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PMF

Public Management Forum

A Bimonthly Newsletter for Public Administration Practitioners in Central and Eastern Europe

Promoting Efficient Management and Control of Public Money

Designing a Pension Scheme

Constraints on State Auditors

Czech Republic Manages Spending

US Treasury Assists Transition Countries

Forum Focus

Performance Monitoring for Budget Management

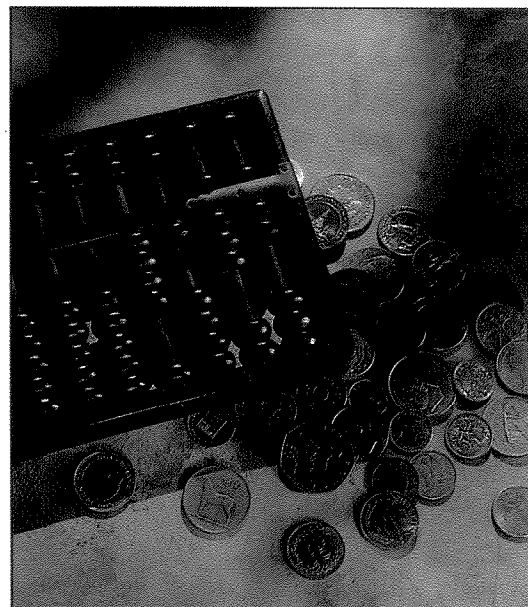
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Systems and institutions for expenditure management, including budgeting and control, have developed unevenly across Central and Eastern Europe. Region-wide needs include the strengthening of: organic budget laws and financial control institutions, the training of personnel, and the links between central policy-making units and the budgetary process.

The Role of Finance Ministries

Responsibility for budgeting tends to be shared between finance ministries and the finance department in line ministries. In most EU Member states and OECD countries, finance ministries lead the drive for improved management of budgetary resources. The finance departments of line ministries depend on the power of the finance ministry working within the discipline of agreed budgeting rules and procedures. Yet in central and eastern European countries, the finance ministry often needs to develop the techniques and skills necessary for it to exercise effective scrutiny and control of public spending.

Unreformed expenditure management systems can distort the allocation of public resources, impede fiscal stabilisation, and do not provide a base for real financial control. Opaque expenditure mechanisms, such as loan guarantees and significant extra-budgetary transactions, also make it difficult to enforce adequate control. Because of the close links between budgeting and policy-making, introduction of new budgetary systems strongly influences reform of the public administration as a whole. Indeed, without modernisation of expenditure management systems, administrative reform will come to a halt. At the same time, these systems can be used to initiate and drive change in the public administration.



The Image Bank/Getty Chipman

Major Trends

This issue of *PMF* highlights trends in expenditure management across Europe and beyond. On page four, SIGMA Senior Counsellor Richard Allen observes that transition country governments are moving away from the former pattern of piecemeal changes to expenditure management systems towards the development of well-planned, long-term reform programmes.

In "Forum Focus," Eduardo Zapico-Goñi of Spain's Office of the Presidency explains new approaches by OECD governments towards performance management of spending. Finally, under the rubric of "On the Frontlines of Reform," Czech Finance Ministry budget specialist Jan Kinš highlights his government's strategies for controlling public expenditure. ♦

The Editor

Phare



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Head, OECD Public Management Service
Derry Ormond

Head, SIGMA Programme
Bob Bonwitt

Editor-in-Chief
Bart W. Edes

Managing Editor
Belinda Hopkinson

Production Assistant
Françoise Locci

Design
O.R.S.N Studio, Paris, France

Printer
A&M Conseil, Bron, France

Illustration (page 5)
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

web site: <http://www.oecd.org/puma/sigmaweb>

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Human resource experts meet at SIGMA Secretariat in Paris on 8 November 1996 to review a draft report on promoting performance and professionalism in the public service. (From left to right, Georg Sootla, Estonia; Odeta Dibra, Albania; Wojciech Marchlewski, Poland; and István Borbiró, Hungary).

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Transforming Public Expenditure Management Systems

by László Garamfalvi

Most central and eastern European governments have established sufficient budgetary discipline to assure achievement of main fiscal targets. Yet legislative frameworks and accounting and information systems remain inadequate, and both analytical capacities and control machinery need strengthening. Only a few of the region's finance ministries have been able to achieve the influential role found necessary in other democracies. These factors serve as impediments to reform, and make it difficult to determine the impact of budget cuts on services and infrastructure. The International Monetary Fund advises authorities in transition countries on establishing public expenditure management systems that meet the needs of a market-based economy.

For the past several years, countries of Central and Eastern Europe have been engaged in the difficult process of transforming their political and economic systems.

The principal weakness of these systems inherited from the centrally planned economy was that government financial management was subordinated to the planning imperative. As a consequence, the ministry of finance has not had the legal authority nor the organisational structure to exercise discipline over the budget process beyond ensuring that resources were collected and allocated as indicated in the plan.

Weaknesses also appear in the areas of payment and accounting systems, cash and debt management, fiscal reporting and analysis, revenue and expenditure classification and macroeconomic analysis for the preparation of the budget.

Payment arrangements were conceived to make the transfer of funds to spending ministries and payments to suppliers as easy as possible, without paying much attention to the monitoring and control of these operations. For the most part, lines of credit were provided to spending ministries in the central bank or commercial banks against which suppliers of

goods and services were paid. As funds to ministry accounts were transferred independently of the need for cash to pay suppliers, substantial balances were held in ministry accounts. This created -- and continues to create -- shortages of cash resources at the aggregate level.

Accounting Weaknesses

The accounting arrangements reflected the same philosophy. Cash accounting for government revenue and expenditure operations was the responsibility of a department (or division) of the central bank. Thus, the ministry of finance has had to refer to bank records at all times for information that is required for monitoring and controlling government spending.

Because the budget was mainly an instrument for the implementation of economic plans, budget and accounts classification served essentially as national accounts and were of little use for fiscal and economic decision-making. The object (or item) classification of expenditure has not been consistent with generally accepted economic categories. That is, classifications have generally failed to distinguish principal and interest payments in debt service transactions, and they mixed functional categories with objects of expenditure.

Idle Cash is Costly

Central planning has left an institutional and organisational legacy characterised by ill-defined boundaries between the budgetary and banking sectors. There was no appreciation of the fact that idle cash was costly because of foregone interest revenues, nor that borrowing (made necessary by shortages of cash resources at the aggregate level) increased future expenditures in terms of interest payments. The importance of cash and debt management in containing the public sector borrowing requirement and, consequently, in conducting fiscal and monetary policy was also not recognised.

Legal Framework

The absence of an appropriate legal framework for government financial management, with a clear distinction between government and enterprise activities, explains the lack of comprehensiveness of the budget and the practice of allocating resources to a great number of extrabudgetary funds. It also explains why the accountability of officials handling public funds, as well as the accountability of the executive branch to the legislature, have never received the attention they deserve.

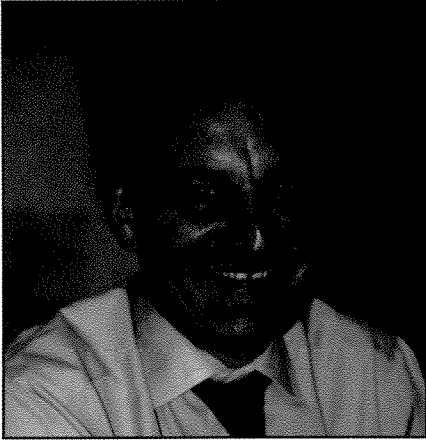
Establishing a Treasury Department

The strategy that the International Monetary Fund's Fiscal Affairs Department (FAD) developed for these countries has been based on the urgent need to reinforce the ministry of finance's role in fiscal management. The FAD believes that this could be best achieved by establishing a treasury department within the ministry of finance in charge of the control over the execution of the budget -- including cash and debt management operations -- and of an efficient fiscal management information system providing data for fiscal and macroeconomic decision-making. The establishment of a treasury department must be accompanied by the development of supporting legal and organisational frameworks.

Several central and eastern European countries have begun to establish treasury systems along the lines recommended by the FAD. Experience in these countries shows that although the transition process is not without pain, institutional systems and procedures more responsive to the requirements of a market-oriented economy are now being put in place. ♦

László Garamfalvi is Chief, Public Expenditure Management Division, Fiscal Affairs Department, at the International Monetary Fund. He may be reached in Washington DC at tel: (1. 202) 623.87.14; fax: (1.202) 623.41.22.

Changing Needs in Expenditure Management Reform



Courtesy Photo

Richard Allen

Richard Allen is Senior Counsellor of the Expenditure Management Sector at SIGMA. Previously, he worked for 17 years in senior administrative and economic posts at the UK Treasury. As a Deputy Director of the Treasury with responsibility for civil service management issues, he headed up the UK's ambitious programme of public administration reform. PMF asked Allen about current reform issues in the field of expenditure management and about what work the SIGMA sector plans to undertake this year.

PMF: What are the main pressures on governments to change the ways they manage their budgets?

Pressures are many and varied. Some central and eastern European countries are under considerable pressure from the IMF, the World Bank and other international financing institutions to bring large budget deficits and/or external deficits under control and to stabilise their currencies. For those countries that are aspirant members of the European Union, membership will require them to comply with the *acquis communautaire*.

It will be essential for these countries to develop reliable expenditure management

and control systems to meet EU standards on the use of taxpayers' money. This applies particularly, of course, to those parts of national budgets that are linked directly to the EU budget through receipts from massive spending programmes, such as EAGGF (European Agricultural Guidance and Guarantee Fund), structural funds and cohesion funds, and payments of VAT and customs duties.

PMF: What are the main priorities for expenditure management reform?

Not all central and eastern European countries have yet put in place the basic "building blocks" of effective, modern budgetary systems. These foundations include organic budget laws defining the new roles and responsibilities of the main institutions involved in the budget process; a framework of government accounts based on standardised economic and functional classifications; and an effective cash-management system based on a single treasury account. Another key priority is to develop effective systems of internal and external financial control, as noted above. Many of the countries are also seeking to strengthen their systems for planning and managing their public investment programmes. This should enable them to achieve a better economic return on the use of their state investments, including those financed under future EU programmes.

PMF: And the likely priority areas for the future?

There is likely to be a shift, already detectable, away from the former pattern of *ad hoc*, piecemeal adjustments towards the development of systematically planned, longer-term reform programmes. This change is partly driven by the target of EU accession, partly by the pressures on

transition countries (and on the donors themselves) to make better use of donor funds.

In many central and eastern European countries, there are huge stresses on certain parts of the budget, social programmes and local government finance, for example. In such cases, the key challenge is to integrate fiscal and control issues directly with the policy-making process. There must be a clear role and capacity for the finance ministry in providing advice on major policy decisions (standard procedure in most EU countries); the forecasting of budgetary effects of policy changes; the control of expenditures; and (in the case of local government issues) the respective powers of the centre, regions and municipalities.

PMF: What are the main challenges in forecasting and controlling government expenditures?

On the forecasting side, substantial challenges face the countries. These challenges are to develop good quality, timely macro-economic forecasts linked to the requirements of the national budget and a system of micro forecasts of individual expenditure categories or programmes, and tax receipts, based on information provided by line ministries or tax collecting agencies, and co-ordinated by the ministry of finance. To be useful for analysis, this micro information should in turn be linked to the development of modern accounts classifications and databases. The requirement for high quality forecasts will increase as countries seek to implement more sophisticated budgeting and control procedures, including multi-year budgeting, and as they approach the date for entry into the European Union.

Continued on p.11 ►

Designing a Pension Scheme for Civil Servants

by Staffan Ekebrand

For historical, economic and cultural reasons, European civil service pension systems vary considerably from one to another. By and large, however, the problems they face are similar. As transition countries begin to focus on developing new civil service pension schemes, comparative experiences from western Europe can help to clarify national needs and highlight possible strategies.

In most western European countries, civil servants have separate and specially designed pension schemes. They are either excluded from national basic state pensions or covered by both a national basic system and a supplementary scheme. A look at pension schemes presently in operation in western Europe may reveal some of the causes of the current problems over and above demographic development. According to current estimates, the burden on the active population to support pensioners will double in the next 50 years. To meet this challenge, pension schemes are being scrutinised in terms of costs and more adequate financing methods.

Guiding Principles

A pension scheme for civil servants does not operate in a vacuum but is dependent on the conditions in the country in question. Nevertheless, it is possible to outline some desirable principles -- though seldom fully achieved -- that cut across national structures.

The ideal scheme is stable, secure and sufficiently flexible to adjust to economic, demographic and other changes. It is easy to understand and administer. It is perceived as fair, and there is a clear relationship between performance (as measured by earnings) and pensions. Benefits and costs are reasonable and predictable.

Final Salary or Career Earnings?

Today's statutory basic state pension and



occupational pensions both derive from the public sector occupational pension system. The state was the first employer to assume responsibility for supporting its employees and their survivors by developing systems for old-age, invalidity and survivor's pensions.

The civil service pension system developed in two directions. In some systems, civil service pensions were regarded as extended (albeit reduced) earnings to be paid from the national budget in the same way as salaries for active civil servants. And in other systems, pensions were regarded as deferred earnings. Pension societies were set up, and savings were invested to support members during retirement.

Today the prevailing view is that occupational pensions should be thought of as deferred earnings. Still, civil service pensions are regularly calculated on the basis of the employee's final salary, which implies the opposite view, that pensions are considered to be extended earnings. The reason why civil service pensions are not calculated on all the pay received by the employee during his or her career (career earnings) is possibly to be found in the way the pension promise is defined and financed.

Pre-Funding or Pay-As-You-Go?

To make provisions for future pension payments through pre-funding has not been

deemed necessary. The common attitude from employers and employees in the public sector has been that the national budget takes care of it, so there's no problem. The result is the so-called pay-as-you-go financing method.

Can public servants trust the pension promise given to them when no capital is set aside for future pension payments? The answer depends on the credibility of the "social contract" under which the younger generation agrees to support its elders in return for the expectation of receiving the same benefits from the next generation.

Benefit-Defined or Contribution-Defined?

For the state, as employer, pension costs and financing does not have the same priority as for private employers. The state's economic resources (the size of the budget and the power to levy taxes) are huge in comparison.

Where costs are not the focus of attention, the benefits are. This is probably the main reason why the pension promise to a civil servant is normally "benefit-defined" and not "contribution-defined". The size of the benefit is defined in the pension scheme. The size of the contribution -- ie the cost for the active generation -- is a mere consequence of the benefits and indeed hard to predict and control.

Continued on p.6 ►

Transition Country State Auditors Face Diverse Constraints

by Dr Iacon Bogdan

The Romanian Court of Audit recently prepared a paper on the main constraints encountered by Supreme Audit Institutions (SAIs) in carrying out their duties. This synthesis report was based on responses from eight of eleven central and eastern European countries SAIs solicited by Romanian officials. The results were presented at the seminar "SAIs: Co-operation between the EU and Countries of Central and Eastern Europe" organised by the European Court of Auditors and held in Luxembourg on 21-23 October 1996 (for further information on the seminar, see PMF Vol. II, No. 5, page 4).

Most central and eastern European Supreme Audit Institutions are confronted with a series of complex problems in fulfilling their duties. These difficulties can be synthesized as follows:

- 1) too few personnel with adequate professional training: this situation has led to a request to the European Court of Auditors (ECA) to support a "training for trainers" programme for a reasonable number of specialists.
- 2) lack of some essential informational resources: this refers to the need for an improved flow of specialized information (economic and financial legislation, specialized literature, activity reports, etc.) from EU Member states to central and eastern European SAIs.
- 3) inadequate understanding, or misunderstanding, of SAIs' role in respective countries with negative consequences on the image and performance of the SAIs: this aspect needs to be further emphasised by ECA specialists during their visits to central and eastern European countries.
- 4) the existence of the same phenomena in regard to SAIs relations with the media: we again propose that ECA specialists provide input on this issue.
- 5) obstacles encountered in the process of auditing the opportunity, management quality, efficiency, efficacy and effectiveness of the use of public money: to overcome this, we propose to organise a seminar allowing for the sharing of positive experiences accumulated by the EU.
- 6) difficulties in obtaining necessary information, especially from banks: again we propose organizing a special seminar.
- 7) inadequate internal audit: another major constraint for which we ask for support from EUROSAI (European Organisation of Supreme Audit Institutions), the International Organisation of Supreme Audit Institutions and ECA in the form of papers concerning the theory and practice in this field and legislation in developed countries with a consolidated state governed by the rule of law.
- 8) legislative system in the process of rebuilding and lack of correlation: a major constraint with multiple negative implications that cannot be overcome except through improved organisation of parliamentary activity in the respective countries.
- 9) insufficient financial resources: one of the most important constraints that cannot be overcome without more consistent support from the EU (through Phare and other resources), taking into account the economic and financial situations of transition countries.
- 10) no special, harmonised programme for those central and eastern European countries

aiming to join the EU and NATO: such a programme would be beneficial for many other reasons as well.

11) lack of a co-operation programme between the central and eastern European SAIs and the European Court of Auditors: this problem was solved during the seminar by the unanimous adoption of a co-operation "Declaration" by the presidents of those SAIs present.

This seminar was highly appreciated and useful for all participants, and we look forward to continued co-operation with EUROSAI in addressing the questions above. ♦

Dr Iacon Bogdan is President of Romania's Court of Audit. He may be reached in Bucharest at tel: (40.1) 210.13.77; fax: (40.1) 210.13.64

► continued from p.5

Occupational pension schemes represent extremely long-term commitments. Pension benefits paid out today may thus derive from schemes designed half a century ago, and schemes designed today may affect benefits paid out in the middle of the next century.

Several countries experiencing rising costs in their pension schemes are concluding that their schemes must be reformed to include more elements of the pre-funded pension type, based on career earnings and contribution-defined promises. Furthermore -- and the obvious solution -- pension benefits are being reduced through lower benefit levels and higher pensionable age. ♦

Staffan Ekebrand is Deputy General Director at the Swedish National Government Employees Salaries and Pensions Board (SPV Lön & Pension) in Stockholm. He can be reached at tel: (46.60) 18.77.58; fax: (46.60) 18.76.46; e-mail: spu@spuse.

Governments Pursue Budget Reform

by Jon Blondal



Canary Photo

Jon Blondal

Fiscal consolidation is very high on the agenda of most OECD Member countries. This article discusses reforms to the budget process that Member countries have adopted in recent years to strengthen aggregate expenditure discipline, increase allocative efficiency in the use of funds, and enhance the technical efficiency of government expenditures. It must be kept in mind, of course, that these reforms are taking place in the context of modern budgetary systems -- encompassing certain laws, institutions, accounting practices, control mechanisms and trained personnel -- which need developing in central and eastern European countries.

"Top-Down" Budgeting

Budgets have traditionally been formulated in a series of bilateral discussions between the finance ministry and the respective spending ministries with the overall budget emerging from these discussions. This system is now increasingly being abandoned in OECD Member countries. Replacing it is a "top-down" exercise in which the Cabinet establishes fixed ceilings for total government expenditures and how the total should be allocated to each ministry. This new process enhances the Cabinet's control over aggregate expenditures and facilitates reallocation of resources.

Relaxation of Input Controls

A number of Member countries have merged all appropriations for the operations of government organisations into one total amount for each organisation. For example, an organisation will now receive one general appropriation for all of its operating costs instead of separate appropriations for salaries, consultants, travel, printing, etc. In countries such as New Zealand, the "employer" function has been transferred to each individual organisation as well, eg the right to "hire and fire" employees rests with the head of each organisation.

These reforms are often accompanied by regimes that allow organisations to carry forward unspent funds (up to a specified maximum) to the next year in order to head-off the perverse behavioural incentives that the annual nature of the budget process can create, ie year-end spending sprees so as not to lose any appropriated funds.

These reforms recognise that heads of individual organisations are in the best position to decide on the most efficient mix of inputs to be used for carrying out their operations. As such, it assists them to achieve tighter budgetary limits.

Focus on Performance

It should be emphasised that relaxing input controls does not diminish the accountability of organisations in any way. The *quid pro quo* for relaxing input controls is an expectation of improved organisational performance. This calls for setting up regimes to monitor the performance of organisations. This generally involves: 1) identifying the specific outputs (or outcomes) that an organisation produces; and 2) establishing

performance measures for the cost, quantity and quality of each specific output. Outputs and performance measures aim to hold organisations responsible for *what* they do --- rather than *how* they do it, as input controls did before.

Commercial Financial Management Practices

The adoption of commercial financial management practices by the public sector has been a major issue in recent years in a number of Member countries. Chief amongst these is replacing cash-basis accounting standards with accrual-basis accounting standards for the government's financial statements and budget. Other commercial financial management practices introduced into the public sector include capital charges to reflect the cost of capital tied up in government assets. These reforms are designed to give a fuller and more correct view of government finances at any given time, thus allowing more informed decisions to be made.

Medium-Term Budget Estimates

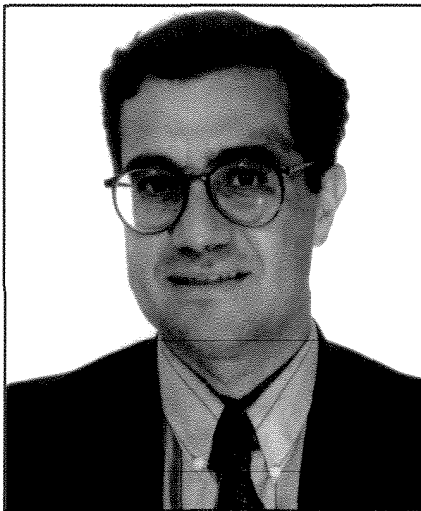
Member countries are showing renewed interest in medium-term budget estimates. It should be emphasised that the budget remains an annual budget; the medium-term estimates simply provide a longer-term horizon for viewing the implications of past and present decisions.

The use of these medium-term estimates is designed primarily to enhance discipline over government expenditures. This is achieved by an interplay of three factors. First, overall fiscal policy objectives are set, and it is made explicit how the government will meet them over a number of years. These are translated into operational terms thus establishing a ceiling for expenditures.

Continued on p.12 ➤

Strategic Spending Management Versus Spending Performance Mo

by Eduardo Zapico-Goñi



Eduardo Zapico-Goñi

Current governmental reforms internationally encourage spending performance monitoring. Spending decentralisation and “contract budgeting” demand the development of performance measurement if central budget offices want to avoid abdicating control on spending discipline and to encourage compliance with overall budget objectives. Performance measurement may also be useful to avoid arbitrary or opportunistic cuts. Budget authorities in advanced OECD countries consider the setting of targets and performance measurement as preconditions for line managers to obtaining budget resources and more autonomy for spending.

Although performance measurement is an old idea, the new approach for its implementation deserves recognition. The creation of independent or autonomous agencies and the use of “contract budgeting” have been relevant incentives for spending managers to design and use performance measures. The acknowledgement that performance measures is for managers and not for budget officials has reduced resistance for further improvements. However, progress made so far with performance measures has been limited. The main achievements have

been in monitoring productivity and management performance in operational spending.

Strengthening the Links through Co-operation

Some limitations have been found in most countries, such as the narrow scope of performance measures and the weak connections between performance monitoring, evaluation and budgeting. Using measures of policy effectiveness and impact, and strengthening the link between budgeting and policy management, will require more effort than anticipated. The production and proper use of performance measurement for budgeting depends in fact on the interest and openness of the main participants to co-operate. The reliability of budget performance information depends among other factors on the reciprocal perception among budget officials, financial controllers and spending managers, among other actors. To encourage budgeting on the bases of performance monitoring and evaluation requires the integration of main actors from the organisational, informational and social point of view.

Uncertainty

Previous scientific research provided evidence that traditional performance measurement -- “Economy, Efficiency and Effectiveness” (3Es) -- can work in a stable budgetary context, under conditions of predictability. However, these conditions are not characteristic of the public budgeting context today both in OECD countries and countries in transition. On the contrary, socio-economic instability, the different interests of main budget actors, and growing interdependence among stakeholders quite often provoke higher degrees of uncertainty.

Budget offices have been traditionally centred on preventing or correcting deviant budget behaviour by enforcing fiscal rules and norms. Central budget offices usually have not provided strategic management guidance for sound spending except by extrapolating macroeconomic figures and fiscal scenarios. Strong central budget institutions are expected to play only a role of treasury guardianship, arbitration in resource allocation conflicts and, in current reforms, monitoring deviations from anticipated standard performance.

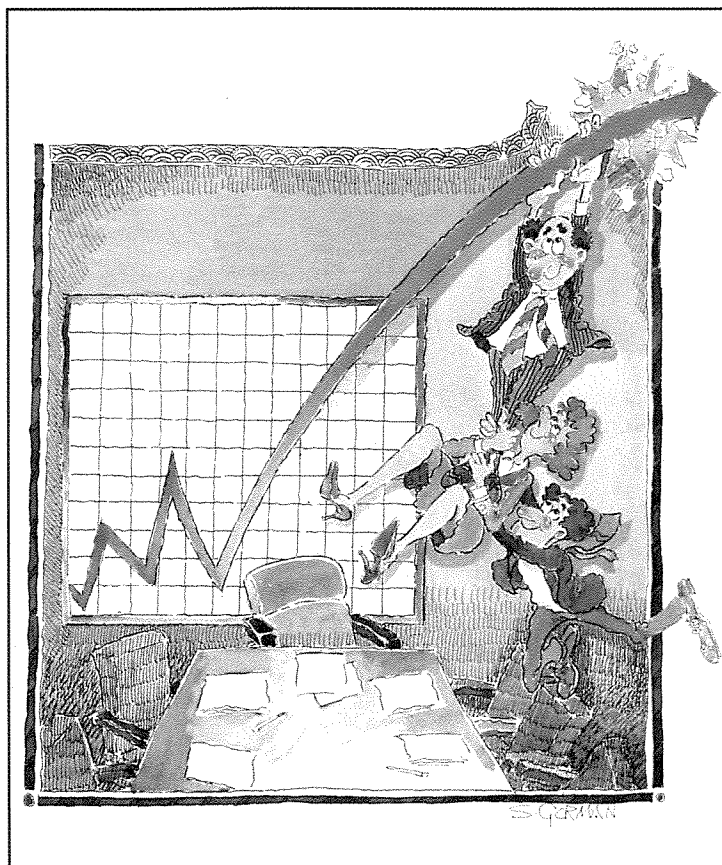
Sustainable Budgetary Discipline

However, given the context of instability, the problem of sustainable budgetary discipline today is aggravated by the lack of strategic leadership for budget adaptation. Most decisions for budget discipline are based on spending cuts in the next year’s budget preparation. But the capacity to adapt budget behaviour of budget managers remains weak. While a general framework of budget rigid norms and standard performance for budgetary discipline is useful to prevent short-term deviations, the hidden face of budgeting as a strategic tool should be reconsidered as an important and complementary alternative. Just tightening constraints does not guarantee progress towards sustainable budgetary discipline. Central budget offices have to provide guidance for sound strategic spending behaviour coherent with the budget and policy context. Strategic budgeting, and its implications for the role of the budget office, is proposed as a complement to contract budgeting and traditional performance measurement.

Recognising the Capacity for Budget Adaptation

There is a need for performance measurement and evaluation to capture

Bringing: A New Role for the Budget Centre



The Image Bank/Steve Cornman

changing conditions affecting governments, especially those in transition. If radical, quick and unanticipated changes affect the spending performance of managers, monitoring and evaluation systems should encourage adaptation. Performance measures and criteria of success should recognise the capacity of public managers for responding to change. Contract budgeting and performance monitoring in most OECD countries have focused on cost reduction and productivity. There has been a quantitative and short-term finance bias in performance monitoring, encouraging efficient but rigid spending behaviour. Qualitative measures and new criteria of success are necessary today.

Public managers capacity for: "Diagnosis" of emerging problems, "Design" of appropriate new policies and

"Development" of such policies for effective implementation (3Ds) are suggested, in line with "strategic budgeting," as criteria for successful performance that are more relevant than the three traditional Es. The 3Ds assessment needs to be supported by or based on evaluation along with performance monitoring, but they more fully capture the capacity for budget adaptation.

New Role for the Budget Office

In a complex budgetary context, declining resources and uncertainty provoke conflict and repetitive budgeting -- frequent and erratic adjustments of budgetary figures. Interdepartmental struggles and difficult communication demand a new budget management role for the central budget

office. In this situation, it is necessary that the central budget office dedicates resources and efforts to building trust and capacity for conflict resolution among main budget actors (budgeters, auditors, parliamentaries, evaluators, managers, stakeholders, etc.). The finance authority has to take responsibility for financial management flexibility for long-term budget discipline. Beyond setting budget norms and operating standards of performance, central budget offices should lead financial management development at an interorganisational level. To achieve this, the budget centre has to play a new alternative role quite different although not incompatible with its traditional role.

Four main lines are suggested for the budget office to encourage strategic spending:

- 1) redefining successful budget performance in terms of the adaptability of spending behaviour to changes in the environment;
- 2) encouraging the coherence of budgeting with policy management;
- 3) building trust through co-operative bargaining in the budget process; and
- 4) redesigning accountability instructions for organisational learning.

While there is no ideal budget system -- it has to be adapted to each financial context -- this article has argued for a model which requires the budget office to encourage strategic behaviour that is more pro-active and anticipative of future induced effects of spending policies and management. ♦

Eduardo Zapico-Goñi is a fiscal specialist in the Budgetary Office of the Spanish Office of the Presidency. He may be contacted in Madrid at tel: (34.1) 581.08.31; fax: (34.1) 390.04.09.

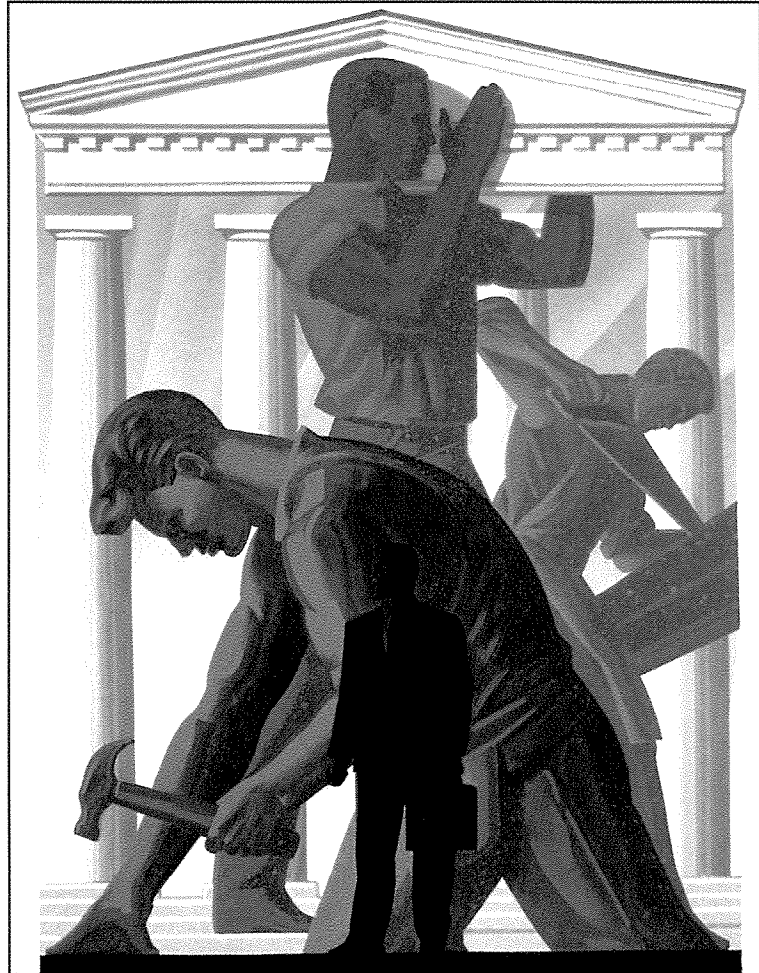
Czech Finance Ministry Pursues New Measures to Strengthen Public

The Czech Republic has just finished the seventh year of its transformation to a competitive market economy. The transition can be evaluated as largely successful. The macro-economic situation is stable, based on low (compared with other transition countries) inflation, low unemployment, the beginnings of economic recovery, and a healthy monetary and fiscal position. Indeed, since 1993, the Czech Republic has kept both the general and central government budget roughly balanced or with a slight surplus, and the level of overall central government indebtedness (domestic and foreign) is about 10 per cent of GDP (15 per cent for general government indebtedness).

Public Expenditure Management and Control

In addition to the generally positive fiscal outlook, the Czech Ministry of Finance is taking measures to strengthen the system of managing and controlling public expenditure. In order to keep the budget in balance during the transition period, expenditure control methods have relied largely on across-the-board restrictions rather than careful analysis of the requirements of individual programmes and projects. Such methods may no longer be applicable, however, and the time has come for a more targeted and analytical approach to expenditure management.

The main obstacles to improved expenditure control have included: the inappropriate system of budgetary classification inherited from the era of central planning; an approach to budgetary planning based on outmoded public sector organisation and "budgetary rules" rather than analysis of expenditure programmes and projects;



The Image Bank/Byron Hayes

and the absence of an internationally-recognised treasury system for managing cash transactions through the budget. Against this background, the ministry of finance is initiating a series of measures aimed at strengthening public expenditure control. First of all, work on preparing a new organic budget law and state property legislation has started. From the expenditure management point of view, clear categorisation of government agencies and controlled non-profit institutions, along with a definition of their rights and responsibilities, is the essence of the proposed acts. Under consideration are stricter rules concerning state property disposal and its commercial use. Special

rules are proposed for hospitals, which are mostly financed from the national health insurance system, and universities and colleges.

New Budgetary Classification

Another important legal step is the introduction of a new budgetary classification starting in 1997. The new system is based on clear distinctions between revenue, expenditure and financing transactions. It will provide clearer and more transparent information about planned and realised budgetary operations for government ministers, officials, fiscal analysts, accountants, and other users of budget information.

Expenditure Control

Other Initiatives

Linked with an approach to budgeting based on an evaluation of individual programmes and projects, the ministry of finance is considering the development of medium-term budgetary planning. At present, the ministry of finance makes budget projections for a three-year period, but these are not integrated into the annual budget negotiations with line ministries.

The ministry of finance is preparing a proposal to put to Cabinet for the creation of a State Treasury by January 1999.

In developing these new approaches for public expenditure control, the ministry of finance has participated in several SIGMA-organised events, in particular in seminars on the methodology of budgeting and budget analysis. This work will continue in 1997 when the ministry's officials dealing with budget will have the possibility to share experiences with counterparts from some EU states, including Ireland, the Netherlands and the United Kingdom. A project designed to strengthen Czech Republic's capacity for evaluating and managing its public investment programme has also been proposed for Phare funding.

Improvement in expenditure control is seen as a continual, never-ending process. As such, the ministry of finance considers the introduction of the key elements mentioned in this article as basic cornerstones. Further pressure for the Czech Republic to strengthen its system of expenditure management and financial control will come from the "avis" process leading to the country's accession to the European Union. ♦

Jan Kinský is Deputy Director of the State Budget Department in the Czech Republic's Ministry of Finance. He may be reached in Prague at tel: (42.22) 454.32.04; fax: (42.22) 454.31.08.

► *continued from p.4*

On the control side, most transition countries have already put the basic institutional machinery into place -- a government control office, often located in the prime minister's office or finance ministry; internal control and audit functions in line ministries; and a supreme audit institution, normally responsible to parliament. However, many of the countries are seeking to modernise and streamline these arrangements so as to avoid overlap and duplication between the respective roles and responsibilities of the various institutions with control responsibilities, and to achieve effective co-operation between them. It is also important for line ministries to develop their internal control procedures for preventing corruption and other abuses of management power.

PMF: How do the powers of the finance ministry influence the effectiveness of overall expenditure management?

Enormously. Work on most of the essential "building blocks" of modern budgeting systems described above is the direct responsibility of the finance ministry in EU Member States. The ministry has a key role to play in ensuring that all parts of the government machine are properly equipped to manage these new requirements. This is likely to require the acquisition of new skills, equipment and training, and perhaps of additional powers (competence). The new techniques and procedures should not only enhance the finance ministry's powers of scrutiny and control over public spending, but provide tools which will be of great value to line ministries.

For example, an agreed methodology for analysing public investment plans will enable line ministries such as health and education

with large capital programmes to make efficient choices between competing projects -- hospital A or B, school C or D. In most EU countries, the finance ministry has a strong voice in determining the direction of key policy decisions, particularly those (like social programmes) that have important implications for the fiscal forecast or expenditure control. Similarly, an enhancement of the powers of transition countries' finance ministries should go hand in hand with their development of new skills and capacities.

PMF: What are potentially new directions for SIGMA support in this area?

SIGMA will want to continue working closely with countries in many of the areas that have proved effective in the past. The emphasis should continue to be on helping find practical solutions to problems within a developed (as far as possible) vision of their longer-term requirements. There is likely to be an increasing demand for SIGMA involvement in the development of new systems of financial control. We shall continue our programme of work to support the development of effective public procurement systems, including training, in transition countries, a priority area in relation to the EU White Paper. New SIGMA products will be developed where necessary to help meet new demands. For example, the principles of "management audit" already applied successfully by SIGMA to analysing the essential needs of the centre of government in countries such as Latvia and Bulgaria could be extended to areas of work (eg control systems) carried out by a finance ministry or supreme audit institution. Similarly, there may be requests for SIGMA advice on the management of public assets, such as land and the government shareholdings of partially privatised enterprises. ♦

Richard Allen can be reached in Paris at tel: (33.1) 45.24.13.01; fax: (33.1) 45.24.13.00; e-mail: richard.allen@oecd.org.

Public Administration in the News

Czech Republic

Commission for Citizen Complaints

Prime Minister Vaclav Klaus has named former Transportation Minister Vladimir Budinsky to head the recently established Commission for Fighting Bureaucracy. The commission will respond to citizen complaints of maladministration by state institutions. Source: OMRI.

Latvia

PM Targets State Secretary Posts

On 31 October 1996, Prime Minister Andris Skele presented a "government optimisation plan" cutting state expenditures by up to 10 per cent. The plan envisions the immediate elimination of the following posts: Deputy Prime Minister; State Minister for Investment and Credit Policy; State Minister for Co-operation; State Minister for Fisheries; Labour Affairs Minister; and State Economics Minister. The plan calls for axing the post of State Minister for Higher Education effective 1 October 1997, and the three state ministerial posts for income, health and revenue by the beginning of 1998. Only two state ministerial posts -- for forestry and for the environment -- are scheduled to remain. Source: *The Baltic Times* and OMRI.

Constitutional Court Gets Boost

The Constitutional Court was set to become operative after the Parliament nominated two more judges to the court on 14 November 1996. The Parliament approved the candidates nominated by the Supreme Court: Bauska Regional Judge Ilze Skultane and Supreme Court Judge Andrejs Lepsis. Lawmakers previously had chosen three other judges, and thus the court can now begin work after five have been selected (although the court ultimately will comprise seven judges). Source: Baltic News Service.

Poland

Civil Service Council Formed

Prime Minister Wlodzimierz Cimoszewicz appointed 24 politicians, civil servants and academics on 16 October 1996 to form the new Civil Service Council. The council will provide opinions on civil servants' professional ethics and advise on the criteria for their evaluation and promotion. Source: OMRI.

New Appointments

After nearly six years of service, Jacek Saryusz-Wolski was relieved of his duties as Government Plenipotentiary for European Integration and Foreign Assistance. Danuta Hübner has been appointed as Secretary of

the Committee for European Integration, headed by Prime Minister Cimoszewicz. Former chef de cabinet to consecutive ministers of labour, Jadwiga Moldawa, has been appointed an Undersecretary of State in the Council of Ministers.

Multi-country

Black Sea Co-operation

Countries ringing the Black Sea vowed on 25 October 1996 to boost trade links and to step up co-operation in energy, transport, communications and tourism. In a declaration issued during the one-day meeting in Moscow, the 11 member countries of the Black Sea Co-operation Forum (BSCF) also pledged to work together to fight organised crime, terrorism, and illegal trade in drugs and arms, and supported peace initiatives in the Balkans and Caucasus. The BSCF was founded in 1992 to promote regional ties, and comprises Russia, Turkey, Greece, Ukraine, Romania, Bulgaria, Moldova, Albania, Armenia, Azerbaijan and Georgia. Its next half-yearly meeting is scheduled to be held in Turkey in the spring of 1997. Source: Russian press reports via OMRI.

► *continued from p.7*

Second, the cost of continuing existing policies is shown. This generally reveals that very limited, if any, additional resources are available if the government's fiscal policy objectives are to be met. This serves to impose self-discipline on ministers in proposing new expenditures. Third, it serves to illuminate the budget implications of decisions in next year's budget whose expenditures may not be

fully reflected in the budget, eg the operating costs of capital projects being launched or programs that come into effect late in the budget year thus not exposing their full costs in the initial year. This last set of measures are especially relevant as a preventive device in the budget formulation stage, ie by exposing the full costs of proposals by ministers and showing that their acceptance and implementation would be incompatible with achieving the

government's medium-term fiscal policy objectives.

It should be emphasised that changes to the budgetary process can only facilitate fiscal consolidation if the political will is there; changing budgetary processes can never substitute for political will. ♦

Jon Blondal is Administrator, Budgeting and Financial Management Issues, OECD Public Management Service (PUMA). He may be reached in Paris by fax: (33.1) 45.24.87.96 or e-mail: jon.blondal@oecd.org.

Civil Services in the EU

Civil Services in the Europe of Fifteen: Current Situation and Prospects by Astrid Auer, Christoph Demmke and Robert Polet.

The effects of European integration on the structure of the civil service and civil service law in EU Member States is becoming an increasingly important focus of the debate about Europe. The civil service is the branch of the political-cum-administrative system of each Member State that has been influenced the most by national tradition and history and, up to now, least affected by European integration.

Individual areas, such as commercial law and competition law, have been converging for decades and have become extremely closely aligned. The civil service has so far remained a national preserve. This situation is gradually changing. Scarcely a day now goes by without some debate on the reform of the civil service and public service or some complaint about the problems of the public service as a whole in Europe: its efficiency, the inflexibility of public service law, financial problems, the unattractiveness of the public service, growing criticism of officialdom.

In addition to highlighting the "Europeanisation" of public administration, and defining fundamental terms, this publication highlights effects of Europeanisation on the public administration and defines essential terms (addressing, for example, the distinction between employees under "public status" and those under "private law"). Yet most of this timely comparative work is dedicated to a comparative analysis of the organisation of Member State civil services. For those wishing to gain a greater understanding of the different ways in which European countries structure and operate their civil services, this is a valuable reference text. ♦

Civil Services in the Europe of Fifteen: Current Situation and Prospects, 1996, 240 pages. To order: EIPA, O.L. Vrouweplein 22, POB 1229, 6201 BE Maastricht, the Netherlands. Also in French.

INBOX:



A COMPENDIUM OF RECENT PUBLICATIONS AND ARTICLES

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

From PUMA

Occasional Paper: No. 9. *Ethics in the Public Service: Current Issues and Practice*, 1996, 59 pages. Also in French.

Integrating People Management into Public Service Reform, 1996, 278 pages. Also in French.

To order: OECD Publications Service, 2, rue André-Pascal, 75775 Paris Cedex 16, France. Tel: (33.1) 49.10.42.83; fax: (33.1) 49.10.42.76; e-mail: compte.pubsing@oecd.org.

OTHER PUBLICATIONS

COULSON, Andrew. *Local Government in Eastern Europe: Establishing Democracy at the Grassroots*, 1995, 304 pages.

To order: Edward Elgar Publishing, Cheltenham, UK.

DILWORTH, Robert L. "Institutionalizing Learning Organizations in the Public Sector," *Public Productivity and Management Review* (USA), June 1996, pp 407-421.

FREDERICKSON, H. George. "Comparing the Reinventing Government Movement with the New Public Administration," *Public Administration Review* (USA), May/June 1996, pp 263-271.

KIVINIEMI, Markku. *The Development of Public Services as Service Relations: A Framework and Empirical Illustrations* (paper presented at the Annual EGPA Conference, Budapest, 24-28 August 1996), 19 pages.

To order: contact author at University of Helsinki, Department of Political Science, Helsinki, Finland.

"Leviathan Re-engineered (There is growing backlash against attempts to apply management theory to the public sector. Is it justified?)" *The Economist*, 19 October 1996, p. 75.

LÖFFLER, Elke. *Personnel Management in the German Public Administration: A Critical*

Success Factor of the New Steering Model (paper presented at the Annual EGPA Conference, Budapest, 24-28 August 1996), 13 pages.

To order: Contact author at FÖV, POB 1409, 67324 Speyer, Germany.

PARRADO, Salvador. *Flexibility of Staffing and Personnel Systems in Central Administration in Spain* (paper presented at the Annual EGPA Conference, Budapest, 24-28 August 1996), 19 pages.

To order: Contact author at Universidad Carlos III de Madrid, Dpto. Humanidades, Sociología y Ciencia Política, Madrid, Spain.

POLIDANO, Charles. "Public Service Reform in Malta, 1988-95: Lessons to be Learned," *Governance* (USA/UK), Vol. 9, No. 4, October 1996, pp 459-480.

SIMON, Janos. *Popular Ideas of Democracy in Post-Communist Europe*, 1996.

To order: CSPP, University of Strathclyde, Glasgow G1 1XH, Scotland, UK. £7.

SPANOU, Calliope. "On the Regulatory Capacity of the Hellenic State: a Tentative Approach Based on a Case Study," *International Review of Administrative Science* (USA), June 1996, pp 219-238.

STURM, Lovro. "Discretionary Power and Legality of Administration," *Javna Uprava* (Slovenia), Vol. 32, No. 2, 1996, pp 135-210. In Slovene with English summary.

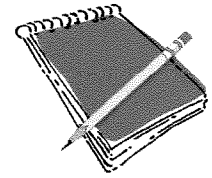
VAN SCHENDELEN. *National Public and Private EC Lobbying*, 1994, 301 pages.

To order: Dartmouth Publishing Co., Aldershot, UK.

VIRANT, Graga. "Reform of the Public Administration System and Real Authority in Administrative Procedure," *Javna Uprava* (Slovenia), Vol. 32, No. 2, 1996, pp 271-286. In Slovene with English summary.

Maturing Press Coverage of the Czech Public Administration

by David White



Turn on the leading national television programme in the Czech Republic, or flip through one of Prague's leading daily newspapers, and you will be confronted with numerous articles concerning state institutions and public policy-making. Long-gone are the monotone, drawn-out articles and lengthy newscasts devoted to the latest five-year plan or the most recent communist party central committee meeting. Instead, you will find probing reports on the advantages and disadvantages of the newly created senate, and others addressing energy deregulation and state controls on the financial sector.

Selling in the Market Economy

Thumb further through the newspaper's pages, or remain glued to the television set for a few minutes longer, and you will be confronted with lively advertisements for the latest mouthwash, chewing gum or five-seat sedan. And herein lies the challenge that surrounds media coverage of a serious and often dry topic like the public administration. How do you provide insightful and timely coverage of state institutions and the work of public servants and at the same time package it in a way that sells enough papers or attracts a large enough television audience to pay well-trained reporters and analysts needed to file the stories? The challenge is greater in light of the fact that most citizens are more concerned about how to make do on ECU 250 per month than about the need of an ombudsman or whether the senate should have 81 single-precinct districts or 27 three-precinct districts.

The answer, the Czech media seems to have found, is scandal, pure and simple.

The Czech Republic, like other countries in Central and Eastern Europe, has been going through an accelerated maturation process since the Berlin wall came tumbling down seven years ago. Society has been turned upside down, and it is understandably taking some time to put all the pieces back into place and in a way that corresponds to the reality of a market-oriented democracy. This has created room for all kinds of scandal, real and imagined. More than one public official has been caught with his hands in the public till, and plenty of others -- rightly or wrongly -- have been accused of being poised to do just that. Still more have been berated with personal attacks designed to discredit their views on major policy issues, ranging from NATO expansion to European integration to reform of the healthcare system.

The Profit Motive

Journalists have tried to capture these moments and turn them into gold. In just a few fleeting years, the media have gone from a cadre of obedient soldiers unwilling to question authority to a group of powerful opinion-shapers who query every move of the government, the opposition and the bureaucracy. This transformation has been partly a reflection of the socio-political change in the country, and partly -- and perhaps more importantly -- in answer to the new economic realities.

Public sector subsidies for the media have for the most part dried up. The new order of the day is competition in a rough and tumble world of reporting. Newspapers and broadcasters which are the most capable at turning small affairs into major controversies are the ones

which tend to earn the most money. The media, which were highly fragmented in the first years after the Velvet Revolution, have been progressively dominated by the savvy publications and broadcasters which have turned such mundane issues (at least to most Czechs) as constitutional reform and public procurement into engrossing reading, listening and viewing.

Democracy-Building

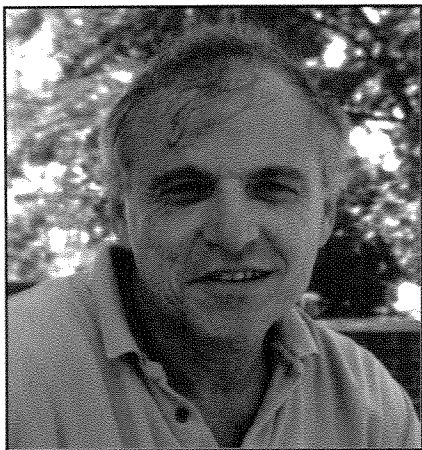
The media have without question played a valuable role in the development of a democratic Czech Republic, a role not unlike that played for years by the media in advanced democracies. The Government, for the first time in years, has had to answer to its often sceptical constituents, and those in state sector who have voiced opinions adverse to the perceived desires of the populous have been called to task.

This is all a part of democracy building. There is a distinct danger, however, that Czechs may become inured to scandal if they are confronted with it (and assertions of it) every day. In small doses, the reporting of dishonourable actions by persons entrusted to perform public tasks is a powerful tool for reform. However, a proper balance needs to be found in the country between scandal-mongering for the sake of selling newspapers, and constructive criticism and analysis of state institutions and their staff. This stage of reform lies ahead. ♦

David White, an editor for The Fleet Sheet, an English-language newspaper summarising Czech news, may be reached in Prague at tel: (42.2) 221.05.515; fax (42.2) 242.21.580; e-mail: fleet@traveller.cz

U.S. Treasury's Advisory Team in Transition Countries

by Vic Miller



Courtesy Photo

Vic Miller

In transforming to market-oriented economies, the initial challenge facing central and eastern European governments was daunting. As time and structural adjustments have moved forward, needs have changed. While U.S. Treasury missions to many of these transition countries are being reduced, there is currently a substantial mission in Bosnia.

Since 1990, the U.S. Treasury's Office of Technical Assistance has provided advisors to governments in central and eastern Europe to assist in the transition from command to market economies. In the typical mission, a Treasury resident advisor provides counsel to a senior finance ministry or central bank counterpart in: tax policy and administration; government debt issuance and management; financial institutions policy and regulation; macroeconomic analysis; and budget policy and management. Experts and technicians then support these resident advisors.

The following describe the Treasury's four teams and a few of their missions.

1. Government Debt Issuance and Management. This team advises authorities as they develop markets for domestic and external government securities. Domestically, this includes the establishment of primary and secondary treasury bill markets. Governments learn noninflationary

means of financing deficits and central banks are provided with a tool for indirectly implementing monetary policy. The team works to develop money and capital markets and to establish sovereign access to the full range of external financing.

In domestic debt, the governments of Croatia, Romania, and Latvia, among others have received assistance in structuring initial security issuances. Successful missions to Poland and Slovenia on external debt include the facilitation of Eurobond issues. In Bosnia, a team of advisors has helped guide the government through a number of potential pitfalls in the ongoing renegotiation of its share of liability for ex-Yugoslavia's 1988 New Financing Agreement while drafting laws on debt and public corporations.

2. Financial Institutions. This team is to provide advice to governments to develop the sound banking systems that intermediate between depositors and those with a need for finance: households, enterprises, and governments. In successful systems, transaction costs would be low; confidence high and deserved; and bank actions based on market forces. Dismantling the financial and cultural legacy of command economies requires at times 1) the establishment of appropriate banking and regulatory law; 2) training for both bankers and regulators; 3) promoting a reduction in governmental interference in the operation of private banks while maintaining adequate safeguards; 4) encouraging market entry to promote competition; and 5) assistance in restructuring, rehabilitating, recapitalising and privatising banks.

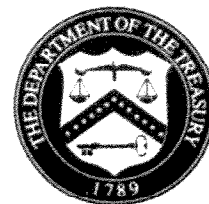
Successful missions include those to Albania, where advice on bank licensing procedures has resulted in the licensing of three new private banks. In Bucharest, the first comprehensive, electronically-filed financial institutions statistical reporting system and data base were designed for the Romanian Central Bank.

3. Tax. The tax advisory program operates in coordination with related OECD programmes. It focuses on three areas: tax policy (legal and economic advice in structuring tax legislation and regulation), forecasting and revenue estimation (the structuring of models and the generation of data to feed such models); and tax administration (system organisation and operation, training, creation of host country management and training capacities).

Estonia, Latvia, Slovakia, Bulgaria and Poland have all received advice on tax-modelling. Tax administration efforts include the Poznan, Poland pilot programme to demonstrate functional administration with centralized direction.

4. Budget. The budget team's mission is to assist transition governments in understanding and using the democratic tools of resource allocation. This requires first a definition of the budget universes across which resources are to be allocated (central vs. local government, public vs. private) and then mechanisms to make, enact, and enforce allocational decisions. Budgeting becomes a policy mechanism, and budget execution a system of implementing policy decisions. Centralised allocational decisions then permit decentralised management; managers know their resources, and can make multiyear plans.

The budget team has helped the governments of Estonia, Latvia and Bosnia write national budget laws; aided Hungary, Latvia and Bosnia on treasury functions; provided assistance on financing local governments to Estonia, Romania, Latvia and Bosnia; and assisted Hungary and Poland on Higher education finance. ♦



Vic Miller is Associate Director, U.S. Treasury Office of Technical Assistance. He may be reached in Washington DC at tel: (1.202) 622.01.02; fax: (1.202) 622.58.79.

SIGMA

SIGMA -- Support for Improvement in Governance and Management in Central and Eastern European Countries -- is a joint initiative of the OECD Centre for Co-operation with the Economies in Transition and the European Union Phare Programme. The initiative supports public administration reform efforts in thirteen countries in transition, and is mostly financed by Phare. The Organisation for Economic Co-operation and Development is an intergovernmental organisation of 29 democracies with advanced market economies. The Centre channels the Organisation's advice and assistance over a wide range of economic issues to reforming countries in Central and Eastern Europe and the former Soviet Union. 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: the Reform of Public Institutions, Management of Policy-making, Expenditure Management, Management of the Public Service, and Administrative Oversight. In addition, an Information Services Unit disseminates published and on-line materials on public management topics.

ON THE AGENDA

Upcoming Programmes



21 April-16 May 1997, Cambridge, MA, USA. "Program on Fiscal Decentralization and Financial Management of Regional and Local Governments" (to focus on strategies of fiscal decentralisation and strengthening regional and local government financial management). Contact: Roy Kelly, Harvard University; tel: (1.617) 495.96.27; fax (1.617) 496.29.11; e-mail: pfd@hiid.harvard.edu. In English.

23-26 April 1997, Tallinn, Estonia. NISPAcee's Fifth Annual Conference on "Professionalism of Public Servants in Central and Eastern Europe." Contact: Ludmila Gajdosová, NISPAcee, Ihanulova 5/B, 840 02 Bratislava 42, Slovakia. Tel & Fax:: (42.7) 78.53.57; e-mail: nispa@acadistr.sk. In English.

23 June-1 August 1997, Cambridge, MA, USA. "Workshop on Budgeting in the Public Sector" (will review techniques for public budgeting and management of public expenditures). Contact: S. Ramakrishnan, Harvard University, tel: (1.617) 495.43.24; fax: (1.617) 496.29.11; e-mail: budgetws@hiid.harvard.edu. In English.

26-30 July 1997, Philadelphia, PA, USA. "American Society for Public Administration's 58th National Conference." Contact: ASPA, 1120 G St., NW, Washington, DC 20005, USA. Tel: (1.202) 393.7878. In English.

Please note that not all of the programmes included in this calendar are open to every public administration practitioner or the general public. Details are provided directly by the organiser, who may be contacted for further information. If your organisation is planning an event of interest to Public Management Forum readers, please send details to the Editors (address on page 2).