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Rethinking Public Financial Management and Budgeting in Greece: time to reboot?

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ABSTRACT

This paper addresses the budgeting challenges posed at a national level especially at a time of fiscal crisis and suggests some policy prescriptions to improve the functioning of the Greek public financial system. It focuses on the Public Financial Management and budgeting framework. In that regard, the paper highlights the need for a strategic and comprehensive review of the system as a whole and stresses the importance of a coordinated and phased approach for the overhaul of the various system components. A set of tools and methods for reform is presented and analyzed aiming at a convergence with international best practices over the long run.

Keywords: public financial management framework, budgetary procedures, public expenditure, public sector reform.

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1. Introduction

The magnitude of the needed fiscal adjustment facing Greece is rapidly being acknowledged at a national and EU level. The fiscal pressure added by the current financial crisis has led to an unprecedented upward revision of the deficit and debt, uncovering the weaknesses of an already dysfunctional and bloated public sector. Furthermore, the revenue losses emanating from the reduction of the structural funding by the European Union for the coming years and the mounting fiscal pressure generated from an increasingly ageing population render significantly more urgent the plan for a strong and coordinated approach to fiscal consolidation.

Cutting Greek deficit by about 10%-12% of GDP is undoubtedly a challenging but unavoidable task in order to retain sustainability of the country's public finances. As Alcidi and Gros (2010) point out a fiscal adjustment of this rate is or has been possible in the past, namely in the early 1990s (referring to a 11% of GDP improvement in the primary balance). However, the consolidation intended aimed mainly at revenue increases rather than expenditure constraints, despite which the debt-to-GDP ratio continued to increase. Given the present predicament and a possible scenario dictating the exclusion of Greece from financial markets for a certain period of time, it seems imperative to come to terms with a transformation of the budget system to one more compatible with the fiscal realities.

Tackling this problem would entail adopting a more active approach on budget management in order to increase credibility and sustainability of the system as a whole. Opting for a large scale reduction of public expenditure, as reflected mostly in significant wage cuts, is decidedly an inevitable remedial measure for policy makers. However in a medium and long term perspective anticipating compliance with quantitative targets without proceeding to a reform of underlying problems of fiscal policy and management issues will prove to be insufficient. Ensuring control over expenditures and stabilizing the economy through an adjustment of fiscal aggregates is only one part of a modern budget system. The other involves improving effectiveness and efficiency of public spending and service delivery providing incentives for enhanced productivity. As resources become scarce, providing more efficient public services with less spending has become an absolute necessity[1]. This shift in public financial management towards a more "results-oriented" approach invites to a substantial change in the way government policies are designed, pursued, and audited. The transition from an incremental to a decremental path of rationalizing and

[1] Afonso, Schuknecht and Tanzi (2003), suggested that the same policy objectives in Greece could have been met by employing only 73% of the inputs used accordingly. More cost-effective management in the public sector would release labour resources for the private sector in future decades.

budgeting is the tough and rapid response the Greek government has to elicit in order to counter the shortfall in economic performance.

Therefore, redesigning budget processes to serve the new political and fiscal realities has become a key element in Greece. Improving the quality of budget institutions, procedures and tools is particularly critical in times of crisis, as governments ought to be able to screen out diverse options and make the most cost-effective choices in a politically acceptable manner (Schick, 2004). This paper assesses public financial management practices in Greece as well as the quality of interactions and managerial linkages between them with a view to streamlining the budget. It thus addresses some possible ways of reengineering budget processes throughout the budget cycle and highlights some key points for consideration regarding monitoring and control of public expenditure.

2. *Budget Formulation System and Fiscal Sustainability*

The processes of budget elaboration in Greece should be examined with respect to two main objectives, aggregate expenditure control and strategic allocation of resources, in order to assess its adaptability to changing environments as well as its linkage with the rest of the budget process. As Tommasi (2007) reaffirms a good preparation of the budget plays a vital role in the overall budgetary process and affects consequently the balance of the public financial system as a whole.

In order for the budget to work as an effective instrument of public financial management, it should first of all be credible and affordable. Thus, the formulation of the budget must be founded on a sound financial basis and a good estimate of revenue. In that sense the establishment and use of a coherent framework of macroeconomic assumptions in the budget process is a key element to good coordination of the budget process. When designing an expenditure program the two starting points should include a realistic assessment of resources likely to be available to the government and the establishment of fiscal objectives (Schiavo-Campo, 2007).

Nevertheless, in Greece, there seems to be an asymmetric relation between the design and public availability of macroeconomic forecasts and their actual integration in the preparation of expenditure proposals during the budget process. The macroeconomic forecasts produced by the Macroeconomic Analysis Department of the Ministry of Finance are ineffectively used when configuring expenditure proposals in the ministries and regions. This practice has long been criticised (IMF, 2006) on the grounds of a certain level of autonomy that line ministries tend to develop regarding the establishment of forecasts (OECD, 2008). In addition, the lack of explicit fiscal policy objectives and the absence of budget policy targets in line with the overall fiscal policy, reflect the risk of an overestimation of the forecasts and the need for an adjustment.

Hence, a major risk run by governments is the deviation from the forecasts of key economic assumptions that underlie the budget. For the establishment of forecasts the Macroeconomic Analysis Department benefits from the input of other institutions, such as the General Accounting Office and the Bank of Greece. Nevertheless, there is no public institution providing forecasts to be used in comparison with these ones (IMF, 2006). Incorrect economic assumptions can tremendously harm any form of fiscal consolidation programs, and consequently, influence the general fiscal balance. In that sense, special attention should be drawn initially when establishing these assumptions, by putting in place safeguards against any surprising outturn[2]. In Canada, for example, the government opted for the use of "prudent" economic assumptions and for the incorporation of a contingency reserve. Rather than focusing on internally generated forecasts, the government started to compare and make use of forecasts established by the private sector, adapting them downwards, and thus gaining trust both in the eyes of the public and of financial markets. The Netherlands have structured their system in a quite different way and design their policies on the basis of the less optimistic scenario prepared by the independent Central Planning Bureau (Blondal, 2003).

To this end, the creation of a national independent institution with a large discretion or influence on fiscal policy making could also be envisaged. Attention could be drawn to provide proper information for the formulation of

[2] The recent initiative to guarantee the independence of the statistics in Greece by the enactment of Law 3832/2010 regarding the creation of the Hellenic Statistical Authority in March 2010 seems to be a step in the right direction.

the state budget, such as unbiased macro-economic or budgetary forecasts, to produce analysis on fiscal policy issues, such as long-term sustainability, alternative estimates on the budgetary impact of certain policy measures, assessments on the breaching of fiscal rules, or to publish recommendations on specific policies (European Commission, 2006) To this end, Sweden proceeded to the creation in 2007 of a Fiscal Policy Council, aiming at increasing transparency of fiscal policy making, and subsequently, ensuring trust in the fiscal policy framework (European Commission, 2009). Other countries have adopted a different path. The United States have recently called for the creation of a bipartisan Fiscal Commission to identify policies aiming at an improved fiscal balance in the medium term, and an enhanced fiscal sustainability over the long run, as a better way to solve the remainder of the fiscal challenge (Orszag, 2010).

These last remarks could be associated with the need to define aggregate expenditure estimates consistent with the medium-term macroeconomic framework and to clearly state the government's fiscal objectives in a medium-term perspective. By illuminating the impact of current policy decisions on future budgets, a government can evaluate intended implications and decide upon exceeding or not by its action the limits of a sustainable fiscal position.

However, in Greece, despite the use of some aggregate forward estimates, pertaining to budget deficit and debt, the budget process as a whole tends to focus on the current fiscal year. Accordingly, deficit and debt ratios for the general government are used, but they seem to lack integration and institutionalisation in the budget process[3]. As a consequence, the government's ability to control fiscal sustainability is limited, which in turn is reflected in policy-making decisions and in the responsibility carried out by managers in being sufficiently foresighted and forward looking[4] (Tarschys, 2002). The Stability and Growth Program presented in January 2010 portrays the intention to shift this practice towards a three year rolling perspective of planning, which would undeniably give public financial management in Greece a more strategic orientation.

To achieve this many countries have gone even further with the development of multi-year budgeting. Multi-year expenditure planning has become an integral part of many countries public financial management system, including the Netherlands, Sweden, Finland and the United Kingdom for more than a decade. France has also recently embarked on that process, influenced by the UK Spending Review model (Hughes, 2008). Nevertheless, budgetary procedures in Greece have been safeguarded on a firm annual cycle. The new orientation for the budgetary process foreseen for 2011, including a widening of the time horizon to a three year base seem to guide the way to a more modern system (Greek Ministry of Finance, 2009).

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[3] It should be mentioned, though, that the medium term forecast in Greece is not updated alongside the budget preparation process. However, in other countries like Sweden for example, the medium term fiscal framework has an impact on virtually the whole process of budget preparation. Furthermore, this outlook not only forms an integral part of the planning and programming horizon but embraces the relationship with the Parliament as well (Ljungman, 2007).

[4] With a one year perspective, several upward trends can be experienced the following fiscal years. Very often a certain cutback in an item can re-emerge as a cost increase somewhere else, as for example when ending a vaccination program, which may eventually suggest higher expenditure for health care and sickness insurance benefits (Tarschys, 2002).

Furthermore, with a view to enhancing fiscal sustainability many countries including Australia, the UK, New Zealand and the US have also drawn upon the use of long-term projections. These should however be used with caution and should preferably be fenced and not integrated as such into the budget process, as they constitute a simple assumption on future prospects. Optimising their use would entail reporting them in a separate document and incorporating key findings in a supporting schedule included in the budget, as foreseen in the UK. Australia publishes an intergenerational report every five years, which is annexed to the annual budget (Schick, 2005). The current crisis has contributed to a more intense focus on the long term for the USA as well (National Research Council and National Academy of Public Administration, 2010). The annuality of these reports, and the institutionalisation of the process, guarantees that all relevant information will be used properly into the budget. OECD highlights the need for a report evaluating the long-term sustainability of policies to be produced every five years or when major modifications of revenue or expenditure plans take place (OECD, 2002).

In practice, a top-down budgeting system is usually associated with the above, allowing ministries to focus on setting aggregate limits and sector expenditure ceilings for line ministries. The outset of budget preparation is a clear determination of fiscal targets and their integration in a strategic framework setting out policy objectives and activities. Thus, setting of a hard constraint on expenditure to line ministries from the beginning of the process, rules out the risk of a resource allocation dysfunction. The budgeting system should, therefore, provide a tighter link between government policies and the allocation of resources through the budget, leading to stronger coordination between line ministries. However, the formulation of the budget is more of an open-ended process in Greece, and requests are made by spending ministries without clear indications of financial restraints. Line ministries are not encouraged to propose any savings as their right to propose new activities is not safeguarded[5].

Additionally, in a context of fiscal constraint like the present one, improving budget management involves opting for good expenditure prioritization (Schick, 2009). A hard choice has therefore to be made among ineffective or inefficient programs and new policy initiatives with high political priority. Countries like Australia and Canada have established a separate system for consideration of new policy proposals, by requiring line ministries to submit their new policy proposals separately and by imposing more rigorous scrutiny. Chile adopted the same approach as well, included in its “Bidding Fund”. Associated with this practice is the integration of expenditure review work into the annual budget process, however difficult this might be, with Australia and Canada proceeding to “strategic review” processes (Robinson, 2009). Greece has not yet embarked on such a platform, although some indications have been put forward for the introduction of zero-based budgeting. However, considering the tough fiscal consolidation pursued, building a closer link with such practices could have a positive impact on budget management.

[5] Gösta Ljungman (2009) highlights the case of Korea, where prior to the reform, the overestimation of spending proposals reached about 30% as well as the case of Finland. The latter one used another technique to diminish the tendency of over-evaluating resource requests, by publicizing the initial budget submissions.

3. *Budget Transparency and Quality of Budgetary Decisions*

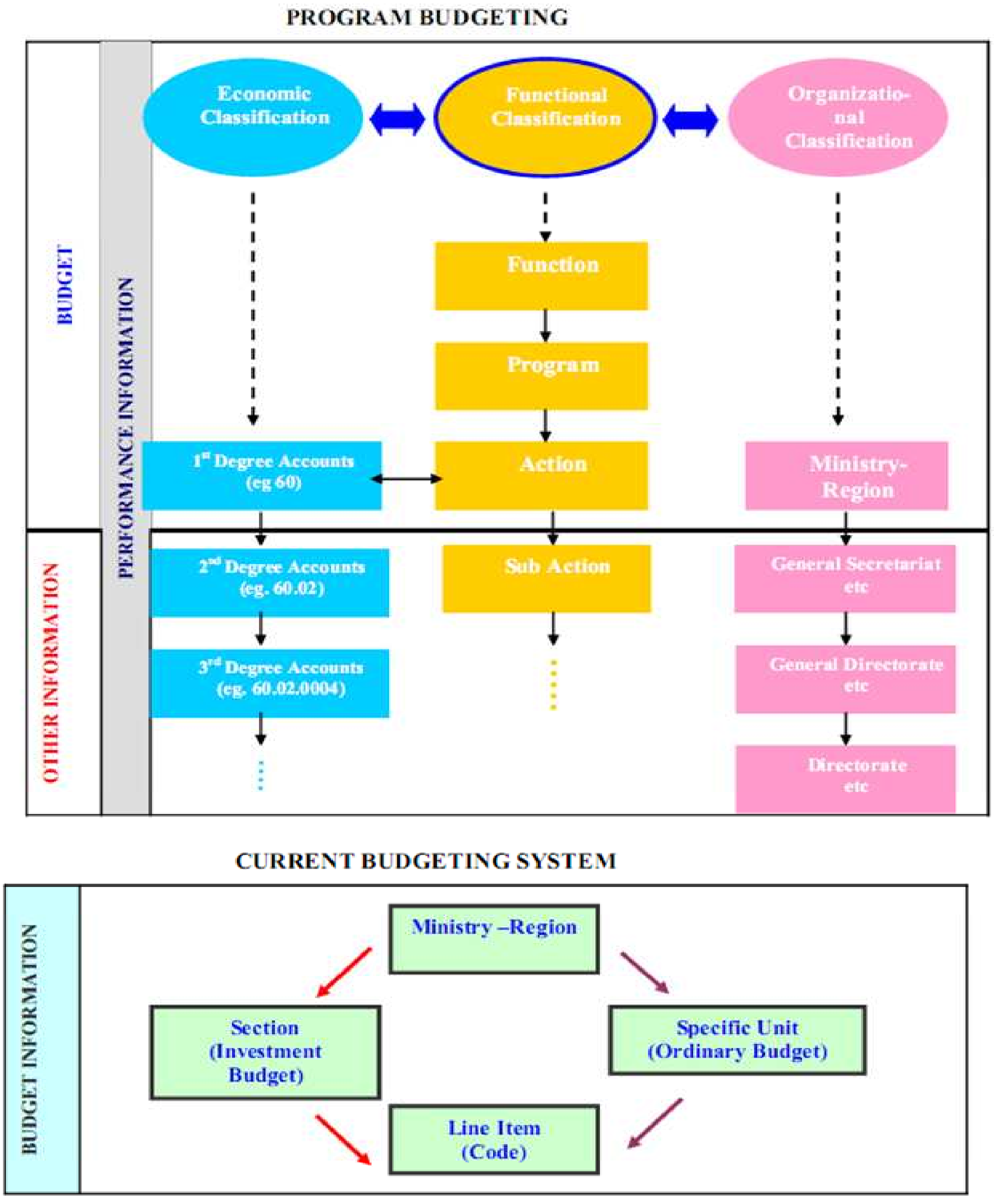
The recent predicament of Greek public finances has raised the question of optimisation of the use of fiscal information in the budget process. As no responsible decision on allocation of public funds can be made without sufficient fiscal evidence nor any evaluation or projection of relevant volumes can be sustained reliably, it seems imperative to proceed rapidly to a comprehensive overview of the whole system.

Insisting on the credibility of government data goes along with the comprehensiveness and transparency of all relevant information concerning the state budget. At present, despite the country's European obligations and the relevance of general government deficit and debt ratios to GDP, most publications focus heavily on central government and create an incomplete image on the fiscal situation of general government (HM Treasury, 2002). Considering the fact that general government expenditure and revenue figures function as a better indicator of public sector activity and taxation issues, it would be advisable to move towards a more comprehensive framework of public finances, including a proliferation of publications regarding all aspects of budget management. For that reason OECD's publication on Budget Transparency sets forth a list of budget reports to be published by governments, not only to the interest of public management but also for effective scrutiny by the legislature and by civil society (Blondal, 2003).

In practice, in order for budget institutions to monitor and review the quality and effectiveness of the spending decisions and actions of the government, they need to have in their possession the right instruments as well as accurate, reliable and timely information that they can use in that way. However, in order to do so, they need to have an overview of objectives, outputs and expected results. The introduction of program budgeting has thus been put forward in Greece, as another means of improving and aligning fiscal management with international practices. As opposed to the previous system which was marked by an intensively detailed input orientation of the budget, containing some 14,000 items (OECD, 2008), and lacking practically any information on results and performance, the new system is struggling to break with the past and to introduce a new and more modern budget framework. The National Plan of Programs for 2009 was the first comprehensive image of program budgeting and policy design in Greece[6].

[6] The new classification contained 12 functions, 80 programs and 710 actions. According to the Greek organization of the system, Functions and Programs have a multi-ministerial perimeter as opposed to Actions which are assigned to the responsibility of a single Ministry. Each Action corresponds to the present line item classification of the budget, in order to comply with the use of the present information system and also to facilitate the transition to the new system (Ministry of Finance, 2009).

Figure 1. Program Budgeting in Greece.



Source: Ministry of Finance, *State Budget 2009*, Executive summary, Program Budgeting 2009

A necessary and privileged tool for the exchange and exploitation of all data regarding budget execution is the choice of an accounting system, which should thus be carefully considered. The way in which information is recorded and presented plays a vital part in the balance of the system as a whole.

Accounting for the Greek budget is on a cash basis, concerned mainly with the recording of cash receipts and payments and is therefore preferred for operational simplicity[7]. However, the lack of essential information on all other transactions, including stocks of assets and liabilities stands as an impediment to a more comprehensive view of the financial situation of the state.

For this reason, many countries have taken the path to accruals with a view to making the cost of government action and the impact of its commitments more transparent and to improve the decision-making process supported by enriched information (Blondal, 2003). The United States prepares financial reports on an accrual basis, France has recently introduced accrual accounting, the United Kingdom ultimately adopted accrual accounting and budgeting for the central government, Australia and New Zealand both were aligned with the practice of accrual reporting and budgeting too (Khan and Mayes, 2009). The shift to an accrual basis of accounting does not however impose a complete removal of cash accounting practices, as a full statement of cash flows is necessary for operating, investing and financing activities (IPSAS and GFSM 2001). Greece has shown the intention of transitioning as a first step to a modified cash basis accounting system and eventually to an accrual based one (SGP, 2010).

Furthermore, Khan and Mayes (2009) argue that for the system to be effective the Chart of Accounts should adopt the budget classification, which is the case

[7] More specifically, there are six different public sector accounting systems including one for hospitals, social security funds, municipalities, public law entities, local authorities and the central government, the Directorate of Public Accounts of the GAO having the overall responsibility of centralising relevant information (OECD, 2008)

for Greece as dictated by article 73(2) of the budget law. It should also include additional accounts, outside the scope of the ones described in the budget classification, for accounting and reporting purposes. Furthermore, if a government opts for an accrual regime, while holding on a cash budget, it is essential that in its reports it preserves a dual nature of accounts in order to halt any surpassing of limits, often based on cash or commitment concepts (Khan and Mayes, 2009).

However, the scope and use of all relevant information should be considered in relation to effective public scrutiny as far as important budgetary decision making is concerned. The Constitutional revision of 2001 was marked by the desire to establish a more influential position of the legislature in the budget process. Article 79 of the Constitution was amended leading to the introduction of pre-budget consultations of the Ministry of Finance with the relevant parliamentary standing committee. Furthermore, the new Constitutional revision of 2008 has led to an enhanced role of the legislature in the budget formulation. During the discussion of the draft budget, the Parliament may submit proposals for the modification of individual items of the budget which are introduced to the Plenum and are voted upon, provided that these modifications have no actual impact over the total expenditures and revenues of the State. Moreover, the 2008 revision of the Standing Orders enhances parliamentary information by imposing a monthly report on the budget outturn and a quarterly one on the execution of the budget and the management of public finances.

In practice, the desire for a shift in public financial management and budgeting requires inevitably a revised legal framework, institutionally and politically strong to support such a major review of the system. Although there is a consensus on the increasing need for clear rules and a clear legal context to guide and safeguard the budgeting system, as regards budget processes and the identification of roles and responsibilities, no such measures have been adopted to date (SGP, 2010). So far, the reform has been legally anchored in the current legal context. The budget execution procedure in Greece is regulated by the Constitution and Law n.2362 of 1995, which provides the main legal framework for budget expenditure, revenues and public accounting. As a supplement to this regulatory framework, at the outset of each fiscal year the government issues instructions and guidelines for the budget execution.

Nevertheless, budget execution procedures have not yet been aligned to the new budget structure and culture. They tend to display a focus on "traditional procedures" based on detailed input compliance and controls (IMF, 2006). Despite the fact that a pilot phase of program budgeting has been initiated since 2008, no harmonization of the legal background underpinning the evolved practices has taken place, rendering the system opaque and ambiguous as to the rights and obligations of all actors participating and more complex regarding the transition process[8]. As Glaser (2007) notices performance oriented

[8] The legal framework governing the budget system serves multiple needs simultaneously such as the establishment of permanent as opposed to temporary rules, the incorporation of principles in law instead of formal agreements, the supremacy of the legislature in national financial matters, the enhancement of macroeconomic stability, and an improvement of budget transparency by clarifying to citizens the rules of the budgeting system (Lienert and Jung, 2004).

management must be perpetually adjusted and shaped to fit the changing decision-making needs of dynamic administrations and presented in a format that can be understood by citizens.

When envisaging a more sound financial management system in a legalistic cultural setting, as is the case for Greece, it seems imperative to incorporate all relevant modifications of the budget system into new or existing principles of organic or ordinary law. In contemplating or implementing a public financial management reform, the elaboration of a legal framework governing the system could be beneficial in terms of both presentation of the strategy underpinning this change and identification of processes and relations between institutions and various actors.

In that sense, a reinforcement of the principle of stability or predictability, complementary to the Stability and Growth Pact, could be foreseen as regards the elaboration of the budget an the regularly updated estimation of public debt in a medium-term regulatory framework. This commitment should thus be accompanied by the obligation to present to the legislature the relevant forward projections, allowing them to be further examined in the light of long-term fiscal strategy (Lienert and Jung, 2004). Spain proceeded to the adoption of a General Act of Budgetary Stability in 2001, consequently amended in 2006, which provided for further details and enhanced monitoring of the system leading to a series of sanctions in case of non respect (Núñez Pérez, 2007). The UK's Code for Fiscal Stability serves also as an example, requiring fiscal and debt management policy to be formulated and executed in line with some predetermined principles. The 2010 Greek budget clarified explicitly the intention to elaborate a “code of budgetary discipline and stability” which will definitely strengthen and elucidate fiscal management articulation in the public sector.

Other countries like France formalized the principle of sincerity regarding budgetary forecasting. This principle inspired by private sector accounting implies that all information provided by the State should be accounted for in terms of exhaustivity, coherence and precision and can thus be translated into an interdiction to the State to underestimate public expenditure or to overestimate the revenue presented in the annual budget (Sénat, 2006). In view of the recent problems pertaining to the collection, presentation and consolidation of fiscal information, Greece could proceed to an institutionalization of this principle, the respect of which in turn could lead to an improvement of the use of all relevant data underpinning the State budget.

A formalization and intensification of the principles of transparency and efficiency could also prove to be beneficial as a guide to the new budget behaviour. An essential point about the first one consists in the requirement of government action to be open to citizens, offering extensive information and knowledge of decisions affecting fiscal policy as well as access to data on public accounts. This need for information is intrinsically linked with the demand for improved performance and results of government action, as a means of optimizing the use of public funds.

4. *Budget Execution and Fiscal Consolidation*

The execution phase of the budget process seems to be decisive as to the effectiveness and efficiency of the decision making and programming capacities of the administration. Aligning the execution phase of the budget and treasury design with the aforementioned reforms with the aim to enhance fiscal discipline is a necessary task. Expenditure management and more specifically commitment controls play a significant role. This type of measure serves to ensure the control of expenditure and is usually applied to contain expenditure before commitments are made, when it is still possible to influence the final expenditure levels (Tandberg, 2005). This type of control contributes substantially to the determination of an overall expenditure control framework as well as monitoring the accumulation of payment arrears, by imposing a limit on commitments on the basis of either budget appropriations or cash plans (Radev and Khemani, 2009).

In Greece, however, multiple expenditure controls take place after the commitment phase of expenditure, and thus, limit their scope to cash payments instead of restraining current liabilities. In addition, this type of controls is left to the line ministries, leading to the carry-over of unpaid obligations from one year to another (IMF, 2006). To avoid such mismatches, some countries -

including Belgium, France, Germany, Italy and Switzerland- have opted for commitment budgeting. In cases like France -since 2006- and Italy, commitment appropriations cover all types of expenditure (current and future). In others like Germany and Switzerland, they apply to multiyear expenditure, whereas in Switzerland they usually supplement cash appropriations (Blondy, 2009a). Greece could benefit from these examples and reorient its fiscal consolidation through this channel, too.

Additionally, a good and active cash management practice could also be envisaged. Modern cash management responds mainly to the need for ensuring the availability of a sufficient amount of cash to meet the government's obligations in the most cost-effective way (Storkey, 2003). This is usually done through a treasury single account (TSA), by means of minimizing the cost of borrowing, maximizing returns on idle cash, and investing temporary surpluses productively (Lienert, 2009). However, the imbalances between the timing of payments and the availability of cash can sometimes lead to unexpected situations of cash surpluses or cash shortfalls, depending upon the seasonality of cash inflows. In Greece, the cash management system is dominated by a control of cash payments for expenditure. Payment operations are effected through a government account, which operates as a quasi treasury single account (IMF, 2006). Nevertheless, a more firm and effective cash management could be institutionalised, ensuring tighter information exchanges for regular or less predictable flows between various actors, preserving minimum cash balances and refining cash flow projections.

Furthermore, it would be advisable for Greece to establish a better coordination between revenue-collecting agencies and the treasury[9] and a closer link between cash management, expenditure commitments and debt management. This would imply aiming at foreseeing possible delays in cash disbursements, adopting targets for end-day balances[10] and establishing an improved articulation between the bond issuance program and the cash profile.

In that respect, it would also seem essential for the case of Greece and the recent shortfalls in revenue collection, to better integrate seasonality of cash inflows in the public management process. As far as revenue is concerned, Lienert (2009) proposes a more frequent payment of tax on a monthly basis or even a review of tax regulations from a cash management perspective. Regarding expenditure, in-year flexibility and carry-over rules should be reviewed as well. OECD (2008) puts emphasis on the fact that many countries, like the United States, New Zealand, South Africa or even France, use specific quota as a limit for transfers within programs or classes of outputs. The provision for a potential reserve developed recently in Greece, with the intention of using 90% of budget appropriations seems to be an important step (SGP, 2010).

In terms of controllability, tax expenditure can also hamper the proper functioning of the budget process. The need to identify tax expenditures and to

[9] In the United States for example, special Treasury Tax and Loan accounts are used in order to assist the investment of Treasury funds in commercial banks until needed (Lienert, 2009).
[10] End-day balances in France, the United Kingdom and the United States are respectively 100 million euros, 200 million pounds approximately and 5-7 billion dollars (Lienert, 2009).

control their growth, as a major source of fiscal leakage is a common concern. Greece has taken an important step towards a complete identification of tax expenditure, as shown in the 2010 budget. However, the Greek government did not take any measures regarding the control of their growth. The French government's initiative to impose a rolling target, even though an indicative one, on the stock and evolution of tax expenditure with a view to imposing some type of discipline as over conventional expenditure is undoubtedly an important one (Hughes, 2008).

Most importantly, though, management of the wage bill, constituting more than 50% of recurrent costs and one of the biggest fractions of government expenditure, should be reviewed. Overcoming the risks and drawbacks of a high wage bill, as an additional source of macroeconomic imbalances, is particularly challenging in an era when fiscal consolidation is imposed to all states. When examining payroll management, one should bear in mind that payroll, as in the case of procurement, requires careful planning, budgeting, executing and auditing and therefore transcends the whole budget process (Pretorius and Pretorius, 2009).

One of the most essential elements of a solid payroll management system is the linkage between a personnel database, or a "nominal roll", which assembles information on the list of staff who should receive pay every month, the list of budgeted positions and the individual personnel records. In the case where these databases are not verifiable or harmonised, they immediately affect the quality of budget estimates and thus the whole budget process, as they represent a significant amount of public expenditure (Bessette, 2010). Updating regularly and systematically all relevant information including all changes in personnel such as new hires, retirements or even transfers, can prevent the registration of multiple entries of a civil servant and thus eliminate the possibility of multiple wages. To this end, the realisation of a comprehensive or partial census is deemed necessary in order to strengthen transparency and credibility of all relevant data as well as a subsequent reconciliation with the personnel database (Bessette, 2010).

Another organisational impediment which could be counterproductive to a coordinated approach of managing the wage bill is the organisational dualism created by the separation of functions between the personnel management offices that invite to new posts and the Ministry of Finance that provides the necessary funding. In practice this leads to a situation of no resource constraint and to a dependence upon the frequency of budget reviews. Premchand (1983) highlighted the need for a revision of pay structures and an integration of selected sections of personnel offices with finance ministries. Moreover, an integration of all these elements into a computerized network, suggesting some harmonisation between these two practices could certainly enhance the control and coherence of wage bill management. The Greek Ministry of Finance has recently made public its intention to establish a Single Payment Authority, as a first step towards a better coordination of payroll management (SGP, 2010).

Besides the need for better coordination, the Greek government should consider imposing personnel expenditure ceilings at the very outset of the budget process, the preparation stage and ensuring that there are adequate reinforcing mechanisms in place, aligning legal commitments related to personnel expenditure to spending limits. Although these ceilings may have certain disadvantages[11], they contribute however to avoiding an over-commitment of personnel expenditures from the budget formulation stage (Allen and Tommasi, 2001). Some countries have started including contractuals within the predetermined ceiling. France has recently proceeded to another channel of constraining personnel expenditure, by imposing mandatory caps on this type of expenditure to transfers of appropriations within the context of a programme. This asymmetric fungibility ("fongibilité asymmetrique"), despite some drawbacks linked to it, can be translated in the possibility to use savings on personnel costs for other types of expenditure without permitting the opposite.

In order to support and enhance a more active and synchronised budget management, the government should also proceed to a modernisation of IT systems. Promoting a more responsible and strategic management of public funds, enriched with detailed and comprehensive information, entails necessarily a review of the IT architecture of the PFM system in Greece. A real-time integration of all relevant data and proper feedback unarguably

[11] In some cases, they may even incite spending agencies to avoid them by hiring consultants or external advisers. In the UK this type of ceilings were abolished in the 1980s and were replaced by operational cost ceilings because of this upward trend (Allen and Tommasi, 2001).

contributes to a more agile and flexible budget management regime, which subsequently prevents over-spending. Commitments reflected in real-time, accurate cash balances as well as the integration of the General Ledger in the budget system have an important impact on the budget. Other countries like Brazil have proceeded to the creation of a Public Spending Observatory, a permanent unit which on the basis of consolidating a variety of information technology solutions identifies and prevents cases of misappropriation and the attendant losses to public coffers (CGU, 2009). The Greek government has recently announced the development of a Management Information System incorporating the whole public sector for the control and monitoring of public expenditure (SGP, 2010).

In order to enhance fiscal consolidation many countries have also opted for the introduction of fiscal rules, as a permanent constraint on fiscal policy (Kopits and Symansky, 1998). A recent study by the European Commission highlighted the fact that these types of rules are becoming a wide-spread policy tool across many EU countries (European Commission, 2009). These numerical targets for budgetary aggregates affecting budgetary balance, debt, expenditure or revenue developments enhance undoubtedly budgetary discipline and dissolve uncertainties as to future fiscal policy orientations. Nevertheless, these rules generate the desirable results only when monitoring and enforcement mechanisms are set forth and when political will is strong enough to support them.

Hungary and Portugal made use of budget balance rules. The first one established an obligation for the general government primary budget balance to be in a surplus and the latter one determined annual net indebtedness limits for regional governments. Germany also established a new constitutional deficit rule, restraining the structural deficit of the Federation at 0.35% of GDP and imposing structurally balanced budgets for the regions (Blondy, 2009).

Expenditure rules were adopted in Bulgaria and Lithuania. Hence, Bulgaria imposed a limit on the link between expenditure to GDP ratio of less than 40% and Lithuania linked expenditure ceilings to revenue. Furthermore, France has embraced a more pro-cyclical fiscal stance, as reflected in the adoption of a revenue rule, imposing an ex ante determination of the allocation of possible revenue surpluses. Moreover, France proceeded to the formalisation of a debt rule for social security, aiming at maintaining the terms of “social debt” repayment (European Commission, 2009). The Greek government has recently announced the desire to establish fiscal rules at a national level (SGP, 2010).

However, one should bear in mind that fiscal targets are not self-enforcing. More importantly, they are needed to hold public agents responsible for the results of their actions. A US report has recently highlighted the importance of political accountability, shared by the President and the Congress, in the monitoring and enforcement of any given fiscal rule. The measures proposed in that direction include presidential accountability, enhanced accountability for achieving goals and targets, a periodic review of the drivers of fiscal challenge and a consideration of the long-term cost of new policies (National Research Council and National Academy of Public Administration, 2010).

5. *Accountability, Audit and Efficiency of Public Spending*

Designing and setting up an adequate accountability and control structure is a significant aspect of any public spending environment. Increasingly complex budgetary systems impose the need for reliable and effective control systems. In order for the PFM system as a whole to remain in balance, a more coherent management and control space should be established with the aim to sustain a harmonisation between the organization of controls and the added value of effective service delivery (Bourgon, 2009).

Improving accountability and control networks can thus be reflected in efficiency gains and can substantially modify the relationship between government bodies both horizontally and vertically, inciting government departments to work together in order to achieve the desired results set by politicians (Cook, 2004). In the past two decades, many countries have been experiencing substantial modifications within the government, including the creation of arm's length bodies or the devolution of autonomy to existing government entities (OECD, 2005). Greece has had little experience in merging or separating public sector functions in a way that embraces a whole-of-government culture for the oversight and democratic accountability of public bodies. The government's approach to reforming the administrative apparatus has been reserved and fragmentary, based on temporary social and political demands for change.

Redefining a new role for the Ministry of Finance and more specifically for the central budget office is undeniably a demanding task. Such a task is associated, on the one hand, with the imperative for budgetary discipline, and on the other, with the need for flexibility and managerial freedom to act. The importance of this reconfiguration lies in the new role that the central budget office is called to play in a devolved environment that shifts decision making from the central institutions to line agencies. According to Schick (2001) a strong central budget office offering guidance on new ideas and practices can be one the office's most salient roles during the transition period. However, once the initiation period has elapsed, it would be doubtful for the central budget office to counteract or mitigate the effects of managerial discretion. In that sense, Greece should also revamp the operations of its budget office and reinvent a new equilibrium between central control of expenditure and managerial freedom[12]. This behavioural revolution, inviting to a centrifugal dimension of public financial management, has yet to be envisaged and experienced in Greece, where still central control of expenditure seems to predominate.

In order to achieve this, a move from *ex ante* to *ex post* control should be envisaged with a parallel enhancement of internal control processes. This means moving away from a system where control of transactions prior to

[12] At present, the Ministry of Finance interferes at all stages of the budget process and at a very detailed level, eliminating any sense of ownership of the line ministries budget, attenuating their accountability and thus removing any incentive for PFM improvement (IMF, 2006).

commitment was outside the line ministry to a new one where the line ministry assumes responsibility for resource allocation which is ultimately controlled externally (Ruffner and Sevilla, 2004).

However, in Greece, the current control and accountability environment is not yet adjusted to the requirements of a devolved and results-oriented management. On the contrary, it is characterised by excessive and overlapping ex ante controls and an ex post organization inclined towards compliance and legality. At present, expenditure control in Greece is focused heavily on pre-audit practices of legality and regularity of procedures, combining the intervention of line ministry financial administration units, the GAO de-concentrated control offices or fiscal audit offices and the Court of Audit[13]. Despite the fact that this procedure applies to only a small fraction of public expenditure, the main disadvantage of the system lies in the fact that these multiple controls apply after the obligation has been incurred and have thus an impact on the cash payment instead of the current liabilities. Therefore, accountability is transferred from those who decide on the allocation of funds and the delivery of a service to those responsible for the control and approval of expenditure. HM Treasury (2002) has pointed out that an accumulation of

[13] HM Treasury (2002) has defined the impact of the current organisation of control processes in Greece on cost in three ways. The "cost of the control process itself", the "cost in diverted management time", defined as the time spent on the process rather than on the objective of control, and thirdly the cost derived from the fact that line management cannot assume full accountability for its own actions.

several layers of control can sometimes even have perverse effects, leading to a non-responsibility regime[14].

Changing the nature of control entails first of all strengthening internal controls and avoiding excessively centralized controls[15]. There is scope to move beyond financial control and to introduce internal audit procedures, as an instrument to improve public sector performance. Greek public administrators have embarked on this platform, which was enshrined in law No.3492/2006. This legal framework provided for the creation of a Directorate General for Fiscal Audits, aiming at improving management of the state budget and of all entities receiving public funds. To this end, an establishment of internal control units in every ministry and region are foreseen. Nevertheless, this framework still lacks full application, as a number of other legal instruments is needed for its enactment (OECD, 2008).

In 2006 France made the transition to a renewed internal control system, moving to a more global and ex post oversight of public expenditure with the objective of finding a new balance between accountability and control of government action. It proceeded to a reorientation of accountability, unifying budgetary and financial controls. Hence the auditor guarantees ex ante that budgetary planning is coherent, sustainable and within the limits of parliamentary appropriations. Moreover, the auditor is in charge of monitoring

[14] It can in fact incite two adverse management attitudes, each control unit relies on the chain of controls to follow or the ones who preceded, leading to a situation where virtually no one assumes responsibility (HM Treasury, 2002).

[15] The distribution of responsibilities needs to be clarified at a first place by assigning different roles and duties to departments and individuals, in a way that no one individual can control a process from start to finish (Tommasi, 2007).

all commitments of expenditure and of producing analyses and relevant information to the line ministry, the Ministry of Finance and the Parliament, providing also consulting services to the manager.

However, as a response to strengthened internal controls comes logically the revision of external audit. In that sense, as internal control has focused more on financial reliability and compliance, external audit institutions have endeavoured an enhancement of government accountability, particularly through a tighter linkage with the legislatures (Ruffner and Sevilla, 2004).

In many countries the role of supreme audit institutions has evolved, moving away from a simple verification of the legality and regularity of financial management and accounting to a more complex one, including also an assessment of efficiency and effectiveness of public administration (INTOSAI, 1998). The United States Government Accountability Office has gone even further than that by engaging in policy advice and management recommendations (Ruffner and Sevilla, 2004). In Greece, however, no effective action has been undertaken in that direction. The Greek Court of Audit preserves its traditional stance, as described in article 98 of the Constitution, with a focus on legality and regularity of spending (OECD, 2008), and with no predetermined scope of stronger cooperation with the legislature, apart from the submission of two reports, focusing on the legality of detailed transactions. At present, we have no additional information on any reform agenda. Nevertheless, a shift in management processes should be accompanied notably by a change in the control system to adequately incorporate a proper evaluation of government action, which is considered necessary in order to attain satisfactory international standards of external audit (IMF, 2006).

In that regard, the Parliament’s oversight powers in budgetary matters should be enhanced as well. At present, the Standing Order of the Greek Parliament provides for the establishment of a Special Standing Committee, as a sub-Committee of the Standing Committee on Economic Affairs, in charge of examining the Financial Statement and the General Balance Sheet of the State. Public scrutiny in that sense remains however limited, attenuated by the fact that there is a significant time lag in the process and examination of relevant information concerning the previous budget year (OECD, 2008). These documents are considered within 12 months after the end of the financial year to which they correspond, thus eliminating any effective dialogue or evaluation of previous government action and have no impact on the quality of resource allocation.

On the other hand, legislatures who intend to have a prominent role in the budget process must retain an interest not only on public policies and priorities, but also on the way these are carried out. Therefore, they need to have in their possession the expertise and the right instruments to keep the pace with the need for effectiveness and transparency.

In many countries, Public Accounts Committees, or departmentally-related committees as in Austria and Germany, are assigned to examine reports from the supreme audit institution, frequently chaired by a member of the opposition (IPU, 2007). The Public Accounts Committee of the British House of Commons conducts detailed examinations of the National Audit Office's "value-for-money" reports, taking evidence from government accounting officers. Furthermore, in Brazil the relevant committee has the right to require from the public auditor's office special audits on accounts in case of irregularities and conversely in some other cases members of the supreme audit institution may have access to parliamentary committees, as for example in the Polish parliament. Sometimes, the committee can have direct access to government records, as in Nicaragua, or may ask the government for further information through a questionnaire, as is practiced in France (IPU, 2007).

In Greece, nonetheless, parliamentary powers are still weak, in terms of legislative scrutiny and expertise as reflected also in the lack of parliamentary documentation and reports on government policies. The Greek Ministry of Finance has been recently envisaging the creation of a new independent committee under the aegis of Parliament to strengthen monthly control of budget accounts and to contribute substantially to the evaluation, oversight and monitoring of annual and multi-year budgets (SGP, 2010).

6. Conclusion

Redefining the budgeting framework, as well as methods and tools of fiscal governance that have been deemed obsolete and incompatible with the demands of a complex socio-economic and political environment, is certainly a difficult and demanding task. One of the benefits of not belonging to the first wave of countries that experienced this transition is the opportunity to learn from their successes and failures. Although contextual variables should always be taken into consideration, as far as the administrative structure and values of the State are concerned, demands for improved fiscal governance at present are driven uniformly by the same trigger, to respond rapidly and efficiently to a post crisis environment.

Linking the various elements of a public expenditure management system, regarding appropriation, programme delivery and impact assessment effectively presents certainly more or less some complications. Schick (2002) argues that for a public management reform to be successful an amalgam of opportunity, strategy and tactics is needed. Put simply, even a well articulated budgeting process cannot make the hard choices easier. But once these tough decisions have been made, a harmonised and coherent public financial management framework can certainly support leaders to engage efficiently in the long-term fiscal challenge.

Above all, budgets are plans for future action and should be used accordingly. It seems though that the current budget framework and budget formulation process in Greece is oriented extensively towards the past, coupled with the need to respond to a mounting fiscal pressure inherited from past budget shortfalls. Espousing the interests and priorities of the moment with fiscal legacies and future fiscal prospects seems imperative, especially at a time when the Greek economy encounters the threat of default. Transferring the needs of today's taxpayers to the future compromising the State's fiscal sustainability seems no longer to be a viable solution.

The required adjustment between government debt sustainability and fiscal policy in the years ahead, in view of the fact that Greece will continue to run sizable primary deficits over the medium term, is a risk that cannot be ignored. More limited fiscal space calls for improved policy decision-making, which can eventually pay great dividends and generate benefits for the country over the long run. This type of commitment involves not only assuring compliance with the rules and processes, but mainly improving performance and results. Imposing additional layers of control and enhanced reporting requirements that render the system not only dysfunctional but costly too, cannot always be reconciled with a performance environment that extols flexibility and a certain level of uncertainty. Instead, the real challenge for Greece will be to devise an optimal balance between the cost of these controls and the net public value of government services.

From this perspective, the current crisis presents a unique opportunity to restructure budget decision making in Greece and to recast budgeting into a more sustainable, efficient, accessible and accountable process.

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