel: (351.1) 723.23.00; fax: (351.1) 723.23.23. See also Ferenc Balogh's article, "Hungarian Regional Authorities Create Centre to Provide Easy Access to Government Information", PMF, Vol. IV, No. 4, 1998.

Public Administration in the News

Lithuania Moves Towards Direct Elections for Mayors

Beginning in 2000, the mayors of Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys are to be elected by popular vote. The government is to submit an amendment to the parliament to avoid any contradictions with the Constitution. It intends to introduce direct mayoral elections throughout the country at a later date. Source: ELTA via RFE/RL Newswire.

EU Concerned About "Brain Drain" in Romania

In a recent interview, the head of the EC Delegation in Bucharest expressed concern over the exodus of talented staff from the Romanian public administration. "There is a dramatic 'brain drain' as good people are simply not getting paid enough. Now we are encouraging the government to go ahead with the Public Administration Law, which is already in front of the

Parliament, but we need to address the issue of the brain drain and in a very tangible and efficient way."

Source: *The Business Review* (electronic news bulletin reporting on Romania).

NISPAcee Explores Citizen Relations with the Administration

by Joanne Caddy



courtesy of NISPAcee

From left to right: Assen Djulgerov, Ludmil Georgiev (speaking), László Váradi and Todor Tanev participate in panel discussion at NISPAcee's Annual Conference.

NISPAcee organised its seventh annual conference in Sofia on 25-27 March 1999. The programme concentrated on an issue of growing importance to public administration reform in transition countries – the need to ensure responsiveness to citizens. More than 100 academics and practitioners from throughout Western, Central and Eastern Europe, North America and the New Independent States attended the conference, organised in conjunction with Sofia University and the New Bulgarian University.

A panel of distinguished speakers from Bulgaria opened the meeting, including Mr. Mario Tagarinski, Minister of State Administration; Mr. Vladislav Slavov, President of the Supreme Administrative Court; Mr. Assen Djulgerov, General Secretary of the Municipality of Sofia; and Professor Ludmil Georgiev, Vice-Rector of the New Bulgarian University.

Discussion of the central theme of citizen-administration relations was conducted in two working sessions, while two working groups discussed the results of in-depth research work carried out since the NISPAcee Annual Conference held last year in Prague.

Involving Citizens

The first working session explored the broad issue of "Improving Accessibility and Participation". Participants deliberated ways to improve the openness, responsiveness, and quality of the public administration's relations with citizens. They concluded that a clear legal basis for citizens' rights of access to information, rights of standing, and appeal of administrative decisions is

essential. A consensus also formed around the belief that an adequate institutional framework – including administrative courts, information offices, Public hearings and ombudsman offices – is needed, as are changes in the attitudes of both public officials and members of the public.

Removing Bureaucratic Obstacles

The second working session, co-ordinated by Jeffrey Straussman (Syracuse University, USA) and Mirko Vintar (University of Ljubljana, Slovenia), focused on "Reducing the Administrative Burden". Participants agreed that this task requires the rationalisation of all public activities through increased efficiency and effectiveness of state institutions. It was felt that rationalisation should be carried out without detracting from the quality of services, right of choice or user-friendliness of the public administration. Different approaches were highlighted, including decentralisation and better organisation of local services; more effective human resources management; improved training; and innovative use of information and communication technology.

NISPAcee Research Actions

A "Working Group on Politico-Administrative Relations", co-ordinated by

Aleksandra Rabrenovic (University of Belgrade, Yugoslavia) and Tony Verheijen (Leiden University, Netherlands), reviewed the results of research carried out by members over the preceding year – a set of country studies on politico-administrative relations and a comparative analysis of the results. Discussion focused on the analysis of factors determining the nature of politico-administrative relations, the development of a comparative methodology and the research agenda for the upcoming year.

János Hoós (Centre for Public Affairs Studies, BUES, Hungary) and Markéta Míková (Research Institute for Labour and Social Affairs, Czech Republic) facilitated the "Working Group on Systems of Social Security and Unemployment, Youth and the Elderly". Building on discussions at the 1998 NISPAcee conference, this group reviewed nine country case studies, and planned future work for the coming months.

Improving the Public Administration

Finally, working session participants agreed to establish a "Working Group on Better Quality Administration for the Public" to conduct policy-relevant, comparative research for presentation and review at next year's NISPAcee conference. The main research questions will explore how the public administration tailors its actions to the expectations and needs of the public, assesses the quality of its actions, incorporates information about its performance into efforts to bring about improvements and, finally, delivers better quality to the public. ♦

Joanne Caddy is Administrator in SIGMA's Public Administration Development Strategies unit, and can be reached in Paris at tel: (33.1) 45.24.13.77; fax: (33.1) 45.24.13.00; e-mail: joanne.caddy@oecd.org. Together with Emilia Spiridonova-Kandeva (New Bulgarian University), she co-ordinated the first working session, "Improving Accessibility and Participation". She also will co-ordinate, with Mirko Vintar (see article on pages 8-9), the newly created NISPAcee "Working Group on Better Quality Administration for the Public".

Former Yugoslav States Shed Centralised Accounting Practices

by Roger Connell

A legacy of the Socialist Federal Republic of Yugoslavia inherited by its successor states is a centralised accounting facility for processing inter-enterprise transfers. As this system is not well-suited to a modern, market-driven financial sector, the countries involved are moving towards inter-bank payment structures resembling payment processing in other European states.

The Socialist Federal Republic of Yugoslavia had developed a centralised accounting facility for the financial management of state enterprises. As these enterprises moved away from state control, there remained the need to facilitate the interchange of value between organisations and individuals. Although enterprise accounts were nominated to banks, the centralised accounting function continued to ensure the processes for inter-company transfers. The effect of this was that banks were largely unaware of account activity until after transactions had been performed.

With a comprehensive record of the finances of all enterprises and of all the financial transactions passing through enterprises, the centralised function proved an ideal location for the collection and monitoring of tax payments as well as for the generation of financial statistics for national statistical offices. The consequence of these evolutions, together with other activities not usually associated with banking (such as company registration and auditing and treasury reporting), were complex integrated processes. The extent of the complexity now varies within each of the former Yugoslav states, as each has evolved its own requirements.

This article considers the changes being undertaken or considered in three of the former Yugoslav states, namely Bosnia-Herzegovina, the former Yugoslav Republic of Macedonia, and Slovenia.

Motivations for Change

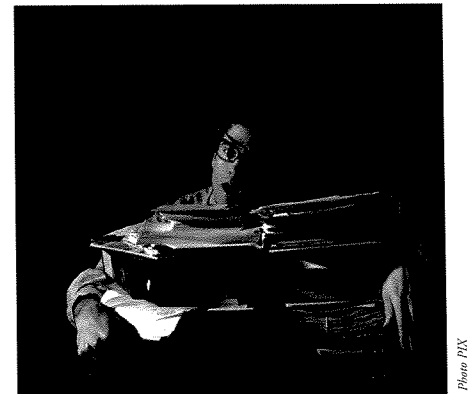
While the processing capacities suited the environment at the time they were devised, centralised systems do not provide appropriate facilities for a developing market-driven financial sector. Integrated non-banking activities also generate their own reasons for reform.

The prime reasons for change have been identified as:

- segregation of tasks to facilitate their design and implementation in the most suitable environment;
- direct responsibility of the banks by the central bank through regulatory procedures (banks will become totally responsible for their account processing, allowing the central bank to better exercise control);
- improved bank responsibility and control over customers;
- basis for improved competition between banks through service and price;
- capability of attracting and sustaining foreign banks and investment;
- improved control over tax liability and collection;
- freedom to develop and implement tax schemes and management requirements separately from banking practices;
- independent government treasury management schemes.

Proposed Payment Models

The proposed inter-bank payment structure follows closely the payment processing in many European countries, with a central settlement function operated by the central bank in on-line real-time mode. This also enables large and urgent payments between banks and between bank customers which are to be processed immediately. In contrast, small value payments, which comprise the bulk of payments, are settled net at designated times. Although present reforms are concentrating



on payments that currently go through central payment agencies, the long-term aim is to provide the infrastructure for a variety of inter-bank transactions, including cheque and credit clearing. Electronic and card systems will be catered for through the use of standard international procedures, with settlement through central bank facilities.

A fundamental question being addressed by all countries at the present time is the structure and organisations that will run the new processes. While there are models that can be copied from other countries, the underlying factors influencing the choice include:

- costs involved;
- ability of existing resources to ensure the processes;
- acceptability of the change in responsibility;
- management of existing infrastructures and manpower that will be made redundant.

Implications of Change

Any change from the currently integrated payment system implies change on a number of fronts simultaneously. However, because each of the processes being changed is fundamental to the well-being of the economy, continuity of operation is imperative. This requires strong management to oversee the change and to ensure that all involved organisations fulfil their obligations.

A consequence of the reform will be that banks will have to take on responsibility for customer management, a function that had been effectively carried out by central

accounting agencies, as payments passed through the offices of the payment agency and not the banks. Banks are having to learn, therefore, how to serve as the front line for customer payments, both for customers initiating payments and for institutions, organisations and businesses receiving payments. In the latter case, banks will have to develop systems to provide information enabling payments of taxes, invoices, utility bills, etc. to be correctly recorded and monitored by the recipient organisation.

A further implication for the banking sector is that the previous restriction of a single central account no longer applies. This means that businesses will be free to have multiple accounts to suit their activity or geographical spread and, of greater impact, to move their accounts to other banks that are able to provide a range of services at an acceptable cost. This will be a hard lesson for some banks to learn. Further, the cost to banks of accommodating new processes will be relatively great, especially for smaller institutions. This could result in a rationalisation of the banking sector or closer co-operation to achieve economies of scale.

For the taxation authority, knowledge that taxes have been paid is only part of the requirement; payment should be reconciled with customer assessment and liability. These are new concepts that have to be learned and managed. This will require the development and implementation of considerable processing capacities to provide full management information for existing tax regimes and for any new ones that the authorities wish to introduce.

Until now national statistics have been prepared based on full data about company activity, supplied directly from the payments operation, and on the ability to relate these data to company information. With the new

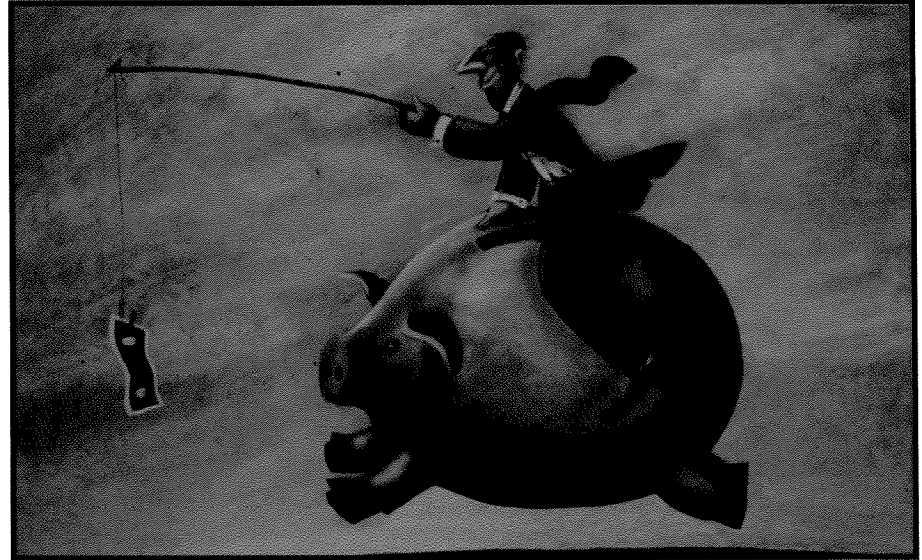


Image Bank/Altem Ruggieri

processes that relationship will not exist, so the choice will be either to use sample data from returns prepared by business (as is common practice in most countries) or to create a data warehouse capability that can replicate the current capability. The former option is obviously much cheaper to provide, but it does not approach the same level of comprehensiveness or accuracy as the alternative choice.

The total impact of the reform will be considerable and will require the acceptance of changes to management styles and practices, which can only come about through experience and/or the transfer of knowledge from external sources. It is also true that the effect will be felt by all customers, so public and commercial awareness has to be a major element in the reform process.

Progress by Country

The extent of the reform in each of the countries varies considerably because of the different approaches that have been adopted. In Slovenia the central bank has taken a leading role and has already implemented a real-time, gross-settlement system for large inter-bank payments. It has also developed a pilot net-settlement system that is being

assessed in terms of its suitability for all remaining inter-bank transactions.

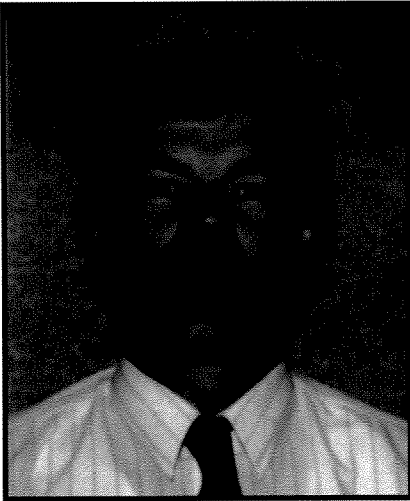
Officials in the former Yugoslav Republic of Macedonia have adopted a co-ordinated approach that will enable all the various activities currently included in the payments to be segregated and processed by the responsible organisations and institutions. The government has approved an implementation plan which enjoys the support of the central bank, Ministry of Finance, National Bureau of Statistics and banks. The starting point for Bosnia-Herzegovina is different again, with three independent payment organisations. Any change will require strong central banking control and commitment from the banks. Reforms are currently at the planning stage.

All three countries do, however, have one common requirement and that is to ensure that their old legacy systems are year 2000 compliant. This is focussing the minds of most of the organisations, as funds for replacement systems are not readily available. Major developments may therefore have to wait until next year, when systems have settled down and resources become available again. ♦

Roger Connell directs ROC Consultancy. He can be reached in England at tel: (44.1444) 244.539; fax: (44.1444) 230.913; e-mail: roger@rocconsultancy.k-web.co.uk.

Transition Countries Aim to Improve Quality of National Accounts

by Paul McCarthy



Courtesy photo

Paul McCarthy

International comparability has become a critical aspect of national accounts and related statistics in recent years because of the increasing use of such data. For example, the EU used national accounts data as a basis for defining some of the criteria that had to be met by its Member States before they could join the common currency. Candidate countries must therefore ensure that their national accounts are reliable and produced in an internationally accepted framework.

In 1968, the United Nations published *A System of National Accounts* (SNA). This guide continued to serve until recently as the basis for most countries' production of their national accounts. The UN released an updated version of the SNA in 1993 (SNA93), and a significant number of countries have now released their accounts in accordance with it.

EU Member States and candidate countries, however, base their national accounts on a slightly different framework, called the *European System of Accounts, 1995* (ESA95). It is almost completely consistent with SNA93, but

some minor changes cater for specific European requirements.

One of the main reasons for setting international standards such as SNA93 and ESA95 is to maximise international comparability of these important economic statistics. However, several international frameworks are used for economic statistics in addition to SNA93/ESA95. The major ones are the *Balance of Payments Manual* (5th edition, 1993) and the *Manual on Government Finance Statistics* (the "GFS Manual"), the latest version of which was released by the International Monetary Fund in 1986. The GFS framework is not consistent with the conceptual framework presented in either the new (1993) or old (1968) versions of the System of National Accounts. The main reason for the non-comparability of the two frameworks is that SNA data are compiled as closely as possible on an accruals basis while the current version of GFS largely records transactions on a cash basis.

The most recent updating of the above manuals has aimed to ensure their consistency to the greatest possible extent. It is expected that a new version of the GFS Manual will be released within the next year. The concepts in the new manual are expected to match as closely as possible those in SNA93 and ESA95, although it will not be possible to eliminate all differences.

A noteworthy change is that the new GFS will change over to an accruals basis from the cash basis currently recommended. Also, the GFS will classify transactions to sector on the basis of the unit undertaking them (as is the case with both SNA93 and ESA95), rather than on the activities being

undertaken. However, the GFS will suggest that data classified on an activity basis also be shown as memorandum items.

International Comparability of Data

International comparability – including issues of scope and coverage, definition, timeliness and statistical reliability – has become a critical aspect of national accounts and related statistics in recent years because of the broad uses of such data. For example, the EU used national accounts data as a basis for defining some of the criteria that had to be met by its Member States before they could join the EU's common currency, the Euro. These criteria are commonly referred to as the "Maastricht criteria". Broadly, the two key requirements based on national accounts data are that the ratio of the government deficit to gross domestic product (GDP) should be no greater than 3% and that the ratio of government debt to GDP should be no higher than 60%.

In both cases, it is critical for countries to be able to produce reliable and timely statistics based on the definitions used in the national accounts to determine the government sector. Their consistency with the underlying national accounting concepts is also essential, because data comparability is such an important requirement for European countries in the EU assessments of the economic performance of Member States.

Uses of Data on the Government Sector

As a result of attempts by EU Member States to meet the Maastricht criteria, considerable media attention has been paid to national accounts statistics. This has tended to overshadow other important uses made of statistics on the government sector

(both national accounts and government finance data). In particular, financial markets and ratings agencies analyse these data in some detail. They judge the overall economic health of a nation, at least in part, on the basis of the size of its government sector and the trend over time of changes in the government sector's share of the total economy. Potentially riding on the judgements made by the various players is the strength of a country's currency, the demand for equities in its stock market and the interest rates which will have to be paid on government debt.

Cash Versus Accruals

Traditionally, government accounts in most countries have contained very detailed data. In fact, annual data are generally available for the government sector in more detail than for any other part of the national accounts, with the possible exception in some countries of exports and imports of goods. A reasonable expectation would be that such detailed data would make the government accounts one of the most accurate parts of the national accounts. However, as mentioned above, the main focus of the detailed government accounts as currently constituted has been to record government transactions on the basis of the cash amounts which change hands during the course of the accounting period. The size of the differences between the cash-based and accruals-based estimates for the government sector can be very large. For example, cash-based systems do not take account of the depreciation of assets and they also record taxes at the time at which they are received. On the other hand, an accruals-based accounting system would record the allowances that businesses and government make for depreciation of their physical assets. In addition, taxes should be recorded in the accounting period in which the events took place that gave rise to the



Image Bank/David Gould

tax liability. For example, a tax on the sale of a product should be recorded when the sale takes place, which can be in a different period from when the tax is due to be paid or when the tax payments are actually made. [One question which can arise in compiling accrual-based estimates of taxes is how to take account of taxes which are not likely to be collected. For more details on this issue, see the article in *SNA News and Notes*, Issue 6, July 1997: www.un.org/Depts/unsd/sna/sna.htm.] In accrual-based systems, account is also taken of certain accrued future liabilities of government, such as pension payments, government guarantees and other liabilities, actual and contingent.

It is likely that the source data for government finance statistics will not change significantly after the new GFS Manual is released. In other words, the data will still be collected largely on a cash basis.

Using this as a starting point, further adjustments will then have to be made to produce the government sector accounts on an accruals basis as required for SNA93 and ESA95.

Scope of the Government Sector

A further important factor influencing the link between government finance data and national accounts is that there are differences between the scope of "government" as defined for GFS purposes and the "government sector" in the national accounts. Two of the most common areas of difference are:

- the central bank (classified in the financial sector rather than in the government sector in the national accounts);
- some state-owned units which may be

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heavily subsidised but which are still treated as part of the corporations sector in the national accounts (the types of units typically involved are urban bus or train services and/or inter-city passenger and freight services).

Responsibility for Government Sector Data

A problem which frequently arises is that two different organisations are often responsible for the government finance data and the national accounts (e.g. a ministry of finance or similar institution

could lead uninformed users to query the validity of the data. Therefore, it is essential that both the data suppliers and data users are well educated in the uses of the data, the different ways in which the national accounts and the government finance data are presented, and the implications of such differences for analysis. These differences are to some extent a function of the institutional arrangements in the country concerned, and so it is impossible to set out exactly what should be covered in any user education programme. However, several countries embarked on very extensive user

“...financial markets and ratings agencies analyse these data in some detail. They judge the overall economic health of a nation, at least in part, on the basis of the size of its government sector and the trend over time of changes in the government sector’s share of the total economy. Potentially riding on the judgements made by the various players is the strength of a country’s currency, the demand for equities in its stock market and the interest rates which will have to be paid on government debt.”

for the former and a national statistical office for the latter). The aims of these two types of organisations are different and so the way in which they perceive data relating to the government sector is also different.

An important consideration when attempting to make better use of government finance data in the national accounts is to recognise that the same data sets can be used for different purposes, such as monitoring the government budget and producing the national accounts. The fact that they show different outcomes using different types of analysis is a disadvantage as this

education campaigns in the lead-up to the application of SNA93 and ESA95 recommendations in their accounts. At the OECD national accounts meeting held in September 1998, three countries reported on their experiences in this regard. [See under the “meetings” section at: www.oecd.org/std/nahome.htm.]

Time Series Consistency

Most central and eastern European and CIS countries have already produced their accounts on an SNA93 basis. The main challenge now facing these countries is to improve the quality of their accounts. Both the annual

accounts and the quarterly accounts (for those countries producing them) depend on data from collections which are being improved year by year. While the ultimate result will be more accurate accounts, the short-term cost can be a lack of consistency in the time series. For example, improved coverage in a data collection leads to a discontinuity in the time series compared with the previous year’s data. It is essential that adjustments are made to the earlier data in such cases to ensure that the time series are as consistent as possible. The issue of time series consistency becomes even more critical in the quarterly accounts. Lengthy and consistent time series are required to enable seasonal patterns to be identified. Inconsistencies in the annual time series are likely to introduce some irregular movements into the quarterly series. The result is a less stable seasonal pattern in the quarterly series, which can entail significant revisions in the observed seasonal patterns as extra quarters come into the series over time.

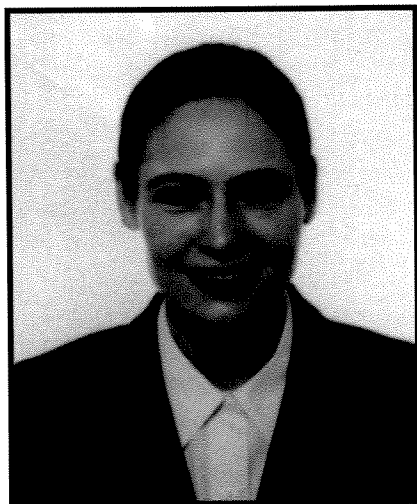
Next Step

Usually, the need for governments to maintain data relating to their operations means that government finance statistics are well developed. In fact, the level of detail available in most countries is far greater than is required for national accounting purposes. An important challenge is to develop the tools necessary to reclassify the detailed data into the format required for the national accounts. A concordance between the government finance system and the national accounts is essential for this purpose.♦

Paul McCarthy is Principal Administrator in the National Accounts Division of the OECD’s Statistics Directorate. He can be reached in Paris at tel: (33.1) 45.24.88.06; e-mail: paul.mccarthy@oecd.org.

Latvia Creates System to Manage EU Assistance

by Bettina Rafaelsen



Courtesy Photo

Bettina Rafaelsen

The Latvian Ministry of Finance spent a busy six months setting up the new National Fund System for the implementation of EU funds. This new concept for the improved management of the decentralised implementation of EU assistance was developed by the European Commission for use in all candidate countries.

The purpose of the National Fund System (NFS) is to further decentralise responsibility for management and control of EU assistance to the national administrations of pre-accession countries. Overall responsibility and accountability for the system are placed in the hands of national senior officials. In the case of mismanagement or misuse of funds, the European Commission can request that the funds be reimbursed.

The introduction of the NFS requires the strengthening within national administrations of procedures for public expenditure management, in particular the introduction or improvement of control and internal

audit functions. Accounting and public procurement systems also need upgrading in order to comply with EU standards. Upgrading of public expenditure management systems is a pre-accession requirement and a prerequisite for management of the Structural Funds type of programme.

In some countries the possibility of establishing a separate institution for the management of EU assistance was discussed. In the case of Latvia the choice was made not to establish a new structure. Rather, it was decided to use as far as possible existing structures of the administration, upgrading them to comply with the requirements of the National Fund System. There is no standard solution for establishing such a system, and each country will have to develop its own to match its administrative structure.

Based in the State Treasury

The NFS in Latvia includes placing the National Fund inside the Treasury, which is responsible for managing the state budget. The main responsibility of the Treasury/National Fund is to execute payments of contracts concluded by Implementing Agencies (see below). The Treasury/National Fund also makes requests for funds to the European Commission, runs the overall accounting system and prepares financial reports.

The Treasury/National Fund operates under the supervision of the National Authorising Officer (NAO), who is a senior official in the Ministry of Finance. The NAO has overall responsibility for the implementation of EU assistance.

Five new positions were created in the Treasury for operating the National Fund, one in each of the four main departments – Foreign Financial Resources, Budget Monitoring and Execution, Operations, and Reports – and the fifth filling the function of National Fund Co-ordinator, attached to the Treasurer and responsible for internal and external co-ordination on issues related to the NFS.

Implementing Agencies

The administrative, financial and technical management of Phare programmes and projects is carried out by Implementing Agencies. The Implementing Agencies are responsible for the design and supervision of projects and for the entire procurement process according to the Phare Decentralised Implementation System. Payments of contracts are requested to the Treasury/National Fund by the Implementing Agencies, who verify the receipt of deliverables.

The Treasury/National Fund concludes an agreement with each of the Implementing Agencies. This agreement sets out the responsibilities of these agencies.

The Latvian Implementing Agencies are either departments of ministries (such as transport and environment) or responsible procurement units. In Latvia the Implementing Agencies (nominated for the introduction of the NFS) have been involved in the implementation of Phare projects for a number of years. The staff members therefore have some experience with

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procurement under the decentralised implementation system.

The Implementing Agencies operate under the supervision of a Programme Authorising Officer (PAO). The PAO is a senior official of the ministry responsible as the Implementing Agency.

The financial planning for a project, once completed by the Implementing Agencies, is transmitted via specially designed activity and disbursement plans to the Treasury/National Fund. On this basis the Treasury/National Fund requests funds from the European Commission.

Internal Audit and Control

Internal audit functions are assumed by the internal audit departments of the ministries in question. The Internal Audit Department of the Ministry of Finance will participate in the internal audit of all EU assistance on a transitional basis and ensure that the standards and procedures for internal audit are implemented by the internal audit departments in the ministries.

Monitoring Arrangements

A Joint Monitoring Committee reviews the progress of programmes. The National Aid Co-ordinator (Minister for Special Assignment for Co-operation with International Financial Agencies), NAO (Ministry of Finance), the PAOs of the Implementing Agencies, and the European Commission constitute the Joint Monitoring Committee.

The Joint Monitoring Committee, assisted by Monitoring Sub-

Committees, are established on either a sectoral basis or in line with objectives set out in the Accession Partnership. The Monitoring Sub-Committees have as members the NAO, PAOs of Implementing Agencies, and the European Commission. Monitoring Sub-Committees will review progress on the projects under their responsibility on a regular basis.

Staff Training

A number of officials involved in the National Fund System in Latvia are already familiar with the Phare Decentralised Implementation System through working in project implementation units or the like. However, officials in the control and audit functions in particular have no prior knowledge of Phare procurement rules.

Training of all officials involved in the NFS (Treasury/National Fund, Implementing Agencies, Internal Audit Departments and State Audit Office) has begun on Phare procurement rules. It is important, however, to note that formal training is only the beginning. The real training will happen on-the-job while the system is operating.

It is important that continuous training is provided, both formally and on-the-job. Exchange of experience between Implementing Agencies could represent an important factor in the overall performance of the system.

Operation of the System

The NFS became operational in Latvia in April 1999. Considerable efforts and planning were needed during the last quarter of 1998 to realise this target

date. Government regulations were adopted, clearly setting out the responsibilities of the officials and institutions involved, and a National Fund Manual was developed, with the support of a Phare technical assistance project, covering all aspects of the National Fund System.

The National Fund Manual includes the internal procedures of the Treasury/National Fund, the procedures for operating the bank accounts in the Bank of Latvia, the ex ante control and internal audit procedures, and monitoring procedures. The procedures between the Treasury/National Fund and the Implementing Agencies are included in a separate Operational Guide.

Setting up a National Fund System is a very time-consuming exercise and the preparations should not be underestimated. All of the involved institutions were part of this preparation process, which is important now that the system has started up.

In particular, ensuring that controls and control points were in place and that staff were trained and prepared for channelling EU assistance documents was a more comprehensive task than most expected. Accounting, reporting and monitoring are often overlooked aspects, but each requires the right structure, staffing and training before being implemented. ♦

Bertina Rafaelsen is an EU advisor to the Latvian Ministry of Finance. She can be reached in Riga at tel: (371) 722.60.53; fax: (371) 709.56.61; e-mail: Ber.Raf@fm.gov.lv.

UK Unveils Strategy to Improve Public Service

Modernising Government, Prime Minister and the Minister for the Cabinet Office, UK, March 1999

British leaders have undertaken an ambitious plan to renew and reform the public administration. In a report presented by the Prime Minister to the Parliament in March 1999, the government sets forth a broad-based strategy to, in the words of Jack Cunningham, Minister for the Cabinet Office, "make sure that government services are better (and) that they reflect real lives and deliver what people really want."

The 66-page report, entitled *Modernising Government*, identifies three aims: 1) ensuring that policy-making is more coherent and strategic; 2) making sure that public service users, not providers, are the focus, by matching services more closely to people's lives; and 3) delivering public services that are high quality and efficient.

The report also presents five key government commitments intended to support achievement of the aforementioned aims. For example, the government commits to being "forward looking in development policies to deliver outcomes that matter...". To fulfil that commitment, the government plans to identify and spread best practice through a new Centre for Management and Policy Studies; organise joint training of

ministers and civil servants; and introduce peer review of departments. The government also commits to provide responsive public services that meet citizen needs; deliver efficient, high-quality public services; use new technology to meet the needs of citizens and business; and place a high value on public services.

Modernising Government offers several examples of initiatives that already have been launched or soon will be. Among the ideas highlighted is the creation of a "People's Panel", enabling a nationally representative group of 5,000 persons to express their views on public services and the authorities' attempts to make them better. Another is the opening of a telephone number at which the unemployed can reach advisers who have access to a database of 300,000 job vacancies across England, Scotland and Wales. More boldly, newly drafted "Public Service Agreements" set out targets for improving public services over the next three years. Through these agreements, additional funding to key services (e.g. criminal justice, health, education) is accompanied by firm targets to cut: the time taken from arrest to sentence for persistent young offenders, National Health Service waiting lists, and infant class sizes.

The strategy set forth in this report has engendered considerable debate in the UK among political actors, civil servants and members of the public. It also has contributed to a trend gaining momentum across Europe: public officials are seeking ways to raise efficiency of the public administration, strengthen the democratic legitimacy and accountability of state institutions, and improve the quality and delivery of services to the citizen. Prime Minister Tony Blair and his team have invested considerable energy and resources into the development of this wide-ranging strategy, and are taking a number of political risks with some of the elements proposed.

While some of the particular actions proposed in this report would not at present be suitable for EU candidate countries, reformers in these countries may nonetheless find that various goals and principles described in *Modernising Government* could usefully be adapted to their national contexts. ♦

Modernising Government, Prime Minister and the Minister for the Cabinet Office, 1999, 66 pages. To order: Modernising Government Secretariat, Cabinet Office, Horse Guards Rd., London SW1P 3AL, UK; e-mail: Moderngov@gtnet.gov.uk. The paper is also available on the Cabinet Office's Website: www.cabinet-office.gov.uk/moderngov/1999/whitepaper.

INBOX:



A COMPENDIUM OF RECENT PUBLICATIONS AND ARTICLES

Note: All publications below are available in English unless otherwise noted.

Recent Publications & Articles

DAVIES, Morton R. *Serving the State: Global Public Administration Education and Training*, 1998, 240 pages. To order: Ashgate Publishing, Gower House, Croft Rd., Aldershot, Hampshire, GU11 3HR, UK; tel: (44.1252) 331.551; fax: (44.1252) 317.446; e-mail: info@ashgatepub.demon.co.uk \$72.95.

EUROPEAN INSTITUTE OF PUBLIC ADMINISTRATION. *Eurotraining for Regional and Local Authorities in Europe* (Proceedings of the Interregional Conference, Barcelona, June 1998), 1998, 409 pages. To order: EIPA, O.L. Vrouweplein 22, POB 1229, 6201 Maastricht, The Netherlands. Bilingual, English and French.

WILSON, James Q. "La moralité dans l'administration," *Optimum (La revue de gestion du secteur public)*, Vol. 28, No. 3, 1998, pp 50-58. In French.

SIGMA

SIGMA -- Support for Improvement in Governance and Management in Central and Eastern European Countries -- is a joint initiative of the OECD and the European Union. The initiative supports public administration reform efforts in thirteen countries in transition, and is principally financed by the EU Phare Programme. The Organisation for Economic Co-operation and Development is an intergovernmental organisation of 29 democracies with advanced market economies. Phare provides grant financing to support its partner countries in Central and Eastern Europe to the stage where they are ready to assume the obligations of membership of the European Union.

Phare and SIGMA serve the same countries: Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Established in 1992, SIGMA works within the OECD's Public Management Service, which provides information and expert analysis on public management to policy-makers and facilitates contact and exchange of experience amongst public sector managers. SIGMA offers beneficiary countries access to a network of experienced public administrators, comparative information, and technical knowledge connected with the Public Management Service.

SIGMA aims to:

- assist beneficiary countries in their search for good governance to improve administrative efficiency and promote adherence of public sector staff to democratic values, ethics and respect of the rule of law;
- help build up indigenous capacities at the central governmental level to face the challenges of internationalisation and of European Union integration plans; and
- support initiatives of the European Union and other donors to assist beneficiary countries in public administration reform and contribute to co-ordination of donor activities.

Throughout its work, the initiative places a high priority on facilitating co-operation among governments. This practice includes providing logistical support to the formation of networks of public administration practitioners in Central and Eastern Europe, and between these practitioners and their counterparts in other democracies.

SIGMA works in five technical areas: Public Administration Development Strategies; Policy-Making, Co-ordination and Regulation; Budgeting and Resource Allocation; Public Service Management; Financial Control and Audit. In addition, an Information Services Unit disseminates published and on-line materials on public management topics.

ON THE AGENDA



Upcoming Programmes

21-23 June 1999, Strasbourg, France. "Performance Management and Senior Civil Servants: the Key to Greater Efficiency?" Contact: Mme. Sabine Henni, Secretariat of the XVth Congress on the Training and Development of Senior Civil Servants, Ecole Nationale d'Administration (ENA), 1 rue Sainte-Marguerite, 67080 Strasbourg Cedex, France. Tel: (33.3) 88.21.44.71; fax: (33.3) 88.21.44.79; e-mail: billon@ena.fr. In English and French.

27-29 June 1999, Edinburgh, Scotland, UK. "Building New Connections – Preparing Managers for a Different World." Contact: Bernadette Conraths, EFMD, 88 rue Gachard, 1050 Brussels, Belgium. Tel: (32.2) 648.03.85; fax: (32.2) 646.07.68; e-mail: info@efmd.be. In English.

12-15 July 1999, London, UK. "Accountability in Public Administration: Reconciling Democracy, Efficiency and Ethics (Rule of Law)". Organised by the International Institution of Administrative Sciences and the Civil Service College. Contact: Michael Duggett, Conference Project Manager/Secretary of the Organising Committee, Civil Service College, Sunningdale Park, Ascot, Berkshire, UK. Tel: (44.1344) 63.46.13; fax: (44.1344) 63.47.75, e-mail: duggett@cscolleg.attmail.com. Website: <http://www.iiasisa.be/iias/aisun/aisunthm.htm>. In English and French.

26 July - 6 August 1999, Budapest, Hungary. CEU Summer University: "Intergovernmental Fiscal Relations and Local Financial Management". Contact: CEU Summer University, Nádor u. 9, Budapest, Hungary 1051. Tel: (36.1) 327.30.69; fax: (36.1) 327.31.24; e-mail: summer@ceu.hu. In English.

29 July - 3 August 2000, Tampere, Finland. "Sixth ICCEES World Congress". Contact: Finnish Institute for Russian and East European Studies, Annankatu 44, Helsinki, 00100 Finland. Tel: (358.9)22.85.44.34; fax: (358.9)22.85.44.31; e-mail: iccees@rusin.fi. Website: <http://www.rusin.fi/iccees>. In English, French, German and Russian.

Please note that not all of the programmes included in this calendar are open to every public administration practitioner or to the general public. Details are provided directly by the organiser, who may be contacted for further information. If your organisation is planning an event, please send details to SIGMA (address on page 2). A more complete calendar of events may be found at: <http://www.oecd.org/pumalsigmaweb>.