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**INITIATIVES TO IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF PUBLIC
SPENDING:
"MODERNISING PUBLIC ADMINISTRATION"**

*****ISSUES NOTE*****

Initiatives to improve the efficiency and effectiveness of public spending: Modernising public administration

Key messages:

The need to improve competitiveness, concerns about fiscal sustainability and growing demands by tax payers for better public services at lower costs have prompted wide-ranging reforms in the public sector, including efforts to modernise the public administration as well as recent initiatives to improve the quality of regulation and reduce administrative costs for business and citizens. The fact that the public sector represents a large part of the economy in many EU Member States increases the benefits of improving its efficiency.

This issues note, while not providing an exhaustive overview of the reforms undertaken, illustrates that all Member States are undertaking initiatives to reform their public administrations which vary significantly from one Member State to another. These various approaches reflect different starting points, different cultures (in terms of unionisation, parliamentary scrutiny, citizen involvement, etc.) and different sources of public sector inefficiencies. Nevertheless, based on an exchange of views at a workshop organised by the Commission and the Portuguese Presidency as well as on a survey launched by the EPC, Member States appear to focus their attention primarily on four main areas:

- i) **performance-orientation:** There is evidence that: (a) an increased focus on the medium-term in budgetary planning; (b) the adoption of a result-oriented approach to budgetary planning; and (c) a coherent consideration of all budgetary resources, including specific earmarked funds if applicable, could be important tools for improving public sector efficiency and effectiveness.
- ii) **organisational aspects:** in many Member States, the roles and responsibilities of the different governmental departments have been reviewed in order to simplify the organisation of the public administration. The trend towards an externalisation of the public sector has also affected management practices within the public administration.
- iii) **human resource management:** the streamlining of the public administration has in many cases been accompanied by reforms of human resource management, including flexibility in recruiting, flexible working opportunities, performance pay and performance evaluation systems.
- iv) **encouraging the use of ICT tools:** many countries use ICT to reduce administrative costs and enhance the quality of service delivered to businesses and citizens by creating the possibility for interaction with the public via the internet, but also by optimising internal processes through a wider use of electronic information flows.

Experience shows that the design of appropriate reform strategies needs to be based on a good understanding of the dynamics of the national public administration system. Additionally, gathering broad support, maintaining the reform momentum and guaranteeing the government-wide commitment at all stages of the reform process needs to be ensured as these are crucial success factors. A failure to do so could result in unintended effects making administrative processes less effective. This might occur in particular when the changes of rules, procedures and structures have not lead to changes in behaviour and culture. In addition, interlinkages between different reform initiatives and their impact on citizens, businesses and workers within the public administration itself have to be taken into account. Also the interaction with other structural reforms, such as those in product and labour markets, need to be considered. Systems to measure efficiency and evaluate reforms are important and need to be improved. Indeed,

such systems are necessary both for effective performance management in the public administration and to improve our understanding of which reform initiatives pay off.

A successful modernisation strategy needs political, economic and financial objectives, measures to achieve these objectives, sound performance measurement, and a well-designed communication strategy. Within the process of implementing reforms, a clear system of monitoring has proven valuable in many countries, including an improvement of data quality, transparency and accessibility to evaluations. Also striking the right balance between greater managerial flexibility and greater accountability is an important element to be considered. Finance Ministers can support the process of modernisation by creating a climate of innovation in their administration, by encouraging their staff to take an active role in the process and by promoting the use of information and communication technologies. They should also play a major role in the use of information on the performance of the public sector and could ensure more result oriented budgeting and regulatory impact analysis. Programme and performance-based budgeting techniques as well as medium term expenditure frameworks (MTEF) are important drivers for efficiency improvements.

The modernisation of the public administration, resting on a high degree of transparency and accountability, can be a key element to ensure control over expenditures and budgetary consolidation and can enhance effectiveness, in line with the requirements of both the preventive and the corrective arm of the Stability and Growth Pact. An efficient and modern public administration and better regulation also contribute to competitiveness, economic growth and, accordingly, to the goals of the Lisbon Agenda.

1. Introduction

The efficiency and effectiveness of public spending is becoming a more pressing policy challenge. Under German Presidency, the ECOFIN Ministers emphasised that a greater quality of public finances is essential to get more value for public money and invited the Economic Policy Committee (EPC) and the Commission to further develop the analysis and measurement of public expenditure efficiency and effectiveness. Within the context of this on-going work programme, the Portuguese Presidency suggested to put particular emphasis on the modernisation of public administration since an efficient and effective public administration is a necessary condition to increase the overall efficiency and effectiveness of public spending. The June ECOFIN Council agreed to return to the issue of reforms to improve efficiency in public administration on the basis of an exchange of best practices in the autumn.

In order to prepare the ECOFIN debate, the Portuguese Presidency and the Commission organised on 6 July 2007 a workshop on modernising public administration and its impact on competitiveness. It showed that as the role of the public sector has changed, so have management practices within the national public administrations. This note gives an overview of the main initiatives taken by Member States in this area based on the exchange of views held at the workshop as well as on a survey launched by the EPC.

2. Delivering efficiency and effectiveness

Although policy makers are interested in the final outcome of their policies, such as an increase in the growth potential, the outcome tends to be determined not only by the policy inputs, but also by external factors. As a result, the effectiveness of public policies, which relates input to final objectives and outcomes, is very hard to measure and the focus of empirical analysis tends to be on efficiency, the latter relating input to output. Studies show that significant efficiency gains in public spending are possible.¹ Further work on developing effective means of measurement of efficiency and effectiveness is needed. In this respect, the EU-KLEMS data base may provide a useful tool once the data becomes more reliable.

The public administration can be considered as an institution that affects the input, produces the output and has a significant impact on the outcomes of governments' policies. The functioning of the public administration will therefore have an important influence on the efficiency and effectiveness of public spending. Empirical research indicates that modern and efficient public administrations have a positive impact on productivity and growth².

In a broad sense, the modernisation of public administration can be defined as reform measures aimed at improving the quality of governance and at raising the efficiency and effectiveness of public service provision. This is the reason why EU Member States have been implementing reforms aimed at modernising the public administration through the adoption of best management practices resulting in increased staff motivation, public sector productivity and citizens' satisfaction. This need to modernise reflects the fact that the responsibilities of public administrations have changed in line with evolving citizens' demands, the push by business for better regulation, the widening use of information and communication technologies, and less

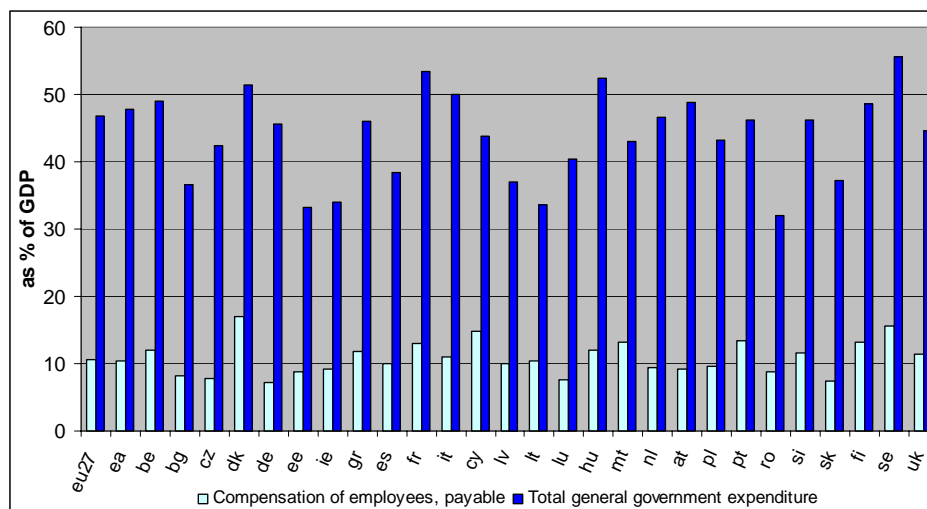
¹ For example, A. Afonso and M. St. Aubyn (2005), "Non-parametric approach to education and health efficiency in OECD countries", *Journal of Applied Economics*, 8 (2), p.227-246; A. Afonso and M. St. Aubyn (2006), "Cross-country efficiency of secondary education provision: A semi-parametric analysis with non-discretionary inputs", *Economic Modelling*, 23 (3), 476-491; and A. Afonso and St. Aubyn (2006), "Relative Efficiency of Health Provision: a DEA Approach with Non-discretionary Inputs", ISEG-UTL, Working Paper n° 33/2006/DE/UECE; IMF; OECD (2005), "Modernising Government: The way forward". IMF (2007), "Budget Rigidity and Expenditure Efficiency in Slovenia", IMF Working Paper WP/07/131.

² M. St. Aubyn (2007): Modernising public administration and economic growth, Conference paper for the Workshop on "Modernising public administration and its impact on competitiveness" organised by the Portuguese Presidency and the European Commission.

direct involvement of the public sector in the economy, including the reduction in the public ownership of industry.

The government remains a major economic actor in modern society. Amongst EU Member States general government expenditures in 2006 varied between 32% (Romania) and 55% (Sweden) of GDP. The size of the public administration as measured by the compensation of employees in the general government was above 10% of GDP on average. Again, there is a large variation between Member States with Slovakia (7%) and Denmark (17%) at the two extremes (see Figure 1).

Figure 1: Total government expenditures as % of GDP in the EU Member States, including the compensation of employees (2006)³



Source: Eurostat

3. Major reform initiatives by Member States to enhance public administration efficiency and effectiveness

Based on the information on efficiency enhancing reforms (see Annex), which was provided by the Member States in response to a questionnaire circulated by the EPC, most national reform initiatives during the last five years can be classified around following key aspects:

- i) Focussing on performance (budgetary reform)
- ii) Streamlining roles and responsibilities (organisational changes)
- iii) Improved human resource management (personnel changes)
- iv) Using information and communication technologies and optimising internal processes (technological changes)

However, the note can not provide an exhaustive overview of reforms undertaken. Aspects which are not covered include: the use of microeconomic methods for assessing the costs and benefits of public policies or projects, the reengineering of public policies (e.g. through policy and process audits) and the reduction of administrative costs as such.

i) Focussing on performance (budgetary reform)

Awareness of the value of measuring the performance of the public sector has increased over the last decade. Nevertheless, a recent survey by the OECD shows a great variety in the reliance of Member States on performance-based budgeting techniques.⁴ Within Europe, the

³ It should be noted that differences between Member States may occur because in some Member States redistributive spending is included in total general government expenditures while in others it is not.

⁴ OECD (2007), Improving public Sector efficiency: Challenges and Opportunities.

Netherlands, the Scandinavian countries and the UK (see Box 1) appear to use such techniques most frequently. Other countries have gotten on board more recently. France has shifted to programme- and performance-based budgeting, which is expected to improve the efficiency and effectiveness of public expenditures. Its new budgetary framework (LOLF) is organised around a three-level structure: missions, programmes and actions and systematically includes a set of performance indicators. Romania as well has gained experience with programme budgeting. For the 2007 budget, 64% of the total amount of the budget was allocated on the basis of programmes. In Italy, the efforts to reform public expenditure in the framework of the 2007 Budget Law are mainly based on four elements: the spending review, the budget reclassification, the review of parliamentary procedures and the strengthening of performance-based budgeting. Spain is still in a developing phase.

In many of the other new Member States, the increased collection and wider use of information on the performance of the public sector is an important element of a public finance reform. In several countries this has gone hand in hand with measures to create medium-term budgetary frameworks (MTBF) so as to avoid one-off measures and budget overruns. In Cyprus, the creation of such a framework also led to the assumption of wider responsibilities and greater flexibility by the spending ministries. In Estonia and Bulgaria the consideration of budgetary plans within the context of a medium-term expenditure framework (MTEF) led to efficiency gains as a result of an improved allocation of public resources. In Latvia budgetary transparency and budget planning improved when earmarked spending items, which previously had been included in a large number of special budgets, became part of the general budget.

There is some evidence that: (i) an increased focus on medium-term in budgetary planning; (ii) the adoption of a result oriented approach to budgetary planning (complementing the traditional focus on the planning of inputs); and (iii) a coherent consideration of all budgetary resources, including specific earmarked funds are important tools for improving public sector efficiency.

Box 1: UK public spending framework

The 1998 Comprehensive Spending Review laid the foundations for a modern public spending framework including the introduction of Public Service Agreements (PSAs), which specified priorities for government departments to deliver in exchange for the three-year budgets committed during the Spending Review. Since then, the framework has evolved through successive spending reviews, with an increasing focus on key outcomes and a fall in the number of targets to around 110 in 2004, down from 600 in 1998. The 2004 Spending Review set out the government's ambition to implement the conclusions of an independent review of public sector efficiency ("Gershon Review"). The Gershon Review considered all of public sector expenditure and made recommendations for significant efficiency gains to be made in five broad areas – procurement, corporate services, transactions, productive time and policy, funding and regulatory systems. Departments were each set individual targets for generating efficiency savings as part of the cross-government Efficiency Programme and a central government agency, the Office of Government Commerce (which is an agency of the Treasury) was made responsible for monitoring and challenging departments to ensure delivery.

Public finance reforms often encounter organisational and legal challenges. The main challenges are related to both the design and implementation of the reforms. The experience of the Netherlands and the UK illustrates this, in particular in terms of the definition of concrete policy objectives and related quantitative indicators. Defining an appropriate set of performance indicators based on a "SMART"⁵ definition of objectives is not an easy task. Moreover, such measures would have to be implemented in the entire public administration, involving multiple levels of government. Finally, the challenge of moving towards more delegation of decision-

⁵ "SMART" refers to characteristics of indicators: specific, measurable, achievable, realistic and timely.

making combined with more accountability should not be underestimated. It is a long-term process since it takes time to change behaviour and to see the benefits of this approach emerge.

ii) Streamlining roles and responsibilities (Organisational changes)

In many Member States, the roles and responsibilities of the different governmental departments have been reviewed in order to simplify the organisation of the public administration. This restructuring has taken various forms including a redistribution of responsibilities, the definition of new regulatory roles or a reduction in government bureaucracy. The trend towards an externalisation of the public sector (i.e. the use public funds to finance the private provision of activities having a public interest) has also affected management practices within the public administration. Especially, the Dutch "Agency Model" seems to be interesting in this context as it leads to more business-oriented working and thinking in the public sector. Spain as well is setting up agencies under a new law which promotes performance management.

A significant effort to streamline the organisation of the public administration has been made by the Nordic countries in particular. Denmark reduced the number of municipalities from 275 to 98 and established a new distribution of tasks among different levels of governments. In Finland, a programme was put in place, which aims at achieving efficiency gains in public services and the public administration through a reorganisation of structures and administrative practices. In July 2007, France launched the General Review of Public Policies, as an element in a global approach to public finances, to extend the scope and stake of the audit and modernisation process. It aims at identifying the relevance of the existing public policies, their implementation and their efficiency and effectiveness. It should contribute to reduce costs and to enhance the quality of public expenditures. It is co-ordinated by the Council for the modernisation of public policy, a body established at the highest political level. Hungary decided to centralise services in order to rationalise governmental operations. In order to reap scale benefits, government bodies had to identify functions which could be pooled and provided by a single institution.

Other reforms have focussed on changing fiscal relations between different levels of governments. The Netherlands modified the funding of municipalities for social assistance in order to achieve a more efficient use of welfare expenditures. The new law gives greater freedom to decentralised governing bodies, which are able to spend the available funds more efficiently since they have a better knowledge of the target groups. Moreover, the system is designed in such a way that the municipalities have incentives to spend the money in an efficient manner. Dutch estimates show that this new law has reduced the rate of increase in the number of welfare beneficiaries by around 2%. Slovakia introduced a new system of local government funding with the aim to strengthen the independence and responsibilities of the local governments in deciding on the use of public funds for provision of services to citizens. In Italy the 2007 Financial Law has increased the tax-raising powers of local governments. In particular with respect to decentralised countries, efficiency gains can be reaped at all levels of government, federal, regional and local.

Many Member States have reassigned responsibilities and changed the structure of specific public services, like the governance of public infrastructure or the provision of public health care. Very often these measures have gone together with the introduction of more market-based mechanism, like the consumer-choice-system within elderly care in Sweden or the better use of public procurement (see Box 2). The experience with the consumer-choice-system in Sweden shows that more competition and market based instruments can promote efficiency. It is important to note, that the design of the Swedish education subsidy system (voucher system) results in greater competition in quality than in costs. The presence of competition appears to increase the incentive to improve efficiency, no matter whether the management is private or public.

Box 2: Public procurement

Public procurement, defined in the broadest sense as goods and services purchased by the Government or public utility services, make up over 16% of the European Union's GDP in 2005. Around 20% of this is covered by the Procurement Directives⁶. The current Public Procurement Directives provide rules on how to buy but leave the choice on what to buy up to the public authorities. The Directives contain a number of features which allow public authorities the possibility to direct their purchasing operations in favour of a particular policy goal.

The provisions of the public procurement directives have aimed essentially at encouraging free and fair competition for public procurement markets through increased transparency and by ensuring that competition was not distorted within the internal market. It is clear that increased competition has provided public authorities with better value in terms of lower prices and higher quality through more competitive procurement over the past decade. An initial evaluation of the Directives⁷ in force between 1993 and 2002 has demonstrated that the Directives have raised compliance costs for both awarding authorities and suppliers but this is outweighed by the significant overall benefits.

Efficient and expanding suppliers have benefited from improvements to transparency and fairness; other less efficient suppliers have suffered from the increased competition as well as from the increased administrative costs. In general, suppliers as a whole may be said to have benefited simply by becoming more efficient. However, there is evidence that the impacts differ regarding Member States. Member States with more centralised and/or formal procurement functions have benefited more as have those where efforts have been made to integrate national and EU legislation.

There are several important areas where new developments will arise in response to the challenges of globalisation, climate change and the need for innovation in the way public services are delivered. Several trends can already be discerned for which a community response could also be helpful, e.g. e-public procurement and green procurement. The potential of e-procurement is likely to be all pervasive, providing new opportunities for improving competition and greatly reducing transaction costs for both buyers and suppliers to the point where radical new procurement techniques may become possible.

iii) Improved human resource management (personnel changes)

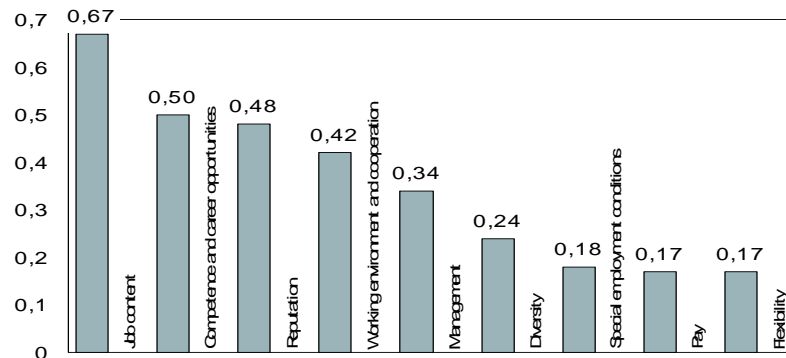
The streamlining of the public administration has in many cases been accompanied by reforms of human resource management. Portugal implemented a comprehensive reform of its public administration in order to cut costs and raise efficiency through a simplification and restructuring of the public administration, which implied a reduction in the number of senior management positions by 28.5% in 2006, and a thorough change in HRM through a new system of rules on pay, careers, employment affiliation, performance evaluation and workers' mobility. Hungary as well aims to improve efficiency by cost cutting and introduced a performance evaluation system. The size of the staff in central budgetary institutions was reduced and a more flexible pay system for civil servants was introduced. Finland aims to reduce the number of staff in the central government by about 8% by 2011.

In addition, performance evaluation and merit systems have become a common feature of human resource management in public administrations. The Danish experience, however, shows that performance related pay is a good supplement to other features of human resource motivation policy. The responses to a survey carried out by the Danish authorities showed that other determinants of staff motivation, like job content, were important (see Figure 2). Ireland has implemented a very comprehensive human resources reform agenda, including public service targets, flexibility in recruiting and flexible working opportunities (see Box 3). Spain has recently approved a Basic Statute for Civil Servants, which introduces greater flexibility and makes performance evaluation a core principle of HRM.

⁶ Directives 2004/17/EC and 2004/18/EC

⁷ Council Directives 92/50/EEC, 93/36/EEC, 93/37/EEC and 93/38/EEC

Figure 2: The significance of different determinants of staff motivation



Source: Danish Ministry of Finance

Box 3: Human resource management reforms in Ireland

In 1994, Ireland began a public service modernisation programme with the launch of the Strategic Management Initiative. This initiative set the agenda for change in the Irish Civil Service and the modernisation process for all of the public service has continued ever since. This programme recognises the potential contribution of public service reform to increased competitiveness, high and sustainable growth, higher employment and greater social well being. The main objectives of the modernisation efforts are (1) to better support the government in national development, (2) an effective use of resources and (3) quality service to customers. The new Social Partnership Agreement, 'Towards 2016', covers the key areas of pay, the workplace and employment rights and compliance, dealing with complex issues relating to protection of employment rights, compliance with standards and workplace relations. The Agreement outlines general principles of modernisation and flexibility, and goes on to itemise specific changes in the key sectors of Health, Education and Local Government as well as the central Civil Service. Pay increases will be contingent on independent performance verification groups being satisfied that sufficient progress has been made on the change and modernisation agenda. A particularly important development is the proposed extension of open recruitment at senior levels as a means of gearing public service organisations up for the challenges ahead, including coping with an increasingly ageing workforce. There will also be greater use of competitive processes for promotion purposes (merit-based promotions) and a range of measures to streamline terms and conditions and to support mobility and workforce planning (e.g. more than 10.000 civil servants will move from Dublin to regional offices).

iv) Using information and communication technologies and optimising internal processes (technological changes)

Many countries use the new technologies that have become available to reduce administrative costs and enhance the quality of service delivered to businesses and citizens. This can be done in different ways, for example by providing information online and by creating the possibility for interaction with the public via the internet, but also by optimising internal processes through a wider use of electronic information flows. The World Bank's "Doing business report" highlights that the same countries (such as the Nordic and Baltic countries) that rank top in terms of ease of doing business also have public administrations that make extensive use of ICT tools. E-administration is also being implemented in Spain through a wide set of initiatives aimed at extending the use of ICT (e.g. e-Identity Card). Belgium has introduced a multifunctional e-declaration that can be submitted to the social security system. It is one of many countries that have created the opportunity to fill out tax forms on-line. In Greece, the usage of the online tax services increased by 54% between 2005/2006. The online usage of tax services in Greece is estimated to have resulted in a gain of 7 million working hours for citizens and firms and a gain of 288,000 hours for the public sector.

In Portugal, the simplification project (SIMPLEX) aims to better use ICT elements in the public administration. In Malta, a set of different government actions was undertaken in the field of

eGovernment. In Denmark and Austria (see Box 4), eGovernment also plays a key role as a tool to reduce transaction and administrative costs. Similar reform initiatives can also be found in Germany and Italy. The German project encompasses the development, introduction and roll-out of the electronic identity card as part of the "E-Government 2.0" programme. The Italian e-government Action Plan aims at furthering the provision of e-government services to citizens and businesses.

In Poland, IT tools are increasingly used to improve the information flow during budgetary planning, execution and reporting. Lithuania introduced a new accounting and financial reporting system of the public sector. In Italy a new reporting system (SIOPE) will provide timely data on the outlays of general government bodies, allowing a more effective monitoring of public finances. In Cyprus, a new financial accounting system enables the better recording, accounting and classification of government transactions which in turn has provided the basis for better analysis and management of the resources of the public sector.

Box 4: e-Government in the Danish and Austrian public administration

The Danish e-Government Project (Digital Forvaltning) was launched in 2001. So far, it consists of three main national strategies for e-government, each containing broad policy goals and specific initiatives.

"eDag": Provide federal, regional and local government authorities, as well as citizens and businesses, with a general right to demand electronic correspondence with authorities, and thus a right to refuse paper-based communication as long as safety standards to protect private information are available. A consultancy report estimated the potential gain during four years to amount to DKK 1 billion (€134.4 million) for the entire public sector.

"eFaktura" (eInvoice): All government organisations have been required to accept only electronic invoices from suppliers. This has necessitated that they convert their processes and systems from physical to digital handling of invoices, credit notes and other payment transactions. A consultancy estimated efficiency gains from more efficient internal working processes to amount to DKK 800 (€107.5) million per year.

"Nemkonto" (easyAccount): A bank account for all businesses and citizens open for all public authorities, which eliminates the need for manual payments and handling checks as well as reducing administrative burdens for businesses and citizens. The main aim is to reduce the transaction costs and administrative burdens concerning payments from the public sector. Potential savings for citizens, businesses and public sector are estimated to amount to DKK 280 (€37.6) million per year compared with investment expenditures in the amount of DKK 50 (€6.7) million and current expenses in the amount of DKK 20 (€2.7) million per year.

The **Austrian** Federal Government revised its IT strategy in 2000. In Austria more than 83% of all public services can already be handled online. This is the best result in the EU. The e-Government strategy in Austria mainly consists of four core elements:

"Help.gv.at": An online administration portal that has successfully established itself as a central point of access to public services. In order to gain access, citizens do not need to be familiar with administrative areas of competence, but can carry out their information search according to "life events" (businesses according to business circumstances). "Help.gv.at" registers daily about 12,000 hits.

"Finanz Online": An online financial administration portal that enables businesses and citizens electronically inspections of their tax accounts. Tax payers can by this way communicate online with fiscal authorities. Through "Finanz Online" about 23 million single transactions are made monthly and approximately 3/4 of all tax declarations are already done online.

"ELAK": The introduction of the electronic record system at federal administration level has meant that many procedures can now be conducted more speedily. Using "ELAK" it is possible

for transactions to be carried out in a fully automated manner and for public authorities to cooperate seamlessly. "ELAK" saves annual costs of about €2 million.

"Bürgerkarte": A citizen card that identifies and authenticates e-Government users. Diverse chip cards or even mobile phones can be equipped with this function. With this card respectively function applications can be electronically signed and electronic documents from authorities can be collected. This function enables a safe online identification and communication.

4. Impact and evaluation of reform initiatives: do public administration reforms pay-off?

An assessment of the costs and benefits of public administration reforms is very difficult, especially since most changes affect a large share of the population. Moreover, financial and political costs and benefits need to be considered.

Studies⁸ show a high correlation between the quality of governance and labour productivity and also provide evidence that government practices impinge positively on public sector efficiency. Some governance features seem to have a relatively important impact on growth, including the judicial system, the control of corruption and regulation systems. However, the direction of causation is not always obvious. Concerning the regulatory environment, the World Bank estimates that the improvement in the ease of doing business in countries that moved up from the bottom to the top quartile of its indicator had a 2.2pp growth effect annually between 1994 and 2004.⁹ This positive effect stemmed largely from lower unemployment and a reduction in the size of the informal sector.

However, in most specific cases "hard" evidence on the impact of public administration reforms is lacking, especially since both direct and indirect effects have to be considered. Moreover, the impact of reforms often occurs with a substantial time lag and existing estimations are beset by measurement problems.

In recent years, some countries have established institutions or procedures, which systematically assess the performance of public policies. Spain created an independent State Agency for the evaluation of public policies and service quality in December 2006. Its purpose is to promote and conduct assessments of public policies with the aim to foster a rational use of public resources and quality management of services. In France, the wider use of public policy audits had led to improvement and simplification of processes, higher efficiency of management practices and a better functioning of the public administration. In Luxembourg the Court of Auditors has far-reaching powers to assess the effectiveness and efficiency of public spending. The responsibilities of institutions like the Czech Science foundation (GA CR) is more limited in scope but no less important to evaluate the efficiency of the research effort of the public sector.

⁸ M. St. Aubyn (2007): Modernising public administration and economic growth, Conference paper for the Workshop on "Modernising public administration and its impact on competitiveness" organised by the Portuguese Presidency in collaboration with the EU Commission; A. Afonso, L. Schuknecht and V. Tanzi (2006). "Public Sector Efficiency: Evidence for New EU Member States and Emerging Markets", ECB Working Paper n. 581.

⁹ World Bank (2007), "Doing Business 2007: How to reform".

Annex: Illustration of reform initiatives taken by Member States

Country	Objectives	Reform initiatives	Problems and Challenges (Examples)
Belgium	Efficient public management/ quality of public services	e-Government/ Reducing administrative burden Human resource management reform; Business process reengineering of administrations	Technical constraints, Cooperation between all Ministries and levels of government
Bulgaria	Stable medium term public expenditure framework	Public Expenditure Management Reform	Coordination between different strands of the reform, capacity constraints during design and implementation
		Law on audit and control	
		Public finance School	
Czech Republic	Efficient public budget management	Medium-term expenditure framework Methodology for the quantification of costs of the performance of public administration Analysis of the administrative burden on businesses and its reduction by 20% until 2010	Enforcing modifications given the long-established procedures
Denmark	Efficient public sector	e-Government	Creating new business-models based on digitalisation but still including all citizens/businesses
		Local Government reform	
		Central Government budget and account reform	
Germany	Efficient public sector	Constitutional reform of federalism	Cooperation among all levels of government, challenging decision-making process,
		Cutting red tape	
		Focused on the Future: Innovations for Administration including the programme E-Government 2.0	
Estonia	Efficient public sector/ quality of public services	Strategic planning system	Making the paradigm shift
		Medium-term expenditure framework	
		Modernisation of Civil Service Law	Co-operation among state agencies
		Provision of e-services/e-government, different initiatives (citizen charters)	
Ireland	Delivering better services	Human Resource management	
Greece	Efficient public management	Establishing a General Directorate of Fiscal Audit	
		New operating framework for public enterprises and entities	
	Mobility of public sector employees	Civil servants code	
Spain	Efficient public services	States Agencies Law, e.g. State Agency for the evaluation of public policies and service quality	Spreading new assessment culture among all levels with spending powers
		e-Administration	Coordination at all levels of government
	Quality of public services	Basic statute for civil servants	
France	Efficiency and effectiveness	LOLF	Designing performance indicators, changing behaviour, technical constraints,
		General review of public policies (audit)	Co-operation with all Ministries
		Microeconomic analysis process for public investment in transport infrastructure	
Italy	Improve the performance of Public Administration; efficient budget management, fiscal discipline and budget procedures	Performance based budgeting; E-Government; fiscal federalism reform	
Cyprus	Efficiency of public sector	Medium term budgetary framework	Formulating objectives, monitoring outputs/outcomes, expanding forecasting beyond traditional one-year horizon
		FIMAS (Financial accounting system)	Fine-tuning with the Medium-term budgetary framework

Latvia	Efficient public budget management	Reform of the budget (avoiding earmarking of revenues and expenditures)	
Lithuania	Effective management of public spending	Budget reform	
	Efficient public sector	Better management of human resources, innovations in provision of public services and e-government.	
Luxembourg	Efficient budget management	Establishing a direction du controle financier and reform of the Court of Auditors	Changing behaviour in the civil service
Hungary	Cost cutting	Staff reduction partly through concentration of institutions Flexible wage system with renewed performance evaluation system	Coordination and harmonisation among different levels of governments due to local governmental autonomy
	Rationalise	Central Service Directorate General (Procurement) Concentration of institutions from county level to regional level	
Malta	Quality of public services	Quality Service charters in the Public Service	Changing behaviour and moving towards performance management, Cooperation with all stakeholders , in particular during the implementation of reforms
	Result-oriented employee appraisal system	Performance Management Programme	
	Efficient budget management	Financial Management Monitoring Unit	
Netherlands	Efficient welfare system	Social assistance reform	Creating win-win situations (allocation of responsibilities and budget power)
	Accountability	Performance based budgeting	Formulating policy objectives, performance measures, etc., monitoring and assessing results based on methodological sound evaluations
	Simplified funding	Funding reform of education system	
Austria	Efficient public sector	Administrative reform, including staff reduction, reducing administrative burden	Coordination among different levels of government and at the central level
		eGovernment	
Poland	Transparency, effectiveness, simplification	Public Finances Reform, incl. cheap and efficient state programme	Changing to a multi-annual planning horizon, organisational challenges
		IT system	
Portugal	Simplified and modern public administration	PRACE Restructuring programme for the government central administration	Active involvement of all stakeholders, good design of targets and measurements, clear system of monitoring
		SIMPLEX Simplification programme for public services	
Romania	Budgetary discipline	Medium term budgetary framework	The selection and use of indicators, incl. providing relevant information
	Efficient public budget management	Programme budgeting	
Slovenia	Efficient budget management	Result-oriented budgeting	Reporting objectives, avoiding additional administrative burden
	Flexible allocation of funds	Changing of funding of higher education	Monitoring the quality of higher education institutes, claim responsibility of universities to the public
Slovakia	Transparent and stable medium term framework	Public Finance Management Reform	Cooperation and coordination among departments involved, defining specific formats and reporting methodologies, technical constraints, additional capacity needed during implementation
		Fiscal decentralising	
Finland	Efficiency and effectiveness	Restructuring of municipalities and services	Political commitment at all decision-making levels
	Productivity of public sector	Productivity programme	
Sweden	Cost- saving and efficient public services	"Independent schools", Customer choice system within elderly care	Exceeding costs due the need of a certain amount of overcapacity
		Reform of fiscal relations	
UK	Modern budget management	Comprehensive Spending reviews	Coordination among different levels of government, defining performance targets, demand for good-quality, outcome-focused data
	Efficient public sector	Efficiency Programme (Gershon review)	Avoiding additional bureaucracy

