

Case studies: policy management reform within the core executive

The following case studies were prepared to explore how policy management within the core executive can be strengthened. They were initially presented at the First Dusseldorf Seminar on the Center of Government in November 2000.¹ The case studies elaborated a concept introduced at the seminar, “executive policy unreliability”, and the four stages of the policy process at which it occurs.

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Background Note on Executive Policy Unreliability

There are several components of *executive policy unreliability*. To the extent that a particular department or ministry has made or has been mandated and resourced to deliver the promises, then the problem is one of *departmental unreliability*. This can stem from *individual ministerial unreliability*, resulting from the action or inaction of individual members of government, or *bureaucratic unreliability*, occurring when departmental officials create, or at least do not remove, obstacles to policy implementation.

One way to determine the source of the unreliability is to examine the stage of the policy management process at which it occurred. The policy management process encompasses four stylized stages at which governments make, elaborate, give legal and financial effect to, and actually deliver their policy commitments:

- Stage 1: The executive sets broad policy commitments, binding it to implement a particular policy;
- Stage 2: Departments prepare policy and budget proposals to deliver broad policy commitments;
- Stage 3: The executive provides adequate budgets, removes procedural obstacles, and anticipates the likely reaction of external veto players; and
- Stage 4: Departments implement.

Box 1: Encouraging collegiality in Lithuania

Before 1998, Lithuania's only functioning cabinet committee was on European integration. As part of a major reform, a strategic planning committee was established headed by the prime minister. Its mandate includes developing the government's strategic priorities and fiscal plan and reviewing individual priority policy issues. Additionally, the quality of analysis provided by central agencies has been improved significantly so the defense of proposals in cabinet is more compelling. A more extensive cabinet committee system has now been introduced to engage all ministers in a more detailed review of policy proposals. It is expected that their greater involvement in the review process will produce stronger commitment to the outcomes.

The previous system entailed large numbers of submissions to cabinet, precluding any meaningful debate around policy options (no alternatives were offered) or policy issues (no analysis was provided). As a result, problems tended to arise after the fact in the implementation stage.

The main features of Lithuania's new integrated planning and budgeting system stemmed from a review of the institutional arrangements and operating principles as set out below.

Previous Practice	New Approach
Cabinet's primary involvement, other than approving the budget calendar, was at the end of the process when the completed ministry budgets were presented by the Ministry of Finance	Cabinet, through the Strategic Planning Committee, is involved in establishing the budget strategy at the beginning of the process.
No priorities were set. The only priority document was the Government Program, a long list of initiatives covering a four-year period approved when the government assumed power	Strategic priorities are set at the outset of the budget process within the context of a fiscal plan.
No limits were set. Ministry requests exponentially exceeded the available funding.	An aggregate expenditure limit is set, which is then used to assign ministry spending ceilings.
Not applicable as no priorities were set. The Ministry of Finance would refer to the Government Program in allocating any funding for new initiatives.	A funding envelope is allocated to support the strategic priorities; this funding increase is offset by ministry savings targets.
No plans were prepared by ministries. The budget request evolved from bilateral negotiations with the Ministry of Finance.	Ministries prepare strategic plans along with their budget requests to demonstrate how they will support the achievement of the government's strategic priorities and how they intend to improve priority services to the public.
No information was provided to the public other than the approved state budget and the Government Program.	The plans are publicly released, with results published against the previous year's targets.
The Chancellery's main duties were administrative and legal.	The Chancellery (Cabinet Office) has created a strategic planning unit that works with the Ministry of Finance to oversee the process and State Counselors are expected to provide analytic information and advice.
Legislation was simply presented as is to Cabinet with commentaries on its legality and any points of dispute registered by other ministries.	Concept papers have been introduced to ensure that ministers receive policy options and improved policy and fiscal analysis when reviewing proposals from line ministries.

source: Evans and Evans (2000)

The two case studies presented below were primarily focused on stage two of the policy development process (where line ministries complete the policy development and budget requirements for government policy commitment). They took place during 1999 and 2000, before the reforms in decision-making began to have effect, and point to weaknesses in the process that are now being addressed.

Extending Social Assistance Benefits to the Unemployed

The first case study examines a decision by the Lithuanian Cabinet to expand social benefits to long-term unemployed persons. The social benefits program is enacted through national legislation, but is implemented by municipalities. Changes to the eligibility criteria, however, can be made by Cabinet resolution.

In December 1999, the Ministry of Social Security and Labor (MSSL) proposed changes to the regulations on allocating and paying social benefits that would, among other things, provide benefits to persons who had been unemployed for longer than six months. This proposal was not considered a priority of government, and was not contained in the government's program. Rather, the ministry put forward the proposed changes at the suggestion of the Association of Local Authorities of Lithuania (ALAL), and characterized the set of changes as 'minor and technical.' The proposal took the form of a draft regulation; no impact analysis was provided. The proposal was circulated to a number of ministries, including the Ministries of Finance and Public Administration Reform and Local Authorities (MPARLA), as well as the ALAL.

The review by the Ministry of Finance was conducted by the Budget Department, as the proposal was considered strictly an expenditure issue. However, the Budget Department's focus is the state budget, and as the proposals would have to be funded from the municipal budget, from its perspective there was no impact. The Budget Department felt there was no need to consult with the Fiscal Policy Department of the Ministry, which works with the revenue forecast and macroeconomic data, and with data related to budget consolidation. Finance's formal reply back to MSSL was literally 'no comment' without rationale, so there was no basis on which to question their assessment.

MPARLA only responded by saying that ALAL should be commenting on the issue. Yet as the Ministry responsible for local authorities, one could have expected MPARLA to alert the government to the potential for this issue to aggravate the government's already strained relationship with municipalities if adequate funding were not provided.

ALAL responded formally in writing with "no comment." It was only much later that, through follow-up conversation, the reason given for this response was that ALAL had assumed that new funding would be provided for any unilateral expansion to the program by the national government.

Once these comments had been received, the proposal was then reviewed by the Chancellery and by the Prime Minister's Office (PMO).³ During this review, and at a subsequent meeting of Ministry Secretaries, the issue of financial impact was raised. On both occasions, MSSL indicated that they had no detailed financial analysis, but that savings from some other minor actions included in the proposals would offset any costs from this change. In addition, it was of the view that, because ALAL had raised no concerns, it had adequate funding to implement the changes.

The proposal went to cabinet in April 2000. The issue of cost was raised again by the Government Secretary, but the Minister of Social Security and Labor rejected this concern, and assured Cabinet that there would be no additional cost. On this basis, the proposal was approved, and the changes to benefits were effective May 1st.

By early June 2000, however, it had become clear that in fact there was a substantial financial impact for municipalities. According to preliminary information from 22 municipalities provided by ALAL in June, the changes had resulted in new applications for benefits totaling 11.6 million litas (\$US 2.9 million), for these municipalities alone. Of that amount, however, the 22 municipalities had reportedly paid out only 3.2 million litas, with the balance owing put on hold until additional funding was provided by the national government. In the formal document submitted by MSSL to the Chancellery in June on this issue, it was estimated that supporting the long-term unemployed would cost more than 40 million litas by the end of 2000.

Upon receiving this new information, the issue was discussed once more at Cabinet on July 14th. This time, MSSL was recommending that the new provision be revoked, but municipalities would still have the discretion on a case-by-case basis to provide benefits to families who would otherwise be ineligible. During the Cabinet discussion, the question was raised as to why this concern was not addressed during the original review. The response given by the ministry was that since municipalities fund social benefits, and ALAL supported the proposed changes, it was assumed that the municipalities would be able to fund the additional expenditure. As for ALAL, it had assumed that the national government would provide the additional funds. Following this debate, the Ministry's recommendation to revoke the eligibility of long-term unemployed persons for social benefits was approved.

The central issue of this case is the quality of the policy analysis and materials presented to Cabinet – the product of Stage 2 of the policy process. Although one can fault MSSL for not doing a better job of assessing the implications of this decision, they did follow the normal policy development process – write a draft regulation of law, circulate for comments, make amendments if necessary, and submit it to the Chancellery. Clearly, there is a need for a structured approach to policy impact assessment, including a set of standard, mandatory elements. And one of these mandatory elements should be an assessment of the impact on other levels of government.

In addition to providing ministries with a methodology for preparing policy analysis, the Chancellery should have the additional responsibility for being both the integrator and the 'devils advocate' in this process. It should be testing and questioning the quality of the analysis coming forward for Cabinet's consideration. It should also be showing leadership in bringing together ministries who have an interest in a particular policy issue. In this case, the Chancellery clearly played a minimal role, consistent with its traditional administrative responsibilities.

Adopting a standardized impact assessment process, of course, does not mean an error in analysis could not still have occurred. The difference in this case would be that the

checks in the system would have been more rigorous, and errors more likely to be caught. Nevertheless, to be effective, introducing this type of analytical approach needs to be accompanied by the development of good analytical capacity, both in ministries and in the 'central agencies.' A manual on developing Cabinet submissions can be a very effective vehicle for supporting capacity development, if it is designed as a supportive tool with explanations, examples and sample formats.

Reducing Red Tape for the Construction Industry

The second case study examines the policy development process followed by the Ministry of Environment (MOE) in amending the Law on Construction. The government had made a commitment to review of the legislation in order to improve conditions in the industry as early as 1996. However, the ministry only began reviewing the legislation near the end of 1998, and then, only because it was pressed to do so in response to the Government's EU accession requirements.

Over the following 15 months, MOE consulted broadly with various associations involved in the construction industry. These consultations primarily took the form of formal, written correspondence, seeking reaction and comments on draft documents. In March 2000 the Ministry completed its sixth version of the draft law, and submitted this draft to the Chancellery as the first formal step in placing the item on Cabinet's agenda. But the draft only contained amendments dealing with EU integration issues, and did not address government's original objectives of improving industry conditions.

While the Ministry of Environment was working through this very slow consultation process, the Government itself was going through a period of considerable instability. Prime Minister Vagnorius resigned in May 1999, along with many of his Cabinet colleagues, including the Minister of Environment. His successor, Prime Minister Paksas, resigned in October 1999, and was replaced by Prime Minister Kubilius. The new Government Program submitted by Prime Minister Kubilius in November 1999 was largely based on the party's original program approved in 1996, with some specific modifications. One such change was to give priority to reducing red tape as part of its commitment to review the Law on Construction.

This commitment was followed in January with an announcement by the Prime Minister that his Government would be creating a new Commission on 'Preparing Measures for the Improvement of Business Conditions,' which quickly became known as the 'Sunrise' Commission. His objective was to create working groups of representatives from business, academia and government to solve urgent problems. The Commission's mandate was to coordinate recommendations for government on ways to improve business conditions through ideas generated by specific working groups reporting to the Commission.

The Commission's working group on construction regulation met a number of times during the winter of 2000, and developed recommendations for simpler rules for the preparation of detailed project plans, a shorter timeframe for plan approval, and a 'one-

window' approach that would eliminate the need for separate contact with the many government agencies involved in the regulation of construction projects. These recommendations were presented to the Strategic Planning Committee (SPC) on May 10th, and to Cabinet on May 17th, where the recommendations were approved.

While the Sunrise Commission process was proceeding, the Ministry of Environment continued to develop its draft amendments on a separate track. However, once the Cabinet decision had been taken in May, the Prime Minister's Office worked intensively with the Ministry of Environment staff over the next four weeks to develop and add the appropriate amendments to the draft legislation. MOE provided an assessment of cost implications, which were minimal (3 million litas over 5 years, plus 25,000 litas for additional document preparation), and indicated that it intended absorb these costs. There was no assessment of savings to the private sector. The Prime Minister's Office also collaborated with the Ministry to develop presentation materials for use at Cabinet. In addition to the standard materials, slides were prepared that illustrated the simplified and shortened project approval process, as well as a summary page highlighting the expected results.

The final version of the draft law was approved by Cabinet on June 19, 2000, introduced in parliament on June 19th, approved on September 19th, and became law on January 1, 2001.

This case study illustrates a number of issues related to the process of developing policy priorities from concept to legislation (Stage 2 of the policy process), and in particular how that process is managed. Unlike the first case study on social benefits, the Ministry of Environment did conduct thorough consultations, but clearly it took far too long. In conducting its consultations, the Ministry followed formal, institutionalized procedures: it prepared a draft of the amendments to the legislation and then circulated it and asked for written comments. But no timetable was adhered to, and the Ministry did not press for closure. The Sunrise Commission actually brought the key stakeholders together for the first time in the process, in a forum that encouraged discussion of issues and generation of ideas, rather than reacting to draft legislation. It was only through this departure from the normal consultation process that measures were generated that actually addressed the policy priority of reducing red tape.

A second problem with this process was that the draft amendments did not address the original policy commitment of the government – improving conditions for the construction industry. The traditional view of the bureaucracy in Lithuania has been that the fulfillment of these commitments is the responsibility of the appropriate line ministry. There is a tracking mechanism in the Chancellery to follow progress on implementing the government's program, but the Chancellery has not been effective in pushing ministries to develop proposals within the established timeframe. A Cabinet procedures manual describes who should be consulted, but the responsibility to bring issues forward lies with the line Ministry.

The purpose of the Sunrise Commission was in part seen as a way to circumvent the normal (and ineffective) policy process in order to give focus and attention to a number of issues of priority to the government. It was a signal to the bureaucracy that these issues were important and urgent. The Commission gave the Prime Minister's Office a means to push the Ministry of Environment to include measures in its draft that otherwise would have taken far longer to accomplish. Granted, the Chancellery should have been an active player in this process along with the Prime Minister's Office but, as it has been noted in the social benefits case study, the Chancellery is only now moving away from its traditional, administrative role towards a policy management unit. In future, it should be the main central agency working with line ministries to ensure the government's agenda is implemented. The Chancellery should be advising the Prime Minister and Cabinet on a timetable for delivering its priorities and working with line ministries to ensure that products are delivered on time.

Together, these two cases illustrate the specific role that the Chancellery or cabinet office should be playing in stage two of the policy process. Granted, the main responsibility for this stage is the line ministry, but it is equally important for the Chancellery to show leadership by providing clear guidelines on how to prepare policy analysis, by providing a critical assessment of the analysis, ensuring that cross-ministry issues are addressed, and ensuring that timelines are met.

As indicated at the beginning of this set of two case studies, reforms to the Chancellery and to the process of policy development and analysis generally are underway in Lithuania. The Chancellery has been reorganized, and a strategic planning unit has been created. The use of concept papers, which lay out the principles of proposed legislative changes with accompanying analysis, is becoming standard practice. Currently, the strategic planning unit of the Chancellery is working with the Ministries of Justice and Finance, and the EU Committee to develop a more rigorous structure for concept papers, including detailed requirements for financial and policy impact assessment. These reforms should address some of the issues raised above.

To be fully effective, however, the Chancellery will need to have improved skill capacity, as well as clear authority to assess ministry proposals, and to intervene when necessary. The recent decision by the government to combine the positions of Government Secretary and Chancellor should pave the way for this. But it is certainly a delicate balance that the Chancellery must maintain – providing effective leadership in the policy development process without usurping line ministers' authority.

Latvia: Implementation of two key policy reforms⁴

Latvia has also been engaged in strengthening its policy management capacity and completed the same type of analysis as Lithuania. With respect to identifying reforms from the analysis, the following table summarizes the proposed directions that, for the most part, are now being acted upon.

Table 9 Policy Management Diagnosis and Remedial Directions for Latvia

Stage of Policy Process	Overall Assessment	Remedial Direction
Stage 1: Executive sets broad policy commitments	Budget/policy planning disconnect problematic; reform program has been initiated to address weaknesses	Ensure reforms are implemented; political commitment must be sustained
Stage 2: Departmental preparation of policy and budget proposals to deliver policy commitments	Ministry disregard of planned deadlines needs to be remedied; Ministries do focus well on priority initiatives	Improved planning processes that recognize capacity of ministries and government to generate and approve legislation.
Stage 3: The executive provides adequate budgets, removes procedural obstacles, and anticipates the likely reaction of external veto players	Too many technical items at government meeting; poor performance in policy/legislative planning needs to be remedied; policy approval is disconnected from provision of budgets	Increase delegation of technical items; focus on developing legislative planning capacity in chancellery; build political support for ministry expenditure ceilings; ministry policy programs need integration with budget structure
Stage 4: Departmental implementation	Existing performance is strong, but does not assess effectiveness or service quality	Develop systems and processes for tracking and assessing effectiveness and service quality

Two case studies were also completed to indicate strengths and weaknesses in policy management of individual initiatives. The first, dealing with the foodstuff market surveillance policy was considered ineffective, and the second, dealing with language training was considered to be a success. Both cases also touch on all four stages of the policy process.

Taking these two case studies together, the main element that made one successful, contributed to the failure of the other. In the first case there was no clear leadership from Cabinet; in fact the two ministries, Welfare and Agriculture, as well as other political forces within parliament, were allowed to pursue their own agendas. An effective State Chancellery could have helped to bring the parties together, either to resolve differences or to articulate the issues so that Cabinet can more easily reach a sound decision. By contrast, in the second case, there was strong leadership from the Prime Minister and Cabinet from the outset, not only in establishing the priority, but also taking action by drawing assistance from international donors. This political leadership influenced the degree of bureaucratic unreliability as well as ministerial.

Foodstuffs Market Surveillance Policy

The foodstuffs market surveillance (FMS) policy area has evolved over time, from a soviet-based system focused on both quality of food and protection of public health to one that is focused solely on public health concerns, and moving towards accordance with FMS policy in EU member states. In addition, policy development has progressed in a piecemeal fashion, with a mix of legal acts, and policy responsibility falling between the Ministries of Agriculture and Welfare (public health). While the FMS system has seen considerable improvements during the last ten or more years and many Latvian

enterprises have been able to export foodstuff products to the European Union, the FMS policy area continues to be rather fragmented and inefficient, and coordination of activities in the FMS area needs to be improved.

Because the FMS policy area has been under constant change since beginning of the 1990s, it is rather difficult to identify a single point of policy initiation. Besides, in Latvia, there is no single and explicitly defined FMS policy. However, the following recent policy decisions serve to give an overview of the state of policy development in this area.

The first decision deals with the law on veterinary medicine adopted in 1992. This Ministry of Agriculture law created the State Veterinary Service (SVS) and gave authority to establish through cabinet regulation the Sanitary Board Inspectorate (SBI), both dealing with meat products. The SBI was created in 1997, and headed by a former Minister of Agriculture. In 2000, the Ministry of Agriculture initiated changes to this law, in order to integrate the SBI with the SVS and the State Plant Production Protection Service (SPPPS). The intention of this change was to create a more efficient system of market surveillance by establishing a single, national service for control of animal and non-animal origin foodstuffs. However, the head of the SBI was strongly opposed to this change, resulting in a heated battle within parliament.

The second issue deals with the law on 'food circulation,' adopted by parliament in 1998. This law was prepared by the Ministry of Welfare, with two purposes. First, it created authority to establish a system whereby every food processing enterprise must be approved by a special authority. This measure was necessary to ensure that all enterprises meet the same veterinary and fito-sanitary standards. Second, it introduced two main bodies responsible for coordinating market surveillance issues and activities at both policy and administrative levels. These bodies are the Latvian Food Council and the Latvian Food Centre.

The Latvian Food Council carries out the FMS policy function and includes representatives from various ministries: Environment and Regional Development, Agriculture, Economy, Welfare, and Finance. The Minister of Welfare heads the Council. The status and management of the Council have been controversial, and have caused considerable tension between the Ministry of Agriculture and the Ministry of Welfare. The Ministry of Agriculture sees the Council as being too narrowly focused without real policy impact.

The Latvian Food Center carries out the day-to-day coordinating function in the area foodstuff market surveillance. Its work includes coordination of various inspectorates, such as SBI, SPPPS, SPPS, SVS, and State Sanitary Inspection (SSI). The center is subordinate to the Latvian Food Council, and therefore is the responsibility of the Ministry of Welfare. As a result, its coordinating role has been rather ineffective, since the inspectorates that it coordinates are the responsibility of the Ministry of Agriculture.

Both the Ministry of Agriculture and the Ministry of Welfare also have been in disagreement over the first policy initiative included in this law, namely, introduction of a system where every foodstuff enterprise must be approved by a special authority. This new system of approval had to be introduced through a separate regulation. Initially, this regulation was drafted by the Ministry of Welfare and agreed to by the Latvian Food Council, although the Ministry of Agriculture (as a member of the Council) objected. At the same time, however, the Ministry of Agriculture proposed its own version of the regulation to the Cabinet. Neither regulation had been adopted at the time this case was originally prepared.

In addition to the specific legislative proposals, the Ministry of Agriculture developed a concept paper whose purpose was to reorganize the current institutional set up in the area of FMS in a way that the Ministry of Agriculture would become the sole responsible institution for the FMS system in Latvia. The paper emphasized the decline of the food processing industry, resulting from a number of factors including:

- Lack of a single policy for food industry;
- Fragmented and uncoordinated nature of various inspectorates; and
- Lack of a single FMS policy at the national level.

At the operational level of the FMS system, according to the Ministry, there has been a significant degree of duplication of effort, inconsistencies in action, and lack of coordination between the inspectorates under the supervision of the two different ministries.

The case illustrates problems with unreliability at the policy development stage of the policy process. A key reason for policy failure in the area of the FMS is the lack of a systematic approach toward development of the FMS system as a whole. This can partly be explained by an administrative tradition inherited from the Soviet system. After Latvia regained independence, both the ministries of Agriculture and Welfare inherited a number of subordinated institutions that now form part of each ministry's budget. In addition, the lack of comfort with cross-ministry collaboration has led each ministry to believe the solution lies in institutional (and consequently budget) reorganization, without addressing the fundamental policy issues.

However, what has been missing from the case is the role played by Latvia's State Chancellery, and in fact they appear to have stayed in the sideline on this issue. The State Chancellery, as in the case in so many other Eastern European countries, has traditionally provided only an administrative support function to cabinet. In the last couple of years, however, a significant change has been instituted through the creation of a strategic planning unit in the Chancellery. This group is staffed by a small but competent group, and it is responsible for supporting cabinet's priority-setting process and strategic planning in ministries, as well as the ongoing analysis of policy issues that come forward to government. As it continues to build its capacity, it will be able to play a leadership role in addressing policy issues such as the one described above. Specifically, it should have had the authority to bring these two ministries together to coordinate their proposed policy changes, so that issues could have had a better chance of being resolved before they reached cabinet. Where there is a compelling need to develop

a new policy in this type of cross-cutting area, the Chancellery can play a leadership role in driving the policy development process.⁵

Latvian Language Training and Transition to Bilingual Education Policy

The second case deals with bilingual education policy in Latvia. Upon regaining independence, Latvia faced a serious problem of the population being divided along linguistic, ethnic and ideological lines, as a result of soviet immigration policy. In 1989, 38 per cent of the population did not even know that Latvian was the country's official language. In response, the Latvian government placed a high priority on addressing this issue. In 1994 the Prime Minister asked the UNDP for support in preparing a program for the promotion of language training. A task force of national and international representatives was created to develop policy recommendations; the task force involved a number of experts in education and Latvian language training in the course of its deliberations.

The recommendations of the task force were approved by government in 1995, and the program was launched in February 1996. The two key thrusts of the policy were:

- Promotion of social integration through Latvian language training, and
- Reform of the general education system by transition of Russian language schools to national minority schools using a bilingual method of training.

The implementation of the program was overseen by a Steering Committee for the National Program of Latvian Language Training (NPLLT), comprised of representatives from the Ministry of Education and Science, the Naturalization Board, the State Language Center, the parliament, the Latvian Adult Education Association, the school boards of Riga and Daugavpils, and minority school directors. The actual day-to-day implementation was delegated to a state non-profit organization – the Latvian Language Program Unit (LLPU).

Implementation of the policy was complex, with a number of different institutions playing an active role at different stages. The program was financially supported by the European Commission Phare program, UNDP, and the governments of Sweden, Denmark, Finland, the Netherlands, Norway, Canada and the USA. Project results were regularly monitored through annual surveys, and these surveys were re-planned every two years. After the first four years, an impact report was prepared by independent experts.

The program is considered to have been very successful in addressing some of the key capacity building needs of the minority school and adult education systems with respect to providing quality Latvian language training. After the first two years, almost 2000 minority school teachers had been trained, the new and modern teaching books and materials had been prepared for the levels 5 to 9 of basic education for Latvian as second language, and a teacher's guide had also been prepared. Targeted training materials had been prepared for groups of adults in specific professions (e.g. police, medical workers), and language instruction courses for broadcast and video were prepared. In the first two

years these teaching materials had already reached about 40,000 persons in Latvia. In addition, there are special activities that promote mutual contacts of Latvian and Russian language schools and teachers, such as summer camps and youth clubs.

Institutionalized arrangements for the bilingual reform have advanced as well. The Ministry of Education and Science has developed four models for minority education programs for basic education. Schools have a right to choose any of these models or develop their own in accordance with the National Standard of Basic education. This flexible approach that allowed the opportunity to choose was very popular, and helped garner increased support for the policy generally.

The development and implementation of Latvia's language policy faced considerable risk of failure, as it has been one of the most sensitive political questions in the course of last ten years. Almost every decision taken by the parliament, government, ministry or other responsible institution sparked critical reaction and pressure from many political organizations, especially those associated with either of the largest linguistic groups in the society.

Despite this, the program has been considered successful. Reasons for this success include:

- Policy and technical support from both international and non-governmental organizations
- Financial support from the UNDP and donor countries
- Political support of successive governments
- High level of cooperation by all institutions involved
- A well planned, conceptually sound program, including design and implementation
- Personal commitment by the staff and others involved at various stages of implementation

These success factors offer good lessons for managing other difficult issues, and underline the importance of central coordination and good planning, especially when cross-cutting issues are involved. In fact, these points touch on all four stages of the policy process. First, there was clear political commitment and articulation of the policy objective (stage 1). Second, there was good policy develop work done, with some international assistance, In addition, the key stakeholders were actively involved in the policy design work (stage 2). Thirdly, financial support was available through UNDP and other donors, so this did not present a significant problem (stage 3). And finally, implementation was well coordinated and results were monitored, so that it even early on in the process was clear that the program was achieving the desired effect (stage 4).

*Zambia: National Housing Policy*⁶

In the years following *Zambian* political independence in 1964, and before the re-introduction of multi-party politics in 1991, the development of individual domestic housing was severely restricted. Housing construction was limited to those who were prepared to challenge the socialist philosophy of the former government. Restrictions on individual property development also resulted in the mushrooming of unplanned settlements in both urban and near-urban areas. Studies have indicated that about 80 per cent of *Zambia's* urban population lives in unsuitable housing units. These units are largely populated by the poor and low-salaried workers and are characterized by overcrowding and frequent outbreaks of disease.

In January 1996, responding to the continued deterioration in the housing situation, the Minister of Local Government and Housing embarked upon a process of internal and external consultations with key stakeholders with a view to formulating a national housing policy for the country. A number of line ministries were consulted, and a series of national workshops were held involving members of civil society.

Upon completion of the consultation process, the Minister of Local Government and Housing prepared a draft cabinet memorandum, and circulated it to his fellow cabinet ministers. Highlights of the new housing policy aimed at: allocating a minimum of 15 per cent of the national annual budget to housing to support a sustainable housing development program; making serviced land available for housing development and streamlining the land allocation system; streamlining building standards, regulations and other controls; encouraging the production and use of local and affordable building materials; and, assisting the poor to acquire decent shelter (largely through financial assistance to sitting tenants). Comments and observations were incorporated in a final cabinet memorandum that was subsequently approved by cabinet.

Following the normal cabinet procedures, implementation of the national housing policy was delegated to the Minister of Local Government and Housing, with no further follow-up or oversight by Cabinet Office. The ministry's implementation strategy was centred on mainstreaming housing in all national development programs alongside health and education.

Despite the fact that the national housing policy had clearly defined performance benchmarks and measurable indicators, evidence has shown that its implementation has encountered serious difficulties. In particular, there have been allegations of a number of housing units being sold to non-sitting tenants, in clear contradiction of the policy, and some senior officials have acquired more than one housing unit. Implementation has also been stymied by the existence of parallel housing schemes, such as the Presidential Housing Initiative, which has been producing more expensive housing units that are beyond the financial reach of the majority of the population. The national housing policy has equally failed to institutionalize and enforce national building standards. New

unplanned and illegal housing structures continue to appear, as some officials apparently turn a blind eye.

Timely implementation of the policy has also been affected by shortfalls in funding. Not only has the promised 15 percent of the annual budget never been allocated, the flow of approved funding has at times been significantly delayed by the Ministry of Finance and Economic Development due to the lack of available cash.

Within the context of executive policy unreliability, this case highlights a number of weaknesses. In particular, departmental reliability has suffered due to poor policy development. Although the symptom has manifested as poor implementation (Stage 4), the cause stems from a lack of detailed planning, including the preparation of an implementation strategy, which should have been done during the policy development process (Stage 2). Certainly, not all details are needed in order to make an effective decision, but the basic elements of an implementation plan can greatly inform decision-makers about the proposal's ultimate feasibility.

It is apparent from the case, however, that this lack of detail at the policy approval stage is typical of the policy process in Zambia, and is reflected in the low level of involvement in the process by the Policy Analysis and Coordination Division of the Cabinet Office. When Cabinet Office receives a policy submission, it determines whether the proposal is cross-cutting and accordingly advises the originating line ministry. The line ministry then prepares a draft cabinet memorandum and circulates it to fellow cabinet ministers for their comments. Once comments have been received, the Minister goes ahead and prepares a final Cabinet Memorandum for tabling at a full Cabinet meeting. However, Cabinet Office does not get directly involved in assessing the quality of the proposal.

Furthermore, once cabinet has approved a policy, the onus for implementation falls squarely on the shoulders of the line ministry, and Cabinet Office staff are no longer involved. Developing good analytical and monitoring functions within Cabinet Office has been recommended to the Zambian government. By implementing these recommendations, Cabinet will be in a better position to hold ministries accountable for effective implementation.

In the case of Zambia's housing policy, executive policy unreliability also occurred at the governmental level, as the policy was approved without apparent regard to the existing budget realities (Stage 3). The approved policy included a commitment to allocate at least 15 percent of the national budget to the housing policy, but apparently this commitment was never built into the fiscal plan; and in fact, policy implementation was even adversely affected by cash flow restrictions. Moreover, guaranteed funding levels, in this case 15 percent of the national budget, restrict the government's future ability to make policy trade offs and align fiscal resources with policy priorities. Significant policies of this magnitude are best reviewed and approved within the context of the budget process, but at a minimum, the Ministry of Finance needs to inform cabinet of the multi-year fiscal implications, so that adequate funding can be assured.

*Thailand: Public Service Reform*⁷

Recent efforts to heighten the emphasis upon public service reform in Thailand present an example of how a fragmented cabinet government limits the potential for policy competence.

One of the consequences of the 1997 Asian financial crisis was that Thailand required assistance from the World Bank, the International Monetary Fund and the Asian Development Bank. This assistance was accompanied by conditions that focused decision-makers on restoring fiscal competence, arguably at the cost of other values that underlie good governance. This intervention led the government to adopt a package of public administration reforms borrowed wholesale from international experience without fully exploring and assessing what would work best in Thailand's political and bureaucratic governance structures.

However, the resulting problems were intensified by a cabinet system that emphasized individual rather than collective ministerial responsibility. Although its underpinnings reflect a parliamentary system of government, the nature of the coalition process in Thailand has led to an allocation of specific portfolios through political negotiation. Each ministry is assigned to a particular party depending on its strength within the coalition. The minister is considered a 'supreme authority' within the ministry, and only a limited number of issues need be referred to Cabinet. Within each ministry, there will also be a number of deputy ministers from different parties in the coalition with responsibility for specific departments or state enterprises. Thus each ministry will be led by a multi-party team of fairly autonomous political leads. Moreover, each party appoints a deputy prime minister, who oversees the work of ministers and deputy ministers from the same political party.

As a result of this segmented cabinet structure, most proposals go through cabinet without collective debate. Policy proposals can be subjected to review, but this scrutiny generally takes place through various filters en route to the cabinet table and is politically-focused, rather than policy-based. The lead minister may request his or her advisors or departmental staff to assess the proposal. Proposals submitted for cabinet approval will also be scrutinized by the respective deputy minister, his advisors or the party. If the prime minister wishes, he can also direct the proposal to be reviewed by a national policy committee or other group of advisors. But once at the cabinet table, ministers are generally unwilling to voice strong objections to policies outside their jurisdiction.

Once the policy proposal receives approval by Cabinet, implementation is the responsibility of the lead ministry. But monitoring mechanisms are virtually non-existent, and even the public and mass media rarely provide even cursory scrutiny of policy implementation.

In the case of the public service reforms following the 1997 Asian financial crisis, the lack of cogent involvement of the political executive meant that the government (1)

bought off-the-shelf reform packages as if there were a global reform paradigm that applied readily to all systems; (2) fell into the trap of defining success in terms of achieving outputs in the short term with insufficient attention to the outcomes; (3) accepted a bias toward reforms focused on efficiency rather than effectiveness; and (4) construed reform as solving managerial rather than political problems. Essentially, government approved a package of reforms without the sufficient level of commitment and scrutiny necessary for effective implementation.

There is an argument to be made that decisions to approve reforms of this nature, which are to some degree driven by the international donor community, are taken more to appease the donors than anything else, and in an environment of short-lived coalition governments, unintended consequences are of little concern.

However, governmental unreliability at Stage 3 in the policy process, in this case caused by the individualistic nature of Thailand's cabinet system, must be viewed as a major contributing factor. Policy proposals that naturally fall within one portfolio typically suffer from a lack of collective study and commitment, even when they have some overlapping impact on other policy areas. In the case of public sector reform, the problem was particularly acute. With this type of comprehensive reform package, every part of the public service is affected, in terms of management practices, organizational structures and decision processes, as well as values and culture. Without collective ownership of the decision, along with concerted and sustained commitment from the top, effective implementation is unlikely.

Although in Thailand's case, weak collegiality is the major factor affecting executive policy reliability, in this case effective implementation (Stage 4) could also be aided by stronger center of government support at the bureaucratic level. The permanent bureaucrats working in the Government House such as in the Secretariat of the Prime Minister and the Office of the Permanent Secretary of the Prime Minister are of little help to the prime minister in terms of policy making and evaluation. They have been trained as rule-driven administrators, not policy evaluators. Furthermore, although the Secretariat of the Prime Minister is in charge of presenting annual reports on the performance achievements of the government, the report is not a well-synthesized evaluation of government performance; instead, it is only a collection of reports sent by ministries. Stronger leadership from the secretariat would undoubtedly strengthen departmental reliability.

*Poland: Tax Reform*⁸

This case examines Poland's attempt to introduce personal tax reform in the late 1990s, and the impact of both ministerial and governmental reliability on the eventual abandonment of the reforms.

In their campaign manifestos preceding the 1997 elections, both the Solidarity Electoral Action (AWS) and the Freedom Union (UW) parties made strong commitments to reform tax policy in Poland through the adoption of lower and simpler personal income tax

structures. Upon forming a coalition government, the AWS and the UW signed a coalition agreement, which specified major policy commitments including tax reform, under two distinct headings: (i) family-oriented policy, with specific tax allowances and a child benefit; and (ii) public finance and taxes, which involved a pledge to reduce income tax and simplify the tax system. But it soon became clear that the AWS was more committed to the former, while the UW prioritized the latter. Although the AWS saw tax policy as an active instrument of social policy through the use of tax preferences, the UW wished to simplify the system by lowering taxes and abolishing most, if not all, allowances.

In September 1998, Finance Minister Balcerowicz (of the UW) published a tax reform white paper, a comprehensive report that described proposed changes in income tax and corporation tax including a flat income tax rate of 22 per cent and the elimination of all tax allowances, with the sole exception of a personal allowance. Such proposals fit more the UW view of reform than that of the AWS. The white paper was prepared without any inter-ministerial consultations, discussion within the coalition, or cabinet review or approval. The white paper received criticism on a number of fronts. In particular, it lacked some of the key elements of the AWS reform package, including a link between family size and tax liability. It also was criticized by some UW supporters because the measures would cause some short-term increase in the tax burden of the middle class.

In light of these difficulties, an intensive series of consultations and negotiations took place over the next several days, formally through the cabinet committees dealing with economics and with social policy, and informally through various political forums involving representation from the AWS and UW. On 22 September, the matter was submitted to the cabinet. Intermixed with various 'off-line' meetings taking most of the day, the cabinet session ended with a decision to delay the tax reform until the following year.

Following the decision to delay reform, a more coherent policy development process was established by the cabinet through the creation of an inter-ministerial task force to prepare a new tax reform package. The task force included representatives from the Finance Ministry, the State Treasury, the Economics Ministry, the Labor Ministry, and the Strategic Studies Center at the Chancellery. It reported regularly to the cabinet on its work and tapped external expertise from, among others, the IMF, the World Bank, and the US Internal Revenue Service. The proposals prepared by the task force were subject to inter-ministerial consultations during the ensuing months. In May 1999, the AWS and the UW leaders met to discuss the tax reform proposals and reached an agreement to keep tax rates at 19%, 30%, and 40% in 2000 and to introduce two lower rates of 18% and 28% in 2001. The package included tax allowances for families, but considerable reductions in other tax allowances. In June, the government approved the relevant draft laws and submitted them to parliament.

Once the proposals had reached parliament, however, disagreements within the coalition caucuses surfaced, particularly around the short-term adverse impact on some taxpayers. Under pressure from the AWS parliamentary group, the government decided in June to

lower tax rates in 2000 to 19%, 29%, and 36%, while keeping its pledge to introduce rates of 18% and 28% in 2001. Even with these changes, however, delays continued as elements within the AWS continued to oppose certain specific parts of the package. Coalition negotiations were reopened, with the result of further amendments. But the prolonged negotiations meant that the government was under extreme pressure to meet constitutional deadlines for passing tax legislation before the start of the tax year. To save the drafts, the government used a loophole in the Parliamentary Internal Rules and Regulations by first withdrawing the government proposal and then re-submitting it as a minority private member bill. This made it possible to pass the legislation before the constitutional deadline. However, the president vetoed the PIT tax reform bill, arguing that the loophole used by the government to push through the bill had set a dangerous precedent for the governing parties to circumvent established procedure. The government ran out of time to mobilize resources sufficient to overturn the presidential veto. The income tax bills were resubmitted in 2000; however, after the collapse of the coalition in June, the AWS minority government decided to withdraw the bills and, in effect, to abandon its tax reform proposals.

This case provides a good illustration of executive policy unreliability occurring at the departmental level – particularly ministerial unreliability – as policy proposals are being developed (Stage 2). The Finance Minister launched the policy process without consulting with colleagues and taking the proposals through the formal cabinet process. Instead, he simply published a white paper. Not only did he receive expected opposition from other parts of the coalition, but he also was criticized from within his own party for failing to prepare a sound analysis of his proposals. Subsequently, however, the minister's responsiveness – his willingness to negotiate and make changes, and use more effective policy development and consultation mechanisms – improved greatly. As a consequence, the revised tax reform package was approved through cabinet with a fair degree of support.

Despite this improved effectiveness of the policy development process, unreliability ultimately caused the tax reform package to fail. In this case the unreliability occurred at the governmental level (Stage 3), where cabinet was unable to effectively manage what seemed to be a loosely knit coalition or to anticipate the veto point presented by the budget deadline. The difficult coalition dynamics and low capacity to resolve coalition conflicts meant that the collective support for the package achieved in cabinet broke down quickly once beyond the confines of the cabinet walls.

India: Responding to Drought in the Gujarat and Rajasthan States⁹

This case looks at the specific policy response of the state governments in India to the drought situation in Gujarat and Rajasthan states, which occurred in 1999-2000. The drought situation in both states reached serious proportions precipitating a government response as early as October 1999, and continued to worsen through the first half of 2000. In Gujarat, approximately 52 per cent of the villages were affected, and in Rajasthan, as many as 67 per cent. These villages suffered from an acute shortage of drinking water and fodder supply for their cattle. The drinking water situation was so

serious in some parts of Gujarat that water riots broke out, with three people being killed by police fire in one particular incident.

In October 1999, the state governments began announcing a series of actions, focused on providing grass and water, and funding drought relief works to provide temporary employment. The governments also presented a memorandum to the central government for financial assistance, to supplement the amounts that the state governments had already put aside.

From the beginning of this commitment to provide relief, the government was under considerable scrutiny from DISHA (Development Initiatives for Social and Human Action), one of the key public cause advocate NGOs in India. DISHA conducted considerable background research in assessing the extent of the problem and the degree to which government actually delivered the promised relief, and is the source of material for this case.

According to DISHA's research, the state bureaucracy did not immediately follow through on its commitments to deliver prompt relief. DISHA has provided considerable documentation that instead the bureaucracy consciously minimized the amount of funds actually spent on relief efforts, even though the state governments had allocated funding, including amounts received from the central government's calamity relief fund.¹⁰ This was done in a number of ways, including diverting funds to other government programs and implementing different program parameters that would cost less. A specific example of the latter was the failure to deliver the established daily rate of pay for relief workers. Most workers were actually paid on a piece-rate basis, rather than per days worked, and the underlying piece rates were too low to allow workers to earn the full, publicized daily pay. DISHA also cited instances of corruption, where funds intended for water and fodder supply ended up in the hands of suppliers, without the needed supplies being delivered.

DISHA's response to this situation was to provide as much evidence as possible to the media and opposition parties, in order to raise public awareness and thereby put pressure on the government to act more responsively. This strategy, coupled with the public's outcry over a number of deaths by starvation, did have an impact. The government called a meeting of the NGOs to discuss the situation and seek collective solutions. However, its approach to these discussions was not focused on finding ways to improve delivery of government relief. Rather, the government sought to use the NGOs to lever additional support, either through direct NGO funding or with NGO help in seeking international aid.

While accessing additional sources of support, especially in this type of crisis situation, can be a good thing, it should not be seen as a substitute for effective implementation of government commitments. Following this consultation meeting with NGOs, DISHA continued to do research and channel information to the media and opposition parties. With this continuing pressure, and a worsening drought situation, the government began to take additional actions to improve the effective delivery of relief efforts over the next

several months. In DISHA's view, 'exposure to the ground realities juxtaposed with the decisions of the government forced the government to take further decisions for better implementation to avoid criticism. The combination of mobilization, media and the people active in political parties... made the Chief Minister and other cabinet ministers respond.'¹¹

From the perspective of the four stages of the policy process, there are some useful lessons to be learned from this case. First, to some extent the issues of poor implementation go right back to stage one of the policy process, when the government made its initial commitment to provide drought relief. From the outset, the government response was only a reluctant reaction to the immediate crisis, a situation that has apparently recurred several times in recent years. There was no indication that the government desired to 'fix' the problem; they did not consider alternatives or additional actions that could serve to mitigate the impact of drought in future years. If the real objective of government was to wait out the drought at minimal financial cost, then it is not surprising that the implementation was half hearted. While the presence of a strong cabinet office can provide guidance in policy formulation and likely consequences, in this case the weak political accountability structure presents a more fundamental challenge.

The second area of concern is a 'stage three' problem, in that the financial resources that were clearly available to the government were not properly directed to the relief efforts, either by conscious action or by corrupt practices within the bureaucracy. It should be the role of both the ministry of finance and cabinet office to ensure that the funds authorized by government get directed to the programs for which they are intended. Clearly, cabinet office does not have direct responsibility for financial issues, but it can alert government and the ministry of finance to obvious situations of irregularity.

In the fourth stage (policy implementation), cabinet office can play a monitoring role. While it should not be tracking every decision in detail, a priority issue like drought relief, where there will be extensive media scrutiny, deserves particular attention.

Having said this, there is little doubt that this case raises specific questions of public accountability. DISHA's analysis points to the fact that to some extent, they are able to be effective because of the tradition of openness in India, in terms of access to information. However, much benefit could be gained by implementing consistent and detailed reporting requirements, including reporting of results. There is no doubt that where there is a lack of political will, internal mechanisms can only have limited effectiveness; in these cases, the external mechanisms are far more powerful in ensuring accountability. Improving the quality of information that is available externally will strengthen their effectiveness.

Ghana: Budgeting Reforms and the MTEF¹²

In the mid-1990s, the Ghanaian government began a series of public sector reforms, with the assistance of various international donors. These reforms include: the Public Financial Management and Reform Program (PUFMARP), led by the Ministry of

Finance and aimed at improving the budget system; the Civil Service Performance Improvement Program (CSPIP) under the leadership of the Office of the Head of the Civil Service and focused on a program of departmental reviews of human resource allocation; and, the National Institutional Renewal Program (NIRP) under the guidance of the National Overview Committee (NOC) and following a similar program focused on subvented agencies.

A central focus of reform for the Ministry of Finance was the introduction of the 'Medium Term Expenditure Framework' (MTEF) approach to budgeting. The MTEF attempts to achieve comprehensive budgeting integrated with the government's priority-setting process. The approach includes establishing an overall economic and fiscal framework leading to affordable expenditure limits (on a multi-year basis), allocating expenditure limits to ministries or policy sectors that reflect the government's strategic priorities, requiring ministries to develop budget plans that support these priorities, and enforcing adherence to the expenditure framework through accountability mechanisms built on results-based performance. The term 'MTEF' originated in Australia, but the planning concepts underlying this approach to budgeting are well developed in many jurisdictions. The MTEF model has also been introduced in a number of developing and transitional countries over the last several years.

If implemented effectively, the MTEF can bridge the more traditional decision-making models, either where policy decisions are made without regard for the financial implications, or the other extreme where policy priorities of government are left to the mercy of the financial analyst's calculator. On a very basic level, the MTEF is simply a way to figure out how much you have to spend, and then allocating those limited resources to the policies and programs that are most important, taking account of the medium term implications. While this may sound straight forward, it belies the fundamental challenge that politicians face in trading off one political priority against another. The MTEF will inevitably fail if it is managed primarily as a bureaucratic exercise, while marginalizing the political dimension.

On a structural level, the basic elements of the MTEF are present in the Ghanaian budget system. The Financial Parameters Group, which has functioned since 1996 and consists of representatives of the Ministry of Finance, the National Development Planning Commission and the Bank of Ghana, projects a three-year forecast for resource availability based on expectations for economic growth, domestic revenues and available donor funds. The Ministry of Finance then prepares ceilings for multi-departmental sectors of government activity. Cabinet reviews and approves these ceilings on the basis of government priorities. Departments, in view of the ceilings, cost out the resources required to sustain activities that service government priorities. These requirements then feed into sector reviews that identify activities that are complementary or overlapping. Finance then reassesses the various sectoral ceilings in response to the interdepartmental discussions. The adjusted ceilings serve as the framework in which ministries would set out their estimates, at an aggregate level for all three years and in detail for the first year. Finally, Finance packages the estimates for presentation and approval at cabinet and parliament.

In practice, however, the government has encountered significant implementation problems. In particular, revenue forecasts produced by the Financial Parameters Group have proven to be very inaccurate. Arguably, this can be attributed to externalities that have been difficult to forecast. However, if Ghana is at all typical of other developing economies, their forecasting capacities are likely very weak. This factor, coupled with the tendency of politicians to be optimistic in their public forecasts, is more likely to be where much of the problem lies. Finance needs to put a priority on strengthening its forecasting capabilities, but it also needs to draw on external, expert opinion for validation, and adopt a methodology that builds a degree of caution into the outlook. Adding caution to the forecast means that there is more room for error before ministry budgets need to be adjusted downwards.

At the departmental level, few individual ministers have taken sufficiently strong interest in MTEF-related processes in their departments, much less in the added information on the alignment of activities to priorities provided by these, to start guiding their organizations with greater rigor. Perhaps the more strategically placed ministers realize the low cost-effectiveness of greater attention to MTEF and its disciplines when, in fact, budget ceilings are unsustainable from the outset. Far better to invest one's energies in teasing embargoed cash out of Finance for expenditure where the return will be the largest, either from the standpoint of important societal goals or patronage considerations.

The solution to this dilemma lies not so much with the departments, however, but with the essential political commitment by Ghana's cabinet, and particularly by the president and by the Minister of Finance. The president has to lead his colleagues in making the hard choices around priorities within a fiscal constraint, and support the minister of finance in enforcing the departmental limits. Engaging ministers and other key political players in the MTEF process, so that there is collective will to stick to the plan, is critical. Although this depends significantly on the strength of leadership, there is also an important role to be played by both the cabinet office and ministry of finance.

At the beginning of the planning process, when the forecast is prepared and the priorities discussed, it is the cabinet office's job to present cabinet with good analysis and options, so that a substantive discussion can take place. Too often, because of the political nature of priority-setting, bureaucrats do not see a role for themselves in this process; but in the absence of quality analysis, the cabinet risks making uninformed decisions, and without an appropriate level of commitment. Similarly, once departments have prepared their budget estimates, cabinet office can provide a synthesis of departmental budgets, in terms of their support for the government's priorities, at the same time that finance is presenting the aggregated budget for approval.

In many respects, this case goes to the heart of Stage 1 in the policy process, where the executive sets broad policy commitments, binding it to implement particular policies and commits itself to making the necessary tradeoffs. While it is important that the cabinet office, ministry of finance and line departments support the MTEF with quality products, it is this recognition of the purpose of the MTEF that is essential to success.

*Macedonia: Center of government reforms*¹³

During the last few years, Macedonia has been in the process of introducing a set of reforms aimed at improving the decision-making and budget preparation processes. These reforms are being undertaken as part of the World Bank's Public Sector Management Adjustment Loan (PSMAL), and reflect the key objectives of:

- Strengthened fiscal discipline
- Improved strategic prioritization of programs
- Better inter-ministry coordination in the policy management process.

The pace of reform has been slow, in part due to the internal violence that took place during 2001 as a result of severe ethnic tensions within the country. Among other things, these events had a dramatic impact on the economy and the government's fiscal outlook, and diverted political energies away from other priorities. Now, fiscal stability is being restored, but there is still much to be done in the area of priority-setting and its integration with the budget process.

One of the specific reforms established during 2001 was the requirement that all items going forward to Cabinet for approval must be accompanied by a fiscal impact assessment. This reform was a condition of the World Bank loan, and was intended to address a recurring problem where ministries submitted new legislation to government without any information on the fiscal impact. In principle, the Ministry of Finance would have an opportunity to flag any financial issues, but in practice the proposals were often submitted too late, or Finance did not have adequate information to do the analysis. As a result, Cabinet would routinely be approving new initiatives without knowing the fiscal implications, and Finance would then have to scramble after the fact to find funding. These pressures on the fiscal plan sometimes led to the imposition of spending cuts late in the year, or missed fiscal targets.

To implement the fiscal impact assessment requirement, a two-page form was designed, along with a manual on how to complete the form.¹⁴ The form was accompanied by very specific process requirements, whereby Finance was to review the completed form and provide written comments, and the General Secretariat¹⁵ staff were to ensure that the form was completed properly and accompanied every submission along with the comments from Finance.

The fiscal impact assessment form became mandatory in November 2001. The experience with the form in the first few months since November is limited, and in fairness it must be recognized that to do this type of analysis properly will take some time. In particular, there is a significant lack of financial capacity in ministries, which extends well beyond this specific requirement. Nevertheless, experience to date has pointed to some specific issues that relate directly to Stages 2 (policy development by individual line ministries, which should include preparation of fiscal impact assessment) and 3 (allocation of funding by the Cabinet) of the policy process.

As with other of the above cases, the policy development process in Macedonia has traditionally been a line ministry responsibility, with very little if any planning or oversight from the center. It is up to line ministries to initiate new legislation, and the General Secretariat has acted as an administrative unit only, coordinating the flow of paper. While reforms are planned¹⁶ to transform the secretariat into an analytical body typical of other modern cabinet offices, these reforms are just beginning, and the requirement to support the fiscal impact assessment process has been seen as a significant departure from past practice. The basic expectations placed on the staff (ensuring the form is completed; liaising with Finance to ensure their input has been sought; ensuring that Finance and the line ministry have made every attempt to resolve differences; assessing whether the item, from a policy perspective, needs to go forward outside the budget cycle; and alerting the General Secretary if the ministry insists on going forward without all steps completed) were seen by staff as being outside their responsibility and beyond their capacity.

From Finance's point of view, they found many line ministries very uncooperative. In some cases, ministries would stick to the letter of the form and refuse to provide additional information that might be necessary for Finance to do a proper assessment. Some ministries also saw this form as a way to circumvent the budget process. Some of the first proposals to go through this process were items that had been rejected during the budget process, and the line ministry saw this as an invitation to go to cabinet directly for approval. Others saw it as an infringement on their right to bring forward proposals to government.

For Finance's part, its staff are making progress with assessing the accuracy of cost estimates, but they do not yet have an appreciation for the second level of analysis – affordability within the fiscal plan. If there is a cost to a new initiative, their response typically is, there is no room in the fiscal plan. While this may be true on one level, it does not help ministries who may believe this initiative is a priority, and it does not help Cabinet who should be assessing the relative merits of proposals in the context of government priorities. Finance staff need to be able to assess the consequences of funding the initiative, even if it means trade-offs with other (lower priority) programs. And in part, this requires a closer working relationship with the General Secretariat.

In sum, the experience with this specific reform initiative points to a number of areas for attention as the decision-making and budget reforms progress, especially in the General Secretariat and in Finance, if they are to be effective in improving executive policy unreliability.

- The plans to transform the General Secretariat into a 'modern' cabinet office should proceed as quickly as possible. This organizational reform must go beyond structures to skill capacity, including improved analysis, cross-ministry coordination, and leadership.
- Staff in the Ministry of Finance Budget Department should be developing policy analysis skills along with financial analysis capabilities.
- The General Secretariat and Finance should be working as a team to integrate policy and fiscal planning processes.

It must still be stated, however, that these reforms can only have an impact if cabinet is also prepared to work as a team in demanding adequate financial and policy impact information and in making trade-offs between competing initiatives.

¹ The one exception is the case study from Macedonia, which was prepared specifically for this paper.

² The material from this case is drawn from Evans and Evans 2000.

³ In Lithuania, the Chancellery is equivalent to cabinet office. However, at the time that these cases took place, it was little more than an administrative body, and it was the PMO that provided any policy review of proposals going to government.

⁴ The material from this case is drawn from State Chancellery, Government of Latvia 2000.

⁵ In fact the State Chancellery has done exactly this; in 2001, when the Ministry of Finance failed to develop a methodology for preparing a medium-term fiscal policy document, cabinet charged the Chancellery to set up a working group and rework the product. Although the process was difficult, when the final paper was presented to Cabinet the Ministry Secretary for Finance stood and voiced her support for the paper.

⁶ The material for this case is drawn from Chisanga (2000).

⁷ The material for this case is drawn from Campbell, Bowornwathana et al. (2000).

⁸ The material for this case is drawn from Campbell, Bowornwathana et al. (2000).

⁹ The material for this case is drawn from Mistry (2000).

¹⁰ See Section 6 for further details on DISHA's work on budget analysis.

¹¹ Mistry (2000,p.45).

¹² The material for this case is drawn from Campbell, Bowornwathana et al. (2000).

¹³ This case was prepared by Anne Evans

¹⁴ Evans (2001)

¹⁵ In Macedonia, the 'General Secretariat' is the equivalent of the chancellery or cabinet office.

¹⁶ Ben-Gera and James (2001). This report has been endorsed by the government of Macedonia, and the General Secretariat is currently working through an implementation plan.

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