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Working Party of Senior Budget Officials

UPDATE OF OECD PEER REVIEW -- BUDGETING IN GREECE

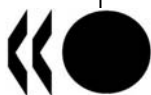
31st ANNUAL MEETING OF OECD SENIOR BUDGET OFFICIALS

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UPDATE OF OECD PEER REVIEW - BUDGETING IN GREECE

1. The OECD review of the Greek budgeting system, "Budgeting in Greece", was presented at the 29th annual meeting of the Working Party of Senior Budget Officials in Vienna, Austria, in June 2008. Since the presentation of that review, the OECD Secretariat has provided advice on the Greek government's budget reform efforts which have so far mainly concentrated on performance-program budgeting issues and related budget reforms. The purpose of this paper is to provide an update on the budgeting system in Greece and what the OECD Secretariat suggests should be done to strengthen the budget system¹.

2. On May 3rd 2010, a Memorandum of Economic and Financial Policies and a Technical Memorandum of Understanding have been compiled by the Greek Ministry of Finance with the participation of the European Commission, the European Central Bank and the International Monetary Fund. Those documents are annexed to the law 3845/6-5-2010 "Measures for the implementation of the Greek economy support mechanism by the euro zone member states and the IMF". Based on these agreements, the Greek Government has already planned significant changes in the public financial management system.

Overview

3. Response to the financial crisis of 2010 will require Greece to address short-term problems of reducing excessive deficits and improving reliability of budget estimates while continuing the process of medium-term improvements to its public financial management. Greece has capacity constraints in public financial management at all levels of government and lacks experience in modern public financial management techniques. Limitations on the availability of experienced personnel will make it essential to carefully establish priorities for budget reforms. The focus of budgeting in Greece has been on control of the legality and propriety of public expenditure, with little analysis of the intended purpose or expected results. The Ministry of Finance and its General Accounting Office (the central budget authority) will need to shift the emphasis of its work to be more focused on budgetary policy, program review, and the quality of budget estimates. Line ministries need to develop the capacity to assume responsibility for program management and budget control. The detailed input focus of budgets and complexity of budget documents have been impediments to improved public financial management and need to be reformed. A realistic plan for improving public financial management could take years to implement, but should begin with the more important changes.

4. This paper is structured in the following way:

¹ This report was prepared by Mr. Ian HAWKESWORTH, Administrator, Budgeting and Public Expenditures Division OECD, and Mr. Richard EMERY, former chairman of the OECD Working Party of Senior Budget Officials and current OECD consultant.

1. The first section of this update provides suggestions for prioritizing budget reforms. It adds suggestions focusing directly on controlling spending and the accuracy of budget and accounting reports. It recommends that control be focused on the commitment stage of funding to ensure budgets remain within approved totals. To address the reliability of budget estimates, it recommends focusing on the accuracy and timeliness of financial reporting supported by analysis and transparency.
2. The second part presents a brief overview of the program reform efforts undertaken by Greece since 2008; it ends with summarising the lessons learned from this process.
3. Finally, an appendix is attached that provides an overview of the current budget process in Greece based on a summary of the 2008 report on budgeting in Greece and later developments.

1. Recommendations

1.1 Short-Term Budget Reform Recommendations

5. Priority should be given to actions that directly strengthen the ability of the Greek government to address the fiscal crisis. All of these actions should have long-term benefits and some are also included in the recommendations for medium-term reforms.

1. *Stronger top-down budgeting should be introduced in the budget preparation phase.* This will be a work in progress, since in order to establish good top-down ceilings, good estimates of baseline costs are necessary as discussed below. A second element of good top-down ceilings is to ensure effective policy attention regarding the ceilings from the Prime minister and cabinet. (The Greek government began to implement this policy with a data call to ministries three months ago). This involvement should both include a discussion of overall ceilings as well as funds allocated to new initiatives - budget requests for strategic policy issues. At this point, ceilings should probably be flexible rather than "binding" in order to allow for adjustments by government to meet policy needs.
2. *Establish binding commitment controls for all budgetary institutions.* Expenditure control in Greece has been focused on the review of the Fiscal Audit Offices on the legality and propriety of expenditure, not on budget control. Budget execution should be delegated to line ministries, subject to controls on commitments to ensure that their expenditures remain within approved budgets. Ministers and/or budget managers should be legally prohibited from exceeding budget authority. Monthly reports on commitments should be provided to the Ministry of Finance. The Ministry of Finance should review the monthly reports on commitments to identify problems in sufficient time to allow for their correction.
3. *Improve the timeliness and reliability of budget execution reports.* Increased emphasis should be placed on producing timely accurate budget execution reports. All budget institutions should be held accountable for producing accurate reports. The Ministry of Finance should review the accuracy of the reports and regularly report on any problems identified.
4. *Develop accurate high quality baseline estimates for the budget.* Baseline estimates are the yardstick against which budgetary policies are measured. Baselines depend upon reliable economic forecasts, informed estimates of demographic changes, and accurate estimates of program costs. Baseline estimates are prerequisites for expenditure ceilings and medium-term expenditure frameworks. It is not possible to move to binding top-down ceilings, until reliable baseline estimates are available.

5. *Continue implementation of program budgeting.* Greece's three year investment in developing a program budget has been an excellent beginning. The current budget structure with 14,000 input line-items conflicts with the delegation of budget control and focus on results. By micro-managing the budget details, control over totals and policy allocations have been weakened. The pilot program budgets should be expanded with additional training on defining program objectives and measuring results. Responsibility should be delegated to lines ministries where possible and the Ministry of Finance should continue training ministry budget officials.
6. *Review and reallocate Ministry of Finance staff to functions that add greater value.* Skills and training of budget staff in the Ministry of Finance do not fit the analytical and program review functions needed for more policy focused budget control. Staffing should be reallocated as appropriate to expand the budget analysis staff of the Ministry of Finance in issue areas such as social security, health and revenues that have significant budget impact.

1.2 Medium-Term Budget Reform Recommendations

6. Reforms over the medium-term are intended to establish a sound foundation for public financial management. Realistically, most of these changes will require several years to fully implement. The Greek government should develop a plan for a phased approach to implementation. Some of the changes may require legislation.

1. *Fiscal rules: Greece should commit to monitorable fiscal policy objectives.* The fiscal rules should be incorporated in law, should be comprehensive of all fiscal activity of the Greek public sector, should be based on accurate, reliable budget assumptions, should be open and transparent, and should be reflected throughout Greece's budget procedures.
2. *Medium-Term Fiscal Framework: The budget documentation should present multiyear estimates (year t+2 and t+3) reflecting the strategic goals and objectives of government.* The estimates should be supported by baseline calculations reflecting current policy. The estimates should be allocated by ministry and serve as the basis for top-down budget ceilings. Program changes should be measured against this medium-term framework.
3. *Parliamentary budget office: Parliament should take a stronger role in reviewing the budget, supported by access to analytical resources of a parliamentary budget staff body.* The establishment of a budget research unit within the Parliament should be considered. *The parliamentary budget staff should serve as an independent check on the accuracy and reliability of government budget estimates.* The presentation of the budget on a program basis will present more transparent information to the Parliament; the budget documentation will contain program objectives and performance indicators. This should serve as the basis for parliamentary program review.
4. *Program budgeting: Priority should be given to implementing a program budget with a focus on policy objectives, and supported by performance measures.* The budget system should address the quality of expenditure, review program results, and address value for money. Some input controls and caps on administrative expenditures could be maintained as in most OECD countries. The use of performance information to support budgets for programs based on quantitative indicators should be implemented where appropriate (e.g. universities).
5. *Comprehensive budget: The comprehensiveness of the budget should be increased.* Subsidies and borrowing of social security funds, municipalities, and general government Public Law Entities, such as hospitals, and own revenues from all sources should be incorporated in the

budget to avoid transparency problems. The split between the ordinary and the investment budget should be abolished and full cost commitments of public investment programs should be published.

6. *Distributed management: Line ministry autonomy and accountability should be strengthened.* As part of the increased transparency that a new program budget will attain, it is important that accountability and responsibility be decentralized. The decentralization must be within the top-down constraints established in the medium term fiscal framework. The line ministries should be given a strong mandate to manage within the new system and be held accountable for the results. Each line ministry should establish a central budget office to coordinate budget and financial management functions of the ministry. *The primary responsibility for budget execution should be transferred to spending units.* The Ministry of Finance should provide agencies with clear guidance on budget execution requirements and deadlines for budget reports.

2. Overview of Greek Budget Reform to Date and Lessons Learned

Reform goals

7. Beginning with the 2008 Budget, the Greek government launched reforms to its public financial management to strengthen budgeting, accounting, and auditing processes and procedures in order to increase efficiency and effectiveness of spending. Two offices were established within the Ministry of Finance to pursue reforms in accounting and budgeting respectively. The accounting office was charged with establishing a new accounting system for Greece to facilitate timely and accurate financial reporting. The Government Budget Reform Unit (GBRU) was established to lead the transition from input budgeting to results oriented program budgeting. The GBRU also had the broader mission of introducing changes to the Greek budget system designed to move toward top-down budgeting and medium-term budgeting. Most reforms prior to the onset of the crisis were focused on the introduction of program budgeting. This section reviews the progress with program budgeting, training efforts to date, and lessons learned in that process. It then summarizes remaining challenges and some possible next steps.

Program budgeting pilots

8. As a first step in implementing program budgeting, the GBRU developed a prototype program budget structure that was included in the 2008 Budget. The prototype budget presented the Greek budget by function, by a National Plan of Programs by ministry, and by major economic category. The functional classification was based on the Classification of Functions of Government (COFOG) with one function for revenues and 12 for expenditures. Seventy-three major programs were identified. Tables presented estimates for ordinary expenditures, the investment budget and total spending. The program budget display for Culture, Religion and Sport in the appendix of the 2008 budget was the first consolidated budget presentation for a function presented by the Greek government.

9. In the budget for 2009, the Ministry of Finance presented a National Plan of Programs structured in 12 functions, 80 programs and 710 actions. The Ministry of Finance provided budget estimates on a program basis for every ministry and detailed program budgets defining goals, actions, and performance indicators for four pilot programs: the Ministry of Interior's Hellenic Police and Fire Brigades, the Ministry of Education and Religious Affairs Primary and Secondary Education and the Ministry of Culture's General Secretariat of Sports. For the budget for 2010, the Ministry developed 27 program pilots, with at least one pilot program presented for each ministry.

Training

10. In February 2009, the Ministry of Finance in cooperation with the OECD presented a two-day seminar on international experience in performance budgeting. Experts from Canada, France, Sweden and the OECD discussed the impact of performance budgeting on appropriations, its use in decision making, and on the selection of targets and performance measures. Approximately 80 participants, primarily from the Ministry of Finance budget directorate, but including representatives of the investment budget staff, Fiscal Audit Office, Ministry of the Interior and the pilot agencies.

11. Also in 2009, the GBRU organized a variety of training experiences for the pilot ministries including the several one-day training sessions for 2 to 3 ministries, instruction on the use of information requirements and one-on-one technical assistance between the GBRU staff and their designated ministries.

Lessons learned

12. The experience among the pilots was reported in an addendum to the 2010 budget. Some services like the Police and Fire Brigade in the Interior Ministry made significant progress in defining programs and measuring results, others have made less progress. Observations of the pilot experience include:

- A key issue encountered in several ministries is the serious shortage of human resources devoted to coordinating and reviewing budgets at the ministry level; a second and related issue is the lack of coordination among the sub-divisions of the ministries on the budget. The Ministry of Justice for example has only one budget official at the ministerial level.
- Budgeting shifted from input allocations in a detailed economic classification to a focus on results measured in outputs or outcomes. However, most measures reported in the 2010 Budget are program outputs, not outcomes.
- The Ministry of Finance began in 2009 to take a more active role in the reform work, including review of the ministry program budget submissions and suggestions for definition of objectives and performance measures. This is key to getting line ministries to implement. Thus far, the Fiscal Audit Offices, the large staff responsible for ex ante expenditure control, have not been involved in the reform.
- Improvement in the program budget structure demands a change of the current budget classification (economic classification) in accordance with the international standards.

Challenges regarding program budgeting reform

13. *Need for political leadership and ownership* – reforms that fundamentally change the budgeting process need the active and vocal support of the top of the Ministry of Finance and the Prime Minister if they are to succeed.

14. *Need for flexibility and accountability* - One of the major challenges facing the performance budgeting initiative going forward is building the capacity of ministries to accept responsibility and accountability for their budgets. The Greek public service is accustomed to detailed input controls for budgets with detailed oversight from the centre and primarily focuses on ex ante controls of the legality and propriety of expenditure. Implementing performance budgeting will require greater delegation from the Ministry of Finance, budget proposals by ministries to fund essential programs, and increased flexibility to use budget allocations at the ministry and program/ action level. Increased flexibility will

need to be developed hand in hand with increased accountability by ministries for budget outcomes. One idea under consideration is to provide increased flexibility to transfer funds, contingent upon ministries demonstrating their capacity to account and audit outcomes.

15. *Need for increased PFM capacity in line ministries* - Greek line ministries can generally be described as having relatively weak staff in their central corporate units. The operational entities of ministries are relatively independent. One of the keys to the implementation of performance budgeting efforts will be to strengthen the coordination of performance budgeting within ministries. The 2008 OECD Review recommended establishing a ministerial office with responsibility for budgeting, accounting and audit in each line ministry. The intent of this structure would be to give each minister the equivalent of an internal ministry of finance reporting to the minister and overseeing all financial management functions of the ministry.

16. *Need for training and capacity building for budget staff* – Budget staff have little experience in program review and evaluation. To implement program budgeting, all budget personnel will be required to acquire new skills focused on the substance of budget formulation and management. A major issue identified during the seminars conducted in 2009 was the need for hands-on skills for program budgeting: defining program goals and objectives, identifying appropriate program measures, and analyzing results.

3. Appendix - The current budget process in Greece

17. This section is based on the 2008 OECD Review of Greece and describes the Greek budget procedures. In a few instances, there have been changes since 2008 and the text has been adjusted accordingly. The recommendations from the 2008 Review are listed at the end of this document.

3.1 Budget formulation

18. The budget formulation phase of the Greek budget has the potential for a number of improvements that have shown their worth in OECD countries. As in many countries, the budget lacks strong top- down procedures, is not all encompassing, and has a very detailed input focus. The Greek government is aware of the problems and is in the process of a rolling reform. The reform agenda touches on many aspects of the budget process, with the primary focus of introducing a program based budget. This section begins by highlighting important features in the Greek budget formulation process. Next, the budget formulation cycle will be described.

Weak top-down budgeting process

19. The Greek budget preparation process is to a large extent a bottom up exercise. Line ministries enjoy a high degree of freedom to propose their spending wishes with little early guidance from the Prime Minister, the Council of Ministers (Cabinet), or the Ministry of Finance. This lack of early guidance primarily concerns funds for new policy initiatives, since salary expenditures of current policy are centrally controlled.

20. The meeting of the Council of Ministers (see below) is a general discussion on the budgetary position but with no specifications of overall political priorities or budgetary developments at ministerial level. Ministerial spending ceilings are not handed down at this stage nor at a later stage of the budget process, except the more or less formulaic calculation of personnel expenditure. The initiative for new policy and fiscal measures is left to the line ministers. This organization of the budget preparation process

gives little incentive for the line ministers to think in terms of reallocation and prioritizing instead of asking for additional funds; and indeed often leads to strong pressure on the expenditure side. In comparison, a more top-down process, where an early decision is taken on overall expenditures which is then subdivided into ministerial ceilings has shown to be more effective in containing costs and making the line ministry feel ownership for fiscal decisions within the ministry.

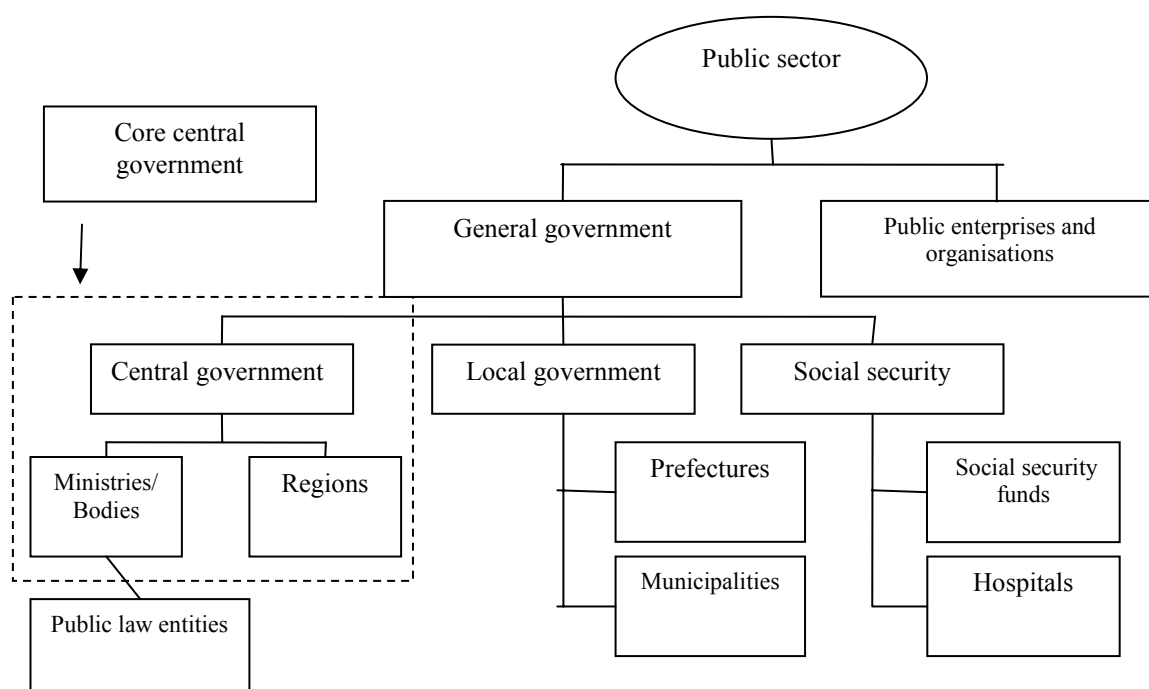
Lack of a unitary budget

21. The OECD Best Practices for Budget Transparency state that the budget is the government's key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed. The Greek budget still has a way to go to attain that: 1) there is a split between the 'ordinary' annual budget and the investment budget; 2) The scope of the budget is not sufficiently inclusive.

22. Based on a perceived need for fencing in and earmarking money for investments in the 1950s, the investment budget was separated from the ordinary budget. This means that appropriations for investment expenditures and other expenditures are negotiated separately reducing the possibility to make efficient trade-offs between these two expenditure types. In practice the capital budget is to a large extent (about 70%) determined by the amounts necessary to co-finance projects with EU funds. In addition, the funds are allocated so that projects that have started can be worked on or finished in the budget year. Finally, the discretionary part is determined on a case by case basis.

23. In 2009 responsibility for the investment budget was returned to the Ministry of Economy, Competitiveness and Shipping while the ordinary budget was the responsibility of the Ministry of Finance. The split in responsibilities goes for both budget preparation and budget execution. A number of OECD countries, such as France, have previously had a ministry of planning that focused on investment and a separate process for capital budgeting, but this is at present a rarer institutional feature.

24. *Central government sector and the budget* - The scope of the budget is not sufficiently inclusive (Figure 1). The 'core' central government – which together comprises the central government budget – consist of the ministries and regions. Not included are public enterprises and organizations, Social security funds and hospitals and Public law entities. However, budgetary transfers to these organizations are included. Until 2009, a large number of off budget funds existed as well, but these have now been abolished.

Figure 1: Organization of government

Note: The above does not reflect the local government reform proposed to Parliament in spring 2010

25. *Public Enterprise Funds* - Public enterprises and organizations are mainly self-financed activities—like utilities, railways, trams, and ferries—and the companies are often listed but with a majority stake owned by the government. In addition they receive annual cash loans to cover their projected deficits. Their borrowing requirements in 2006, 2007 and 2008 represent 0.74%, 0.85% and 0.98% of GDP.

26. *Public Law Entities* - Public law entities on the other hand are entities more closely related to government funded service provisions. The difference is that they are organized as separate legal entities with a large degree of managerial freedom, but primarily financed with public money via the budget. Examples of Public law entities include universities, where two thirds of expenditures are funded by the central government budget. What is visible in the budget is only the amount transferred from the central government. That means that what is noted in the budget is a net-transfer to the entity, not the total gross turnover or what the transfer is actually spent on. The OECD best practices for budget transparency indicate that expenditures should be presented in gross terms in the budget. In addition, ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.

27. *Social Security Funds* - It is mandatory for all employees to contribute to a social security fund. These are financed through employees' contributions and a mix of employer contributions and transfers from the central government. The social security sector is governed by two systems. With regards to the public sector, the annual budget finances the pensions of retired public sector employees on a pay as you go basis. In addition, all costs related to health and other social security costs for public sector employees are financed via the annual budget. The social security costs (including health expenditures) for the

private sector are financed via a number of extra budgetary funds and pension funds. Every social security fund draws up its own budget. The budgets of these funds are approved by their boards and by the Minister of Employment and Social Protection. The state contributes to their revenues by grants via the state budget. However, it is not the state budget that defines the nature and the level of the expenditure, but the specific provisions of the funds. Parliament is only provided information on, and asked approval on, the total transfer of grants and contributions to these funds from the state budget, without a presentation of the funds' budgets.

28. *Organization and financing of sub-national governments* - The Greek government is dominated by the central government. It is a unitary system. Total expenditure by sub-national governments amounts to less than 3% of GDP.

29. The 13 regions are part of central government, the head of each region is appointed by the central government. The regions supervise sub-national government activities focusing on the legality of prefecture and municipal actions. The 57 prefectures are part of the local administration and are assigned significant central government functions, financed mostly (95%) by tax revenue of central government. At the most local level, there are 1,034 municipalities. Prior to 1997, there were 5,751 local municipalities. The municipalities are financed in part (about 60%) by central government. The primary functions of the municipalities are local roads, garbage collection, public cleaning, medical dispensaries, provision of shelters for homeless people, cultural events and care for the elderly and nurseries.

30. Local government budgets must in principle be in balance, but they have a few limited possibilities to borrow. There are two restrictions on local government borrowing. First, every loan must be approved by the municipal or prefectural council and loans above 3 million € must be approved by a council majority of two thirds. Second, each loan requires a report on the repayment capacity of the municipality or prefecture, which must be approved by the regional administration on behalf of the Minister of the Interior.

31. The Greek government has recently submitted to Parliament a bill according to which seven Decentralized Administrations are created, which will be part of the Central Government. As to the local level, the prefectures are abolished and replaced by 13 Regions with elected administration. The municipalities are merged into a total of 325.

32. *Human resource development* - In June 2006 the civilian public sector employment including personnel of the ministries, the regions, the prefectures, and the hospitals, but excluding military personnel, totaled 486,580, including 436,557 permanent staff, 16,215 open-ended contract staff, and 33,808 fixed term contract staff. Salaries are determined by the Ministry of Finance Directorate for Salaries and are established for 18 categories of public sector officials, including civil servants, judges, school teachers, university professors, priests, and doctors of the National Health System. The salary budget is treated as a mandatory expenditure and for budget execution purposes is not subjected to extensive pre-payment reviews. Public enterprises have their own salary levels based on collective bargaining agreements between boards of directors and unions.

33. Management of the Development of Human Resources is the responsibility of the Ministry of the Interior, Decentralization & Electronic Governance. The Greek system is based on the employee spending his career in the authority that first hired him and it is in practice very difficult to let civil servants go. There is very limited mobility within the Greek public sector, employees may be reassigned from unit to unit within the same authority (e.g. ministry, agency) or may be transferred between authorities upon request where there is a vacancy. Secondment from one authority to another is possible, upon the

request of the employee. Reassignments to border areas are promoted by financial incentives, but require a ten year commitment from the employee. The central human resource authority (there are also Human Resources Directorates within ministries) has overall responsibility for defining the rules and procedures governing recruitment of public employees and contract personnel, for assessment, promotions and training and selection of heads of units, directorates and general directorates for the public sector. This authority is also responsible for the general civil service exams, which is the main entrance to a career in the civil service.

34. Greek public salaries are set by five employment ranks (based on educational level), on time of service and a satisfactory personnel appraisal. In the past, personnel assessments have not involved realistic evaluation of performance. The assessment criteria have been updated to make them more transparent and substantive: knowledge of subject, effectiveness, behavior, interest and creativity, and participation in committees and working groups. Due to a number of circumstances such as: initial salary limitations, the “clientistic- populist” tradition that exists in many other cases and not only in salaries, bonuses are given to all staff rather than to individuals based on performance. Salary limitations present problems in keeping good staff. Strict employment contracts, the low mobility and real wage rigidity are problems in the efficient allocation of human resources.

Detailed input orientation

35. The Greek budget is very detailed and input oriented. There is practically no use of output information and performance information in the budget process. At present, the Greek budget contains some 14,000 line items specified according to an institutional and economic classification. The institutional classification is in several layers, starting with responsible ministry down to spending units. The appropriations of the ordinary budget (the investment budget specifies investment expenditures) is in turn specified according to economic classification, i.e. what funds can be spent on: 1) salaries and wages; 2) operating expenditures; 3) subsidies and grants; 4) returned resources; 5) pensions; 6) miscellaneous expenditure; and 7) interest on public debt.

36. All in all these detailed specifications create a number of problems.

1. First, the annual budget consists of many thick books of detailed tables where too much detail makes it difficult to have an overview and analyze the budget, even if there are summary tables included in the budget introductory report.
2. Second, detailed specifications make it difficult for spending units; without reallocation approval from the Ministry of Finance, to face changed circumstances during budget execution (see also below on budget execution).
3. Third, it gives managers of spending units little room for maneuver to organize the activities as efficient as possible (i.e. to decide on the input mix) as appropriations are tied to specific economic spending categories.
4. Also, it might lead to lesser responsibility and accountability of managers, as they feel that everything is decided for them, and no responsibility is given to them to fulfill their task.

37. This rigid and complex system of continuous monitoring by the Budget Directorate and the Fiscal Audit Offices of the Ministry of Finance is viewed by many to be a response to a less than adequate degree of responsibility and accountability in the line ministries.

Chronology of annual budget process

38. The Greek budget is approved on an annual basis, with the budget year corresponding to the calendar year. As noted, it consists of two parts: the ordinary budget and the investment budget. The budget is input oriented with a significant amount of detail, both in terms of institutions and in terms of economic classifications.

39. The budget preparation process starts in January/February in the year before the budget year with the Macroeconomic Analysis and Forecast Directorate (MADI) updating the macroeconomic forecast for the budget year (t+1) and the following two (t+2 and t+3) years. Forecasts for the short-term (t+1) are done twice annually (spring and autumn) and for the medium-term (t+2 and t+3) annually for the Stability and Growth Program that the Greek government has to deliver in the autumn each year to the EU. The medium-term forecast is not updated as part of the budget preparation process in the spring. The overall position of central government finances are updated centrally using the new forecast. One feature of the forecasting process is the overall fiscal targets that the Greek government decides to reach in the medium-term Stability and Growth Pact forecasts. In case the fiscal targets (deficit, expenditures, revenues) are not reached according to an updated medium-term forecast, unspecified, or partly specified 'reforms' are added (such as a reduction in tax-evasion or government expenditures), without these reforms generally being specified in concrete detail.

40. Note that as mentioned below the macro forecasts are not reflected in the line ministries budget preparations in that they develop their own forecasts. This naturally hampers the usage of the estimates and indeed undermines the integrity of the budget. In addition, the Greek budget is on a one year basis without estimates for out years. This means that the budget projections are not reflected in the out years of the macroeconomic projections and this may result in corrections required for staying within the Stability and Growth pact parameters. This hampers an orderly reform process and can lead to stop-gap measures. These are not always beneficial in the long run since short term measures do not always address the fundamental issues (such as the need to reduce staff, which might take more than a year).

41. Political involvement starts in early spring with a meeting of the Council of Ministers (cabinet), which is chaired by the Prime Minister. The Prime Minister informs ministers of the overall budget position for the next year. Each minister is allowed to bring up policy proposals at this meeting, but usually no decisions on the proposals are taken. The meeting concerns the main political priorities for the government as a whole. Each line minister will - at this meeting,= or later during the budget submission phase - bring forward their own policy suggestions. The updated Stability and Growth Program is presented by the Minister of Economy and Finance and sets the main parameters for the budget. Top down ceilings for each line ministry are not set at this meeting.

42. Later in the spring (May) the Ministry of Finance sends out a budget circular to line ministries and regions. This is the start of the budget formulation process in line ministries. The circular contains two parts: 1) main fiscal policy targets and overall targets for the overall deficit (the ones already discussed in the Cabinet meeting); and 2) technical instructions to line ministries on what should be included in their budget submissions and deadlines for budget submissions. The circular is a very brief document that gives line ministries very limited instructions in terms of new policy or limits on overall ministerial expenditures or on new proposals as a starting point for the budget formulation process. Also, the circular does not include the macro-economic forecast and line ministries are not obliged to use specific parameters, like price and volume indexes, prescribed by the Ministry of Finance, or agreed on together with the Ministry of Finance when they submit their budget proposals. Each line ministry, or their spending departments, develop and use their own indicators that influence appropriations under their responsibility, and there is

no overall coordination. Sometimes, line ministries do this in a discussion with MADI but that is not mandatory (e.g. unemployment benefits). This creates a situation where it is difficult for the Ministry of Finance to oversee and evaluate the submissions from line ministries. It also raises the issue whether the budget as a whole is consistent, as submissions from different ministries, may not be actually based on the same set of figures although similar indicators influence their areas.

43. In June, the Ministry of Economy, Competitiveness and Shipping sends out its own budget circular regarding instructions for investment expenditure. This circular is similar to the one for the ordinary budget, and does not contain very much information on what line ministries can submit, but is more focused on how and when submission shall be made.

44. As soon as submissions from the line ministries have been received by the Ministry of Finance and the Ministry of Economy, Competitiveness and Shipping, they are scrutinized by the respective directorates and overall assessment is done on the size of submissions compared to what can be managed given the deficit target and revenue estimates. As mentioned earlier the capital expenditures are mainly based (70%) on the amount required to co-finance projects with EU funds, the projects that have already been launched and finally the new projects that are decided on a case by case basis.

45. The deadline for budget submissions, both for the ordinary budget and for the investment budget are in mid-June. Submissions within the ordinary budget are sent to the Ministry of Finance and for the investment budget to Directorate for Public Investment.

46. As line ministries get no limits in the initial phase of the budget preparation process, submissions come in higher than what is possible, given revenue estimates and the targeted deficit. This is the start of the political prioritization process. The spending proposed by the ministries can be quite substantial compared in the final results. Spending proposals are first discussed at lower levels, and if they cannot be resolved they are raised, ultimately to ministerial level. If the line minister and the Minister of Finance cannot agree, ultimately the prime minister will decide. This is not common but happens occasionally during the budget cycle. The lack of top down ceilings means the finance ministry has less time to focus on thorough analysis of major expenditure areas in that the weeding out of expenditure increments is very time consuming.

47. Parallel to the process of discussing appropriations, tax legislation is discussed. Even though tax-legislation is separate from the annual budget, both revenues and the expenditures are discussed together. Tax increases to finance higher than expected appropriations are supposed to be used only as a last resort. The lack of a top-down budgeting procedure can result in the government not knowing how large overall expenditures will be. This can complicate the task of adhering to the Stability and Growth Pact.

48. The deadline for submission of the preliminary draft budget executive summary to Parliament is the 1st Monday of October. The preliminary draft budget is scrutinized and discussed in parliament (see below). The Parliament gives feedback to the government and ministries. The Ministry of Finance then prepares and submits its draft to Parliament no later than 21st of November. Proposals from the Parliament practically never lead to increased or decreased expenditures and/or revenues.

3.2 Budget approval

The Hellenic Parliament

49. The origins of the Hellenic Parliament date back to 1843. It is a unicameral legislature with 300 members elected for a four-year term under a complex system of reinforced proportional representation. Greece is divided into 8 single and 48 multi-member constituencies for 288 seats, and one multi-member nationwide constituency for the 12 remaining seats. Voters can choose different candidates from within a party list. To enter Parliament, parties must achieve a minimum of 3 per cent of total votes. Following elections, parliamentarians form Parliamentary Groups. These consist of the parliamentarians who belong to the same political party. Parliament has six large standing committees: Cultural and Educational Affairs; Defence and Foreign Affairs; Economic Affairs; Social Affairs; Public Administration, Public Order and Justice; as well as Production and Trade. In addition, there are two special standing committees, including the Special Standing Committee on the Financial Statement and the General Balance Sheet of the State. There are also special committees, internal committees (such as the Committee on Parliament's Finances), investigative committees and ad hoc committees.

Pre-budget consultations

50. The Greek Parliament is formally consulted prior to the tabling of the budget. Article 79(3) of the Constitution requires pre-budget consultations with the relevant parliamentary committee. The procedure was introduced in 2001 and reflects a desire to strengthen parliamentary involvement. On the first Monday of October the Minister of Finance submits a preliminary draft of the budget (executive summary) to the competent committee for comments, which are to be taken into account in finalizing the budget proposal.

51. The Standing Committee on Economic Affairs of Parliament reviews the preliminary draft budget. The committee is comprised of 49 members and reflects the party political composition of the chamber. The debate in the committee may not exceed three sessions and takes place along party political lines. The committee does not vote on the preliminary draft budget, nor is there a debate in the chamber, but the comments produced during this debate are forwarded to the Ministry of Finance for consideration.

52. In practice, this pre-budget debate does not appear to have any substantive effect on budget policy. The draft budget presented in October and the budget tabled in November are broadly the same.

Approval of the annual budget

53. The timing of the parliamentary budget process is regulated by article 79(3) of the Greek Constitution, which requires the Minister of Economy and Finance to table the budget at least forty days before the beginning of the fiscal year. Article 8(1) of the budget law (no. 2362/1995) requires at least one month. The reason for this discrepancy appears to be that the law predates the constitutional reforms in 2001 that slightly extended the time allotted to Parliament. The constitutional deadline for tabling the budget is adhered to in practice.

54. The budget submitted to Parliament comprises the ordinary budget as well as the public investment budget. Article 5 of the budget law requires a detailed organizational classification. For the first time for the 2008 budget, the Ministry of Finance published an appendix that attempted to structure the budget on a program basis. The budget is accompanied by an introductory report that comments on economic developments and government policy. The documentation also includes information on state

guarantees and tax expenditures. There are no multi-year forward estimates. Moreover, Parliament does not receive comprehensive information on the consolidated public sector, including local government, social security and other public entities. There is information on some off-budget funds, but Parliament only approves contributions to their revenues in the form of grants from the budget. Hence, the available documentation is not comprehensive and of limited use for scrutinizing government policy.

55. Following the tabling of the budget by the Minister of Finance, it is sent to the Standing Committee on Economic Affairs for examination. Other committees are not involved in the scrutiny process. The chairperson of the Standing Committee on Economic Affairs appoints general rapporteurs from each Parliamentary Group and assigns the different parts of the Finance Bill for consideration, as outlined in article 121(8) of the standing orders. The rapporteurs may not take longer than eight days after the first session before submitting their reports. The committee then debates the Finance Bill in at most four consecutive sessions. The Minister of Finance or a deputy finance minister attend the debate. There is no independent research capacity in Parliament to provide analytic support during this process, although several members of the current committee support the creation of a budget analysis unit. Some members complain about the ineffectiveness and uninformative nature of this stage of the debate. One described it as ‘a series of parallel monologues’ along party political lines.

56. Following the conclusion of the committee’s discussions, a report is transmitted to the chamber at least three days prior to the opening of the debate in the plenary. The debate of the Finance Bill in the plenary takes at least five consecutive days. The format of the debate is regulated by article 123 of the standing orders and takes place along party political lines. The Minister of Finance starts the debate with an opening statement, following which the different parties are given an opportunity to present their views on the budget. The debate of the Finance Bill has to conclude at midnight of the day of the last session, and is immediately followed by a vote in the plenary. Rejection would bring down the Government, and this has not occurred. Commenting on the lack of in-depth scrutiny, one Member of Parliament summarized the debate on the floor as ‘a very imperfect process’.

57. The Constitution gives Parliament powers to amend budget proposals with only minor procedural restrictions. Article 8(1) of the budget law merely stipulates that Parliament’s own rules are to regulate the annual budget procedure. It is the standing orders of Parliament that impose strong procedural restrictions. Article 123(6, 7) of the standing orders prescribes a voting procedure in the plenary that takes the form of an accept-or-reject block vote on the executive proposal, which eliminates the possibility of amendments. Hence, the parliamentary process does not generate any changes to the budget as tabled by the executive.

58. Article 9 of the budget law and article 79 of the Constitution regulate reversionary provisions for the case that approval of the budget is delayed beyond the beginning of the relevant fiscal year. If Parliament’s session expires prior to voting the budget or a special law that authorizes interim provisions, the previous budget can be extended by decree for a further four months. In practice, the budget is approved prior to the beginning of the relevant fiscal year.

Lack of in-year oversight

59. There appears to be little parliamentary involvement in budget execution. The Standing Committee on Economic Affairs does not consider the monthly actual spending and revenue updates released by the Ministry of Finance, nor the mid-year report. There is a sub-committee of the Standing Committee on Economic Affairs that considers the annual accounts and balance report. This sub-committee might be used to ensure parliamentary oversight of implementation on a more continuous basis during the fiscal

year, but this opportunity is not utilized. Hence, only a minimal degree of oversight of execution occurs with a substantial delay during the parliamentary debate on the accounts, which is described in more detail in the audit section.

60. Article 8(2) of the budget law regulates the conditions under which adjustment appropriations have to be tabled for approval. It stipulates that when actual revenues or expenditures deviate 'significantly' from those approved by Parliament, the submission of a 'supplementary or corrective budget' accompanied by a report is required. In practice, the Government has interpreted these provisions permissively. There are often large deviations between the approved budget and actual expenditures, and over-spending is not uncommon. For instance, actual spending on the ordinary budget has exceeded the voted total by more than 5 per cent in some recent years. Yet, these deviations have been interpreted as not meeting the test of 'significant'. In practice, the Ministry of Finance has not submitted a supplementary budget.

Support for budget reform

61. Members of Parliament on the Standing Committee on Economic Affairs are aware of the weaknesses of the Greek budget system. Moreover, there is strong cross-partisan support for the main aspects of the Government's budget reform proposals, including efforts to strengthen the comprehensiveness of the budget and the introduction of medium-term planning and program budgeting, combined with an increased focus on performance. There is also support for accounting reforms and demand for improved information on assets and liabilities as well as tax expenditures. The impressive level of support for the Government's reform agenda in Parliament provides a unique window of opportunity to carry forward the main aspects of the initiative. Several members also voiced support for the creation of a non-partisan parliamentary budget analysis unit to support their deliberations on the budget.

3.3 Budget execution

The Organization of budget execution

62. The implementation of the Greek Budget is the responsibility of the ministries, controlled to a high degree by the Minister of Finance. The Ministry of Finance is heavily involved in quarterly allocation of the budget and consideration of modifications to the budget. All budget transactions are reviewed for legality and regularity by the Ministry of Finance and by the Court of Audits.

63. Execution of the budget varies depending upon the category of spending. Payments of wages, salaries and pensions follow simple procedures established by regulation. Payments for more discretionary expenditures such as grants, transfers of appropriations between different bodies (ministries), and procurement must meet regulations, be consistent with approved allocations, and are subjected to substantial pre-payment reviews. For investment expenditures, the Directorate for Public Investments issues quarterly ceilings and ministries develop monthly cash plans based on expected construction schedules.

64. Every ministry has at least one financial division that is usually responsible for both the budget and accounting. The basic roles of these divisions are:

- a) to collect and study the necessary documentation for the formulation and modification of the ministry's budget;

- b) to collect, examine and send to the Ministry of Finance's Fiscal Audit Offices² the necessary documentation for the validation of the ministry's expenditure (except of some of the mandatory expenditure);
- c) to prepare and approve the payment of some of the mandatory expenditure (salaries, rents);
- d) to procure needed (for the good function of the Ministry) buildings, equipments, and services and take care of their maintenance; and
- e) to warehouse materials.

65. The ministries oversee the finances of executive agencies and public institutions within their control, such as special decentralized services: e.g. hospitals, and universities.

Budget flexibility and re-allocation

66. The extremely detailed budget structure makes the Greek budget inflexible and reduces the accountability of the budget holders. To respond to the need for more flexibility, there are annually thousands of budget adjustments.

67. For 2006 and 2007 the table below shows the number of decisions and the total amounts reallocated after approval of the budget. Particularly noteworthy is that almost half of the approved adjustments were for reallocations of less than 5,000 Euros.

Table 1 - Number of budget adjustment decisions in 2006, 2007

Amount per Decision	2006	2007
<5.000 €	2538	2587
>5.000 and <10.000 €	853	839
>10.000 and <20.000 €	549	783
>20.000 and <50.000 €	699	757
>50.000 and <100.000 €	396	441
>100.000 and <500.000 €	623	671
>500.000 €	511	572
Sum	6169	6650

68. Usually about 6-8 billion € are reallocated during the year.

Ordinary budget

69. There may be reallocations for discretionary spending line items during the negotiation process if they are considered to be justified. Mandatory expenditures like salaries, allowances, pensions, social security subsidies are determined by the Ministry of Finance.

70. After the budget has been approved, line items concerning salaries, allowances, pensions, social security subsidies, rents and other relatively mandatory items can be modified only by a decision of the

² The Fiscal Audit Offices (FAOs) answer to the Ministry of Finance. These FAOs are responsible for the review of each transaction to ensure that the expenditure meets legal requirements and are appropriately documented

Minister of Finance. Transfers of appropriations between different bodies (ministries), sub-bodies (specific agency or service of a ministry), and categories and sub-categories can be made only by the Ministry of Finance, after approval of a justified request from the ministry. Ministries have the right to make transfers of appropriations within the same group, to modify line items, according to their needs.

71. For the remaining more discretionary expenditures in the budget, the spending ministry can address unforeseen expenditure with reallocations of appropriations within its budget chapter. If the needed funds cannot be covered with this procedure, the ministry can make a formal request for additional funds to the Ministry of Finance.

72. The leadership of the Ministry of Finance have limits on their discretion to approve budget adjustments (Head of Unit: 30,000 €; Budget Director: 300,000 €; Director General: 600,000 €; Secretary General: 1,200,000 €). The finance minister may adjust the budget according to the size of the designated reserve. In 2008, the reserve was 100,000,000 €.

External audit

73. The Hellenic Court of Audit is the Supreme Audit Institution (SAI) of Greece. Its origins date back to 1833, when it was created along the lines of the French *Cour des Comptes*. In 1887, the Court acquired responsibility for pre-audit or preventive audit, which has remained an important component of its work.

74. The Court of Audit is part of the judiciary and is the highest judicial authority for matters pertaining to public finances. It has the authority to impose sanctions on officials who misused funds. The Court's jurisdiction includes central government ministries, local government and other public sector bodies, but it excludes private law legal entities. Moreover, for national security reasons secret defense and foreign affairs expenditure is excluded from external audit and parliamentary scrutiny, including defense procurement. Its staff in 2008 consisted of 650 people, 400 of which are auditors. The focus of audit work by the Court is on the legality and regularity of spending. The constitutional framework obliges the Court to carry out both pre- and post-audits, i.e. audits before and after the fact respectively. A key characteristic of auditing in Greece's public sector is the extent of overlapping ex ante controls by the Ministry of Finance (FAO) and the Court of Audit.

2008 Recommendations

Budget preparation:

1. *Priority should be given to introducing a program budget with a focus on policy objectives.*
2. *Line ministry autonomy and accountability should be strengthened.*
3. *The top down element in budget preparation needs to be increased.*
4. *The comprehensiveness of the budget should be increased.*
5. *The use of the economic assumptions should be streamlined.*
6. *The budget documentation should include multiyear estimates (year t+2 and t+3) on the basis of maintaining current policy.*
7. *The General Accounting Office's capacity to conduct ex ante and ex post value for money analysis should be strengthened as well as other functions needed in a modern budget bureau.*

8. *It is important to ensure that political commitment to the reforms is clearly and strongly communicated.*
9. *Ensure value for money focus when considering using PPPs*

Parliamentary approval:

10. *A stronger role for parliament in the pre-budget consultation should be introduced.*
11. *Sufficient time for parliamentary scrutiny should be secured.*
12. *Access to analytic capacity should be built up.*
13. *Parliament should take a strong role in reviewing the budget on a program basis.*
14. *In-year control by the Greek Parliament should be enhanced.*

Budget execution:

15. *Control procedures should be made more efficient.*
16. *The accountability of ministries should be strengthened.*
17. *The primary responsibility for budget execution should be transferred to spending units.*
18. *Ministry of Finance staff should be reviewed and reallocated.*

Accounting and audit:

19. *The most important recommendation in this chapter is to institute an in-depth dialogue on the reform of audit and accountability that brings together all relevant actors – in particular the Ministry of Finance, the Court of Audit, as well as Parliament – to consider the following issues:*
20. *Public sector accounting should be improved.*
21. *The implementation of the new accounting and financial information system should be divided into short-term deliverable functional components.*
22. *It is paramount to focus on enhancing the quality, timeliness and comprehensiveness of cash-based accounts before considering a move to accrual accounting, which should not be a priority at this stage.*
23. *Pre-audit activities should be reduced.*
24. *Public management would benefit from a shift towards assessing the performance of public services.*
25. *The Court of Audit and Parliament should engage in a dialogue on how their interaction should be strengthened.*

Process challenges:

26. *In order to encourage support in line ministries for the modernization of the budget process outlined above, in particular the new program budget, the line ministries need to be involved and it must be ensured that they are given increased decision making autonomy.*
27. *The use of pilots is a good idea, although it is important that the reforms are not bogged down in discussions of detail.*