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## GOVERNANCE AND PUBLIC MANAGEMENT

### BACKGROUND PAPER

19th Session of the Committee, Château de la Muette, Paris  
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*The purpose of this document is to set out background thinking in preparation of a new mandate for advancing the Organisation's work on governance and public management issues.*

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## GOVERNANCE AND PUBLIC MANAGEMENT

### BACKGROUND PAPER

1. The purpose of this document is to set out background thinking in preparation of a new mandate for advancing the Organisation's work on governance and public management issues. In 1994, when the OECD last formally renewed its commitment to work in public management, the Council:

- recognised the need for the Committee to provide a forum for exchange of experience between public management practitioners on promising practice, comparative information and analysis, and a strong capacity to assess and report on developments and initiatives; and
- recognised the relevance of public management to the policy priorities of the Organisation, the changing approaches to governance within the OECD, the increasing attention being paid to good governance in the world at large, and the utility for the Organisation to have available a public management perspective.

2. In defining the Organisation's role in those domains, the Council decided that the Public Management Committee is responsible "for designing and implementing a co-operative programme focused on improving the quality and cost-effectiveness of public sector management".

3. In carrying out its responsibilities, the Committee received a series of terms of reference (see Council Resolution C(94)125/FINAL) which expire in December 1999. This document is intended to take stock of the achievement of the objectives contained in the last mandate and to provoke discussion aimed at the development of a forward-looking framework to carry OECD work on governance and public management into the 21st century. This document builds on the guidance and more recent deliberations of the PUMA Committees and, in particular, is intended to reflect the spirit of the PUMA Committee statement of 29 October 1998 (PUMA/M(98)2).

4. It is essential to keep in mind the conclusions of the Committee meeting. The Committee noted the following:

- systems of governance affect the performance of the state in executing its core functions and through this, the performance of countries in meeting their major economic and social goals;
- the current world financial crisis – emanating in particular from Asia and Russia – has a root cause associated with weaknesses in the institutions of governance and accordingly, durable solutions to this crisis need to address these governance problems;
- central government decision frameworks have considerable influence on the policy performance of sectors and on government as a whole;
- OECD is very well placed to contribute to bolstering governance in Member and non-Member economies, and indeed, would be failing to meet its Members' interests if it proved incapable of meeting this challenge.

The Committee noted that PUMA represents the key OECD centre of expertise for the attainment of 'good governance', which is a policy priority for Member countries.

## **Where PUMA has come from**

5. Beginning with its first mandate in 1961, PUMA work was seen as technical assistance provided to a number of countries that wished to import tried and true government management practices into their systems. But as the 1980s progressed, it became clear that the public management orthodoxies being put forward were themselves under considerable challenge.

6. This gave rise to a substantial change in direction in the OECD's work in this area. In 1990, the Council took the Organisation out of technical assistance and into public management. The focus shifted to information sharing. It has followed this course for the past decade, acting as one of the world's most important catalysts to innovation and reform of government administration. An important question now is whether this role of information sharing about the operational aspects of government remains an appropriate role.

## **1994 to 1998 - Assessment**

7. The 1994 mandate set PUMA on track for advancing OECD's work on one of the central aims of the Organisation: contributing to the achievement of the highest sustainable economic and employment growth. Since 1994, the Committee's focus on governance has brought a unique perspective to the work of the Organisation and has responded to the concerns of central agencies in Member countries responsible for the functioning of the central systems of government. Members recognise that the calibre of public governance has a dramatic effect on the economy and social welfare - even where goals of government intervention in markets maybe clear, achieving them poses a real challenge. Since 1994, PUMA has continued to be the OECD's primary source of analysis and advice for monitoring and assessing the performance of public governance as a system. The central challenges in delivering the 1994 mandate have been to reflect how Member governments conceive and implement institutional reform. Those reforms take place within a broader governance framework which conditions overall performance, for which governments require improved analytical frameworks and empirical information, given the high political, economic and social risks of innovation. PUMA work has been dedicated to not only reviewing and providing advice on adapting statutory powers of public authorities to circumstances, but also to advising on improving the processes whereby public decisions are taken and implemented, and on maintaining standards of high conduct in public life.

8. The series of issues on which PUMA focused in this period has evolved. At the core, one finds:

- Performance Management;
- Budgeting Practices (SBO);
- Human Resource Management;
- Use of Public Resources; and
- Regulatory Management and Reform.

More recently additional poles of activity have emerged in:

- Ethics;
- Governments / Citizens Relations

There have been many recent highlights of PUMA's contribution to the OECD. A partial list includes :

- the first ever Ministerial meeting on the future of public services in 1996
- sponsorship of the first ever Gore Forum on Reinventing Governance
- OECD Council recommendations on ethics
- OECD Council recommendations on regulatory reform
- large scale organisational buy-in to the Regulatory reform horizontal activity
- an important stocktake on government reform in Governance in Transition
- a set of almost annual public management surveys which have provided a core set of information about the state of the state in Member countries
- the creation of SIGMA to assist the governance transition in the newly democratised countries of eastern Europe
- development of the world's leading web site on public management.

## **Transition**

9. PUMA's guiding theme is improving Government performance and policy effectiveness. In ensuring capacity to meet the challenge of supporting and advising policy-makers the structure and content of the work programme must remain dynamic. Recent committee deliberations established four poles of work in a broad governance framework and agreed that the Committee's work should be responsive to the impact of a dynamically changing environment on the capacity to govern. Thus, the mandate renewal process should offer the occasion for stocktaking of all elements of the work programme and discussion as to future orientations and resource allocation. A mid-term review process is already underway in co-operation with Members with respect to the horizontal work on regulatory reform. The mandate renewal also offers an occasion to evaluate other elements of the programme specifically to test how well the programme content and design serves Members priorities and interests. In this respect 1999 is somewhat of a transition year during which the effectiveness and responsiveness programme will be tested, evaluated and re-designed in consequence. In essence, this means addressing the following questions :

- are there areas we should stay in ?
- are there areas we should vacate ?
- are there areas we should move into ?

10. As a lead-in to an in-depth discussion with the Committee, it is suggested that the design of the Organisation's future work should include consideration of the need to:

- keep under review the governance and public management policies and practices in Member countries with a view to the attainment of the objectives of the Convention.
- pay special attention to any international effects of national approaches in light of the increasing interdependence of national systems of governance and of the recognition that efforts in individual countries will be influenced by the actions of others;
- improve the understanding by which governance and public management policies and practices contribute to economic and social development – nationally and internationally;
- encourage co-operation among Member countries in the pursuit of shared governance and public management objectives;
- promote the integration of governance and public management policies and practices and economic, social, security and environmental objectives;
- develop and promulgate governance and public management indicators to assist the comparative tracking and analysis of governance and public management as a basis for identifying trends, and creating advice on what approaches work best;
- develop and apply a framework for assessing the governance and public management performance of individual countries;
- promote the sharing with non-Member countries of the governance and public management expertise, best practices and experiences that reside in Member countries.

Such outputs could be delivered across the full range of “hierarchy of actions”, ranging from information-sharing through to exploring potential for development of policy recommendations. This question is further developed in paragraphs 17-21 below.

### **Adding value to OECD core work**

11. Since 1994, Members have continued to encourage PUMA to move closer to OECD core outputs by helping to relate activities to improve governance and public sector quality more explicitly to achieving sectoral policy results. In the period 1996 to 1998, the Secretary-General of the Organisation has developed the thesis of a triangular paradigm of economic growth, social stability and good governance. In identifying the critical role of governance in maintaining the balance between these policy areas, OECD work on governance and public management has assumed an important political dimension. The Secretary-General identified a stable and effective system of governance as necessary to provide a consistent public policy environment supportive to the achievement of economic growth and social stability, and is key to ensuring an even-handed brokering of competing interests in society. This sets governance issues at the heart of the OECD mission. It also presumes that good governance can serve as an instrument in helping governments to show that economic policies deliver societal benefits. Members increasingly recognise that good governance can help promote the economic strategy of prudent macroeconomic policy including fiscal consolidation, structural reform and market liberalisation and stem backlash.

12. In response to the OECD's overall reform directions and to the Committee discussion of a Forward Look at the Programme in October, 1998, PUMA will be increasing its focus on issues of governance and its integration with core OECD policy objectives and horizontal work. Its networks of central management practitioners will continue to serve as a foundation for its expertise as PUMA moves to deepen its comparative work and strengthen its analytical capacities. Recent budget deliberations within the OECD have reinforced these directions, and the proposed Programme of Work and Budget for 1999-2000 aims to incorporate these objectives.

13. In moving the Programme closer to the core work of the Organisation as a whole, and improving capacity to translate work into concrete policy actions, there will be a need to ensure that the governance dimension is properly reflected in the Organisation's work on key high priority projects. In 1999, these projects include:

- sustainable development,
- trade, investment and development,
- linkages and policy coherence,
- ageing,
- health policy and
- economics and regulatory reform.

For the future, greater attention to the governance dimension of certain sectoral issues may be required. It is important to obtain the Committee's views as to which of these elements of the OECD core work PUMA should pay priority attention to.

## **Public Governance in a Globalised world**

### ***Intensifying the dialogue with non-Member countries***

14. In 1998, in response to a specific set of developments, OECD Ministers took stock of the Asian and Russian financial crises and highlighted the growing interdependence of countries in the world economy. They expressed their conviction that good governance is critical to good economic performance, employment, social cohesion and the smooth functioning of the global economy. They noted that the quality of public sector management is essential for effective government and encouraged comparative analysis in this area. In a globalising economy, Members also accept that support on issues of governance and public management cannot be limited to OECD countries but must extend also to non-Members, including notably those countries with whom the OECD co-operates. This has contributed to the Organisation's work on governance as increasingly being viewed as a key element in underwriting the broader strategic direction of the Organisation.

15. It can be argued that a country has an interest in the quality of governance and public management being operated in another country, regardless of Membership.

16. It is consistent with the OECD's goals to focus on governance more widely than merely within its own membership, and that the OECD should be prepared to use all its knowledge-based capacity and

influence to improve governance both in Member and non-Member countries. While there is likely broad agreement with the overall thrust towards a more proactive approach to non-Member countries, it is much less clear what aspects of public governance deserve priority attention. At the last meeting the Committee called on the Secretary-General to establish a fixed term high level group on governance to advise the Secretary-General. This is being acted upon. The Vice President of the United States, Mr Gore announced the formation of an Eminent Persons' Group under the aegis of the OECD. The Group is to create advice on the following :

- What is the nature of the international interest in good governance – does it make sense to deal with country governance problems and issues in a supranational context?
- If it does, then how should this be done? What is the role of the established players, such as the international organisations?
- How can better governance countries assist poorer governance countries in making the transition to better governance, while remaining sensitive to the differences in cultural practices and political systems which underpin systems of government.

### **Contributing to the reform of the OECD as an Organisation**

#### *Accomplishments to date*

17. The OECD has recently put in place a major programme of reform. The process was accompanied and partly driven by budget constraints. The Organisation is currently completing a 10% overall budgetary reduction for the period 1996-1999. In real terms, this means a cut of almost 18% in the Organisation's resources devoted to activities (considering increases in pension costs, inflation and staff separation costs during that period). During this period resources for PUMA were cut in the order of 25%. The reinvention and streamlining of the PUMA programme was thus a significant contribution to the structural and budgetary reforms undertaken in the Organisation as a whole. Reform measures have improved our products and services, streamlined and simplified our processes and structures and ensure that we remain flexible and adaptable, with a capacity to focus quickly on emerging issues.

18. Now the Organisation looks forward to a period of financial stability, working with more clearly defined strategic objectives. The medium term objectives have been struck within the framework of the triangular paradigm carefully balancing economic growth, social stability and political stability. Developing the third element of the paradigm is thus a key objective of the reinvented PUMA programme.

19. As the Organisation proceeds with the next stages in reform across the range of people and management culture, rules, procedures and information systems, support services and work environment, renewed efforts will also be required in evaluating, where necessary, ongoing outputs, structures and resource allocation. The advice and involvement of PUMA in the "in-house governance" agenda of OECD is emerging as an important challenge. Bringing the substance of the PUMA work closer to the core work programme of the organisation can thus be complemented by dedicating some of PUMA's expertise and knowledge to the success of on-going reform efforts within the Organisation. In that regard, one proposal under consideration is the establishment of a senior-level Steering Group on Reform. Moving to the second phase of reform, where the process is no longer driven by budget constraints offers an opportunity to test some of PUMA's leading edge policy advice against the emerging needs of the

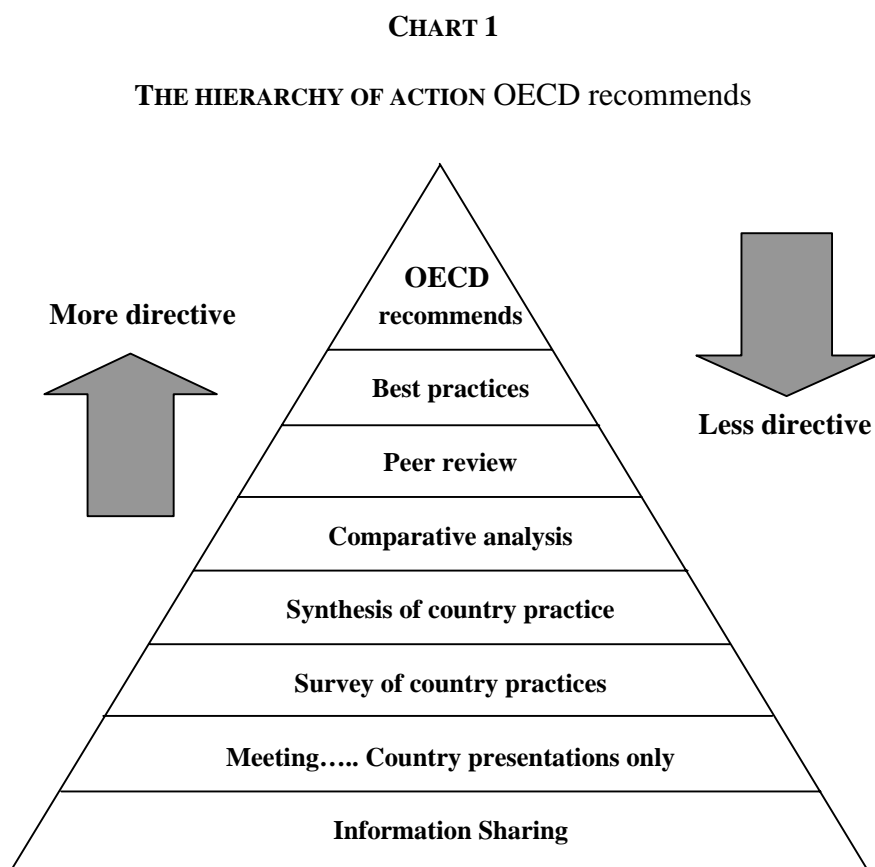
Organisation. To that end, as the proposal to establish the senior-level group is discussed, a special advisory role for PUMA will be considered.

### Clarification of the value-added

20. The OECD has a range of actions which it can execute. With two exceptions - in ethics and regulatory management – until now, the OECD’s interventions in governance and public management have been overwhelmingly based on information sharing.

21. While less directive forms of action are likely to remain dominant in our portfolio of work, we need to ask whether we are prepared to shift more often into the more direct forms of action, especially where transnational dependency can be established. Is such a shift key to our capacity to ensure that governance is at the heart of the Organisation’s contribution to economic and social development?

22. The spectrum of possible actions available to us is shown in the following chart.



This “hierarchy” does not imply that the choice of action-level at the upper end, i.e. closer to directive, necessarily has more intrinsic value than action at other levels. The important issue is rather that there be clarity of objective and expectation. It is also true that some activities may move through levels of action in either direction.



23. The choice of specific action will rely on the nature of the work programme developed for each individual project and issue, and how OECD action can be most cost-effectively converted into country benefit. For instance, in assisting the managing of the senior civil service, the OECD's role will be to organise and support meetings of countries to allow the sharing of information. On the other hand, in promoting fiscal transparency, it may make sense to move towards the top of the triangle towards an OECD recommendation.

### **Approach to Delivery**

24. With respect to the approach that PUMA will use in the conduct of its work, it is proposed that the delivery of the products will be guided by the following principles:

- There are many sources of knowledge and advice on governance and public management issues. We must demonstrate a capability for enhancing the value of that knowledge with insight and analysis.
- Be proactive to identify work that will benefit from our perspective, knowledge and analysis.
- Devote more attention and resources to ensure that advice and policy conclusions are supported by empirical foundations. This will ensure that our recommendations will contribute in a concrete way to policy actions in Member countries.
- Focus our energy on issues of high priority policy relevance to Members and retain the necessary capacity to adapt and reallocate resources and expertise to match the dynamic policy agendas in our Member countries.
- We will continue to search for solutions across disciplines. The OECD is in a unique position given its increasingly horizontal approach to programme delivery.

### **Focus on Outputs**

25. In its October 1998 statement on refocusing PUMA work, the Committee called for focus “on tangible outputs, well integrated into the core work of the Organisation which could be seen to translate into concrete policy actions of Member countries”. This remains a priority as we move ahead with designing the mandate which will bring PUMA into the next century.

## ANNEX

Consideration of the outlook for the future of governance calls for an environmental scan that is as wide as possible. What is the range of issues which could have a substantial impact on the future of governance? Can we identify the issues in a comprehensive, relevant and forward-looking manner? What follows in this Annex is not meant to be read as a comprehensive set of ideas but rather as a provocative presentation of a possible sub-set of issues which may comprise the future governance agenda.

### **External environment – a scan of the key influences**

The key external environmental issues that are expected to impact on the OECD's work in governance and public management are:

#### ***Globalisation and localisation***

National and subnational governments operate in an increasingly global world with a high mobility of capital, people and ideas. This enhances the capacity of governments to deal with problems on an international scale which previously they could not confront with classical domestically designed policies. At the same time, globalisation also reinforces the need to co-ordinate national policies internally, especially in federal and 'regionalized' states. As a consequence, there is a perceived need to reinforce international co-operation and supranational governance. Thus, globalisation enhances the role of international and regional policy networks, including international and supranational organisations and non-government organisations.

The critical importance of global governance is to assure democratic accountability of political decision-making processes that are removed further and further from the citizenry. In this context, information and communication is no longer just a management instrument but becomes a political end in itself in order to assure transparency of joint vertical and horizontal decision-making.

While there is considerable pressure associated with globalisation, there is and will continue to be increased recourse to localised delivery of services. This represents a shift away from the centralised welfare state to a more co-operative, community-based approach. But the transition to empowered localised government is often not straightforward as capacities and competencies have to be relocated. OECD needs to be in a position to respond to both issues.

#### ***Choosing the right forum***

The international field is becoming more crowded. The era of few transnational players is over. In this increasingly contested policy and decision-making space, players will need to be conscious of their distinctiveness in adding value to the consideration of issues. This applies domestically, but also across the range of available international instruments/organisations.

Most international organisations dating back to the post-war period have grown both in membership and with regard to the variety of tasks they deal with. Together with no longer being the only players in the international arena, there is more stress on consensus-building and the decision-making process in international governance.

International organisations are increasingly being asked to confront the question whether they are still the appropriate actor in international governance and whether their organisational structures and management instruments are flexible enough. Effective global governance will require new forms of interaction and co-operation that balance the continued need for democratic accountability and, at the same time, enable regional and international policy networks to cope with change.

Recent experiences during the Asian and Russian crises focused attention on the capacity of the Bretton Woods organisations to deal with the challenges posed.

### *Increased pressures for change*

Countries generally are demonstrating an increased interest in questioning and challenging traditional approaches to public management and governance. Some developing countries are seeking to leapfrog the development of the traditional hierarchical state, and instead opt for a world of partnerships and quasi-contracts.

Even in countries where reforms have been ongoing for almost 20 years – where there is talk of reform and change fatigue – those countries are still through their behaviours demonstrating an ongoing interest in learning and improving.

Many – but not all - countries are facing demographic pressure, and are seeking ways to managing the transition to an older society in such a way as to hold living standards. This has implications for what government does, and how it funds this. It is our view that while aspects of this role remain core to our mission, it should be expanded to reflect the changing realities of the increasingly interdependent world, and the increased expectations of citizens to play a larger role in making governance work.

We need to decide whether the OECD's focus on public management should move away from concentrating overwhelmingly on internal public management issues and instead should focus on wider governance issues where interdependency is higher.