



SIGMA Papers No. 26

Sustainable Institutions
for European Union
Membership

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**SIGMA -- A JOINT INITIATIVE OF THE OECD AND THE EUROPEAN UNION,
PRINCIPALLY FINANCED BY THE EUROPEAN UNION'S PHARE PROGRAMME**

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THE SIGMA PROGRAMME

SIGMA — Support for Improvement in Governance and Management in Central and Eastern European Countries — is a joint initiative of the OECD and the European Union. The initiative supports public administration reform efforts in thirteen countries in transition, and is principally financed by the European Union's Phare Programme.

The Organisation for Economic Co-operation and Development is an intergovernmental organisation of 29 democracies with advanced market economies. Its Centre for Co-operation with Non-Members 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: Public Administration Development Strategies; Policy-making, Co-ordination and Regulation; Budgeting and Resource Allocation; Public Service Management; and Administrative Oversight, Financial Control and Audit. In addition, an Information Services Unit disseminates published and on-line materials on public management topics.

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FOREWORD

Countries that are candidates for European Union (EU) accession face the complex and urgent task of building administrative institutions so that they can fulfil the “Copenhagen criteria”. Such institutions must be able to implement the *acquis communautaire* within tight budget constraints and ensure favourable conditions for a competitive private sector. They must also provide candidate countries with the institutional capacity to participate effectively in future policy-making within the European Union upon accession. This paper lays out basic principles, tools and issues for building institutions. The target audience includes all those involved in Institution Building within candidate countries, EU Member States, the European Commission and the aid community.

The paper highlights the issues associated with building effective institutions while providing concrete examples of how Member States and candidate countries have responded to such challenges. The definition of a number of key terms (in bold type) are provided in the Annex together with links to additional sources of information (SIGMA and PUMA publications as well as relevant web sites).

A concrete case of the challenges involved in adopting and implementing the *acquis communautaire* in the field of milk quality may be accessed via SIGMA’s home page at the following address: <http://www.oecd.org/puma/sigmaweb>. (For a paper copy of these particular Internet pages, please contact SIGMA Information Services at the address below.)

Members of the SIGMA Secretariat drafted this paper with input from participants at the Ninth Annual SIGMA Liaison Group meeting held in Paris, 11-12 June 1998.

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As candidate countries take on the *acquis communautaire*...

1. To succeed in their bids for Membership of the European Union, candidate countries have not only to adopt the *acquis communautaire*, but also to implement it. This requires them to invest heavily in professional administration. Candidate countries and the European Commission are now in the “screening” stage of the accession process. This stage deepens the analysis in the Commission Opinions and covers both conformity of law and the capacities of institutions. It will reveal, the extent of the accession challenge.
2. The administrative performance of each Member State impacts upon that of others. There is therefore a shared interest in improving standards in public administration as illustrated by the internal market, whose functioning relies heavily on the quality of national administrative institutions. The accession of the new candidates, whose administrations carry the burden of their recent history, poses a new, difficult problem for the Union. Administrative quality is bound to be a key element in negotiations. Screening can certify the existence of an implementing institution, but it is more difficult to judge actual or potential performance.
3. The frame of reference for screening is the *acquis communautaire* which addresses the needs of complex, open economies. It has been built up over decades with the full participation of the sophisticated administrations of the Member States which have themselves evolved with the evolution of the *acquis*. Member States have relatively complete systems of checks and balances, as well as functional and territorial distribution of powers. The *acquis communautaire* does *not* prescribe implementation because it is assumed that the *acquis* can be enforced in all jurisdictions according to Union norms. In any case, as the subsidiarity principle indicates, national administration is the domain of the Member States.
4. The *acquis* has developed along predominantly sectoral lines and largely assumes basic administrative values such as, reliability or efficiency. National Programmes for Adoption of the Acquis (NPAA) and screening have a lesser scope than the **Copenhagen criteria** (which include human rights, systems of justice) or national reform programmes which deal with post-transition needs for general modernisation of the State. A special effort is needed on the part of candidate countries to ensure that Institution Building recognises the need to improve general governance systems.
5. Following the opening of negotiations, the process of accession is accelerating. There are some 100 000 pages of *acquis communautaire*. Even though there are limited legislative capacities, the legal aspect of NPAA may be expected to be given priority. But legislation, while necessary, is a long way from being sufficient for satisfying membership requirements. Candidate countries not only face the considerable challenge of ensuring that institutions and procedures are in place to put existing legislation into practice, but also that they are capable of adapting to that of the foreseeable future.

...an implementation gap may open up.

6. An implementation gap is the deficit between the set of legal norms and the capacity to *implement* and *enforce* them according to EU standards. All countries suffer from implementation gaps to one degree or another. Furthermore, errors in implementation occur in even the most developed systems. The question is whether the gap is so systematic and serious that it unacceptably undermines government capacity to achieve important policy objectives. An implementation gap in the candidate countries would be of grave concern to Member States for two main reasons. First, Member governments are exposed to political risk as consumers would hold their minister to account for a problem even if it was caused by an

administrative failure in another Member State. For example, the discovery that foodstuffs which had been certified for export by one country posed a public health risk upon their release onto the market of an importing state. Secondly, economic agents of Member States are concerned to ensure fair competition or a “level playing field” for both exports and imports and will try to obtain satisfaction through political and judicial means (for example, through appeals to the European Court of Justice against those Member States whose producers are able to offer lower priced goods due to the non-application of EU environmental regulations).

7. Despite these concerns, a gap may be expected. Why should such a gap appear?

- developing and passing legal provisions is quicker and easier than building effective implementing institutions, and responds to the incentives, interests and skills of political elites;
- the system for preparing legal norms may have biases against systematically considering implementation issues, such as identification and design of delivery systems (including staffing), consultation with “regulated communities” (i.e. those who will have to comply with regulations once adopted), and interaction with existing legal norms and implementing institutions;
- budgetary aspects may not be fully considered when preparing legal norms; budget constraints may mean lack of resources to build implementing institutions (start-up or “investment” phase), and also preclude sustainable long-term operation because resources for operating the institution at the required level may not be available;
- laws have to be translated for those officials in direct contact with citizens or entrepreneurs at the “street-level”, through rules, instructions, manuals, circulars and so on. This process of “application” requires scarce skills combining managerial, legal and policy understanding;
- for sectoral institutions to work, crucial horizontal or general governance functions (e.g. system of justice, administrative oversight, expenditure management, public personnel, co-ordination across national and sub-national levels of government) must be in place. However, the sectoral emphasis in institution building (generated in large part by the nature of the *acquis* itself), may lead such horizontal governance functions to be given lower priority and to lag behind other institution building targets;
- enforcement of the *acquis* in Member States relies on co-operation between public and private sectors for which neither side in the candidate countries may be ready.

8. Implementation of the *acquis* depends on strengthening capacities for action and changing mentalities. The implementation gap will grow over time unless:

- management of Institution Building is connected to NPAA;
- sufficient consideration is given to sustainable financing;
- there is a real effort to stabilise and professionalise staff;
- necessary horizontal systems (including justice and **audit**) are strengthened.

An implementation gap poses grave risks to governance and the economy.

9. Because of the interdependency inherent in the “European construction,” an implementation gap will threaten the accession timetable and the ability of a candidate country to take up assistance and to make good use of EU funds. But there are other, deeper, dangers.

Institutions of the market economy: Consistent application of **rule of law** and adherence to basic political/administrative principles — such as transparency, predictability, accountability, reliability — are prerequisites for development of an efficient market economy and economic integration. An implementation gap will facilitate corruption, encourage low value-added “exploitive” investment and hinder the development of market institutions (such as stock exchanges). Weak institutional frameworks for the market economy have significant repercussions on economic development by increasing the costs of transactions for entrepreneurs and discouraging foreign direct investment.

Example: Implementation gaps contribute to fostering corruption. Corruption has two main impacts on economic development. First, as economic success depends in large part upon the optimal allocation of resources, the diversion of funds through the corrupt activities of managers and officials represents a distortion of allocation and hence reduces the resources available for growth. Second, corruption scares off investors and discourages foreign direct investment, thereby reducing access to a vital source of capital.

Economic efficiency: poor implementation raises compliance costs for citizens and business without delivering the benefits. Weak implementing institutions can reduce economic efficiency and competitiveness in at least four ways relative to a typical Member State:

- the economic gains of an integrated European market (generated by enhanced competitive pressures and greater economies of scale and scope) will be reduced, with consequent costs to all Members of the Union;
- implementation of the social aims of the *acquis* (e.g. environment) may cause higher than necessary economic costs to the private sector;
- public services will be provided at higher cost which will generate tax-related disincentive effects and tax avoidance behaviour;
- the costs and delays to economic actors of obtaining public services and interacting with the administration (e.g. obtaining a license) will be higher than necessary.

Example: The estimated cost to European firms of responding to EU and national administrative requirements amounts to 540 billion ECU per year (3 to 4 per cent of GDP).

Policy effectiveness: Policies established in the *acquis* represent “European versions” of common standards of “Western States” e.g. in environmental protection and market regulation. Independently of the European accession agenda, weak implementation mechanisms deprive citizens of the services and protections which their fellow Europeans enjoy and undermine political support for the “Europe project” as a whole.

Mismanagement and Corruption: Management controls should be part of the design of implementing institutions. The development of State apparatus should include general management systems of monitoring and control, such as audit and justice, and promotion of an “**ethics infrastructure**” which

supports professional public service values. Weak implementation and poorly drafted law places power in the hands of “street-level” bureaucrats who are often underpaid, poorly trained and ill-equipped to understand their responsibilities, duties and rights.

Example: Raising awareness among public administration officials of the conduct expected of them in the exercise of their duties is just one of the available measures. One way of doing so is to draft a practical reference guide based on legislative principles. An example is given by Portugal’s “Public Service Code” which uses clearer and more immediate language in expressing the principles established by the law on administrative procedures of 15 November 1991.

Unity of State apparatus: Although Western administrations contain many different types of public institution, their evolution and legal form is carefully monitored. At least for core competencies of the State, there is a principle of uniformity (e.g. in the employment conditions for civil servants). In most countries, this extends also to local administrations and self-governing bodies so as to limit geographic inequalities and preserve the uniformity of law throughout the territory. Haphazard administrative development without underlying unifying principles may weaken the fundamental integrity of the State.

Rule of law: If the State allows an implementation gap to persist over time, it signals a weak commitment to the rule of law and forces society into a compromise which carries heavy consequences for the nature of the rapidly consolidating post-communist societies. The potential civic education effect of implementing law is lost to citizens, the administration and economic agents. Furthermore, **voluntary compliance**, upon which successful implementation rests in large part, is undermined in the absence of a clear commitment to enforce the law on the part of public authorities.

Democratic development: If the State is seen not to be able to carry out policies its overall legitimacy will decline, political participation rates will fall further, and politicians may find other ways to achieve their ambitions.

Governments should think first in terms of functions and performance...

10. The focus on “Institution Building” has directed attention to the construction of public administration offices (e.g. product safety testing laboratories). The question which must precede this is how to ensure that private and public sector actors are in conformity with the *acquis* at least cost. The economic cost of conforming to the *acquis*, which is mainly borne by the productive sector¹ will be very large. The lesson from Member States is that the burden on economic actors is shaped significantly by the way the *acquis* is transposed into national regulatory systems and by the design of implementing and enforcing arrangements.

11. The *acquis* generates functional demands e.g. that vehicles should conform to pollution and roadworthiness requirements. This requirement is translated into processes such as annual inspections which may be carried out by private actors subject to public authorisation and control. In most Member States, vehicle inspections are carried out by private garages, operating under license, while animal health inspections may be carried out by private sector vets who certify conformity to government regulations. In Member States, tasks are often delegated, through law or contract, to the private sector, non-governmental

1. The term “productive sector” encompasses the private sector and State enterprises which produce marketable goods and services for public consumption.

organisations or lower levels of government operating under control by central administration and oversight bodies.

Example: In the United Kingdom, the Department of the Environment, Transport and the Regions is responsible for setting vehicle standards, the Vehicle Inspectorate is responsible for their enforcement through a network of local offices, while the actual testing of vehicles for roadworthiness is carried out by authorised private garages which act as testing stations. The Vehicle Inspectorate approves and trains testers, checks that standards are maintained at the testing stations and deals with complaints and appeals from motorists.

12. For each function to be carried out, governments are free to decide on an appropriate delivery system, benefiting from the experience of the Member States. Responsibilities will be assigned to administrative organisations either to carry out the function or to control execution carried out by others. Assigning responsibilities is a key strategic task in which it is vital to remember that there is *not* necessarily a “one to one” correspondence between a rule and an organisation. One inspectorate may be responsible for inspections which are derived from several different pieces of legislation and one piece of legislation may generate tasks for several implementing agencies.

Example: The Veterinary Inspection Services in France are responsible for ensuring compliance with animal husbandry and hygiene regulations but are also charged with enforcing certain environmental protection provisions during farm inspections (one inspectorate, two tasks). In contrast, the management of hazardous waste in Hungary involves both the Ministry of Environment and Regional Policy, with regard to environmental inspections, and the Ministry of Trade and Industry as regards the supervision of hazardous waste processing plants (two inspectorates, one task).

Strategic decisions to assign implementation responsibilities are needed at the level of the entire administration and within each Ministry. Efficiency might suggest a client-based organisational principle (e.g. with all administrative operations for small and medium-sized enterprises (SMEs) being located in one office). But it is not always easy or reliable to combine different types of functions (e.g. pollution inspection and labour market services). Improving information exchange area (through information technology networks, for example) between different sectors of the public administration whose competences overlap in a given functional may represent a valid alternative to the outright merging of administrative units.

13. In assigning a responsibility, especially if it is to the private sector, it is necessary to determine a **performance standard**, i.e. how well should the responsible agency perform its tasks. This implies deciding the performance measure in relation to the goal sought and setting the performance level to be achieved. Taking macrobiotic quality of milk as an example, performance may be set according to number of farm inspectors (inputs), number of inspections (outputs), or permitted levels of contamination (outcomes). Institutions to implement the *acquis* can then be designed (organisation, staffing, equipment, procedures etc.) to meet required performance standards.

...while promoting fundamental administrative values...

14. Although public administrations in European States are old structures, they have continuously responded to new conditions including membership of the Union, which is itself evolving. Constant contact amongst public servants of Member States and the Commission, the requirement to develop and

implement the *acquis communautaire* at equivalent standards of reliability across the Union, and the emergence of a Europe-wide system of administrative justice have led to some convergence amongst national administrations. The result is what has been described as the “**European Administrative Space**” (EAS).

15. EAS is about basic institutional arrangements, processes, and values. It is far from complete, and there are significant quality differences amongst the Members. Indeed, the problems raised by these differences amongst Members is a main reason why Institution Building has been given such a high priority in the enlargement process. Significant variations in the degree to which EU Directives have been transposed and applied are to be found in many substantive policy areas, including for example that of phytosanitary measures, where a number of the original Member States have achieved high levels of implementation while other Member States have been rather less successful. Candidate countries will need to modernise their administrations to meet EAS levels of reliability. Already the intense contact needed for negotiations and assistance management has launched this process, but it remains largely confined to a small number of senior officials who are subject to frequent change.

16. The key administrative values which need to be promoted are *reliability, transparency, predictability, accountability, adaptability* and *efficiency*. These values are not simply ideas which governments “sell” to public servants. They must be embedded in institutions and administrative processes at all levels, and they must be defended by independent control bodies (e.g. audit), by systems of justice and judicial enforcement, by Parliamentary scrutiny and by ensuring opportunities for voice and redress to the “clients” of the public administration, namely, citizens and firms.

17. But the EAS is also about substantive law (e.g. on hygiene in food processing factories). Substantive law must be drafted at an appropriate level of quality to reduce the margin for corruption, mismanagement or implementation gaps.

...and respecting budget constraints.

18. Building administrative institutions to implement the *acquis* is a vast project with heavy implications for the budget. Budget costs can be divided into capital (start-up) and operating costs. *Both* will rise in line with the adoption of the *acquis* and with economic change. The capacity of the tax system will have to keep pace with the growth in the number of private firms and individual enterprises by introducing new, more “user friendly” ways of submitting tax declarations.

Example: Among the innovations introduced with the 1998 tax reform in Italy is the introduction of a single, unified form for tax declarations by physical persons. This form “UNICO 98”, replaces the several separate declaration forms previously required and allows for the direct calculation of tax credits and liabilities related to different taxes.

Equally, as economic structures change (e.g. development of a financial services sector) and new types of crime become possible, accounting and policing capacities will have to evolve.

19. Institution Building for EU membership means bringing about quantitative and qualitative change in public administration. Administrative quality is largely about people. Although some candidate countries have introduced public service laws, implementation in this area is weak. Public servants at the “street-level” pose particular problems when trying to raise quality. No country has systematically faced the issue of how to bring public sector wages more closely into line with private sector counterparts. In present circumstances, the political and economic scope to raise wages is low. Reducing numbers to raise

pay can make more difficult the problem of managing unemployment, particularly in the short term; shifting personnel from obsolete to new functions may be impossible because of their skills and qualifications. Measures for launching “renewal from within” may include the introduction of fast track career paths for qualified public officials at all levels of government (central and local) which would be characterised by heavy investment in training and exposure to European “best practice”.

20. The pay issue will have to be faced and room found for planned rise of salaries over the next decade within tight public expenditure envelopes. The scope for reform may expand as revenues increase with GDP and if significant efforts are made to increase tax yields, but the costs of continuing structural change will also grow. Some relief may be sought through **user charging** or other forms of cost recovery and by giving administrative tasks to private sector agents operating under administrative control. Such techniques, which are common in the Union, create new challenges for administrative oversight and expenditure management.

There are difficult choices to make.

21. In designing an implementation approach, the most important question is to decide what to optimise. This decision must be made on a number of fronts. First, given that the costs of enforcement efforts may begin to outweigh their benefits beyond a certain level of effort, close attention must be paid to the relative “value for money” of various enforcement strategies. Second, administrative regulation imposes both budgetary costs (paid by taxpayers) and economic costs (paid directly by enterprises and reflected in costs to consumers). Often there is a trade-off between the two: a company may be audited, initially, by a private sector, licensed accountant paid for by the firm or by an administrative inspector paid for by taxpayers. It is an open question as to which one is economically more efficient and which one is administratively more effective.

22. But the budget constraint acts as an incentive to pass costs onto users or other levels of government. It is not certain that the regional authorities of candidate countries, or existing regulatory, accountability and control systems, are ready for such “delegated delivery” approaches. In the absence of fully compatible, interlinked control systems at central and local government levels (amongst other problems arising from mismanagement, negligence and poorly designed systems), **delegated delivery** may create additional opportunities for corruption. In addition, charging for services raises problems of cash and budget control, equity and incentive effects on delivery systems.

23. The cumulative impact on users of various burdens emanating from different parts of the administration may be much higher than the simple sum of the parts. This will more likely be the case if regulatory burdens and administrative design are not subject to some central quality control and steering, and if users are not involved in the design stage. The systematic use of **Regulatory Impact Analysis** (RIA) as a tool to support policy-making is gaining ground in many OECD countries as they seek to estimate the costs of regulation prior to adoption in terms of their consequences for business (United Kingdom), fiscal impacts (Austria, Portugal, Finland) and socio-economic aspects (Netherlands). RIA is, however, rather less suited to evaluating the cumulative effect of regulations, for which other measures, such as business surveys, in-depth case studies or compliance cost models may be more useful.

24. The possibility of an “implementation gap” and certainty of a budget constraint implies that priorities must be set and their sequencing established in order to ensure sustainable and reliable implementation. More sophisticated delivery and financing systems of the type suggested above require central management systems and enhanced central steering capacities. Although it may sound like the “tail wagging the dog”, the policy priorities of the government and the sequencing of the accession negotiations

may have to be conditioned by potential implementation capacities. Establishing feasible pathways for steady improvement through Institution Building would thus be fully in line with the medium-term objective of raising effective implementation levels from their current levels.

Example: Efforts to strengthen capacity may also be witnessed in the private sector. One of the world leaders in fresh milk products has been producing in Central and Eastern Europe since 1990, where the company has adopted a long-term perspective and a “hands on” approach to its relations with its suppliers. In the interests of securing adequate supplies of high quality milk, targeted measures have been introduced to assist local dairy farmers in achieving step by step improvements in the quality of the milk they deliver.

Governments must have the capacity to steer institutional development...

25. Building institutions for membership needs three levels of steering. *Central steering* is needed to decide priorities, interface with the budget and European Integration departments, ensure co-ordination across ministries, ensure balance between sectoral and general management functions and manage communications to maintain support from administration and voters. *Ministerial level* steering is needed to allocate responsibilities inside the ministry to component organisations and appropriate territorial levels, ensure co-ordination, and interface with the central level. The *project level* is where the application of individual functions takes place and organisations are designed and built or reinforced.

26. Given its complexity, the steering system must be designed as a decentralised strategic process able to monitor progress, follow changes in needs and evolve continuously. Strategic management should be carried out in parallel with the NPAA process so as to minimise risks of implementation gaps and it should be linked to aid flows. The model might be similar to the European Integration arrangements with a central office and counterpart offices in each ministry. The central level could usefully build up some capacity of its own, especially as a service to the ministerial and project teams. Like European Integration, Institution Building is an issue which also concerns other branches of the state, such as the parliament, with which communication channels must be maintained. Skills to be developed would include communications, organisation development, personnel, financial modelling and project management.

27. A key issue is where to locate central responsibility for Institution Building. Most candidate countries have Offices for European Integration, which are responsible for NPAA, and some sort of Public Administration Reform Unit. It would be unwise to create yet another body and, in any case, Institution Building must be co-ordinated closely with both functions. Wherever it is decided to put the Institution Building steering function, it must be closely linked to the ministry of finance to monitor medium and long-term budget pressure. Among current Member States, different approaches to European co-ordination have been adopted. Thus, while France, Italy and the United Kingdom have established interministerial bodies or secretariats which report to the head of government, responsibility in other Member States rests with the ministry of foreign affairs and/or the ministry of economy and finance.

...as provided by general management systems.

28. Building institutions to implement the *acquis* may be expected to take place along sectoral lines as a reflection of the nature of the *acquis* itself. Yet this approach raises several risks including: fragmentation of administration, institutional proliferation and persistence, uncontrolled pressure on the budget, unnecessary burdens placed on the private sector. These risks may be reduced by using general management powers of government which should enable a government to strike the appropriate balance

between rigidity and flexibility. Some of the most important general management powers are set out below, many of which are interdependent:

Law/Policy formulation and co-ordination: such mechanisms, which are co-ordinated by a council of ministers secretariat, ensure the quality of decisions at the centre of government, and may extend to secondary law (regulation).

Example: In Spain, procedures for the management of decision-making within the Council of Ministers cover the preparation of the agenda for its weekly meetings, provisions for reaching agreement on those policy issues upon which ministers disagree and the follow-up of draft legislation.

Machinery of government: a function which usually falls within the responsibility of the head of government (where not otherwise established by law), and ensures the rational allocation of ministerial responsibilities and an efficient policy making system.

Ministerial organisational structures: these are controlled from the centre and ensure that (a) the common functions of ministries and main agencies (primarily personnel, organisation, budget and financial management, execution control, legal and policy cabinets among others) are carried out by following the same legal standards, (b) that the hierarchical levels are consistent across ministries, and (c) that the political/administrative interface is regulated in a uniform way.

Example: The task of proposing policy and secondary legislation applicable throughout the entire civil service generally falls to central management authorities which themselves may take a variety of forms. In Portugal and Spain, this co-ordination function is carried out by the Ministry for Public Administration; in Belgium, Germany, Netherlands, Ireland and Austria, it is either the Ministry of Finance or the Ministry of Internal Affairs; in Sweden and Italy, a specific agency reporting to the Prime Minister's Office has been established. In each case, the objective is to guarantee equity of treatment in different parts of the civil service, equivalent standards of performance measurement, mobility and oversight.

Legal form of agencies: new institutions should be controlled to ensure that they correspond to clearly defined legal forms which establish their legal personality, their accountability regime and their degree of financial and administrative autonomy.

Personnel systems: to raise the professionalism of public servants either by managing directly or enforcing standards for the main groups of staff through recruitment, promotion, disciplinary, training, appraisal and appeals systems, so as to ensure the necessary quality and continuity of administration and the possibility of public servants to act as constitutional safeguards. The need to ensure dynamic and motivated leadership among the highest levels of the civil service is an issue which has been addressed by the introduction of a top management service (TMS) in a number of OECD countries.

Example: The Senior Public Service (SPS) of the Netherlands, launched in 1995 and supported by an SPS Office, aims to improve mobility, co-operation and professional development among senior officials. This is seen as a necessary step in enhancing the public administration's flexibility, innovativeness and responsiveness to new and emerging needs within an increasingly international, complex and dynamic policy environment.

In candidate countries, the civil service faces even greater difficulties in attracting and retaining highly qualified individuals given disadvantageous salary differentials compared with the private sector and rigid rules on career advancement based on years of service and educational qualifications rather than on performance.

Central/local balance: territorial administration (both self-government and decentralised) is needed to carry out the *acquis* and manage the funds, but finding an appropriate balance of powers, financing and responsibilities remains one of the most difficult issues facing candidates. Although local self-government at the municipal level exists in all candidate countries, few have established regional structures capable of co-ordinating such common concerns as regional economic development and infrastructure or managing relations with the national and, eventually, EU level.

Example: Decentralisation of government functions and the strengthening of local government are key issues for all candidate countries. The long-running debate in Poland on reducing the number of *voivodships*, which led to the creation of 16 such regional units from the original 49 by a law of 28 July 1998, indicates how difficult such decisions may be.

Financial management: a financial management system ensures that the government's fiscal objectives and targets are met; and the efficient allocation of resources, through the annual budget, to different government activities and functions. The systems may take different forms in different countries but include, for example: a set of unified government accounts, and expenditure classifications, conforming to European and other international standards; procedures for ensuring the regularity of the government's cash transactions through a treasury single account; and systems that provide accurate, up-to-date financial information on the government's spending, revenues and borrowing.

Procurement: laws and systems to ensure efficiency and transparency in public purchasing and contracting. Responsibility for developing and implementing **public procurement** policy, guidelines and training is usually assigned to a Public Procurement Office that reports to the Prime Minister or the Council of Ministers. In most CEE countries, the procurement activity itself is decentralised to individual procurement units in line ministries and other public agencies. In some western countries, however, a centralised agency is responsible for purchasing goods and services that are of common use. Building a national procurement system requires: a full legal framework that is compatible with the EU directives; an administrative structure; staff training programmes; information and data; anti-corruption measures and dispute resolution mechanisms.

Concessions: laws and systems to ensure transparent processes for the transfer of public prerogatives to private sector actors. The development and application of **concession** schemes requires close attention to the allocation of rights and obligations among the public and private actors involved.

Control systems: including, internal control and inspection, audit, administrative justice and appeals systems that control regularity of administrative activity, in the first instance. Several channels of control, which are independent of the executive, exist ranging from the activities of **Supreme Audit Institutions** (SAI) (which may be courts of law, as in France and Italy, or oversight authorities as in Germany) to the office of the **Ombudsman** through which citizens may bring complaints against the public administration.

Citizen/Administration interface: including a variety of mechanisms to regulate the interaction between public administrations and their clients in order to (a) raise service quality, (b) reduce burdens (e.g.

through administrative procedures acts, centralised issuance of forms) and (c) receive information and feedback with regard to policy implementation and effectiveness.

Example: The “interface” with the citizen may consist of drop-in information centres, free telephone help-desks and personal “smart cards” which may be used in automatic tellers for printing certificates, paying fines and local taxes. In Portugal, the establishment of INFOCID, an integrated database containing up-to-date and reliable information about rights and duties, administrative procedures, service location and accessibility represents an important innovation. The information provided by INFOCID is free of charge and may be consulted via terminals located in public buildings (accessible 24 hours) or by Internet (<http://www.infocid.pt/>).

Building and running administrative institutions demands resources.

29. In general, candidate countries are faced with a need to build institutions to complete transition to a democratic, market economy integrated into world trading systems. Yet accession significantly accelerates the process well in advance of the development of underlying economic and administrative capacities. The accession agenda will thus drive strategic thinking about priorities, and force resource decisions that may be difficult to take.

30. However, the dominant focus on accession as a goal of policy risks obscuring the more important problem of preparing to shoulder the rights and responsibilities of membership once achieved. Being an active member of the EU may prove more difficult than becoming one. In other words, fulfilling the obligations of membership once admitted is every bit as demanding as accession, if not more so. Thus, regular reporting on progress in legislative approximation and expenditure of Phare funds will give way to equally exhaustive reporting on transposition and the use of Community financing instruments, including structural funds. Through the accession period and thereafter, institutions must be sustainable and able to fulfil the obligations of membership. Furthermore, they must be able to adapt as conditions change.

Such an undertaking promises to be extended over time, subject to revision and intensive with respect to the resources required, including:

Money: the bill for Institution Building will be very large and will evolve over several years. The evolution will depend, *inter alia*, on change in scope of administrative activity, level of performance, cost structure of administration and change in demand factors (e.g. numbers of firms). Of course, much is needed simply to modernise and catch up with the rest of Europe.

Governments have to build institutions which will be viable for the life cycle of the policy; the problem is not to create an environmental protection agency, but to ensure that environmental inspections are carried out for as long as environmental legislation is in force. In order to finance administrative Institution Building (both start-up and operating costs) so as to be sustainable, governments will have to set aside the necessary funds in their budgets in order to complement resources received from the Community and donor institutions.

Instruments for consideration include user charging and **off-budget expenditures** (credit instruments, tax expenditures, regulation, off-budget agencies). Such instruments are in use in Member States, but experience has shown that they require very careful management and control, since the economic costs can be high and they can lead to policy distortions. Charging for the full cost of a given service may, for example, have equity implications for certain categories of user, such as those with low incomes, those located in remote areas or heavy volume users. The main lesson is that sophisticated decision

accountability and control systems are needed to ensure that such instruments are held in check and do not weaken overall fiscal discipline. Use of these instruments is risky in candidate countries and could only be envisaged where basic financial management and control systems are robust.

Example: Standard accounting systems may not respond to the new information and control needs which arise with the introduction of user charging, and the adjustment of internal procedures may take some time. Such was the case in Finland, where many government organisations experienced initial difficulties in managing novel systems of billing and responding to the new responsibility for pursuing charge collection.

Skills: Although the emphasis to date has been on building capacities to “negotiate with Europe”, that is probably not the main problem, and it is one of a transient nature. Upon accession, candidate countries will find themselves “negotiating *within* Europe”, a task which requires substantial co-ordination capacity and the ability to participate in both the formal and informal arenas in which EU policy making takes place.

In addition, new institutions for membership will be everywhere. Throughout the public service, including the justice system, people will need to learn new skills and behaviour for implementing the sophisticated EU policies. The nature and intensity of the interface between the administration and the citizen/entrepreneur will change.

In order to produce the necessary public service qualities, radical reform is needed of public service management systems extending well beyond the senior elites of the capital. The most obvious need is salaries, but upgrading quality will also require attention to the entire personnel management cycle. This entails, among others, measures to extend in-service training and enhance mobility within different branches and levels of government while clarifying career paths.

The performance of public servants, and the attitudes of users, is conditioned also by the work environment – its organisation, physical facilities and procedures. Translating a new law into operating manuals, forms, and design of tasks for efficiency and control, may be more costly and difficult than adopting the originating law. The skills to manage change of administrative organisations will need to be widely diffused throughout implementing units.

Political support: Building administrative institutions is a long term process. The results are usually visible years after the start. Yet the process takes place in the short term perspective of regular politics and an ambitious accession timetable. Experience of Member States shows that building institutions requires continuous top level support. A long-standing commitment to strengthening domestic institutions to achieve full integration within the European Community has led to significant improvements in administrative and economic performance in both Spain and Portugal since their accession and culminated in their qualification for European Monetary Union. In the case of current candidate countries, the European ambition and steady pressure of the negotiations with the EU can provide leverage. Governments will need to make efforts to maintain the support for membership, and also harness other interests, especially economic, to push for administrative modernisation.

31. But Institution Building, as a long-term, national effort to upgrade capacity for effective policy action, implies far more than the modernisation of public administration alone. Just as the achievement of policy goals rests on the combined actions of public and private actors alike, so Institution Building, in its widest sense, can be seen as encompassing the entire constellation of organisations which together ensure effective implementation. Strengthening public administration capacity for implementation is thus

supported by complementary efforts to foster the emergence and development of private sector counterparts (e.g. chambers of commerce, consumers associations, private quality certification agencies, professional bodies).

Although institution building is an essentially national process, external aid can help...

32. Assistance from Europe and other donors is financially significant in historical terms as an aid flow, but it is dwarfed by the needs. The total annual input of all EU programmes amounts to about 0.5% of the national expenditure budget and only one third of Phare money is targeted to Institution Building.

33. A significant aspect of EU assistance lies in the politics of modernisation and in ensuring access to comparative information on best practice. The crucial aim is to supply access to practical experience, the main tool of which is twinning. This should be enriched by comparative analysis and access to a variety of experience, both of EU Member States and other mature democracies, in such areas of universal concern as expenditure management and oversight or centre-of-government mechanisms. As they move forward, candidates will have much to learn from each other, and it is in Europe's interest that they collaborate. External assistance should support these exchanges, which will also help to maintain contacts amongst all the candidates and with the non-candidate European countries.

...if it is well managed.

34. Past experience has enriched the debate about management of assistance in the area of public administration reform. The Commission has taken important steps to improve delivery in recognition of the top priority now given to Institution Building. Some lessons may be noted:

- public administration reform assistance programmes must be fully subject to national political authority and incorporated into national programmes of administrative modernisation; they should be designed to be flexible and adapted to the administrative culture of the host country;
- external resource flows and procurement should be fully integrated into national financial management processes, and their upgrading should be given priority;
- institutions should be designed to be sustainable from national resources;
- audit and control of assistance should, in the first instance, be undertaken by national authorities which should also be upgraded as a priority;
- project management skills (including design, evaluation and monitoring) should be further developed;
- effective learning comes from flexible processes of interchange amongst practitioners, and access to information which can be used by officials of candidate countries;
- exchange of experience within the region is a valuable tool which should be actively resourced and encouraged.

35. The challenges associated with implementing the *acquis communautaire* are substantial. The priority is now for candidate countries to develop an Institution Building strategy which is tailored to the

national context, meets the immediate demands of accession and, most importantly, lays solid grounds for the future obligations of membership.

36. While the sectoral issues highlighted in the Commission's Opinions must be addressed in a thorough and adequate manner, the horizontal functions of governance which will ensure overall coherence and effectiveness are of equal importance. Candidate countries must ensure that their institutional arrangements and processes operate at a suitable level of reliability.

37. Strengthening administrative capacity to implement today's *acquis communautaire*, as well as to participate effectively within the EU and with fellow Member States in the future, is a matter of considerable importance for each of the candidate countries. To succeed, Institution Building will require adequate resources, widespread public support and sustained commitment by national policy makers over the long term. Although elusive, such conditions are within reach and, once secured, hold out good chances of success.

Annex: Definition of Key Terms

Acquis Communautaire

The entire body of EU law as expressed in the Treaties, the secondary legislation and policies of the Union as well as in the jurisprudence of the European Court of Justice.

For more information on the European Union, see their website at: <http://europa.eu.int>.

Audit

An official review carried out either to satisfy the requirements of management (internal audit) or by an independent auditor (external audit) to meet statutory requirements. The scope of audits varies widely and includes:

- *financial audits*: covering the examination and reporting on financial statements, and the examination of the accounting systems upon which those statements are based;
- *compliance or regularity audits*: which examine legal and administrative compliance, the probity and propriety of administration, financial systems and systems of management control;
- *performance audit/value for money audits*: which assess the management and operational performance (economy, efficiency, and effectiveness) of public programmes, particular ministries and agencies in using financial, staffing and other resources in meeting their objectives

Source: Effects of European Accession. Part 2: External Audit, SIGMA Papers: No. 20, SIGMA, OECD, 1997. Also available on the SIGMA website at: <http://www.oecd.org/puma/sigmaweb/pubs.htm>.

Concession

The term “concession” denotes the transfer of prerogatives or rights previously enjoyed by the state to those persons or organisations who carry out activities which the state is obliged to perform. A concession allows for the execution of public tasks by private actors and has a dual legal character, incorporating elements of both public and private law.

The “concession contract” is a specific instance in which the state enters into a contract as an owner, and grants a monopoly (in the use of public property or the provision of services) to the private actor for a fixed, although usually very long, period. This is because concession contracts usually cover areas characterised by high capital intensity and low rentability (e.g. highway construction and operation) in which the public administration is obliged to provide guarantees for certain advantages in order to attract private capital.

The specific nature of the concession contract lies in the significant element of public administration which, despite the characteristics of a private law contract, persists and for which there are two main causes:

- the object of the concession always involves public property or public funds (thereby making a public tender for the award of a contract an essential precondition);
- the public administration retains the ultimate responsibility for the continuity and quality of the service (thereby leaving the public administration wide rights to supervise the private enterprise — either as a majority shareholder, through specific legal rules or by having rights of control stipulated in the concession contract).

Source: BORDÁS, M. “Legal Aspects in the Field of Public Services with Special Regard to Concession”, in JABES, J. and M. VINTAR (eds.), *Public Administration in Transition: Proceedings from the Third Annual Conference Held in Bled, Slovenia 23-25 March 1995*, NISPACee, Bratislava, Slovakia, 1995.

Copenhagen Criteria

The economic and political conditions for membership set out at the European Council of June 1993 require candidate countries to have:

- achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

For more information on the European Union, see their website at: <http://europa.eu.int>.

Delegated Delivery

New approaches to delivering public services are a central plank of public sector reforms in many OECD countries. These include the use of agencies, commercialisation or quasi-commercialisation of public sector providers (such as contracting-out), partnerships between the public and private sectors and the outright privatisation of public services.

A significant feature of many such arrangements is the development of contractual relationships between government and public service providers. This raises the issue of who is accountable for what and to whom while putting to test the capacity of public authorities to carry out effective oversight and control. Although transparency and openness may be enhanced by shifting service delivery closer to citizens or clients and setting clearer service standards, there is also scope for value clashes, greater risk-taking and confusion about ethical standards.

For more information on ethics in the public sector, see *Symposium on Ethics in the Public Sector: Challenges and Opportunities for OECD countries: Issues Paper* on the OECD’s Public Management Service (PUMA) website at: <http://www.oecd.org/puma/gvrnance/ethics/symposium/issues.htm>.

Ethics Infrastructure

A public sector environment which encourages consistently high standards of behaviour requires support from an ethics infrastructure. The elements of the infrastructure are complementary, mutually reinforcing and may be grouped under three main headings:

- *guidance*: provided by strong commitment from political leadership; codes of conduct and professional socialisation (for example through education and training);
- *management*: achieved through co-ordination by an existing central management agency or specially created body as well as by public service conditions and management practices;
- *control*: ensured by a legal framework which enables independent investigation and prosecution, effective accountability and control mechanisms, and finally, administrative transparency, public involvement and scrutiny.

Source: Recommendation of the Council on Improving Ethical Conduct in the Public Service, OECD Document C(98)70, OECD, Paris, 1998.

For more information on ethics in the public sector, see PUMA's website on ethics at: <http://www.oecd.org/puma/gvrnance/ethics/>.

“European Administrative Space”

Membership of the European Union generates a high degree of mutual dependence which is felt most keenly at the administrative level. Yet there are no Community rules regarding administrative organisation or public management. Despite the absence of direct powers, the European Union does influence governance within the Member States, notably by imposing obligations expressed in terms of the results to be achieved (*obligation de résultat*).

On this basis, the European Union is entitled to demand that future or current Member States have a reliable system of governance capable of incorporating Community standards and decisions into their legal systems, effectively implementing these standards and decisions, as well as ensuring their enforcement.

It is in this context that the “European Administrative Space” is gradually taking shape in which public servants of the Member States meet regularly, exchange information and examine issues jointly, including those having to do with public administration. Administrative reliability, which is necessary for the rule of law, effective policy implementation and economic development is one of the key characteristics of this space.

Source: Preparing Public Administrations for the European Administrative Space, SIGMA Papers: No. 23, SIGMA, OECD, 1998. Also available on the SIGMA website at: <http://www.oecd.org/puma/sigmaweb/pubs.htm>.

National Programmes for Adoption of the Acquis (NPAA)

Following the decision of the European Commission of 4 February 1998 to establish Accession Partnerships (APs) with each of the candidate countries, the latter were invited to prepare a National Programme for the Adoption of the Acquis (NPAA). The NPAA is to indicate in detail how each of the priorities identified in the AP will be implemented, including the definition of commitments in terms of

timetable and the allocation of human and financial resources. For its part, the Commission will maintain an ongoing dialogue with each candidate on the establishment and subsequent revision of its NPAA, thereby providing important input into the Commission's regular reviews of progress. The monitoring of the APs will be carried out through the mechanisms of the Europe Agreement (sub-Committees, Association Committee and Council).

For more information on the European Union, see their website at: <http://europa.eu.int>.

Off-Budget Expenditures

Although a number of definitions of "off-budget expenditures and fiscal risks" are used, the term generally denotes those financial costs that are borne by a government but excluded from the expenditure side of its budget, or its statement of liabilities. Such financial obligations may take a variety of forms and may either entail direct expenditures, financial liabilities or revenues foregone. They may be explicit (i.e. recognised by government law or contract) or implicit (a moral obligation based on public expectations or interest group pressure); direct (certain) or contingent (if a particular event occurs). Some examples of the main categories of such liabilities are as follows:

- foregoing revenues through providing subsidies to taxpayers (tax expenditures);
- providing subsidised credit or loan guarantees to sovereign or private borrowers through the central bank or other financial institutions;
- state insurance schemes (e.g. deposit insurance, flood or war-risk insurance);
- implicit guarantees in the case of e.g. banking failure or default of a regional or local authority on its debt obligations;
- direct expenditure by entities excluded from the budget (off-budget agencies, public enterprises);
- imposing private costs on private entities (regulation).

Not all of these liabilities and risks need be formally recognised in the budget itself. Indeed, in some cases, it would be dangerous for the government to do so by creating unnecessary uncertainty in the financial markets. However, it is important that the government should make an assessment of all such financial liabilities and risks and develop strategies for dealing with them.

Source: The Control and Management of Government Expenditure, OECD, 1987.

Ombudsman

While many different forms of ombudsman exist, their distinguishing feature is that of an independent statutory authority (created by statute or even by the constitution itself) which is usually answerable to parliament. Such institutions play a complementary role to the basic guarantees provided by administrative law and judicial review. The task of the ombudsman is to investigate complaints made by individuals or groups against the actions of administrative authorities, while its jurisdiction may cover the entire sphere of administration or be limited to specific areas within it. The specific form taken varies widely. For example, the British Parliamentary Commissioner for Administration is empowered to investigate complaints against the central administration, the Polish Commission for Citizen's Rights pursues violations of civil rights in general while the Hungarian Commission for National and Ethnic

Minority Rights investigates those against minorities. In general, the ombudsman is restricted to investigating individual complaints advanced by those who are directly affected.

Typically, ombudsmen have the power to require the administration under investigation to produce documents and other evidence upon request. They do not usually have the power to order corrective actions or impose sanctions, but are limited to issuing recommendations to the administrations themselves and relying on public, parliamentary or government pressure to see that action is taken. Not only does the ombudsman play an important role in strengthening the *accountability* of public administration, but it may also contribute to raising *administrative quality* through exposing instances of poor administration and raising awareness among public officials of the public's expectations.

Source: Administrative Procedures and the Supervision of Administration in Hungary, Poland, Bulgaria, Estonia and Albania, SIGMA Papers: No. 17, SIGMA, OECD, 1997. Also available on the SIGMA website at: <http://www.oecd.org/puma/sigmaweb/pubs.htm>.

Performance Standard

In adopting a performance management approach, two key questions must be addressed. First, what will be used as a *measurement of performance*? Either *outputs*, which are easier to specify and measure but whose production do not alone ensure the actual achievement of policy goals (e.g. number of unemployed persons retrained). Or *outcomes*, (e.g. reduction in local unemployment rate) for which it is difficult to hold public managers accountable given that policy outcomes are usually influenced by many exogenous factors which remain outside their control. As such examples illustrate, understanding the relationship between outputs and outcomes is a necessary precondition for the meaningful use of performance measures.

The second key question arises when setting the *performance levels* to be achieved. A focus on outputs as a measure of performance would require the quantification of the "units" which a given public service is expected to produce (e.g. hours of training provided). The choice of outcomes as a measure of performance involves specifying the degree to which a given policy problem has been affected by the actions undertaken (e.g. percentage reduction in unemployment rate among those persons having received training).

Source: In Search of Results: Performance Management Practices, OECD, 1997. Also available on the PUMA website at: <http://www.oecd.org/puma/mgmtres/pac/index.htm>.

Public Procurement

The governmental purchase of goods and services from the private sector represents a significant share of public expenditure in most countries. Such activities are regulated by national legislation on public procurement and guided by international standards of transparency, open and fair competition. The construction of economically efficient procurement systems requires:

- the design of a functioning and coherent legal and administrative framework;
- trained personnel, the development of training and "training of trainers" programmes;
- information and data systems which encourage open competition, public scrutiny of procurement processes and the development of a competitive pool of suppliers;

- effective mechanisms to prevent fraud, waste and corruption further reinforced by internal control systems and external audit;
- open and impartial dispute resolution procedures for reviewing complaints and supervising the procurement process.

Source: Public Procurement, SIGMA Policy Brief: No. 3, SIGMA, OECD, 1997. Also available on the SIGMA website at: <http://www.oecd.org/puma/sigmaweb/pubs.htm>.

Regulatory Impact Analysis

Regulatory impact analysis (RIA) is a technique which requires the systematic assessment of positive and negative impacts of regulation and its alternatives. RIA rests on government capacities to produce high-quality analysis, apply analytical methods including benefit-cost analysis, collect data, and consult with the public to ensure that estimates are realistic.

Successful regulatory impact analysis (RIA) can contribute to:

- improving understanding of real-world impacts of government action (analytical tool);
- integrating multiple policy objectives (co-ordination tool);
- improving transparency and consultation to improve the responsiveness of government (consultation tool);
- improve government accountability through the provision of more extensive information on and the demonstration of how government decisions benefit society (accountability tool).

Source: OECD Reference Checklist for Regulatory Decision-Making, OECD, 1995. This checklist is also available on the PUMA website as an annex to the Recommendation of the Council of the OECD on Improving the Quality of Regulation at: <http://www.oecd.org/puma/regref/pubs/rco95>. Additional information on RIA can be found at: <http://www.oecd.org/puma/regref/ria.htm>.

Rule of Law

The consistent application of statutory provisions offers tangible evidence of the rule of law, i.e. that public and private bodies will be expected to follow legislative provisions and risk incurring sanctions if they do not. In the specific case of the public administration it means that an administrative body has only those powers conferred by law or assigned by a higher authority and that they will be used only as determined by the law. The rule of law promotes: certainty and predictability; consistency in action and equality in treatment; respect for persons; an objective standard for judging administrative action.

Source: Administrative Procedures and the Supervision of Administration in Hungary, Poland, Bulgaria, Estonia and Albania, SIGMA Papers: No. 17, SIGMA, OECD, 1997. Also available on the SIGMA website at: <http://www.oecd.org/puma/sigmaweb/pubs.htm>.

Supreme Audit Institution (SAI)

An SAI is defined as the public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of the State. The precise form which it may take varies considerably. Thus, for example, the Supreme Audit Institution in Germany is the Federal Court of Audit while in Ireland it is the Office of the Comptroller and Auditor General.

Sources: Effects of European Accession. Part 2: External Audit, SIGMA Papers: No. 20, SIGMA, OECD, 1997; *Central Bank Audit Practices*, SIGMA Papers: No. 24, SIGMA, OECD, 1998. Also available on the SIGMA website at: <http://www.oecd.org/puma/sigmaweb/pubs.htm>. For information on the International Organization of Supreme Audit Institutions (INTOSAI), see INTOSAI's website at: <http://www.intosai/magnet.at/intosai/>.

User Charging

Important preconditions for the introduction of user charging include: the existence of clear guidelines, a rigorous control system and effective audit procedures. Charging users for government services is increasingly widespread in many OECD countries and serves several objectives, including:

- reducing budget deficits;
- making the costs and benefits of services more visible to both users and the government organisations providing them;
- shifting the burden of costs from the general taxpayer to the users who benefit directly from the service;
- imposing discipline on user demand for services;
- fostering customer-oriented management and improvements in the financial and service performance of service providers;
- encouraging the development of markets and competition.

The introduction of user charges, or significant alterations to them, should be accompanied by:

- consultation with users;
- determination of the full cost of service provision and the destination of receipts;
- an effective and efficient collection system;
- measures to improve and monitor organisational performance;
- appropriate pricing strategies;
- attention to equity considerations.

Source: Best Practice Guidelines for User Charging for Government Services, PUMA Policy Brief: No. 3, PUMA, OECD, 1998. Also available on the PUMA website at: <http://www.oecd.org/puma/pubs/index.htm>.

Voluntary Compliance

The achievement of the policy goals pursued by the public administration depends largely upon the voluntary compliance of citizens and enterprises with regulations. An example is the collection of income tax, where individual taxpayers shoulder the bulk of the workload in undertaking the calculations and transferring the amounts due. In this context, the main effect of enforcement activities undertaken by public officials is arguably to deter non-compliance and reinforce the 'will to comply' amongst the majority who do follow the regulations.

Comparing the costs of compliance (i.e. the capital investments required to upgrade an industrial plant) against the results of the enforcement function (the size of the sanction for *non-compliance* multiplied by the probability of *detection*) gives regulated entities a rough indication of whether non-compliance really is an attractive option. Perceptions play an important role in such calculations, and it is here that public authorities may “tip the balance” in favour of compliance by either raising the levels of sanctions applied, increasing the number of inspections or both. Clearly, increasing the numbers of inspectors in a given field may not be feasible due to budget constraints and setting very high fine levels may back-fire if they prove difficult to collect. Another option is to widely publicise exemplary cases of detection and sanctioning in order to raise the *perceived* probability of detection among regulated entities and thereby reinforce their efforts to comply.

Source: Administration as Service, The Public as Client, OECD, 1987.