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GOVERNANCE OUTREACH INITIATIVE

**21st Session of the Public Management Committee, Château de la Muette,
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This document will be considered under Item 8, Fulfilment of Ministerial Mandate on Governance and Outreach, at the meeting of the PUMA Committee on 6-7 April 2000.

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GOVERNANCE OUTREACH INITIATIVE

DRAFT ACTION PLAN

1. This draft action plan and its attachment are submitted to the PUMA Committee as background for its discussion on the fulfilment of the Ministerial Mandate on Governance and Outreach.

The mandate

2. At their meeting in May 1999, OECD Ministers requested the OECD to elaborate a proposal for a “good governance” initiative to better share the results of the Organisation’s existing work in this field with interested non-member countries, where appropriate in co-operation with other international organisations. Ministers also requested a progress report on this initiative for their next meeting, which will take place on 26 and 27 June 2000. In making this request, Ministers welcomed OECD efforts to encourage more effective, efficient and transparent governance structures in Member and non-member countries, inter alia through its work on public sector management, anti-bribery, regulatory reform, corporate governance, ethical principles in public life, local and regional administrations, and ongoing work on indicators of global progress on governance.

3. The purpose of the Good Governance Outreach Initiative is to enhance the impact and relevance of the OECD governance outreach activities, by building on current extensive efforts to strengthen experience sharing and dialogue between OECD and non-OECD countries on governance issues. The Initiative will improve accessibility for non-Members to OECD’s contributions and priorities for the future on governance, strengthen partnerships with other bodies working on governance, and identify and exploit synergies between various OECD outreach activities.

4. There is no universal model for good governance, but common needs among OECD and non-OECD countries can be served through mutual information exchange and identification of good practices that must be tailored to work in national contexts. The Good Governance Outreach Initiative will focus, therefore, on governance issues in which OECD and non-OECD countries are most likely to find a common agenda.

Developments and Initiatives in the Lead-Up to the 2000 Ministerial Council Meeting

5. Following Ministers’ call for a Good Governance Outreach Initiative, there have been many important developments concerning the OECD’s governance work. At the outset, it is important to note that the OECD Council has included governance as one of the OECD’s eight priorities, which should guide the Organisation as it considers its Programme of Work and Budget for 2001-2002. And the OECD Council has agreed to a new PUMA mandate, which more explicitly focuses on “strategic governance challenges” and calls for a more active outreach role.

6. The OECD Secretariat is planning to develop a draft Statement of Governance Priorities for the 21st Century, which would be presented to the upcoming Ministerial Council Meeting (to be held on 26-27

June 2000). This Statement is intended to make OECD Members' overall approach and action plan on governance better known and understood by non-OECD countries and the international community at large. It will also serve as a reference tool to guide work across the Organisation in the coming years and ensure that a governance perspective is properly integrated in its activities. A draft would be circulated in due course to OECD delegations (including PUMA delegates) for comments.

7. A large number of important governance outreach activities and initiatives have been undertaken, including: the South Eastern Europe Stability Pact Anti-Corruption Initiative, and a range of other activities concerning the fight against bribery and corruption; corporate governance regional roundtables organised under the OECD leadership in partnership with the World Bank; the recent economic survey on Russia, which dealt with fiscal federalism; PUMA's work on budgeting and financial management with China; and the public sector governance activities of SIGMA¹.

8. In the context of the "Good Governance Outreach Initiative, a number of other important initiatives are scheduled in the lead-up to the 2000 Ministerial Council Meeting. A high-level seminar bringing together OECD and a range of non-OECD countries will be held before the 2000 Ministerial Council Meeting (this meeting is tentatively scheduled to take place in Paris on 9 to 10 May). The seminar would cover a range of front-burner governance issues, and would also provide an opportunity to explore with non-OECD countries how best to carry forward the Good Governance Outreach Initiative. A detailed proposal for the seminar will be submitted to the PUMA Committee for comment, ahead of the next PUMA meeting. Members of the PUMA Committee are welcome to attend this seminar.

9. It is proposed to hold a "Special Dialogue" with non-members back-to-back with the upcoming June 2000 meeting of the Executive Committee in Special Session (ECSS), in which the governance issues, inter alia, are expected to feature. This event is also expected to provide insights on how best to carry forward the Good Governance Outreach Initiative. This meeting follows the Special Dialogue between OECD Ministers and Ministers of a number of non-OECD countries, held in advance of the 1999 OECD Ministerial Council Meeting (the non-OECD countries invited to this Special Dialogue were Argentina, Brazil, China, India, Indonesia, Russia, the Slovak Republic and South Africa).

10. Many OECD directorates are currently undertaking outreach activities dealing with various aspects of governance. For its part, the PUMA Secretariat is involved in a number of governance outreach activities, including playing an important role in the organisation of the Second Annual Global Forum on Reinventing Government, on the theme of "Governance in the Twenty-First Century", which will be held on 27-28 May 2000 in Brasilia. In addition, a conference on Public Sector Reform in Seoul on 22-23 June is already scheduled. A programme of symposia on governance issues in South Africa is also being explored.

11. A detailed inventory of "Governance work at the OECD" (see Annex) has also been prepared. While the governance dimension is present across many OECD activities, the Inventory articulates OECD's current work (including Outreach) under seven headings: i) establishing effective institutional and policy frameworks for markets; (ii) managing across different levels of government; (iii) managing cross-cutting issues to build policy coherence; (iv) fostering public sector capacities; (v) fostering integrity and fighting corruption; (vi) managing relationships between government, business and civil society;

¹ SIGMA (Support for Improvement in Governance and Management in Central and Eastern European Countries) is a joint initiative of the OECD and the EU, principally financed by the EU's Phare Programme. The initiative supports public administration reform efforts in Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

(vii) governance and economic development. The Inventory also provides details on the vast array of OECD governance outreach activities.

12. The Public Affairs and Communications Directorate (PAC) is considering to establish a comprehensive and interactive OECD Website on Governance in co-operation with other relevant Directorates. The new Web could be actively publicised by PAC in the press and by means of letters to "centres of governments" in Member countries and non-members.

13. An Intra-Secretariat Steering Group has also been established, under the direction of Deputy Secretary-General Sally Shelton-Colby, to ensure full co-ordination, synergy and multi-disciplinarity in OECD's approach to governance work, including outreach.

Some Options for the Longer-Term

14. Consideration could be given to the possibility of establishing a "Global Forum of Centres of Government", as an event involving some non-OECD countries, organised back-to-back with PUMA Annual Meeting of High Level Officials of Centres of Government.

15. Eminent Persons (e.g. from the Interaction Council and the Community of Democracies) and High Level Academics (through the annual OECD/National Economic Research Organisation meetings), could be invited to associate themselves with OECD work, by providing feedback and addressing specific governance issues that could feed into the OECD work. They could, for example, be invited to provide comments on and their support for the OECD's Statement of Governance Priorities for the 21st Century.

16. The World Bank has expressed interest in entering into sustained co-operative arrangements with the OECD to work on public governance. Work is underway to explore the scope for co-operation in this area. A similar approach may be followed with other partner institutions.

17. The possible creation of an Institute of Governance hosted by the OECD, and run in partnership with another or other organisations, might also be considered over the longer-term. Such an Institute could be a depository institution of internationally accepted good governance practices and a laboratory for the development of new ones in areas to be promoted further (such as policy coherence; international governance and gender equality). It could also serve as a services provider (somewhat similar to the function rendered by SIGMA in respect of Eastern European region), as well as a training centre, for non-members. A Part II financing scheme for such an Institute could be envisaged.

ANNEX - GOVERNANCE WORK AT THE OECD

OVERVIEW

OECD Ministers requested a “good governance” initiative to better share Organisation’s governance work with non-members.

1. Effective systems of governance are essential for strengthening pluralistic democracy, promoting economic prosperity and social cohesion, and for maintaining confidence in public administration. It was for this reason that in 1999 OECD Ministers asked the OECD “elaborate a proposal for a ‘good governance’ initiative to better share the results of the Organisation’s existing work in this field with interested non-member countries”¹. In making this request, Ministers highlighted the OECD’s work on public sector management, anti-bribery, regulatory reform, corporate governance, ethical principles in public life, local and regional administrations, and indicators of global progress on governance.

New PUMA mandate with emphasis on strategic governance challenges...

2. The mandate of the PUMA Committee has also recently been renewed for the period 2000 to 2004, with a new emphasis on strategic governance challenges. The OECD Council has called upon the PUMA Committee to:

- to identify and help address the emerging forces and trends which constitute strategic governance challenges;
- to assist Members and non Members to raise the performance of their public institutions so that they are better equipped to manage those forces;
- to focus on key elements of good governance framework including : developing capacities for more coherent and globalised policies, delivering on policy commitments in a changing world, institutionalising transparency, honesty and accountability in government, intervening effectively in society and markets to achieve public policies and promote competition as well as social cohesion.

...and sharing working with non-members and contributing a governance perspective on work of OECD

3. And in carrying out its responsibilities, the PUMA Committee is directed to, inter alia: better share the results of its work with interested non-Member countries and other relevant international organisations and institutions; and contribute a governance and public management perspective on major policy concerns addressed by the Organisation, including horizontal activities.

This paper is a synthesis and reference on OECD's work on governance

4. This overview discusses briefly some of the governance challenges in the globalising world economy, before presenting the main elements of OECD work on governance issues, and co-operative activities with non-members in these areas. Attachment 2 seeks to map out in more detail the main elements of the OECD's work on governance issues, and co-operative activities with non-members. Attachment 1 provides a short listing of the "satellite links" to the OECD's major best practices and policy lessons on governance issues. Overall, this document is both a synthesis, as it brings together a wide range of the OECD's work on governance issues, and a "satellite", as it provides the reader with the principal references back to the OECD source material on these issues.

Multi-purpose document to help...

5. At this stage, this document is intended to be multi-purpose. It seeks to bring together in a relatively coherent manner the main elements of the OECD's work on governance issues, with a view to informing:

...elaborate good governance outreach initiative;

- non-OECD economies and other international organisations of the OECD's work on governance issues, and considering jointly with them how the good governance outreach initiative might be best elaborated.

...tackle strategic governance challenges;

- PUMA Committee of the broad range of the Organisation's work on governance issues (notably that of other committees), to facilitate its consideration of how to tackle strategic governance challenges under its new mandate.

...reflection of governance perspective in OECD work.

- other committees of this work, in order to stimulate reflection on how and where a governance and public management perspective should be incorporated in their work.

A work-in-progress document to seek views on above issues..

6. In this context, this document is in no way a "final document", but rather a "work-in-progress document". In the lead-up to the 2000 MCM, this document could be presented to, and comments sought from, all relevant outreach events and OECD committees. Some issues for discussion are proposed in the last section of this overview.

...for 2000 report to Ministers

7. The reactions of all these meetings could provide the raw material for the progress report to the 2000 Ministerial Council Meeting, and Ministers' consideration of how to take forward the good governance outreach initiative and the OECD's work on governance more generally.

I. Governance challenges

Governance is about the "how to" of policy, rather than the "what to do"

8. Governance refers to the exercise of power or authority. In the public policy arena, governance is about the "how to" of policy, rather than the "what to do". It includes the institutions of policy, distribution of power, the management of public resources, and the mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and resolve their differences.

While governance has become a “buzz-word”, there is a growing realisation of importance of effective systems of governance.

9. In a matter of just a few years, governance has become a “buzz-word” in international policy discussions. But while there seems to be a “governance fashion”, this phenomenon also reflects the growing realisation that processes and institutions are just as important as policies. Policies implemented in a context of effective systems of governance are more likely to be successful and sustainable. New methods of governance are developing, as for example, hierarchical public sector structures are being replaced by more horizontal networking between government and other partners such as business and civil society to provide finance for public investment and to deliver goods and services. The OECD has recognised the importance of governance issues in recent years through its strategic priority of assisting governments maintain the balance in the triangular paradigm of economic growth, social stability and good governance.

Quality of governance is a high priority in both OECD and non-OECD countries

10. In recent years, improving the quality of governance has become a high priority in both OECD and non-OECD countries. In non-OECD countries, this reflects a number of factors, including recent financial crises, the challenges experienced by transition economies in their transformation to market economies, and the difficulties that many countries experience in building their own capacities for development.

Many non-OECD countries are relying more on market mechanisms, but they must be complemented with effective systems of governance

11. As economic development progresses, developing countries are faced with the challenge of making the transition from informal systems of governance to more formal systems of governance. For their part, many emerging and transition economies face the challenge of making the transition from a strategy of state-led development to a strategy where governments rely to an increasing extent on market mechanisms -- but where the state has an important role to play in complementing the market with effective systems of public governance. Despite the lead role of the state, government structures are weak in many of these economies, and there is much need for institution-building.

In OECD countries, the private sector seen as the creator of wealth ... while governments implement policy framework for markets

12. The last decade has also witnessed a transformation in OECD economies, as governments have been giving greater freedom to market forces. The private sector is seen to be of growing importance – as a producer of a wide of goods and services, creator of jobs, innovator, generator of tax income, and a manager of savings and retirement income. It is the role of government to implement effectively the institutional and policy framework for the efficient operation of markets, based on the rule of law.

Globalisation, technological change, spread of democracy and urbanisation are challenging governance capacities

13. But market economies require on-going institutional adjustments. Globalisation, rapid technological progress, the spread of democracy and higher levels of urbanisation, are also changing the relationships among states, markets and civil society, and challenging governance capacities. Governments are faced with a world in which the concepts of citizenship, sovereignty, responsibility and the meaning of territory are all being challenged. Markets are becoming more competitive, global and powerful. Citizens and consumers are becoming more informed and assertive. In the face of a changing society, questions are being raised as to whether government is out of touch with citizens’ needs and whether public trust in government is diminishing.

Redistribution of roles and responsibilities between national, sub-national and supra-national governments

14. A redistribution of roles and responsibilities is underway which affects the vertical inter-relationship between national governments, sub-national and supra-national governments, that is, policy-making is becoming more multi-level. In addition, new economic territories are emerging as trade and investment liberalisation dissolve national frontiers, and major infrastructures and new information technologies link up cities and regions in different countries. In some cases, these new economic territories (for example, transborder cities) require innovative governance arrangements to deal with their economic, social and environmental challenges. At the same time, more metropolitan areas have directly elected governments or councils and mayors. And national governments need to improve co-ordination and consultation with sub and supra-national levels to mobilise effectively an ever-increasing number of policy actors in favour of national policy objectives.

Better government is required, but with participation of other stakeholders

15. Better government, and government that can respond to a fast-changing world is required. At the same time, governments cannot exercise sole responsibility. A broad participatory approach is central to establishing appropriate institutional and policy frameworks. Other stakeholders, such as business, labour and non-governmental organisations have to become active partners. And high standards of transparency and accountability should be required of government, business and civil society.

No “one-size-fits-all” system, but need more effective, efficient, transparent and accountable governance

16. While there is no “one-size-fits-all” system of governance, governments the world over are faced with some common policy challenges. It is not so much a question of countries adopting model systems of good governance, but of making systems of governance more effective, efficient, transparent and accountable, in the context of their national political, social and economic situations.

The OECD itself has been greatly affected by changes in governance landscape

17. The OECD itself has been greatly affected by changes in the governance landscape. Although an inter-governmental organisation, with 29 Member countries, financed by central governments, OECD now undertakes a growing amount of co-operation with different levels of government, OECD parliamentarians, civil society and with other international organisations. Moreover, the OECD now has co-operative relations with over 50 non-member countries, with which it shares its work on a wide range of issues on the governance agenda. It was against this background that Ministers asked the OECD to elaborate a good governance initiative.

II. OECD’s work on governance issues

Governance permeates the OECD’s work

18. Governance issues permeate the whole range of the OECD’s work. The main elements are set out below under seven broad headings, with indications of the principal co-operative activities with non-members in these areas. These latter activities are co-ordinated by the OECD’s Centre for Co-operation with Non-Members, with a view to enhancing the benefits of this co-operation for OECD and non-OECD countries alike.

(i) ***Establishing effective institutional and policy frameworks for markets***

Governments must establish effective institutional and policy frameworks for markets...

... including corporate governance, competition law and policy, and regulatory reform..

19. Effective governance requires that governments implement the institutional and policy framework for the efficient operation of markets, based on the rule of law and democratic institutions. Some of these issues are taken up in later sections, while this section deals with the issues of corporate governance, competition policy and regulatory reform. Corporate governance involves the set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance systems should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources efficiently. Competition policy seeks to enhance the efficient functioning of markets through competition advocacy, competition law enforcement and reviewing mergers to ensure these are not used as a means to eliminate or restrict competition. Regulatory reform seeks to improve the efficient functioning of markets, while promoting efficiently achieving policy objectives in important areas like environmental quality, safety and health, and consumer protection.

OECD Principles of Corporate Governance and Policy Recommendations for Competition Policy

20. A large part of the work of the OECD relates to establishing the most effective policy and institutional frameworks for markets. This includes the OECD Principles of Corporate Governance, which focus on governance problems that result from the separation of ownership and control. They seek to help governments establish the legal, institutional and regulatory framework for corporate governance, and provide guidance and suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance. The OECD has a wide range of activities in its work with competition, or antitrust authorities, and has developed policy recommendations such as the 1995 Recommendation which deals with enhancing co-operation between Member countries on anti-competitive practices affecting international trade, and the 1998 Recommendation which seeks to encourage co-operation in eradicating so-called "hard core" cartels. The OECD's work on regulatory reform demonstrates the importance of improving government-wide regulatory management capacities. In 1997, OECD Ministers adopted a framework of principles on the use of governmental regulatory powers, which is now being used in a series of country reviews. OECD countries face a continuing and difficult agenda in achieving quality regulation.

Corporate governance co-operation with non-members in partnership with World Bank

21. The OECD undertakes a wide range of co-operative activities with non-members on effective policy and institutional frameworks for markets. In the corporate governance area, the OECD has joined forces with the World Bank to create a Global Corporate Governance Forum, through which the OECD is setting up a number of "regional round-tables" to promote the implementation and use of the OECD Principles of Corporate Governance in non-member countries. The OECD works closely with non-member countries on competition law and policy, notably by assisting them to adopt laws and policies that will establish a market economy framework. In the regulatory reform area, co-operative activities with non-members have been limited mainly to the area of regulatory reform and market openness – some activities may be

launched in Brazil, East Asia and Russia in 2000.

(ii) Managing across different levels of government

Governments must co-ordinate, integrate and balance decisions across levels of government

22. Effective governance requires that governments co-ordinate, integrate and balance decisions across levels of government. Greater decentralisation of national policy to sub-national levels of government is increasing fragmentation of policy responsibilities, posing major challenges of policy co-ordination, accountability, and coherence, and increasing the complexity of implementation. A wide range of the OECD's work deals with managing across different levels of government, especially in relation to fiscal policy in countries with federal systems. Some specific activities of particular relevance to the good governance outreach initiative are discussed below.

OECD Principles of Metropolitan Governance and programme for Local Economic and Employment Development

23. The OECD's Principles of Metropolitan Governance can be used as a benchmark in evaluating and improving governance of metropolitan areas. Many of the issues which require better governance responses -- such as urban sprawl, socio-economic spatial disparities, environmental problems, unemployment, and increasing insecurity -- occur in their most acute form in metropolitan areas. The programme for Local Economic and Employment Development seeks to build strong regional and local economies based on the effective use of local capacities and participation. Co-operative activities are undertaken with transition economies, and will now be extended to other regions, on the distribution of functions and resources among the different levels of government.

Interface between central and sub-national levels of government in Russia

24. Russia's immense size and the importance in the national economy of regional and local governments make it essential to take into account the interface between central and sub-national levels of government in Russia. The forthcoming OECD review of the Russian economy addresses the issues of fiscal federalist relations, namely taxation, budgetary execution, and relations across different levels of government. In the trade area, the OECD is working on the particular challenges of Russia's federal system for accession to the WTO.

(iii) Managing cross-cutting issues to build policy coherence

Governments must also co-ordinate, integrate and balance decisions across disciplines, jurisdictions and policy fields

25. Effective governance requires that governments co-ordinate, integrate and balance decisions across multiple economic and social disciplines, institutional jurisdictions and policy fields. Policy-makers' attention is shifting away from conventional questions of co-ordination toward the management of cross-cutting issues, which transcend the boundaries of established policy fields, and do not correspond to the institutional responsibilities of individual ministries. Yet governments face great difficulties in improving policy coherence, given the growing number of players and interests involved, including non-governmental organisations and civil society, the wide range of objectives they pursue and the complex and rigid institutions involved.

Examples of cross-cutting issues in OECD's work...

... developmental policy coherence and sustainable development

Cross-cutting issues are a priority for co-operation with non-members

26. Tackling cross-cutting issues and building policy coherence is at the heart of the OECD's mission. In the development area, OECD countries have a pivotal role in improving the "developmental policy coherence" of their policies, so that developing countries can fully exploit the benefits of open trade and investment. This includes improving the framework for international trade and capital flows, addressing environmental concerns, and facilitating participation of developing countries in the global information society. Achieving sustainable development requires the integration of economic, environmental and social considerations into policy-making. Another example among many is the trade policy area, where the OECD's work demonstrates the importance of coherence between trade policy, and other policies, especially in the environmental and competition areas. These cross-cutting issues are a major priority issue of the OECD's co-operative relations with non-members.

(iv) *Fostering public sector capacities*

Governments need quality public management within an environment of scarce fiscal and human resources

27. Effective governance requires quality public management. Policy solutions, no matter how good they may be, can only work if governments have the capacities to deliver them within an environment of scarce fiscal and human resources. Governments must also be forward-looking to manage social and economic change. Strategic policy capacities are required to adapt to long-term trends, while remaining flexible enough to respond quickly to short-term needs. Thus, the public sector is both a subject for reform itself, as well as an agent for achieving sustainable economic development.

OECD fosters public sector management capacities in central and eastern Europe through SIGMA

28. A large part of the OECD's work fosters public sector capacity development, notably through elaboration and dissemination of best practice policies. In the area of public sector management, priority activities include budgeting and financial management, performance management, and human resource management. The OECD has a major programme of fostering public sector management in central and eastern Europe, through the SIGMA programme (Support for Improvement in Governance and Management). This is a joint initiative of the OECD and the European Union's Phare Programme.

Co-operation with non-members for capacity-building in taxation and competition policy

29. In the public sector management area, co-operative activities with other non-member countries are more modest in scale. Important public sector capacity-building activities take place on a global scale through training of taxation officials and advice on competition policy design and implementation.

(v) *Fostering integrity and fighting corruption*

Governments must foster integrity and fight corruption

30. Effective governance requires ethical behaviour in public life and vigorous action to fight corruption and organised crime. Integrity is a fundamental pre-condition for governments seeking to provide a trustworthy and effective framework for the economic and social life of their citizens. The cost of corruption is increasingly well-known and documented. It erodes confidence in political institutions and endangers public sector reforms; exacts a disproportionate cost on the poor who may be deprived of basic public services; distorts the allocation of resources and undermines competition in the market place. The OECD has a wide number of activities in this area, often in

partnership with civil society.

OECD's achievements in fight against bribery and corruption, including Bribery Convention

31. Some of the OECD's major achievements in the fight against bribery and corruption are: (a) the 1999 Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; (b) the 1996 Recommendation which committed all OECD Member countries to put an end to the practice of according tax deductibility for bribe payments made to foreign officials; (c) the 1997 Recommendation which invited OECD countries to adopt appropriate accounting and auditing requirements, and to deny bribing companies access to public procurement procedures; and (d) the 1996 Recommendation concerning Anti-Corruption Proposals for Bilateral Aid Procurement.

Analytical work and co-operation with non-members for fight against bribery and corruption

32. Work is also underway in relation to bribery of foreign political parties and candidates for foreign political office, bribery of foreign public officials as a predicate offence for money laundering legislation, the role of foreign subsidiaries in bribery transactions, the role of off-shore financial centres in bribery transactions, public sector corruption, strengthening developing country policy frameworks against corruption and the anti-corruption potential or effects of WTO disciplines. Anti-bribery and corruption activities with non-members have now been launched in all major regions of the world, including most recently Asia and the Pacific Rim countries.

OECD Recommendation of Improving Ethical Conduct in the Public Service

33. In the area of ethics, the OECD 1998 Recommendation of Improving Ethical Conduct in the Public Service, calls on countries to take action to ensure well-functioning institutions and systems for promoting ethical conduct in the public service. Co-operative activities with non-members in the area of ethics has been mainly conducted in the framework of SIGMA and the Anti-Corruption Network for Transition Economies.

Efficient taxation governance and tax evasion and harmful tax competition

34. Efficient taxation governance means that taxpayers pay the right amount of tax, at the right time and in the right place. Most relevant to these objectives are the OECD's work on combating tax evasion and harmful tax competition, for which important co-operative activities are underway with non-members.

(vi) Relationships between government, business and civil society

Governments must balance and manage changing relationships between states, markets and civil society

35. Effective governance requires balancing and managing the changing relationships between states, markets and civil society. Governments are now working increasingly in partnership with business, labour and civil society in the functioning of the individual national economies and the international economy, particularly in establishing appropriate institutional and policy frameworks in many areas.

Importance of citizens' trust in public institutions

36. Trust is a key issue here. The sustainability and coherence of reform depends on its acceptance by citizens. Citizens tend to mistrust market institutions, though today they may not trust public institutions more. Concrete and credible steps are needed to demonstrate to citizens that important public interests such as safety and equity will be safeguarded within dynamic and global markets. These steps can engender public confidence that, in turn,

reduces political constraints and the risks of excessive regulation, and speeds up, deepens, and sustains market reforms. Lack of trust is a major cause of over-regulation. When effective, efficient government action improves trust in markets and states, it contributes to the performance of both.

OECD's work on strengthening government-citizen connections

37. The OECD's work on strengthening government-citizen connections aims to support government efforts to strengthen public participation, transparency and democratic accountability, and ultimately, policy effectiveness. To this point, no co-operative activities have been launched with non-members.

Multinational enterprises, corporate responsibility and codes of conduct

38. Multinational enterprises can fulfil an important role in promoting sustainable development through their investment activities. There is, however, a perception that their operations generate abuses of concentrations of economic or political power or conflicts with national policy objectives and expectations. Many enterprises have responded to these concerns by developing programmes of corporate responsibility, which often include putting in place codes of conduct and associated management systems, and which have often involved significant contributions from NGOs, governments and intergovernmental organisations. The OECD's analysis of corporate codes of conduct is being shared with non-members.

OECD Guidelines for Multinational Enterprises

39. The *OECD Guidelines for Multinational Enterprises* are recommendations by governments to multinational firms, and aim to ensure that activities of multinational firms are in harmony with government policies and strengthen mutual confidence between enterprises and the societies in which they operate. The *Guidelines* both complement and reinforce private efforts to define and implement responsible business conduct. A major review of the *Guidelines* is underway, with important inputs from a wide array of representatives from business, civil society and non-OECD countries.

OECD Guidelines for Consumer Protection in context of Electronic Commerce

40. Consumer laws, policies and practices limit fraudulent, misleading and unfair commercial conduct. Such protections are indispensable in building consumer confidence and establishing a more balanced relationship between businesses and consumers in commercial transactions. The OECD has developed *Guidelines for Consumer Protection in the Context of Electronic Commerce*, which are the result of discussions among representatives of OECD governments and business and consumer organisations. Their overarching principle is that consumers shopping on-line should enjoy transparent and effective protection that is not less than the level of protection that they have in other areas of commerce. These *Guidelines* are being shared with non-member countries.

(vii) Governance and economic development

Effective governance key to sustainable development in developing countries

41. Effective governance is a key issue in the OECD's work on promoting sustainable development in developing countries. Although there are many parallels between this work, and the rest of the OECD's work on governance issues, this is specifically directed at the policy challenges of developing countries. Indeed, the framework for this work is the OECD Development Partnerships Strategy, which incorporates development goals for economic well-being, social development, environmental sustainability and good governance for assessing global development progress over the next two decades.

OECD work on participatory development and good governance

42. In 1993, the DAC established a set of "orientations" on participatory development and good governance (PD/GG). Following the work of the OECD Working Group on PD/GG to operationalise these principles, an exercise is underway to promote more systematic and locally-owned efforts to improve governance systems in six pilot countries (Benin, Bolivia, Burkina Faso, Mali, Mauritania, and Uganda).

OECD work on indicators of governance

43. A Technical Group on Indicators of PD/GG has been established as an integral part of the OECD's work in the context of the OECD Development Partnership Strategy. This exercise involves the participation of developing country experts. The results of this work will be included in the joint DAC/UN/WB/IMF Development Indicator Set.

III. Some Concluding Comments and Issues for Discussion

(i) For non-OECD countries

OECD already undertakes many co-operative activities with non-members on governance issues...

44. The OECD already undertakes co-operative activities with non-members on governance issues, including public sector management, anti-bribery, regulatory reform, corporate governance, ethical principles in public life, local and regional administrations, and indicators of global progress on governance. These activities allow non-member economies to benefit from the experiences of OECD countries with various systems of governance, and avoid repeating the "mistakes" made along the way by OECD countries. This dialogue also enables OECD countries to benefit from best practices and experiences in public sector reforms underway and, in some cases, very well advanced, in non-OECD countries.

...such co-operation less advanced in some areas than for others... also mainly with specialised policy constituencies

45. For some topics, co-operative activities with non-members are much less developed than for others. Moreover, much of the co-operative activities with non-members is undertaken with specialised policy constituencies from line ministries and agencies. There is potential to strengthen these co-operative activities on governance, by involving "centres of government" officials (such as from heads of governments' ministries) in non-OECD countries. Experience has shown in many instances that reform efforts are more successful when they have a broad coherent approach, and a political push from the centre.

...issues for consideration concerning governance outreach

- in what areas of the OECD’s governance work should co-operative activities with non-members be strengthened ?
- would there be value in launching co-operation with “centres of government” in non-members ?
- to what extent could the Organisation’s work on governance issues could be better shared with non-members, through means, such as a stronger communications effort, electronic discussion groups, and forging strategic partnerships with other international organisations ?

(ii) For OECD countries

Governance work is a high priority at OECD, but potential to develop work in some areas

46. Governance issues permeate the work of the OECD, and are now rising high in the OECD’s priority issues. There are, however, many governance issues where the OECD’s work is underdeveloped, such as in the relations between the executive, legislative and judiciary branches of government, and international governance (notably rule-making) in the light of the changing notions of national sovereignty.

- What are the main strategic governance challenges for which the OECD’s work be strengthened or improved ? How should that best be done ?

Governance dimension (“how to”) increasingly incorporated in OECD work

47. It also appears that in much of the Secretariat’s work, the “what to do” of policy is given much greater emphasis, than the governance dimension of “how to”. There are however a growing number of examples where a specific governance dimension is now being incorporated. The study “Maintaining Prosperity in an Ageing Society” included a chapter drafted by PUMA on “achieving reform”, which highlighted the importance of developing strategic frameworks to tackle effectively the policy implications of ageing populations. Governance was a key element in the OECD study “Trade, Investment and Development: Policy Coherence Matters”. And the OECD horizontal project on sustainable development will now include a chapter on governance issues.

- What areas of the Organisation’s work would benefit most from the introduction of a governance and public management perspective ?

ATTACHMENT 1

Principal Links to OECD Governance Best Practices and Policy Lessons

1. Establishing effective institutional and policy frameworks for markets and society

- Principles of Corporate Governance (paragraphs 4-10)
- Recommendations Concerning Effective Action Against Hard Core Cartels, and Co-operation Between Member Countries on Anti-competitive Practices Affecting International Trade (paragraphs 11-15)
- Report to Ministers on Regulatory Reform and its Principles for Regulatory Reform (paragraphs 16-20)
- OECD Recommendation on Improving the Quality of Government Regulation (paragraphs 16-20)
- Best Practices in Regulatory Impact Analysis (paragraphs 16-20)

2. Managing Across Levels of Government

- Principles of Metropolitan Governance (paragraphs 36-39)
- Rural Governance (paragraphs 40-48)
- Local Economic and Employment Development (paragraphs 49-52)
- Fiscal Federalism in non-OECD countries (paragraphs 53-55)
- Interface Between Central and Sub-National Levels of Government in Russia (paragraphs 56-62)

3. Managing Cross-cutting Issues and Building Policy Coherence

- Developmental Policy Coherence (paragraph 72)
- Policy Implications of Ageing Populations (paragraph 73)
- Sustainable Development (paragraphs 74-75)

4. Fostering Public Sector Capacity Development

- Public Sector Management – User-Charging for Government Services, Improving Evaluation Practices, Contracting-Out Government Services, Budgeting and Financial Management, Performance Management, and Human Resource Management (paragraphs 76-91)

5. Fostering Integrity and Combating Corruption

- Ethical Conduct in the Public Service -- Principles and Council Recommendation (paragraphs 97-100)
- Combating Bribery and Corruption -- OECD Convention, 3 Council Recommendations (paragraphs 101-120)
- Efficient Taxation Governance -- Harmful Tax Competition, Tax Evasion (paragraphs 121-133)
- Money Laundering (paragraphs 134-138)

6. Relationships between Government, Business and Civil Society

- Strengthening Government-Citizen Connections (paragraphs 140-155)
- Fostering Corporate Responsibility -- Corporate Codes of Conduct, *OECD Guidelines for Multinational Enterprises* (paragraphs 156-165)
- Guidelines for Consumer Protection in the Context of Electronic Commerce (paragraphs 166-171)

7. Governance and Economic Development

- Participatory Development and Good Governance (paragraphs 172-185)
- Governance Indicators (paragraphs 186-187)

ATTACHMENT 2

Key Elements of OECD's Work on Governance Issues

1. Establishing effective institutional and policy frameworks for markets and society

1. Effective governance requires that governments implement the institutional and policy framework for the efficient operation of markets and societies, based on the rule of law. Governments are partners with business, labour and civil society in the functioning of the individual national economies and the international economy. Business and labour create the national wealth, while government sets the rules and the framework in which all enterprises can operate in a competitive environment. While this framework is above all national, markets have become increasingly linked through globalisation, vastly expanding the space in which governments need to provide a framework for a level playing field and where borders are open to trade and investment. This expanding need for efficient markets calls for greater attention to governance issues at local, national and international levels.

2. The main elements of effective systems of governance are:

- an institutional and legal framework which supports the emergence of an enterprise-based economy;
- the development of a competitive environment which enhances the efficient functioning of markets, including effective regulatory policies and strong competition laws and enforcement;
- a good corporate governance framework providing for transparency of corporate structures and operations and the accountability of management;
- a performance-oriented and efficient public sector;
- vigorous action to fight corruption and organised crime;
- sound national policies and institutional frameworks for environmental management²;
- government investment in people through sound education and training policies, and strengthening social safeguards; and
- fair, equitable and efficient taxation policies.

3. A large part of the work of the OECD relates to establishing the most effective policy and institutional frameworks for markets and societies. While some of these issues will be taken up in later

sections, this section discusses the OECD's work in the area of corporate governance and competition policy.

(i) *Corporate governance*

4. Amid growing reliance world-wide on the private sector, the issue of corporate governance has similarly risen in prominence on the international agenda. Corporate governance involves the set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance systems should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders, and should facilitate effective monitoring, thereby encouraging firms to use resources efficiently. Effective systems of governance are just as vital in company board rooms as in public administrations, if countries are to achieve sustainable development.

5. Financial crises in Asia and elsewhere in the last several years have made amply clear why shortcomings in corporate governance can be so harmful to national economic performance and ultimately to global financial stability. No country can claim immunity from deficiencies in the area of corporate governance. European countries face mounting calls for better treatment of minority shareholders and greater transparency in mergers and acquisitions. In Japan, there are strong indications that efforts to re-launch economic dynamism need to include improvements in corporate governance frameworks. Important areas for reform include information disclosure and the structure of company boards. Even in the United States and in the United Kingdom, where issues of corporate governance have been at the forefront of public attention for the longest period of time, there are concerns that management could be pursuing interests others than those of shareholders, and also concerns about the level of executive remuneration.

6. Last May, OECD Ministers adopted the OECD Principles of Corporate Governance³, which focus on governance problems that result from the separation of ownership and control. The main elements of these Principles are that the corporate governance framework should:

- Protect shareholders' rights.
- Ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- Recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- Ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
- Ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

7. Ministers encouraged the implementation and use of the Principles within Member countries, and called on the OECD, in co-operation with the World Bank, the IMF and other international organisations, to promote the implementation and use of the Principles in non-member countries. The Corporate

Governance Principles are intended to provide a benchmark and assistance to governments and private sectors in their efforts to evaluate and improve their own regulatory frameworks and practices for corporate governance. They are designed to leave adequate flexibility for implementation according to specific circumstances, cultures and traditions in different countries. They will also provide guidance for stock exchanges, investors, private corporations and national commissions on corporate governance as they elaborate best practices, listing requirements and codes of conduct.

8. As a complement to these activities, the OECD is pursuing analytical work, such as on: the relationship between corporate governance and corporate and economic performance, addressing some of the strengths, weaknesses and economic implications associated with various corporate governance systems⁴; the financial market aspects of corporate governance⁵; and corporate practices in developing countries on the basis of case studies⁶.

Co-operation with non-Members

9. The OECD undertakes a wide range of co-operative activities with non-members on effective policy and institutional frameworks for markets and societies. In response to a mandate from the OECD Council and the G7 Ministers, the OECD and the World Bank have entered into an agreement to co-operate closely to promote improved corporate governance on a global scale, using the OECD Principles as an important point of reference in these activities⁷. One first major step in this co-operation was the launching in September of the World Bank/OECD Global Corporate Governance Forum, which brings together developing, transition and developed (donor) countries, regional development banks and international organisations, along with private sector participants. A Private Sector Advisory Group to the Forum has also been established, comprising a group of world-class business leaders, and aims at fostering a culture of compliance in the private sectors in developing and transition countries.

10. At this stage, the OECD's main responsibility within the context of this co-operative effort is to organise a set of Regional Corporate Governance Roundtables. These Roundtables meet at least annually, and convene senior policy-makers, regulators, and market participants from the region and selected international counterparts. They will be the main regular vehicles for outreach work in the area of corporate governance. During 1999 two Roundtables were established, in Asia and Russia, and will meet again in 2000. The first meeting of a Latin American Roundtable is planned for 2000.

(ii) *Competition Law and Policy*

11. Competition policy seeks to enhance the efficient functioning of markets to harness market forces in the interests of greater economic efficiency and prosperity. It comprises several elements. First, competition advocacy is where competition agencies encourage other branches of the government to adjust their policies so as to interfere as little as necessary with market competition, for example, in the development of regulations. Second, competition law enforcement is where competition agencies investigate and prosecute or prohibit agreements which either exclude competitors or substitute collusion for competition. They also prohibit monopolisation or abuses of dominant position whereby enterprises unilaterally restrict actual or potential competitors. Third, most competition agencies prospectively review mergers to ensure these are not used as a means to eliminate or restrict competition.

12. The OECD has a wide range of work with competition, or antitrust authorities⁸. It has developed policy recommendations and best practices, and offers support to governments seeking to strengthen their national competition frameworks. The OECD has played an important catalysing role in promoting co-operation among national competition agencies. These efforts have borne fruit in the form of two OECD

Council Recommendations, in 1995 and 1998. The first of these builds on a series of earlier Recommendations dating back to 1967.

13. The 1995 Recommendation centres on enhancing co-operation between Member countries in relation to anti-competitive practices affecting international trade. In particular it states that Member competition agencies should: (a) inform each other of possible violations of the other's law; (b) forewarn each other of cases which may affect the other's interests; (c) request the other agency to act against practices which affect the requesting country's interests; (d) collect and share information to the extent permitted under national confidentiality laws; co-ordinate investigations; and (e) co-ordinate remedial actions.

14. The 1998 Council Recommendation seeks to encourage co-operation in eradicating so called "hard core" cartels. These constitute the most damaging and egregious violations of competition laws, since they are directed at fixing prices, rigging bids, restricting outputs, or sharing or dividing markets. The Recommendation states that Members should: (a) ensure their competition laws effectively halt and deter hard core cartels; and (b) co-operate in enforcing their laws in this domain. The 1998, 1995 and prior Recommendations were consciously drawn up in the hope they would help spawn bilateral co-operation agreements, which has indeed been taking place, mainly involving Australia, Canada, the European Union, France, Germany, New Zealand, and the United States.

Co-operation with non-Members

15. The OECD seeks to work closely with non-member countries, and some participate as official "observers" in committees. Co-operation with transition economies was launched in the early 1990s and more recently with emerging economies, and assists them to adopt laws and policies that will establish a market economy framework. This often involves reinforcing the "basics" of a market economy, integrity in government and the value of efficient and transparent regulatory systems. In addition to helping with legislation and the training of staff, the OECD works with high court judges in some countries, helping them properly apply new competition laws. The OECD also supports the application of competition law to government itself. In transition economies, competition law enforcers are encouraged to prosecute anti-competitive actions by government officials.

(iii) Regulatory Reform

16. The OECD work on regulatory reform is intended to assist countries in promoting market-led growth and keeping their markets open, while efficiently achieving policy objectives in important areas such as environmental quality, safety and health, and consumer protection⁹. Key elements for improving government-wide regulatory management capacities are: the adoption of a government-wide regulatory reform policy; creation of an effective oversight body to implement the policy; and improvement of regulatory practices within the line ministries. The OECD's work programme on regulatory reform supports this process through being a multi-disciplinary programme, involving public management, economics, competition, trade and sectoral expertise.

17. The centrepiece of the programme is a series of country reviews of regulatory practices based on self-assessment, multidisciplinary analysis, benchmarking, and peer review by OECD expert committees. The first four reviews on *Japan*, *Mexico*, the *Netherlands*, and the *United States* were published in 1999¹⁰. The second four reviews -- *Denmark*, *Hungary*, *Korea*, and *Spain* -- are on schedule for completion in early 2000. The country reviews present an integrated assessment of regulatory reform in sectors such as electricity and telecommunications, and in framework areas such as the macroeconomic context, quality of the public sector, competition policy and enforcement, and integration of market openness principles. This

year, OECD Ministers indicated that “they look forward to the successful completion of the second round of reviews...in 2000, and to the extension of the review process to more countries.” The need for continuing assessment of regulatory quality in countries points to the need for effective self-assessment capacities.

18. The reviews show that progress has been made in each country and, in each country additional reforms would produce further significant gains. The reviews demonstrate how, against a backdrop of basic market rules, a comprehensive approach to regulatory reform creates positive synergies. Empowering market competition, freeing trade, and reforming government institutions are mutually supportive elements of reform. The reviews also examine concerns about impacts on workers in restructuring sectors, consumer protection, environmental quality, and equity impacts and, in some areas, suggest steps to ensure that reform does not threaten important public policy goals.

19. Beyond the country review process, other work on regulatory reform is proceeding, including:
- comparative assessments of the regulatory and administrative environment for SMEs;
 - development of self-assessment tools for countries to use in continuously improving regulatory practices;
 - examination of cross-country patterns of product market regulation, using an extensive database assembled from various sources¹¹;
 - analysis of regulatory reform in the transport sector¹²;
 - examination of the interactions between competition policy and regulatory reform¹³;
 - deepening understanding of the cost of trade-related regulation and of the process of international standardisation¹⁴;
 - analysis of the quality of regulations in social policy areas, using the country reviews.

Co-operation with non-Members

20. In the regulatory reform area, co-operative activities with non-members have been mainly restricted to workshops on regulatory reform and market openness¹⁵ and technical assistance to Brazil. Efforts are underway to launch activities in Asia, Russia, and Brazil.

2. Managing Across Levels of Government

21. Effective governance requires that governments co-ordinate, integrate and balance decisions across levels of government. Greater decentralisation of national policy to sub-national levels of government is increasing fragmentation of policy responsibilities, posing major challenges of policy co-ordination, accountability, and coherence, and increasing the complexity of implementation. A wide range of the OECD’s work deals with managing across different levels of government, especially in relation to fiscal policy in countries with federal systems. After dealing with emerging trends, this section deals with metropolitan governance, local economic and enterprise development, fiscal federalism in non-OECD countries, and the interface with central and sub-national government in Russia.

(i) Some emerging trends

22. Intergovernmental management aims at improving public management by focusing on the vertical and horizontal relations between different levels of government¹⁶. Some of the emerging trends are discussed below.

23. *Structural changes: “regionalisation” and rationalisation.* Over recent decades inter-governmental structural changes have primarily taken the form of creating new intermediary levels and of local “rationalisation”. Local level rationalisation has taken place in most Member countries, usually in the form of aggregation aimed at creating larger units capable of providing a wider range of local services more efficiently. These changes have, in all cases, resulted in a more decentralised hierarchical structure for making and implementing decisions.

24. *More complex patterns of responsibility.* Numerous redistributions of responsibility have been made -- often in the education, health and welfare sectors -- and usually downwards to sub-national government. Change has often taken the form of greater sharing of tasks and a greater mix of financing and implementing responsibilities, leading to more interdependence.

25. *Central government sub-nationally: the accent on co-ordination.* Central government’s presence sub-nationally takes two main forms:- a) networks of deconcentrated central administrations (in all Member countries); and b) an official (prefect) appointed by, and representing, central government sub-nationally (in most Member countries).

26. *Financial constraints, fiscal interdependence, and discretion coupled with results.* Countries are using a wide range of policies and instruments to address public sector budgetary problems, many of which have a direct impact on inter-governmental relations. Financial pressures at the sub-national level are the result of an expansion of activities and increased demand for services, heightened by dependence on income-inelastic revenues such as property taxes. Any shortfall has to be met largely by increased transfers from central government. As national budgetary situations have deteriorated, many sub-national governments have been required to share in cutbacks. Changing distributions of responsibilities is resulting in more inter-governmental partnership through shared financing and service delivery arrangements, and/or agreed objectives. And the need to restrain total public expenditure and to reduce public deficits is prompting many central governments to re-examine the amount and nature of transfers to sub-national governments.

27. *Regulation: less vertical duplication, more cost-efficiency.* Comprehensive attempts at reform are rare, but it appears that significant gains can be made through better communication and co-ordination between levels of government, resulting in more effective and cost-efficient regulatory action.

Tensions and challenges

28. As a result of the above trends some broad shifts are occurring in systems of governance. They are becoming more fragmented as the number and variety of actors increases. There is more inter-dependence between levels of government as the problems to be addressed become more complex and difficult to resolve unilaterally. Divisions of responsibility for the design, implementation and evaluation of programmes are changing; and the distinction between who finances, delivers, and administers is increasingly unclear in many programmes. The search for greater flexibility in managing public programmes can blur lines of accountability. The overall effect is to make inter-governmental relations more complex; and sub-national government a more important partner in the broad patterns of governance.

29. Aligning central and sub-national government policies (on matters such as fiscal strategy) is critical to the successful implementation of reform programmes which are aimed at improving public sector efficiency, effectiveness and responsiveness. This requires coherence in the goals and values at all levels of government, but is often exacerbated by political differences between levels.

30. But diversity through decentralisation can also lead to tensions and may present serious challenges to coherent inter-governmental relations. The centre seeks enough overall control to protect the

national interest -- both economic and democratic -- while sub-national governments want sufficient autonomy to be responsive to local preferences and needs. These objectives may be in conflict. Inter-governmental management can help to identify the sources of tension and their implications for central management. These may be seen as a set of dichotomies, or trade-offs, between:

- encouraging more *autonomy* at lower levels of government, while providing overall *direction*;
- allowing for *differentiation* through flexibility, yet ensuring some minimum degree of *uniformity*; and
- catering for more responsiveness to local needs, but not to the detriment of *efficiency* and *economy*.

Implications for managers at the centre

31. The ongoing challenge to effective inter-governmental relations is to monitor and manage the balance between the above tensions. For central governments, this requires judicious use and regular adjustment of the instruments of control, co-ordination, consultation and accountability, which are the key tools determining the shape of inter-governmental relations.

Managing Accountability in Intergovernmental Partnerships

32. The trend toward administrative devolution in many OECD Member countries requires a focus on agreed results-oriented performance in order to assure accountability. Performance partnerships promise to be an effective tool to address shared accountability of intergovernmental projects and programmes, and have become an emerging practice in OECD countries¹⁷.

33. Delegation of responsibility downward to provincial and local governments may take different forms, depending on whether it is policy, management or financial responsibility which is transferred to another level of government. One important issue in this context is the joint administration of programmes or projects between different levels of government, which implies that accountability has to be shared between levels of government. This kind of intergovernmental partnership poses major management challenges with regard to the development of new accountability frameworks and performance measurement.

34. Partnership arrangements between different levels of government have to consider three kinds of accountability relationships: accountability among the partners; accountability between each partner and its own governing body; and accountability to the public.

35. Case studies show that traditional forms of administrative co-operation are mainly cost-sharing arrangements with an inherent risk of diluting or diffusing accountability. The lack of performance accountability stems from a missing specification of objectives or evaluations of the partnerships. The concept of performance partnerships between different levels of government allows for both accountability of results and for partnership accountability. Performance partnerships are based on the following elements:

- clarity of roles and responsibilities, including the identification of risks;

- joint specification of performance expectations, including balancing expectations and capacities;
- reporting of valid and reliable information on what was achieved among the partners, to the public and to the respective governing bodies;
- joint evaluations on how far pre-determined overall objectives have been met; and
- feedback on the performance achieved and adjustments.

(ii) Metropolitan Governance

36. Many of the issues which require better governance responses -- such as urban sprawl, socio-economic spatial disparities, environmental problems, unemployment, and increasing insecurity -- occur in their most acute form in metropolitan areas¹⁸. Urban governments are in the front line of conflict and have to deal with societal changes, which often have their roots outside their administrative territory. But they are usually ill armed due to institutional fragmentation and lack of competence and resources.

37. Better systems of urban and regional governance are also needed to act as a transmission link between national goals and local objectives in a wide range of policy areas. This will require improvements in vertical and horizontal inter-governmental co-operation, the introduction of more legitimate and accountable governments in large urban regions, and partnerships with the public sector and civil society. Improved governance at the metropolitan level can be a powerful policy tool to promote more competitive, yet more liveable cities.

38. One of the main outputs of work on metropolitan governance is a set of Principles of Metropolitan Governance. These Principles can be used as a benchmark by governments in evaluating and improving their own arrangements for governing metropolitan areas. The Principles have been developed in conjunction with national and sub-national governments on the basis of the OECD review of governance arrangements in a series of large urban regions to be published in Spring 2000. They recognise that there is no single model of governance for metropolitan regions. However, some common elements which underlie good governance in metropolitan areas were identified on which the Principles for Metropolitan Governance are based.

PRINCIPLES OF METROPOLITAN GOVERNANCE

(extract)

Holism: Institutional arrangements in metropolitan regions should reflect the needs of the entire urban area...

Sustainability: A key aim of metropolitan governance is to achieve the sustainable, economic, social and environmental development of urban areas....In environmental terms this means managing the metropolitan region in the context of the wider bio-region, the qualities and potential of which must be enhanced and preserved for future generations and as a contribution to a sustainable earth.

Flexibility: The design of institutional reforms should enhance institutional capacity to cope with rapid change, emerging social and environmental issues, and swings in economic conditions.

Subsidiarity: ... subsidiarity should be applied to improve the quality of governance (and reduce costs) by delivering services at the lowest level with sufficient scale to reasonably perform the service. The application of this principle can help avoid functional duplication and overlap...

Fiscal Prudence: The costs of governing most urban regions must reflect benefit received. Metropolitan areas contribute importantly to national economies, but some parts of metropolitan areas bear a

disproportionate share of costs. For example, debt load and tax rates are high in the urban centres of many OECD countries and cannot be sustained in the face of strong international competition for investment...

Particularity: Except where the case for standard policy is founded on human rights and immutable standards, policies and institutions of government should be crafted to fit the unique circumstances of various parts of the country...

Coherence: Governance must be intelligible to the electorate. A system based on a welter of agreements, complex formulae and compromised principles breeds indifference and apathy that in turn provide the ideal atmosphere for corruption and demagoguery...

Accountability and transparency: Governance should be based on a clearer definition and better communication of metro-wide policy objectives, the measures proposed to achieve them, their costs and sources of funding, and more accountable and transparent decision making processes...

Participation: Metropolitan level institutions should provide mechanisms which encourage open debate and conflict resolution, and are accessible to neighbourhood groups, all sectors of the population such as ethnic minorities, women, the elderly and the young, as well as municipalities and the business community...

Political Legitimacy: The legitimacy of metropolitan leadership should be enhanced through more direct elections and more democratically constructed policy agendas...

Co-operation with non-Members

39. The Principles on Metropolitan Governance are also relevant to non-OECD countries and were welcomed by the November 1999 International Conference on the Control of Urban Sprawl hosted by Mexico. The Principles will also be shared with non-Members in a number of other international conferences, such as the "Urban 21" Conference in Berlin in July 2000, which will bring together the mayors of the 21 largest cities of the world to discuss the challenges which mega-cities must face in the 21st century.

(iii) Trends in rural governance

40. A number of trends have emerged from analysis of the strategies implemented by OECD countries over the last 10 years to develop rural areas, the efforts to improve the coherence of different sectoral policies in relation to overall rural development objectives and the evolution of the institutional framework¹⁹.

41. *Member countries are transforming their policy approaches under the pressure of commonly identified structural changes:* a) The emergence of new relationships between cities and countryside leading to a redefinition of rural areas. b) The restructuring of the agricultural sector and the growing diversification of the rural economy. c) The growth of disparities between rural areas.

42. *The problems of rural areas are becoming territorial concern more than a sectoral issue.* Diversification of rural activities and growing interaction between rural and urban areas makes the economic (functional) region an increasingly pertinent unit for rural development.

43. *Rural development strategies are now based on a spatially oriented and cross-sectoral approach,* which takes into account agricultural and labour market policies, the creation of new market opportunities,

alternative uses of land, protection of the environment and improvement of the quality of life, the provision of services and infrastructures, and the need to address human capital issues.

44. Attempts to replace large-scale subsidy programmes with more selective packages of co-ordinated programmes focused on the development of the local economy have been implemented.

45. *Decentralisation and devolution of economic and social decision making have been set up.* The diversity among rural places, concerns related to fiscal federalism, the effort to secure effective citizen participation in decision-making implies a new active role for different levels of governments.

46. New structures for territorial governance by setting forms of vertical and/or horizontal co-ordination between the institutional parties involved have been created. Depending on the chosen degree of decentralisation, governmental entities at the lowest levels are increasingly being invested with new mandates and a multiplicity of issues that cut across separate administrative entities.

47. The inter-regional aspect is not always taken into account at the international or national levels because these cross-border zones do not coincide with traditional administrative divisions. Differing regional fiscal and regulatory regimes are equally obstacles to intensification of spatial relationships. *Flexible forms of governance such as co-operation between communities and the putting in place of horizontal partnerships between public and private actors* over (functional) areas sufficiently large to define coherent, common strategies have been seen as an effective means of territorial development, permitting governments to exploit local complementarities and the sharing of public investments.

48. Interest has been expressed by some central and eastern European countries (including the Baltics) on learning more on the latest trends of rural policies in the OECD Member countries.

(iv) Local Economic and Employment Development

49. The objectives of the OECD's programme on Local Economic and Employment Development²⁰ are to:

- (i) improve the coherence and efficiency of public policy through local measures, with continuous evaluation and monitoring of current practices;
- (ii) foster a culture of self-reliance, self-employment and entrepreneurship for local economic and employment development; and
- (iii) provide an essential link between national and sub-national governments as well as between the OECD and sub-national authorities.

50. As the OECD aims to help government to find the right balance of competencies in employment and social policies between levels of government, a number of conclusions are emerging from ongoing decentralisation processes, and the implementation of new local management practices. A key factor of successful reforms is that decentralisation must suit local capacities and take account of local interests. Some regional administrations do not have the administrative capacity to manage the same duties as that central governments used to, and do not wish to go beyond "co-management" of responsibilities. Thus asymmetric decentralisation, as experienced in Canada, Italy and Spain, leading to different powers across regions may be an appropriate process. However, the difficulty generated by the uneven capacities of regions to absorb more powers raises the question of the comprehensiveness of the transfers. To be complete and effective, the powers transferred must be accompanied with the corresponding levels of expertise, information systems, and human resources.

51. The difficulty to determine the optimal transfer raises the broader issue of the need to transfer competencies as such. Unemployment is a problem relevant to all levels of government, and resources of all kind must be mobilised in order to provide an optimal response. The issue may be not so much about what the competencies to transfer are, as to what the optimal mix of involvement for each level of government is. The region plays more a role of co-ordination than management in this case. In this respect, the questions to examine further include: how to provide enough flexibility to the instruments of each administration involved, so that they can be co-ordinated at local level, in coherent way and in consistency with local needs. In other words, how to make partnership effective at local level.

Co-operation with non-Members

52. The OECD's programme on Local Economic and Employment Development was a primary source of inspiration for the Forum for Entrepreneurship and Enterprise Development (FEED)²¹, which aims to determine a set of best practice guidelines that will improve the environment for small and medium-sized businesses; promote entrepreneurship; and lead to the creation of new enterprises. FEEDs have now been created for transition economies, the Baltic Rim and the Russian Federation.

(v) *Fiscal federalism in non-OECD countries*

53. Fiscal federalism in emerging economies has long been a priority area of research and policy dialogue. Experiences of fiscal decentralisation across a wide range of OECD Member and non-member economies reveal lessons which are equally of relevance to both groups of countries²². A major finding is that fiscal decentralisation is often confused in the latter group of countries with the removal of central-government control over sub-national finances. This is a mistake. It may lead to fiscal irresponsibility on the part of local authorities, deteriorating fiscal positions at both levels, and high costs due to duplication of fiscal institutions. Insufficient attention has also been given to the generation of local revenue, as opposed to inter-governmental transfers. The issue of fiscal responsibility in emerging economies is particularly important because it arises, in part, from a desire to enhance democracy and local accountability. However, the devolution of responsibilities must take place in an atmosphere of transparency, where local expertise exists to manage budgeting. Serious consideration must be given to revenue sourcing and effective expenditure control. Finally, local spending must match available resources without becoming an additional strain on central government resources.

54. In relation to the transition economies of central and eastern Europe, the OECD participates in the "Fiscal Decentralisation Initiative" - a joint undertaking along with the World Bank, the Council of Europe and the OECD -- which seeks to assist these economies in carrying out intergovernmental fiscal reforms²³. The main objectives of the Fiscal Decentralisation Initiative, which has been operating in these countries for five years, are to encourage local democracies to improve the capacity of local governments to plan and administer expenditures and raise revenues; and to support local governments in their effort to become more responsive and accountable to their constituencies.

55. Following up on a decision by the Fiscal Decentralisation Initiative, the OECD has initiated a survey on fiscal decentralisation, for the purpose of providing international comparisons on the design of fiscal systems across levels of government. The final result of the survey will be a regularly updated database on sub-national finance and intergovernmental financial relations. The survey will produce country evaluations on the sub-national discretion in financial decision-making. Such information on the actual distribution of political responsibilities across levels of government will supplement the register-based government finance figures. A number of activities have already taken place, including the preparation of country reports on Latvia and Hungary. The first Annual Report on the survey will be finished. In Spring 2000, a Forum on Fiscal Federalism will be organised, representing the Member

countries and economies in transition, that join the survey. The Forum will organise the collection and consolidation of the data reports and will provide the basis for exchange of information and policy experience on subnational finance and intergovernmental financial relations.

(vi) Interface between central and sub-national levels of government in Russia

56. An important objective of the OECD's co-operation with Russia is to focus attention on sub-national, regional development²⁴. Russia's immense size and the importance in the national economy of regional and local governments make it essential to reflect the sub-national dimension.

57. The OECD's forthcoming review of the Russian economy²⁵ will address the issues of fiscal federalist relations, namely taxation, budgetary execution, and relations across different levels of government. In comparison with most other transition economies, these policies are typically considerably less favourable toward investment, entrepreneurship, fair competition and the rule of law. They can often also be associated with a high degree of corruption. This represents one of the primary obstacles to reform and economic growth. These problems, in turn, reflect the difficult and distorted conditions under which sub-national administrations currently operate, and the poor general state of fiscal federalistic relations.

58. Some progress has been made toward the construction of a fiscal federalist system in Russia. Relatively stable and uniform rules have replaced much of the chaotic bilateral bargaining between the centre and regions in the early years of transition, while federal transfer policies have improved, gaining at least a small degree of stability and transparency. The explicit quantitative division of budgetary revenue and expenditures between the federal and subnational level in Russia now resembles that of many developed federalist countries. Nevertheless, the entire system of fiscal federalist relations in Russia remains largely in disarray. Recent years have witnessed a striking and growing contrast between a formal highly-centralised fiscal federalist system and actual practice, under which a large degree of financial authority is exercised at the subnational level through informal channels. The reform of fiscal federalist relations continues to be a critical, as well as politically and economically complicated, aspect of economic transition in Russia.

59. The OECD has also been working on the interface between the central and sub-national levels of government in Russia's trade policy²⁶. Russia's federal system confronts it with particular challenges for accession to the WTO. In federal systems, sub-federal governments or agencies often play significant roles in implementing policies that are related to WTO trade disciplines. But, WTO members with federal systems are obliged to ensure respect of WTO rules by their sub-federal authorities. GATT Article XXIV: 12 defines this obligation as follows:

“Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territories.”

60. When the Russian Federation accedes to the WTO, it will similarly be required to ensure that the laws and administrative practices of its federation members do not contradict its WTO obligations. The Russian Federation Constitution and laws delineate carefully the jurisdictions of the federal and regional governments in foreign economic relations and their respective roles in establishing a national trade policy. This legal framework aims at preserving a single Russian market and a unified customs territory, thereby increasing national economic welfare by capturing the benefits of trade liberalisation at the national level.

61. However, regional practices at times appear to diverge from the national legal framework, with some regions establishing trade barriers or asserting the right to impose trade restrictions when deemed in their own interest. A review of legislation and administrative practices in four regions revealed

considerable activity in areas of economic policy that may affect trade. Some regional administrations have responded to the distress of local industries by offering a variety of financial aids without considering any possible trade impacts, either within Russia or internationally. All four regions undertake purchases for state needs, but sometimes these programmes exclude suppliers from other regions or countries and lack sufficient transparency. In addition, the practices of the regional departments of some federal agencies appeared at times also to lack transparency and varied among the regions. Problems centering on licensing procedures for services or quotas on foreign personnel were not encountered, but may exist in other regions. The implications of such regional practices extend, of course, beyond Russia's WTO accession efforts. Regional inconsistencies and distortions act as barriers to trade in Russia and as disincentives to external trade and investment relations. While this is a problem in Russia, it is also important to note that the regional governments have (as in other federal systems) a major *legal* role in policies related to trade policy, for example, in subsidies, government procurement, and regulations of service industries

62. The interface issue will remain on the agenda of the trade policy dialogue between OECD countries and the Russian Federation. Follow-up activities will include: (i) another case study of the far eastern region and possibly other regions; (ii) analysis focusing on some specific issues particularly relevant in the central/subnational context; and (iii) further efforts to explain trade liberalisation objectives.

(vii) Survey of existing foreign investment framework at various levels of government in China.

63. One of the most prominent elements of the present China/OECD co-operation programme is the joint work on foreign direct investment (FDI)²⁷. A Memorandum of Understanding concluded with the Chinese authorities in March 1999 foresees three integrated and mutually supported activities in the FDI field: (i) improvement of data collection; (ii) a comprehensive study on the impact of foreign investment on China's economic development; and (iii) the design of a foreign investment promotion strategy responsive to China's development needs. The general aim of the study will be to assess the impact of FDI on the economic development in China in light of the spectacular expansion of inflows and growing outflows since the beginning of the 1990s. The OECD would be in a position to study the *location* determinants of FDI and the determinants of FDI in China's *manufacturing*, in particular by surveying existing foreign investment framework at various levels of government in China.

3. Managing Cross-cutting Issues and Building Policy Coherence

64. Effective governance requires that governments co-ordinate, integrate and balance decisions across multiple economic and social disciplines, institutional jurisdictions and policy fields. Policy-makers' attention is shifting away from conventional questions of co-ordination toward the management of cross-cutting issues, which transcend the boundaries of established policy fields, and do not correspond to the institutional responsibilities of individual ministries. Yet governments face great difficulties in improving policy coherence, given the growing number of players and interests involved, including non-governmental organisations and civil society, the wide range of objectives they pursue and the complex and rigid institutions involved.

65. Tackling cross-cutting issues and building policy coherence is at the heart of the OECD's mission. This section presents some general conclusions from the OECD's work, before highlighting the examples of regulatory reform, developmental policy coherence, sustainable development and the policy implications of ageing populations. There are many other examples, notably in the trade policy area, where the OECD's work demonstrates the importance of coherence between trade policy, and other policies, especially in the environmental and competition areas.

(i) Some general conclusions

66. Globalisation and the information explosion are increasing policy interdependence. They are bringing to light new dimensions that cut across policy fields. The focus of concern of policy makers is shifting away from conventional questions of co-ordination toward the management of cross-cutting issues, which transcend the boundaries of established policy fields, and do not correspond to the institutional responsibilities of individual ministries²⁸.

67. Cross-cutting issues are largely unprecedented, at least in their scale, and the institutional structures to cope with them often do not exist. The typical case is that a number of ministries is responsible for one aspect or another of the problem, but none is responsible for it in its entirety. This is often the case for regulatory reform. This raises not only issues of co-ordination, but also the question of obtaining a more holistic conceptualisation of the problem, that is, an understanding that is greater than the mere piecing together of the partial perspectives of line ministries.

68. Cross-cutting issues outstrip the conventional patterns of thought on which co-ordination mechanisms have traditionally been based. This poses a problem for the centre. Providing a strategic view of a problem area is part of the role of central bodies of government, both political and administrative. But these bodies usually build that view largely on the basis of information and analysis emanating from line ministries. The challenge for the centre is to develop a holistic perspective on cross-cutting questions even though the ministries themselves have not perceived the full dimensions of the problem.

69. Organisational support is required that transcends institutionally-defined policy fields, while respecting ministerial portfolios. The traditionally vertical, compartmentalised structures of government tend to limit information flows among ministries, and to impede co-ordinated action. Co-ordination mechanisms are designed to overcome vertical structures, and to ensure horizontal consistency among identified policy fields. How well can these mechanisms manage cross-cutting issues that are difficult to circumscribe, especially in a highly interconnected policy context?

70. There is a need to integrate, rather than merely co-ordinate, cross-cutting policies. The design of integrative mechanisms needs to strike a balance between competing objectives: strengthening the horizontal capacity of the governmental apparatus; ensuring that ministerial responsibilities remain clear; and, maintaining the centre's pivotal role in the strategic management of actions. The challenge is to find institutional linkages that correspond to the interdependencies inherent to cross-cutting issues.

71. While there are cogent reasons to strengthen policy coherence, there are equally compelling reasons to be circumspect. Indeed, excessive efforts to enhance coherence can result in a high degree of central control and a consequent loss of flexibility in the policy-making system. The examination of these issues in the light of the experience of governments has led to the articulation of five key lessons of relevance to efforts to enhance policy coherence.

- There is a gap between the need for coherence and the capacity to achieve it.
- Governing in a democratic political system necessarily involves a degree of incoherence.
- No single policy-making system can guarantee improved coherence.
- There nevertheless exist good practices and tools of coherence.
- The paramount tool of coherence is informed decision-making.

(ii) *Developmental Policy Coherence*

72. The OECD report, *Policy Coherence Matters*²⁹, argues that OECD countries have a pivotal role to play in facilitating developing countries efforts to fully exploit the benefits of open trade and investment, notably by improving the framework for international trade and capital flows, addressing environmental concerns, facilitating participation of developing countries in the global information society, and enhancing the coherence of development co-operation policies. The OECD and other international organisations, as well as Members and partner countries, are working together at several levels towards enhancing developmental policy coherence. A Checklist on Policy Coherence is now being elaborated, development co-operation peer reviews are being strengthened by systematically including a section on policy coherence, and the annual Development Co-operation Reports will now give more prominence to developmental policy coherence.

(iii) *Ageing Populations*

73. Population ageing in OECD countries over the coming decades could threaten future growth in prosperity³⁰. The OECD's work on the policy implications of ageing populations emphasises the broad range of economic, financial and social policies to ensure the foundations for maintaining prosperity in an ageing society. Seven principles have been identified to guide these reforms:

- Public pension systems, taxation systems and social transfer programmes should be reformed to remove financial incentives to early retirement and financial disincentives to later retirement.
- A variety of reforms will be needed to ensure that more job opportunities are available for older workers and that they are equipped with the necessary skills and competences to take them.
- Fiscal consolidation should be pursued, and public debt burdens should be reduced. This could involve phased reductions in public pension benefits and anticipatory hikes in contribution rates.
- Retirement income should be provided by a mix of tax-and-transfer systems, funded systems, private savings and earnings.
- In health and long-term care, there should be a greater focus on cost-effectiveness.
- The development of advance-funded pension systems should go hand-in-hand with that of a strengthening of the financial market infrastructure, including the establishment of a modern and effective regulatory framework.
- Strategic frameworks should be put in place at the national level now in order to harmonise these ageing reforms over time, and to ensure adequate attention to implementation and the build-up of public understanding and support.

(iv) *Sustainable development*

74. Economic decisions can contribute to climate change, bio-diversity loss and unsustainable exploitation of natural resources, as well as to income inequality and high unemployment. Moving

towards sustainable development requires modifying economic incentives to incorporate environmental and social concerns. It also requires focussing on equity within and across countries, as well as the well being of the next generation. The OECD approach also emphasises meeting these concerns at the lowest possible costs, and that these costs should be representative of the *full* costs to society of the various economic activities³¹.

75. The OECD's three-year project deals with a number of key aspects of sustainable development, namely climate change, technological development, sustainability indicators, and the environmental impact of subsidies. The OECD is enhancing its dialogue with non-member countries in these areas.

4. Fostering Public Sector Capacity Development

76. Effective governance requires strengthening capacities related both to developing effective and democratically responsive policies, and building and maintaining well-performing and efficient public institutions to deliver quality services. Policy solutions, no matter how good they may be, can only work if governments have the capacities to deliver them within an environment of scarce fiscal and human resources. Governments must also be forward-looking to manage social and economic change. Strategic policy capacities are required to adapt to long-term trends, while remaining flexible enough to respond quickly to short-term needs.

(i) Public sector management

77. A large part of the OECD's work fosters public sector capacity development, notably through elaboration and dissemination of best practice policies. Much of the work on public sector management addresses more specifically the issue of development and improvement in the public sector, notably in the following areas.

78. *User Charging for Government Services.* Member countries are increasingly financing government services through user charging. The reasons for this include some of the following: reducing budget deficits; making the costs and benefits of services more transparent to both users and the government organisations providing the service; relieving the general taxpayer of costs properly borne by those users who benefit directly from a service; imposing market discipline on the demand and supply of services; fostering a business culture among service providers; and encouraging competition and market creation among service providers. PUMA conducted case studies of user charging in ten member countries, with a view to determining a set of best practices. These best practices include: establishing clear legal authority for user charging; consulting with users on the implementation of these charges; determining accurately service costs; developing an effective and efficient collection system; improving the delivery of services; promoting transparency regarding the use of fees received from user charging; setting appropriate pricing strategies, with market-based pricing whenever possible; recognising equity considerations and concerns in user charging; ensuring "competitive neutrality" with respect to service providers.

79. *Improving Evaluation Practices.* Evaluation plays a key role in the formulation and assessment of best practices. But evaluation techniques and methodologies vary widely across both countries and government agencies, ranging from quantitative to qualitative analysis, and from case studies to large number data surveys. Each of these approaches can be useful in evaluating public policies, assuming certain general guidelines are adopted. Given this variety of analytical tools, PUMA was charged with the task of providing OECD members with a set of best practices for maximising the value of the policy evaluation process. PUMA was not asked to rate evaluation techniques, and indeed there is no single right way to conduct policy reviews. The choice of methods depends upon several factors, including the

objectives of the evaluation, the role of the specific evaluation in a wider performance management framework, and a variety of institutional and political considerations. PUMA assessed the best practices to include: defining clear objectives for the evaluation process; using evaluations to improve decision-making, resource allocation, and accountability; matching evaluation techniques with evaluation objectives; managing the evaluation process to ensure it remains focused; designing the evaluation so as to gain support from senior officials and other users; linking the evaluation to the budget process; choosing the appropriate evaluator; timing the evaluation appropriately within the policy cycle; involving stakeholders in the evaluation process; communicating the evaluation's findings both within and outside the organisation; monitoring the follow-up to the evaluation; refocusing staff to meet the evaluation's recommendations.

80. *Contracting Out Government Services* Contracting out government services-from catering to airport management-has assumed significance in all OECD countries and around the world. Often a first step towards privatisation, contracting out relieves the government of burdens that are better shouldered by private enterprises specialising in the provision of particular services. By taking advantage of economies of scale and scope, contracting out improves government performance while introducing market practices across a wide range of service arenas. Given its growing prominence in public sector management, senior budget officials in OECD governments requested PUMA to undertake a study of best practices in contracting out of public services. A series of case studies were undertaken in nine OECD countries, ranging from highway development in Mexico to building cleaning services in Denmark. Despite the diversity of countries and sectors, PUMA identified a set of best practices consisting of: securing senior management involvement in the strategy and process of shifting from government service provision to contracting out; addressing the concerns of personnel who may be affected by contracting out; specifying the requirements that the contractor must meet in terms of measurable outputs; monitoring contractor performance; comparing the efficiency of the new contractor with alternative providers, including government; ensuring that in-house (government agency) bids on service provision are evaluated on the same terms as private contractor bids; using contracting out to foster competition; developing and maintaining the in-house skill set necessary for oversight of the external contracts.

81. *Budgeting and financial management*³² are key vehicles for giving effect to Member countries' economic and social priorities and for promoting greater cost-effectiveness in the public sector. The structure of the budget process can facilitate fiscal consolidation, and a large number of Member countries have implemented changes to the budget process in recent years. Sound budgetary management is central to a well performing economy, providing greater economic stability with ensuing benefits for productivity, growth, and job creation. But sound budgetary management is about more than managing aggregates. It is also about achieving effective policy results through seeing resources flow to where they are most valuable, and having the technical operations of government performed in an efficient manner. Achieving spending control, allocative and technical efficiency results in better decision making within the economy and generally more efficient allocation of resources. Establishing particular institutional arrangements that foster fiscal responsibility can assist the successful management of these risks. Fiscal rules and budgetary institutions are likely to be particularly valuable in that they provide a discipline on spending and increase flexibility in decision making.

82. There is convergence in Member countries around many practices -

- There is now a greater multi-year focus - in fact, all countries now announce medium term fiscal objectives in a formal manner.
- There is now a more concerted effort to get legislative buy-in to the aggregate position. Almost 60 per cent of countries are providing their legislatures with an opportunity to consider the budget strategy separately from the actual budget.

- There is a trend to greater prudence in forecasting with many countries now submitting their internal economic forecasts to external review.
- There is a greater results and performance focus. Three quarters of countries now provide performance information in the budget. This is occurring amid a general trend of limiting central controls and pushing many operating decisions down the line, which should foster operating efficiency.
- Many countries are improving the rigour of their accounting systems with the introduction of accrual based systems at varying levels.

83. Governments of OECD Member countries face more stringent requirements for performance and enhanced accountability of public activities and programmes. *Performance management*³³ covers a wide range of issues, including devolution of decision-making, accountability for performance, measurement and benchmarking of performance, responsiveness to citizens through service quality initiatives, review of performance through programme evaluation and performance auditing, the use of performance contracting mechanisms, the use of strategically oriented management and planning, and creation of autonomous agencies. The OECD aims at assisting Member countries in developing their approach to performance management, according to each one's political and administrative system, by providing high quality and useful information, and analysis. Financial management and performance management have tended to operate in separate spheres in many Member countries with little interaction between them. It is important to improve mechanisms to improve resource planning and allocation by integrating financial and budgetary management with performance management³⁴.

84. Public sector *human resource management* (HRM)³⁵ is aimed at giving the people who make up the public sector workforce, and departments and agencies that employ them, the tools, training, and leadership needed to carry out the business of government effectively and efficiently. Moreover, HRM seeks to ensure that the public sector remains an employer of choice with the capacity to attract and retain a high quality workforce. These issues are significant because over the past two decades the business of government, and the way in which government carries out that business, have been undergoing major reforms in OECD countries.

85. The OECD's work on HRM aims at disseminating clear messages on effective and efficient personnel policies in the public service. This includes presentation of the major reforms in HRM in the public sector, dissemination of comparative statistics on key aspects, and provision of comparative analysis and assessment of the HRM systems that provide the most support to improving the performance of public administration.

Co-operation with non-Members

86. SIGMA³⁶ (Support for Improvement in Governance and Management in Central and Eastern European Countries) is a joint initiative of the OECD and the EU, principally financed by the EU's Phare Programme. The initiative supports public administration reform efforts in Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia..

87. Established in 1992, SIGMA works within PUMA, which provides information and expert analysis on public management to policy-makers and facilitates contact and exchange of experience among public sector managers. SIGMA offers beneficiary countries access to a network of experienced public

administrators, comparative information, and technical knowledge connected with the Public Management Service.

88. SIGMA aims to:

- assist beneficiary countries in their search for good governance to improve administrative efficiency and promote adherence of public sector staff to democratic values, ethics and respect of the rule of law;
- help build up indigenous capacities at the central government level to face the challenges of internationalisation and of European Union integration plans; and
- support initiatives of the European Union and other donors to assist beneficiary countries in public administration reform and contribute to co-ordination of donor activities.

89. Throughout its work, the SIGMA initiative places a high priority on facilitating co-operation among governments. This practice includes providing logistical support to the formation of networks of public administration practitioners in Central and Eastern Europe, and between these practitioners and their counterparts in other democracies.

90. SIGMA works in five technical areas: public administration development strategies; policy-making, co-ordination and regulation; budgeting and resource allocation; public service management; and audit and financial control. The OECD is continuing to explore possibilities for launching work in Russia, to strengthen governance capacity in that country on the basis of the SIGMA experience.

91. The OECD has now also launched co-operation with China³⁷ in the area of *budgeting and financial management* to familiarise the Chinese authorities with best and emerging practices from OECD Member countries. Workshops will cover the following topics: the role of the central budget office; the budget formulation process; in-year financial controls; fiscal transparency; the role of the legislature in the budget process; programme evaluation; restructuring government departments and agencies; reforming public enterprises; treasury management; user charging for government services; output budgeting; and procurement.

92. More generally, OECD outreach activities could be regarded as having an element of public sector capacity development to the extent that OECD best practices are being shared with non-members. In the areas of taxation, competition policy and statistics, many activities are specifically designed to strengthen public sector capacities.

93. In the tax area³⁸, the capacity to implement modern, well-designed domestic and international rules is crucially dependent upon the expertise of tax officials. A vast amount of co-operation takes place through training at multilateral tax centres (in Austria, Hungary, Korea and Turkey), the Moscow and Beijing International Tax Centres, regional programmes and multilateral workshops. These activities complement the design and implementation of bilateral tax assistance programmes of OECD Member countries.

94. In the area of competition policy design and implementation³⁹, activities are tailored to the varying anti-competitive situations that different emerging market economies face and also the different legal tools they have. Countries that have competition laws seek assistance in implementing sound and effective policies. Many countries have no competition law, and there is a need for assistance in understanding and articulating the benefits of competition policy and in drafting competition laws. Activities focus on promoting sound and effective law enforcement, but attention is also paid to the ability

of competition authorities to promote regulatory reform by engaging in competition advocacy of the sort the OECD recommends for competition authorities of its Members.

5. Fostering Integrity and Combating Corruption

95. Effective governance requires ethical behaviour in public life and vigorous action to fight corruption and organised crime. Integrity is a fundamental pre-condition for governments seeking to provide a trustworthy and effective framework for the economic and social life of their citizens. The cost of corruption is increasingly well-known and documented. It erodes confidence in political institutions and endangers public sector reforms; exacts a disproportionate cost on the poor who may be deprived of basic public services; distorts the allocation of resources and undermines competition in the market place. The OECD has a wide number of activities in this area, often in partnership with civil society, including improving ethical conduct in the public service, fighting corruption, and combating tax evasion and money laundering.

(i) *Improving ethical conduct in the public service*

96. High standards of conduct in the public service have become a critical issue for governments in OECD Member countries⁴⁰. Public management reforms involving greater devolution of responsibility and discretion for public servants, budgetary pressures, and new forms of delivery of public services have challenged traditional values in the public service. Globalisation and the further development of international economic relations, including trade and investment, demand high recognisable standards of conduct in the public service. Preventing misconduct is as complex as the phenomenon of misconduct itself, and a range of integrated mechanisms are needed for success, including sound ethics management systems. Increased concern about corruption and the decline of confidence in government has prompted governments to review their approaches to ethical conduct.

97. Against this background, the OECD has developed a set of principles for managing ethics in the public service, and recommends that Member countries take action to ensure well-functioning institutions and systems to promote ethical conduct in the public service⁴¹. The twelve principles are designed to help countries review the institutions, systems and mechanisms they have for promoting public service ethics. They identify the functions of guidance, management or control against which public ethics management systems may be checked. These principles distil the experience of OECD countries, and reflect shared views of sound ethics management. Member countries will find their own ways of balancing the various aspirational and compliance elements to arrive at an effective framework to suit their own circumstances. The principles may be used by management across national and sub-national levels of government. Political leaders may use them to review ethics management regimes and evaluate the extent to which ethics is operationalised throughout government. The principles are intended to be an instrument for countries to adapt to national conditions. They are not sufficient in themselves -- they should be seen as a way of integrating ethics management with the broader public management environment.

Principles for Managing Ethics in the Public Service

- (i) Ethical standards for public service should be clear.
- (ii) Ethical standards should be reflected in the legal framework.
- (iii) Ethical guidance should be available to public servants.
- (iv) Public servants should know their rights and obligations when exposing wrongdoing.
- (v) Political commitment to ethics should reinforce the ethical conduct of public servants.
- (vi) The decision-making process should be transparent and open to scrutiny.
- (vii) There should be clear guidelines for interaction between the public and private sectors.
- (viii) Managers should demonstrate and promote ethical conduct.
- (ix) Management policies, procedures and practices should promote ethical conduct.
- (x) Public service conditions and management of human resources should promote ethical conduct.
- (xi) Adequate accountability mechanisms should be in place within the public service.
- (xii) Appropriate procedures and sanctions should exist to deal with misconduct.

98. Thus, in 1998 the OECD Council recommended that Member countries take action to ensure well-functioning institutions and systems for promoting ethical conduct in the public service. This can be achieved by: developing and regularly reviewing policies, procedures, practices and institutions influencing ethical conduct in the public service; promoting government action to maintain high standards of conduct and counter corruption in the public sector; incorporating the ethical dimension into management frameworks to ensure that management practices are consistent with the values and principles of public service; combining judiciously those aspects of ethics management systems based on ideals with those based on the respect of rules; assessing the effects of public management reforms on public service ethical conduct; using as a reference the Principles for Managing Ethics in the Public Service to ensure high standards of ethical conduct.

99. The OECD Council instructed the PUMA Committee to:

- analyse information provided by Member countries on how they apply these principles in their respective national contexts. The purpose of the analysis is to provide information on a comparative basis to support Member country actions to maintain well-functioning institutions and systems for promoting ethics;
- provide support to Member countries to improve conduct in the public service by, *inter alia*, facilitating the process of information-sharing and disseminating promising practices in Member countries;
- present a report in two years (2000) analysing the experiences, actions and practices in Member countries that have proved effective in a particular national context.

100. To date, outreach has mainly been conducted in the framework of SIGMA and the Anti-Corruption Network for Transition Economies.

(ii) Combating Bribery and Corruption

101. The OECD first put international corruption on its agenda in 1989 and developed several major objectives for its work, including, to fight corruption in international business, to help level the competitive playing field for all companies, and to strengthen anti-corruption policies and good governance more generally⁴².

102. The entry into force on 15 February 1999 of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, represents a landmark in international co-operation to fight bribery and corruption. The Convention was signed by all OECD countries and five non-member countries, Argentina, Brazil, Bulgaria, Chile and the Slovak Republic. It is essentially an effort to eliminate the “supply” of bribes to foreign officials, with each country taking responsibility for the activities of its companies and what happens on its own territory. It is designed to stem the flow of bribe money in international business by criminalising bribery of foreign public officials, improving accounting and auditing practices, increasing transparency in public procurement procedures, and denying tax deductions for bribe payments.

103. The credibility of the Convention depends, in large part, on effective implementation procedures. The OECD has begun phase 1 of the evaluation process, which will be crucial in establishing confidence in the commitments undertaken by participating governments. Under the Convention, each country must adopt the necessary national legislation to criminalise the bribery of foreign public officials. The principle objective of the monitoring process is therefore to evaluate whether the legal texts through which participants implement the Convention meet the standards set by it.

104. The most effective way of meeting this objective is to carry out in-depth monitoring and comparison of national laws in order to determine if the goal of “functional equivalence” has been achieved. Implementation of the Convention will thus involve review and assessment of national laws to implement the Convention (self and mutual evaluation review of implementation of the Convention and the 1997 Recommendation -- see below) and steps taken to comply with the 1997 Recommendation. Phase 1 of the self and mutual evaluation procedure began in April 1999, and it is scheduled to complete the legislative review of all 34 signatory countries and report to Ministers in Spring 2000.

105. The aims of the Convention are reinforced by three OECD Recommendations. The 1997 Revised Recommendation on Combating Bribery in International Business Transactions sets out measures which countries should take in the fields of accounting, public procurement, and criminalising bribes to foreign public officials. These measures require companies to maintain adequate accounting records, adopt internal company controls, and undergo external audits. In the area of public procurement, it is recommended that companies found guilty of bribing foreign officials be suspended from future public contract bids. Further, countries should co-operate in investigations and other legal proceedings in order to efficiently prosecute cases in which foreign public officials have been bribed.

106. The Revised Recommendation also urges prompt implementation of the 1996 Recommendation on Tax Deductibility of Bribes to Foreign Officials which calls on countries to disallow the deductibility of bribes to foreign public officials. The OECD Fiscal Affairs Committee surveys compliance with this instrument and recently reported that by the end of 1999, there should be no OECD country left that allows such tax deductibility. The 1997 Revised Recommendation on Combating Bribery in International Business Transactions also incorporates the proposals of the Recommendation to Combat Corruption in

Aid-Funded Procurement, which calls on countries to require anti-corruption provisions in bilateral aid-funded procurement.

107. The world's largest trading and investment partners are now committed to halting the flow of bribes to foreign public officials in international business transactions. In addressing the "supply" side of bribery, the Convention ties in to the ongoing work of the OECD that looks at the governance implications that result from systemic failure. By clearly signalling to all trading partners that members of the Convention will not resort to bribery in international business transactions, the Convention can help strengthen domestic anti-corruption programmes aimed at raising ethical standards in the public sector and promoting better governance.

108. OECD Ministers recognised that it was necessary to pursue further analysis of other issues relating to corruption, by examining acts of bribery in relation to foreign political parties and candidates for foreign political office, bribery of foreign public officials as a predicate offence for money laundering legislation, the role of foreign subsidiaries in bribery transactions, and the role of off-shore financial centres in bribery transactions. In addition, pursuant to the Convention, proposals are being considered on how to combat bribery in international transactions which benefit from officially supported export credits, namely by maintaining the process of exchanging information on how OECD Members are adapting their export credit systems to accord with the OECD Convention, and to respond to an updated export credit Survey on Members' procedures and practices to combat bribery. A report will be prepared in 2000.⁴³

109. Important work has also been undertaken on public sector corruption in OECD countries. Corruption in government and public administration is a complex and pervasive phenomenon. This is why the OECD undertook a survey⁴⁴ of the prevention measures that 15 OECD Member countries (Belgium, the Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Mexico, Poland, Spain, Sweden and Switzerland) are currently using to protect their domestic public institutions against corruption, and finding to be effective. Overall, the survey shows that increasing transparency and strengthening sanctions and controls are favoured by a majority of countries. Among the secondary measures, guidance and enhancing expertise and awareness through specialisation and training were frequently mentioned.

110. Underlying an apparent uniformity of measures across the surveyed countries are a variety of institutions and processes, suggesting that while OECD countries concentrate efforts on particular areas, issues or phenomena, they are employing multiple methodologies to do so. When asked to identify their most effective mechanisms against corruption, most countries advocated the use of more than one type of mechanism. Nevertheless, law enforcement, investigation and control measures with strong sanctions attached were regarded by most countries as essential to preventing corruption. These were followed by preventive and educative approaches such as financial and management controls and training.

111. Among the new initiatives against corruption reported by countries, moves to increase administrative transparency stood out as the most popular. In particular, obliging public officials to declare financial and other interests incompatible with public duty was most frequently cited. A new direction is discernible in the interest shown by some countries in streamlining excessive or irrelevant regulation, targeting high-risk areas of government activity, and ensuring more effective financial and banking regulation. This kind of approach -- looking beyond individual corrupt transactions to the conditions that allow corruption to develop -- represents a major shift in emphasis for many countries.

112. A complementary change of emphasis is evident in the wider range of policy areas that countries are drawing on to counter corruption. All reporting countries referred to aspects of crime and justice administration in their responses, but other policy areas seen as relevant to corruption prevention included

public administration, regulatory management, and finance (for example, competition policy and tax policy).

113. Other work is underway on bribery and corruption. In the trade area, a study is being undertaken on the anti-corruption potential or effects of WTO disciplines, focussing on how the present rules may bear on bribery and corrupt practices. In this context, it will examine preventive strategies that aim at reducing the opportunities and the motivations for corruption. The preventive approach to the fight against corruption has a certain structural similarity to the manner in which WTO rules and disciplines operate. The implementation of various WTO provisions, such as the provision on Customs Valuation, Preshipment Inspection, Import Licensing Procedures, Government Procurement and Rules of Origin, is directed at clarifying applicable rules, reducing the complexity of procedures, and enhancing the predictability of the regulatory system. Generally speaking they should help reduce bureaucratic discretion and enhance transparency and accountability, including through easing administrative control and allowing outside evaluation. The progressive liberalisation of world trade in general -- and namely through tariff bindings, GATS specific commitments and provisions of Agreements such as that on Technical Barriers to Trade -- contributes to eliminating business incentives for corrupt behaviour by reducing overall operation costs in a legal manner.

114. In the development area⁴⁵, work is underway to strengthen policy frameworks to promote integrity in the private and the public sectors, and to support national plans and institutions established in developing countries to combat corruption. This includes research to provide: policy recommendations to developing country governments and aid agencies in their fight against corruption; and OECD Member countries with a clearer understanding of the causes and consequences of corruption in developing countries. In the period ahead, it is proposed to focus this activity solely on policies to fight corruption and the role of the private sector in fighting corruption.

Co-operation with non-Members

115. Ministers have declared on different occasions their intention to seek to secure the accession of the broadest range of non-OECD countries to the Convention⁴⁶. The Convention is open to accession by any country that is willing and able to assume its obligations. In this context, the OECD is continuing and intensifying its efforts to appeal to government officials of non-member countries -- as well as business leaders, non-governmental organisations, professional bodies, and civil society at large -- to associate themselves with the Convention and take effective measures to fight bribery and corruption.

116. Anti-bribery and anti-corruption outreach have now been launched in all major regions of the world, including most recently Asia and the Pacific Rim countries. Non-member countries have been eager to explore the conditions and implications of joining the OECD Convention in order to send a strong message that as Parties to the Convention they will take effective action against bribery in international business transactions. Many non-members are convinced that fighting corruption will help to create a better climate for attracting foreign direct investment and will also reinforce and support national anti-corruption programmes.

117. Co-operation with other organisations taking actions to fight corruption is crucial to building partnerships that strengthen international consensus and ensure the full involvement of major stakeholders. The OECD and the Asian Development Bank joined forces to hold an anti-corruption workshop for Asian and Pacific economies in Manila last September. That workshop resulted in a strong call on all interested parties to consider ways to advance a regional anti-corruption agenda, including the possibility of organising a regular forum on anti-corruption activities in Asia and the Pacific. A follow-up meeting is envisaged for spring 2000, possibly in Seoul Korea.

118. The Anti-Corruption Network for Transition Economies is particularly important because firm and household surveys indicate that levels of corruption are perceived to be higher in Eastern Europe and the Former Soviet Union than in many other regions of the world. The costs to these countries include incomplete control of executive policy-making functions, administrative barriers and economic inefficiencies discouraging enterprise development and entrepreneurship, as well as increased risk lowering foreign direct investment.

119. The Network co-ordinates closely with other OECD work, such as the Recommendation on Improving Ethical Conduct deals with public sector comportment in OECD countries, and seeks to transfer best practices to non-members, as well as provide action-oriented information necessary to promote domestic transparency and accountability in public-private transactions in non-member countries.

120. In the Russian Federation, workshops and Internet resources have been designed to develop private sector collaboration on codes of conduct, ethics, and a transparent investment environment. An Integrity Steering Group has been established, based on models similar to other transition economies. In the Baltic region, policy dialogue workshops are helping to build non-governmental capacity to assist in anti-corruption reform. In Southeast Europe, the Network helps to link burgeoning NGOs and private sector associations to promote accountability and transparency in the region using the Private Sector Development Centre in Istanbul. In addition, lessons are being exchanged between other regions -- such as Respodanet focussed on Latin America and the Caribbean -- and specific topics of interest such as investigative journalism are being addressed.

(iii) Efficient taxation governance

121. Globalisation has had a positive effect on the development of tax systems, being, for instance, the driving force behind tax reforms that have focused on base broadening and rate reductions, thereby minimising tax-induced distortions. But it has also widened opportunities for tax evasion and avoidance. In this new environment, tax havens have thrived and some governments have adopted preferential tax regimes specifically targeted at attracting mobile activities. Efficient taxation governance means that taxpayers pay the right amount of tax, at the right time and in the right place.

Addressing harmful tax competition

122. Globalisation and new electronic technologies can permit a proliferation of tax regimes designed to attract geographically mobile activities. Governments must take measures, in particular intensifying their international co-operation, to avoid the world-wide reduction in welfare caused by tax-induced distortions in capital and financial flows and to protect their tax bases. Efficient taxation governance can be threatened by harmful tax competition. Harmful tax practices may exist when regimes are tailored to erode the tax base of other countries. This can occur when tax regimes attract investment or savings originating elsewhere and when they facilitate the avoidance of other countries' taxes.

123. To provide co-ordinated action for the elimination of harmful tax practices, the OECD's Report and Guidelines on Tax Competition were adopted by the OECD Council in April 1998 and endorsed by Ministers in the same month⁴⁷. The scope of the OECD's Report is limited to geographically mobile financial and services activity. Switzerland and Luxembourg abstained from this Report.

124. The Tax Competition Report concludes that tax competition is unfair unless it is transparent, non-discriminatory, and aimed at attracting real activities, not just facilitating tax minimisation strategies or the evasion of tax in the other countries. The Report contains 19 recommendations (the Recommendations) to counter harmful tax practices in OECD Member countries and their dependencies, and in non-member

economies. To counter the spread of tax havens, the Recommendations require the Forum to develop a list of tax havens and to propose co-ordinated counteracting measures against jurisdictions on the list.

125. To counter harmful preferential tax regimes, the Recommendations provide a set of Guidelines for OECD Member countries and require the Forum by April 2000 to identify harmful preferential regimes in Member countries. The Recommendations also provide for a dialogue with non-member economies. The harmful preferential regimes in Member countries must be eliminated within five years. Also, Member countries agree to a “standstill”: that is, not to adopt new measures or to extend the scope of existing measures that constitute harmful tax practices.

126. To prepare the list of tax havens, the OECD’s Forum on Harmful Tax Practices is in the process of completing factual reports on the regimes of 47 no/nominal tax jurisdictions. All 47 jurisdictions were invited to consult with the Forum in Paris, in addition to bilateral contacts with the Study Groups. 26 jurisdictions agreed to participate in the consultations.

Co-operation with non-Members

127. Outreach is a key component, as only global solutions will stem the spread of tax havens and harmful preferential tax regimes. The OECD is positioned to play the central role in extending the Recommendations of the Report to jurisdictions outside the OECD area. An active outreach is envisioned. There was a briefing (at technical level) in September 1999, and a high-level meeting is planned in June 2000 with Ministers and other senior officials from non-member economies. A report will be submitted to OECD Ministers when they meet in June 2000. One approach that may be needed is to permit non-member economies to participate in the Forum on an equal basis.

128. The extended dialogue presently envisioned could also be a key element to obtaining consensus on the tax haven list, since in its current form jurisdictions that participate in the extended dialogue would not become subject to co-ordinated counteracting measures.

Combating tax evasion

129. Globalisation and the removal of exchange controls and other barriers to the free movement of capital have increased the scope for tax avoidance and evasion, and the loss of tax revenues can be significant. Tax avoidance and evasion cause many problems. Governments lose revenues and so taxes on those who do not escape the tax net must rise to plug the gap. Countries where tax compliance is highest lose out, as trade flows are diverted elsewhere. The OECD has taken a number of steps to combat international tax avoidance and evasion⁴⁸. The main focus of this work is on improving the means for co-operation between governments. OECD tax authorities systematically inform other countries about the means at their disposal for countering avoidance, covering legislation, court decisions and audit techniques. It is through this exchange of experiences that the OECD is able to develop and promote the adoption of practices that should enable tax authorities to administer their tax laws in an effective and equitable manner.

130. An example of the results of such discussions is the OECD recommendation on the use and disclosure of Tax Identification Numbers (TINs) to increase compliance on cross-border income flows. The OECD Model Tax Convention contains an article on exchange of information. Backing up increased co-operation, new legal instruments have been developed. In 1995, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, established in co-operation with the Council of Europe, came into force. Globalisation of the economy not only makes it harder for tax authorities to determine the correct tax liabilities of their taxpayers, it also makes the collection of tax more difficult. Taxpayers may

have assets throughout the world but tax authorities generally cannot go beyond their domestic borders to take action to collect taxes. For this reason, the Working Party is developing an article on collection assistance for inclusion in the OECD Model Tax Convention.

131. Work is underway on four projects to increase co-operation in this area:

- report on access to bank information for tax purposes, which seeks to establish best practices and proposes progress reports on the implementation of them;
- G7 initiative on improving the capacity of anti-money laundering authorities to assist tax authorities to investigate tax related crimes;
- feasibility study to enhance the taxation of cross-border interest flows; and
- implementation of the recommendations on bank secrecy and exchange of information in the Harmful Tax Competition Report.

132. Another aspect of good taxation governance is ensuring that the tax bases of multinational enterprises (MNEs) are divided fairly. It is important that the right price (the arm's length price) is put on commercial transactions between different parts of an MNE group. These transfer prices may diverge from market prices for reasons of marketing or financial policy, or to minimise tax. (A large share of world trade consists of transfer of goods, intangibles and services within MNEs.) To avoid double taxation and the consequent impediment to world trade, the OECD has issued guidelines on how the determination of the arm's length price should be carried out⁴⁹. Work continues on revising the guidelines.

133. A wide range of activities are underway with non-OECD countries and international organisations to promote effective governance in the taxation area through sharing the OECD's work in this area.

(iv) Money laundering

134. The OECD's work on fostering integrity and combating corruption takes close account of the work of the Financial Action Task Force on Money Laundering (FATF)⁵⁰. The FATF is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering -- the processing of criminal proceeds in order to disguise their illegal origin. These policies aim to prevent such proceeds from being utilised in future criminal activities and from affecting legitimate economic activities.

135. The FATF currently consists of 26 countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan, Luxembourg, the Kingdom of the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States) and two international organisations (the European Commission and the Gulf Cooperation Council). Thus, its membership includes the major financial centre countries of Europe, North America and Asia. It is a multi-disciplinary body - as is essential in dealing with money laundering - bringing together the policy-making power of legal, financial and law enforcement experts.

136. This need to cover all relevant aspects of the fight against money laundering is reflected in the scope of the forty FATF Recommendations -- the measures which the Task Force have agreed to implement and which all countries are encouraged to adopt. The Recommendations were originally drawn up in 1990. In 1996 the forty Recommendations were revised to take into account the experience gained

over the last six years and to reflect the changes which have occurred in the money laundering problem. These forty Recommendations set out the basic framework for anti-money laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement; the financial system and its regulation, and international co-operation.

137. It was recognised from the outset of the FATF that countries have diverse legal and financial systems and so all cannot take identical measures. The Recommendations are therefore the principles for action in this field, for countries to implement according to their particular circumstances and constitutional frameworks allowing countries a measure of flexibility rather than prescribing every detail. The measures are not particularly complex or difficult, provided there is the political will to act. Nor do they compromise the freedom to engage in legitimate transactions or threaten economic development.

138. FATF countries are clearly committed to accept the discipline of being subjected to multilateral surveillance and peer review. All member countries have their implementation of the forty Recommendations monitored through a two-pronged approach: an annual self-assessment exercise and the more detailed mutual evaluation process under which each member country is subject to an on-site examination. In addition, the FATF carries out cross-country reviews of measures taken to implement particular Recommendations.

6. Relationships between Government, Business and Civil Society

139. Effective governance requires balancing and managing the changing relationships between states, markets and civil society. Governments are now working increasingly in partnership with business, labour and civil society in the functioning of the individual national economies and the international economy, particularly in establishing appropriate institutional and policy frameworks in many areas. This section presents the key elements on the OECD's work on: strengthening government-citizen connections; corporate codes of conduct; the *OECD Guidelines for Multinational Enterprises*; and Guidelines for Consumer Protection in the Context of Electronic Commerce.

(i) Strengthening Government-Citizen Connections

140. The relationship between government and citizens is becoming increasingly complex. Policy decisions are taken at multiple levels of government. Many problems (e.g. environmental degradation, tax evasion, crime) must be addressed within a global and increasingly inter-related environment, requiring co-operation and agreement across regions, nations, or on a global basis. Modern information and communication technologies have reinforced these interdependencies, and have increased the ability of a multitude of interests to communicate across borders and influence policy-makers internationally.

141. OECD Member countries clearly view the issue of government-citizen relations with growing concern. Several cite low or declining confidence in public institutions as a motivation for recent initiatives to strengthen government-citizen relations. Related trends are declining participation in political parties, declining voter turnout and increased citizen demands for information and expectations that government provide more responsive and better quality service. Many citizens are complaining of a "democratic deficit," and are demanding that governments respond with greater transparency and accountability. Governments not only face greater challenges in agreeing on policy decisions in such an environment, but also in carrying them out. They increasingly realise that they will not be able to conduct and effectively implement policies, as good as they may be, if their citizens do not support them.

142. The OECD's work on strengthening government-citizen connections aims to support government efforts to strengthen public participation, transparency and democratic accountability, and ultimately,

policy effectiveness, through development of comparative information, analysis and advice⁵¹. Work to date includes a written survey of comparative review of country practices for informing and involving the public in the policy process as a way of strengthening overall government legitimacy and policy effectiveness. A number of case studies have been undertaken which examine experiences in government-citizen connections in relation to specific issues in the US, Canada, France and Denmark. Given that stakeholder groups and NGOs will play an increasing role in policy processes at both the national and supranational level, the aim of this work is to identify ways to enhance these processes to ensure transparent and accountable interactions and decisions that represent not just government and special interests, but also the interests of the broader citizenry.

143. Governments are looking to new or improved models and approaches for better informing and involving citizens in the policy-making process. Such participatory democracy is not intended to replace representative democracy, but rather to supplement it and compensate for its perceived failure to fully address citizens' democratic interests. At stake are the legitimacy of public policies and the capacities of governments to implement them effectively, with the support of an informed public.

144. Countries are also adapting a variety of overall strategies for coping with the so-called democratic deficit. Devolution of government programmes and decision-making responsibilities to sub-national levels of government and decentralisation of national programmes to regional programme offices both serve as important strategies for bringing government closer to the people. In addition to devolution/decentralisation trends, increased use of information technologies is seen as an important means for overcoming such physical barriers to citizen involvement.

145. Different governments are focusing on different priorities in their relationship with the citizen. Countries with high levels of education and an active civil society are responding to stronger demands for meaningful consultation in policy development. Others with lower socio-economic levels or those recently in transition to democracy, with less participatory traditions, are tending to focus first on ensuring that they have effective laws and institutions in place, and well-functioning public programmes. Initiatives to promote more active citizen engagement may be seen as a luxury of lower priority in some of these countries. Differences in cultures, size, legal and political systems also play a role in differing approaches and priorities. Likewise, different sectors appear to approach consultation in different ways: questionnaire responses frequently cited examples of extensive information and consultation initiatives in such areas as health, education, land use planning and the environment. Consultation on issues such as trade, foreign policy and budget formulation often took more restricted forms, focusing on expert input and NGOs as representative stakeholders, rather than approaching the citizen at large.

146. However, ensuring access to government information appears to be a strong concern of all Member countries. In some cases the main reason is to promote democratic participation; while in others the focus is on transparency as an instrument for ensuring accountability and combating government corruption. While most OECD Member countries had adopted Freedom of Information legislation guaranteeing citizen access to information by the 1980s, there has been substantial legislative activity on these issues in the 1990s as well, suggesting continuing pressure for more open government.

147. The OECD's research on laws and policies to promote public consultation and active citizen participation in the development of public policy has been directed principally towards actions of the executive branch of Member country governments. The findings show clearly that the measures taken by the Executive -- including those taken based on the direction or agreement of legislatures -- are not intended to reduce or replace the traditional role of Parliaments. Rather, they aim to supplement the representative democratic processes and institutions already in place. Moreover, complementary information collected regarding the attitude of legislatures toward their relations with citizens show that many of them have also taken actions to improve these relations, notably in seizing the opportunities

offered to representatives to intensify their connections with their electors through information technologies.

148. The majority of laws and policies adopted by Member countries in support of consultation and citizen participation have occurred relatively recently, within the past 15 years, including many in the 1990s. Every country has taken actions to strengthen this area, including those with ancient traditions of public consultation. It would be premature to draw general conclusions on these policies, but it can be noted that the recent densification of the legal framework regarding relations between administrations and citizens reflects a clear awareness of the need for actions in this area, across the OECD.

149. On the other hand, countries appear to have much in common across the OECD regarding particular policy sectors where such policies are applied. Virtually *all* country responses cited legislation favouring relations with citizens on environmental policies, whether for its protection or in relation to decisions on territorial management and land use planning. Many countries mentioned participation policies regarding decisions at the *local level*, including municipal decisions and, where applicable, regarding local ethnic or linguistic minority populations. Generally countries also volunteered information regarding social sectors such as education and housing. These subjects directly relate to the daily lives of citizens where their geographic or physical environment are directly concerned, and appear to involve greater efforts to consult and more actively involve citizens. At this stage of research, it is not clear whether these are domains where governments more easily solicit citizen involvement, or whether citizens are exerting more pressure and clearer demands to be involved.

150. Among the difficulties cited in the promotion of consultation and active citizen participation are, in some cases, the lack of interest and action by citizens themselves. This may appear paradoxical, given that countries' actions taken to strengthen government-citizen connections are reportedly in response to citizen demands. While the individual may at times be difficult to mobilise, a characteristic that poses a major challenge for many countries, associations and organisations that represent the citizen are often very active, and lead certain countries to emphasise the growing complexity of policy-making processes that involve their extensive consultation and participation. An equally important question relates to the representativeness of these groups in their dialogue with the administration. It is certain that citizens' educational and socio-economic levels, the existence or absence of participative traditions in public life, and the evolution of attitudes toward government are determining factors, to varying degrees, in their involvement. One of the conditions influencing the quality of dialogue and citizen involvement is the degree to which the citizen is convinced that his or her opinion will be truly taken into account in the decision, and that the consultation undertaken is not done so merely for the sake of form. Thus, for decision-makers, meaningful consultation has direct costs in terms of time, financial resources, and the involvement of personnel that must also be taken into account.

151. The rapid growth of information technology across the economy and the emergence of an "Information Society" has had a major impact on government and government-citizen relations. Virtually every government surveyed has adopted or updated a national strategy or action plan for promoting the use of IT. These address a range of objectives, from increasing economic competitiveness and building up IT infrastructure to expanding citizen access and modernising government. Within government, focus is usually on improving access to information and the efficiency and quality of service delivery, while generally democratic improvements are mentioned secondarily.

152. Approaches to ensuring effective implementation of governments' laws and policies to promote government openness, public consultation and active citizen participation vary considerably across different countries. Nevertheless, some common features can be found in most Member countries. Most questionnaire responses cited the use of ombudsmen -- sometimes also taking the form of commissioners --

appointed to represent citizen rights and to ensure implementation of various laws and policies dealing with government-citizen relations.

153. Polling research is also growing in popularity as a tool for broadening consideration beyond stakeholder groups and seeking to identify the broader public interest. A growing number of countries are relying upon this technique to determine citizens' views on government and public services

154. Everybody seems to support public consultation in theory but governments may find that they do so less in practice. Ultimately, successful policy consultation may depend upon whether those responsible for carrying it out truly believe that it will result in better policy decisions and programme solutions. This involves dealing squarely with the concerns people have about the limitations or disadvantages in addition to advantages of public consultation.

155. No outreach has been undertaken as yet.

(ii) *Fostering corporate responsibility*

156. Multinational enterprises can fulfil an important role in promoting sustainable development through their investment activities. There is, however, a perception that their operations -- whose size may be large in relation to host country economies -- generate abuses of concentrations of economic or political power or conflicts with national policy objectives and expectations. These perceptions may be accentuated by the organisational complexity of some of these enterprises, which may make it difficult to follow their activities.

157. Many enterprises have responded to these concerns by developing programmes of corporate responsibility, which often include putting in place codes of conduct and associated management systems. Voluntary efforts to define and implement appropriate standards for business conduct constitute one of the more prominent managerial developments in recent years. These efforts have also often involved significant contributions from NGOs, governments and intergovernmental organisations. These corporate codes form part of a broader effort by many multinational firms to improve their standards of ethical conduct on a world-wide scale.

158. The OECD has examined a large number of corporate codes of conduct⁵². They vary in many respects: some target specific areas such as labour or environment, health and safety, while others cover a range of issues including bribery; they may address employees, suppliers and contractors, or the general public; they may have external monitoring, internal monitoring or none at all. More recent OECD work focuses on the implementation of codes -- it looks at the broader management systems of which these codes are the most visible part. Another part of the work will look at the role governments have played in influencing these efforts (through tax policy, litigation risk, incorporating them into an overall regulatory strategy).

159. Scepticism persists about the significance of these efforts, and more generally, about the business sector's efforts to promote corporate responsibility. Nevertheless, while the interests of shareholders may be paramount, the best-run companies are likely to be those that take into account the interests of the whole range of stakeholders, including employees and the communities in which the companies operate.

160. The *OECD Guidelines for Multinational Enterprises* (the *Guidelines*)⁵³ are recommendations by governments to multinational firms, and aim to ensure that activities of multinational firms are in harmony with government policies and strengthen mutual confidence between enterprises and the societies in which they operate. The *Guidelines* both complement and reinforce private efforts to define and implement

responsible business conduct, and provide a reference point for firms developing their own codes of conduct.

161. They are part of a wider, balanced package (known as the 1976 OECD Declaration on International Investment and Multinational Enterprises) to which Argentina, Brazil and Chile are adherents, in addition to OECD Member countries. A major review of the Guidelines is underway, with important inputs from a wide array of representatives from business, civil society and non-OECD countries.

162. The common aim of the governments adhering to the *Guidelines* is to encourage the positive contributions that multinational enterprises can make to economic, environmental and social progress and to minimise the difficulties to which their various operations may give rise. In working towards this goal, governments find themselves in partnership with the many businesses, trade unions and other non-governmental organisations that are working in their own ways toward the same end. Governments can help by providing effective domestic policy frameworks that include stable macroeconomic policy, appropriate regulation and prudential supervision, an impartial system of courts and law enforcement and efficient and honest public administration. Governments can also help by maintaining and promoting appropriate standards and policies in support of sustainable development and by engaging in ongoing reforms to ensure that public sector activity is efficient and effective.

163. Enterprises are encouraged to co-operate with governments in the development and implementation of policies and laws. At the same time, governments should be transparent in their dealings with enterprises, and consult with business on these same issues. Enterprises should be viewed as partners with government in the development and use of both voluntary and regulatory approaches (of which the *Guidelines* are one element) to policies affecting them. Considering the views of other stakeholders in society can also enrich this process, which includes the local community as well as business interests. It is understood, however, that enterprises should abstain from improper involvement in local political activities.

Co-operation with non-Members

164. The OECD's work on codes of corporate conduct has already been used in discussions with non-member of efforts to combat bribery and corruption and in an investment policy context⁵⁴. This could be extended to other areas such as labour standards, product safety and environment. The more recent work on implementation and management systems will enhance the value of this work for outreach programmes in bribery and elsewhere. It will provide a basis for improving non-member countries understanding of the implications of this trend -- which is one of the most important developments in international business of the last fifteen years. It could also be used in the context of setting strategic directions for trade and investment policies in non member countries.

165. As to the Guidelines, while OECD governments will take final responsibility for the revisions, input from non-member governments, business, labour, non-governmental organisations (NGOs) and others has been solicited. From the viewpoint of non-member economies, the application of world-wide standards by leading international companies may provide direct benefits in terms of corporate integrity, disclosure of information, employment conditions and environmental stewardship. There may also be valuable indirect benefits via demonstration effects for local companies, training of personnel, and assistance in the development of local and national laws and regulations. Non-member countries are being consulted in the review process and when the review is concluded there will be a need to engage non-members in an ongoing dialogue. Some Non-members may wish to adhere.

(iii) Protecting consumers - the case of electronic commerce

166. Consumer laws, policies and practices limit fraudulent, misleading and unfair commercial conduct. Such protections are indispensable in building consumer confidence and establishing a more balanced relationship between businesses and consumers in commercial transactions.

167. Electronic commerce offers consumers new and substantial benefits. But certain special characteristics of electronic commerce, such as the ease and speed with which businesses and consumers can communicate about goods and services and engage in cross-border transactions, may create commercial situations which are unfamiliar to consumers and which may put their interests at risk.

168. The international nature of the electronic marketplace requires a global approach to consumer protection as part of a transparent and predictable legal and self-regulatory framework for electronic commerce. Disparate national policies may impede the growth of electronic commerce, and as such, these consumer protection issues may be addressed most effectively through international consultation and co-operation. OECD Member governments have recognised that internationally co-ordinated approaches may be needed to exchange information and establish a general understanding about how to address these issues.

169. The OECD has developed Guidelines for Consumer Protection in the Context of Electronic Commerce⁵⁵, which are the result of discussions among representatives of OECD governments and business and consumer organisations. They are designed to help ensure that consumers are no less protected shopping on-line than they are when they buy from their local store or order from a catalogue, without erecting barriers to trade. Their purpose is to assist:

- i) In reviewing, formulating and implementing consumer and law enforcement policies, practices, and regulations if necessary for effective consumer protection in the context of electronic commerce.
- ii) Business associations, consumer groups and self-regulatory bodies, by providing guidance as to the core characteristics of effective consumer protection that should be considered in reviewing, formulating, and implementing self-regulatory schemes in the context of electronic commerce.
- iii) Individual businesses and consumers engaged in electronic commerce, by providing clear guidance as to the core characteristics of information disclosure and fair business practices that businesses should provide and consumers should expect in the context of electronic commerce.

170. The overarching principle of the Guidelines is that consumers shopping on-line should enjoy transparent and effective protection that is not less than the level of protection that they have in other areas of commerce. Among other things, they stress the importance of transparency and information disclosure. They call for: fair business, advertising and marketing practices; clear information about an on-line business's identity, the goods or services it offers and the terms and conditions of any transaction; a transparent process for the confirmation of transactions; secure payment mechanisms; fair, timely and affordable dispute resolution and redress; privacy protection; and consumer and business education. The next steps will be to promote information on web sites regarding consumer protection issues, and to encourage the implementation of the Guidelines.

171. The OECD invites non-member countries to take account of the terms of this Recommendation in reviewing their consumer policies, initiatives and regulations. OECD Member countries will consult, co-operate, and facilitate information sharing among themselves and with non-member countries, businesses,

consumers, and their representatives, at both national and international levels, in providing effective consumer protection in the context of electronic commerce in accordance with the Guidelines.

7. Governance and Economic Development

(i) *Participatory development and good governance*

172. The OECD undertakes a wide range of work on the role of governance in promoting economic development. The framework for this work is the OECD Development Partnerships Strategy⁵⁶, which establishes development goals in the areas of economic well-being, with major reductions in poverty, social development, environmental sustainability and good governance. This section highlights some of the main work of the DAC on governance issues.

173. In 1993, the DAC established a set of “orientations” on participatory development and good governance (PD/GG)⁵⁷. DAC Members have identified a large range of avenues for working with developing country partners in the areas of participatory development and good governance, on the basis of a common commitment to broadly-based economic development and building upon the realisation of the potential inherent in all human beings.

(a) *Participatory Development* The main elements are to: foster participatory development by helping developing countries improve their human resources through programmes which provide affordable, effective, and sustainable education and training services for all people; to support institutions and mechanisms which facilitate the empowerment of all people, including low-income populations and women, to enable them to become agents of their own development and contribute to the emergence of strong civil societies; provide support for decentralisation programmes, and enhance people participation at local levels, through the support of grass-roots organisations and groups; to sensitise recipient decision makers and aid agency staff to facilitate the adoption of participatory approaches and responsive government; and to involve all project stake-holders in project design, implementation, monitoring, and evaluation. DAC Members will assist *democratisation*, which they see as a broad, on-going process requiring a comprehensive understanding of each country’s specific socio-economic and cultural context. Support will include: helping build and strengthen pluralistic civil societies and independent professional media; helping improve the functioning of representative political institutions and supporting electoral processes in their various stages; helping to secure the rights of women to education, land tenure and family planning services, and strengthening their decision-making in civil society and the political process.

(b) *Good Governance* The main elements are to: help strengthen the *rule of law* by providing assistance to improve and reinforce the legal, judicial, and law enforcement systems, and ensure their effective application in all parts of the country and at all levels of society; to strengthen *public sector management* and transparency/accountability inter alia by helping to: improve accounting practices; improve budgeting and public expenditure management; and reform civil services; to help control *corruption* through supporting anti-corruption strategies to reduce the opportunities for corrupt practices and encourage and facilitate the exposure of corrupt practices, including by the media; to encourage the reduction of *excessive military expenditures* by helping to ensure transparency and proper control in military budgeting, to develop effective and efficient security strategies and to implement reductions in the size of military forces; to encourage and support the promotion and defence of *human rights* and adherence by developing countries to internationally agreed principles and standards and to the Vienna Declaration; and to strengthen education on human rights, and support human rights groups in developing countries and the development of free media.

(c) *Coherence* DAC Members will seek to improve policy coherence within their governments in relevant areas since such coherence is essential for the effectiveness and credibility of a donor country's stance on participatory development and good governance.

174. With a view to operationalising these principles, the final report of the OECD Working Group on Participatory Development and Good Governance (PDGG)⁵⁸ arrived at the following eight key conclusions:

(a) *Democratisation and Good Governance are Central to the Achievement of Development Goals for the 21st Century*

175. As stressed in *Shaping the 21st Century: the Contribution of Development Co-operation*, investment of resources in democratic governance will contribute to progress in development goals. For all the goals specified in the DAC strategy -- poverty reduction, promoting gender equality, raising basic education and health standards, and reversing environmental degradation -- the emergence of more participatory, transparent and accountable societies is essential.

(b) *Base Partnerships on a Common Understanding of Development -- Governance Linkages*

176. Participatory, accountable and efficient governance harnesses the activities of the state and its citizens to the objectives of sustainable social and economic development. The growing convergence among donors and developing countries on the central importance of good governance provides a basis for effective partnerships to work on the development-governance linkages.

177. Working on the PD/GG agenda requires special commitment, transparency and dependability on all sides. Development co-operation stresses positive measures for the promotion of PD/GG. The withholding of assistance should be reserved for cases where persistent violations of men, women and children's basic rights are not being addressed by the government and no adequate basis of shared values and interests exists to permit a real partnership.

(c) *Take Local Ownership Seriously*

178. In development co-operation, legitimate ownership by the developing country partner is a primary objective. Donor activities related to in-country co-ordination should therefore aim at building and strengthening local capacity to be in charge of the co-ordination of development assistance and ensure effective interaction with donors. Donors should also work to strengthen local capacities for policy analysis; this has implications for the way in which they commission expert studies on PD/GG issues, including country assessments.

(d) *Strengthen the Strategic Role of Civil Society*

179. The development-participation-governance linkages can only be strengthened if civil society (in which women should play a key role) and the private sector are able to advocate for needed reforms in the political and economic systems. Technocratic approaches to institutional change and legal reform fail without effective local demand for change, expressed through local constituencies and locally-based skills for building grassroots and national participation. Through policy dialogue and capacity building, donors can effectively support the strategic role of civil society.

(e) Develop Better Country-Level Policy Dialogue and Co-ordination

180. Effective co-ordination, local ownership and continuity of focus in PD/GG programmes can only be realised at country level Policy dialogue and existing co-ordination arrangements including CGs and RTs have been adjusting to the importance and special nature of the PD/GG agenda, but this adjustment remains incomplete and unsatisfactory in some key respects. In this light, a major outcome of the Ad Hoc Group's work is the "Policy Note on Country Level Co-ordination" (attached). The Policy Note, endorsed by the 1996 DAC High Level Meeting, envisages a dialogue and co-ordination process based on analysis and discussion by the host government and civil society within the partner country, from which Consultative Groups and Round Table processes can draw for more comprehensive and operational treatment of PD/GG issues.

(f) Adapt Aid Management

181. Most donors now try to integrate PD/GG dimensions across the range of their dialogue and co-operation, combined with some programme focus on particular PD/GG "sectors", such as the justice system or democratic decentralisation. Managing PD/GG programmes has created requirements for new aid management styles and techniques, new types of personnel and more flexible funding mechanisms. Often, modest levels of support for institutional strengthening and networking by local organisations can have large impacts. Local mechanisms for managing such support can contribute both to ownership and enhancement of capacities. Both bilateral and multilateral aid agencies have to adapt their capacities and programme design to these new requirements. Many of these questions are being treated in the DAC's Informal Network on Technical Co-operation.

(g) Address Donor-side Problems in Public Management and Accountability

182. In highly aid dependent countries (with sometimes more than 10 percent of GNP accounted for by aid), the collective donor community becomes a major actor in the governance system. This goes beyond its role in sustaining policies or advocating their reform. Donor support for counterpart salaries and logistics, and multiple funding and accountability mechanisms, undermines the efficiency of public administration and the role of parliaments in the public expenditure process. Donors need to give much more attention to the good governance dimension of their role in such partner countries with the objective of correcting these problems and enhancing country capacities for accountable and effective public management.

(h) Operate in a Long-term Strategic Framework

183. As DAC Members and developing countries gain experience with the PD/GG dimensions of development, they appreciate better the need for a strategic approach and a long-term perspective. Even in a strategic framework, opportunities should be grasped as they arise. For example, new elections may unblock untenable situations. But a democratic culture and pervasive respect for human rights require time before they become firmly established.

184. In post-conflict situations, lasting reconciliation is jeopardised if donors fail to fulfil their commitments in a timely manner or withdraw their moral and financial backing of fragile democracies too quickly.

185. A major follow-up to this exercise involves more systematic and locally-owned efforts to improve governance systems in developing countries, also being fostered by the DAC's Informal Network

on PD/GG. Six pilot countries (Benin, Bolivia, Burkina Faso, Mali, Mauritania, and Uganda) were selected to try out guidelines for co-ordinated donor assistance in the area of good governance. Results have been mixed, with Bolivia as the best case to date. A meeting was held in Bamako (Mali) in 1998 under the joint auspices of the DAC Network and the G7, with official and civil society participants from the six countries. A regional workshop on decentralisation and poverty reduction in Latin America is being organised in Bolivia in January 2000.

(ii) *Governance Indicators*

186. A Technical Group on Indicators of Participatory Development and Good Governance has been established as an integral part of the OECD's work in the context of the Development Partnership Strategy, incorporating development goals for economic well-being, social development, environmental sustainability and good governance that provide both development goals and benchmarks for assessing global development progress over the next two decades. The results of this work will be included in the joint DAC/UN/WB/IMF Development Indicator Set⁵⁹.

187. At its meeting of September 1999, the Technical Group decided to form three working groups to take this work forward. The three groups will be as follows: good governance, public sector management, corruption military expenditure; rule of law and human rights; and participatory development and democratisation. These groups will choose appropriate indicators, produce a methodology, and submit them to an international forum in March 2000. This work is based on the strategic partnership between DAC/UN/WB/IMF and participation by regional banks and other organisations as well as experts from developing countries.

NOTES

- ¹ Communiqué of OECD Council Meeting at Ministerial Level, Paris, 26-27 May, 1999, PAC/COM/NEWS(99)52.
- ² See <http://www.oecd.org/env/>; also *Reforming Environmental Regulation in OECD Countries*, OECD 1997; *Environment in the Transition to a Market Economy*, OECD 1999; *Foreign Direct Investment and Environment*, OECD, 1999.
- ³ See <http://www.oecd.org/daf/corporate-affairs/governance/>; also *OECD Principles of Corporate Governance*, OECD, 1999.
- ⁴ See <http://www.oecd.org/dsti/sti/industry/indcomp/index.htm>; also *Corporate Governance: Effects on Firm Performance and Economic Growth*, OECD, 1999.
- ⁵ See <http://www.oecd.org/daf/fin/netcorp.htm>.
- ⁶ See <http://www.oecd.org/dev/english/activity/Intern-Policies/Intern-Policies-A.htm#A3>; also *Corporate Bankruptcy in India: A Comparative Perspective* by Omkar Goswami, OECD Development Centre Studies, 1996
- ⁷ See <http://www.oecd.org/daf/corporate-affairs/governance/oecd-wb-mou.htm>.
- ⁸ See <http://www.oecd.org/daf/clp/index.htm>; also *Trade and Competition Policies for Tomorrow*, OECD, 1999; *Trade and Competition Policies: Exploring the Ways Forward*, OECD, 1999; and *Competition Policy and Procurement Markets*, OECD, 1999.
- ⁹ See <http://www.oecd.org/subject/regreform/>; also OECD Report on Regulatory Reform, 1997.
- ¹⁰ *Regulatory Reform in the United States*, OECD, 1999; *Regulatory Reform in Japan*, OECD, 1999; *Regulatory Reform in the Netherlands*, OECD, 1999; *Regulatory Reform in Mexico*, OECD, 1999.
- ¹¹ See <http://www.oecd.org/eco/wp/ecwp226.pdf>; also *Summary Indicators of Product Market Regulation with an Extension to Employment Protection Legislation*, by G. Nicoletti, S. Scarpetta and O. Boylaud, OECD Economics Department Working Papers, 1999.
- ¹² See <http://www.oecd.org/dsti/sti/transpor/sea/index.htm>.
- ¹³ See http://www.oecd.org/daf/clp/regulation_sectors.htm.
- ¹⁴ See http://www.oecd.org/ech/index_4.htm.
- ¹⁵ *Regulatory Reform and International Market Openness*, OECD, 1996; *Regulatory Reform in the Global Economy: Asian and Latin American Perspectives*, OECD, 1998.
- ¹⁶ See <http://www.oecd.org/puma/mgmtres/malg/>; also *Managing Across Levels of Government*, OECD, 1997.
- ¹⁷ *Managing Accountability in Intergovernmental Partnerships*, PUMA/RD(99)4/FINAL.
- ¹⁸ See <http://www.oecd.org/tds/new/territorial.policies.htm>.

- ¹⁹ See <http://www.oecd.org/tds/bis/ruramenities.htm>; also *Cultivating Rural Amenities*, OECD, 1999.
- ²⁰ See <http://www.oecd.org/tds/bis/leed.htm>; also *Decentralising Employment Policy*, OECD, 1999.
- ²¹ See <http://www.oecd.org/daf/private-sector-development/feed/>.
- ²² *Fiscal Decentralisation in Emerging Economies: Governance Issues*, edited by K. Fukasaku and L.R. de Mello, OECD Development Centre Studies, 1999; also <http://www.oecd.org/dev/english/publication/Catalogue/Develop.htm>.
- ²³ See http://www.oecd.org/daf/fa/non_mem/nonmem.htm.
- ²⁴ See <http://www.oecd.org/sge/ccnm/programs/russia/russia.htm>.
- ²⁵ *Economic Survey of the Russian Federation*, OECD, 2000 (forthcoming).
- ²⁶ See <http://www.oecd.org/sge/ccnm/programs/russia/factruss.html#Theme 2: Integrating non-member economies into the multilateral trading system>.
- ²⁷ See <http://www.oecd.org/sge/ccnm/news/outreach/china/prog.htm>.
- ²⁸ See <http://www.oecd.org/puma/gvrnance/strat/coherenc.htm>; <http://www.oecd.org/puma/gvrnance/strat/managing.htm>. Also *Building Policy Coherence: Tools and Tensions*, OECD, prepared in collaboration with Professor B. Guy Peters, University of Pittsburgh, 1996; *Government of the Future: Getting From Here to There*, OECD Symposium, September, 1999, Proceedings forthcoming in 2000.
- ²⁹ See <http://www.oecd.org/dac/htm/poltoog.htm>; also *Trade, Investment and Development: Policy Coherence Matters*, OECD, 1999.
- ³⁰ See <http://www.oecd.org/subject/ageing/>; also *Maintaining Prosperity in an Ageing Society*, OECD, 1998.
- ³¹ See <http://www.oecd.org/subject/sustdev/>; also *The Three Year Project on Sustainable Development: A Progress Report*, PAC/AFF(99)1, OECD, 1999.
- ³² See <http://www.oecd.org/puma/mgmtres/budget/index.htm>; also *Modern Financial Management Practices*, PUM/SBO(98)8/FINAL; *Budgeting in a Surplus Environment*, PUM/SBO(99)3/FINAL; and *Integrating Financial Management and Performance Management*, PUM/SBO(99)4/FINAL.
- ³³ See <http://www.oecd.org/puma/mgmtres/pac/index.htm>; also *Performance Contracting: Lessons from Performance Contracting Case Studies; A Framework for Public Sector Performance Contracting*; PUMA/PAC(99)2, OECD, 1999.
- ³⁴ *Integrating Financial Management and Performance Management*, PUMA/SBO(99)4/FINAL.
- ³⁵ See <http://www.oecd.org/puma/mgmtres/hrm/index.htm>; also *The State of Higher Civil Service After Reform: Britain, Canada, United States*, PUMA/HRM(99)1, OECD, 1999; *Structure of Civil Service Employment in Seven OECD Countries*, OECD, 1999.
- ³⁶ See <http://www.oecd.org/puma/sigmaweb/home.htm>.
- ³⁷ See <http://www.oecd.org/sge/ccnm/news/outreach/china/prog.htm>.
- ³⁸ See http://www.oecd.org/daf/fa/non_mem/nonmem.htm; also *The OECD's Worldwide Tax Programme*, OECD brochure, 1999.

- ³⁹ See http://www.oecd.org/daf/clp/non_member.htm; also *OECD Technical Assistance in the Field of Competition Policy 1990-1999*, OECD, 1999; *A Framework for the Design and Implementation of Competition Law and Policy*, OECD, 1998.
- ⁴⁰ See <http://www.oecd.org/puma/gvrnance/ethics/index.htm>.
- ⁴¹ *Improving Ethical Conduct in the Public Service: Recommendation of the OECD Council*, OECD, 1998.
- ⁴² See <http://www.oecd.org/daf/nocorruption/>.
- ⁴³ See <http://www.oecd.org/ech/act/xcred-en.htm>.
- ⁴⁴ *Public Sector Corruption: An International Survey of Prevention Measures*, OECD, 1999.
- ⁴⁵ See <http://www.oecd.org/dev/english/activity/Develop-Policies/Dvpt-Poli-B.htm#B3>; also for example, *Corruption and Integrity Improvement Initiatives in Developing Countries*, edited by I. Hors and S. Kpundeh, OECD Development Centre Studies, 1998.
- ⁴⁶ See <http://www.oecd.org/daf/nocorruption/outreach.htm>.
- ⁴⁷ See http://www.oecd.org/daf/fa/harm_tax/harmtax.htm; and *Harmful Tax Competition: An Emerging Global Issue*, OECD, 1998.
- ⁴⁸ See <http://www.oecd.org/daf/fa/evasion/evasion.htm>; also *OECD Model Tax Convention*; and *Explanatory Report on the Convention on Mutual Administrative Assistance in Tax Matters*, OECD, 1989.
- ⁴⁹ See http://www.oecd.org/daf/fa/tr_price/transfer.htm; also *Transfer Pricing Guidelines for Multinationals and Tax Administrations*, OECD, 1995.
- ⁵⁰ See <http://www.oecd.org/fatf>
- ⁵¹ See <http://www.oecd.org/puma/gvrnance/citizens/index.htm>; also *Putting Citizens First: Portuguese Experience in Public Management Reform*, Public Management Occasional Paper, No.13, OECD, 1996; *Consultation and Communication: Integrating Multiple Interests into Policy; Managing Media Relations*; Public Management Occasional Paper, No.17, OECD, 1997; *Impact of the Emerging Information Society on the Policy Development process and Democratic Quality*, PUMA(98)15, OECD, 1998; and *Information Technology as an Instrument of Public Management Reform: A Study of Five Countries*, PUMA(98)14, OECD, 1998.
- ⁵² *Deciphering Codes of Corporate Conduct*, K. Gordon and M.Miyake, OECD Working Papers on International Investment, Number 99/2, December 1999, <http://www.oecd.org/daf/cmif/idi/wp992.pdf>. See also http://www.oecd.org/ech/index_4.htm.
- ⁵³ See <http://www.oecd.org/daf/investment/guidelines/index.htm>.
- ⁵⁴ *Foreign Direct Investment and Corporate Responsibility*, OECD, 1999.
- ⁵⁵ See <http://www.oecd.org/dsti/sti/>.
- ⁵⁶ *Shaping the 21st Century: the Contribution of Development Co-operation*, OECD, 1996.
- ⁵⁷ *DAC Orientations on Participatory Development and Good Governance*, OECD, 1993; see also work of the OECD Development Centre, such as *Participatory Governance: the Missing Link for Poverty Reduction*, H. Schneider, Policy Brief No.17.

⁵⁸ *Final Report of the Ad Hoc Working Group on Participatory Development and Good Governance*, Parts I and II, OECD, 1996.

⁵⁹ See <http://www.oecd.org/dac/Indicators/index.htm>.

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