

T17bP19 / Public Financial Management Policies: Issues of Governance, Accountability, and Reform

Topic : T17b / Sectorial Policy - Economics

Chair : Alberto Asquer (SOAS, University of London)

Second Chair : Inna Krachkovskaya (SOAS University of London)

GENERAL OBJECTIVES, RESEARCH QUESTIONS AND SCIENTIFIC RELEVANCE

Public financial management policies play an important role in nowadays economies and operation of governments. They include the definition of objectives and of procedural requirements for the use of financial resources that may orient the design and implementation of public policies more generally. Public financial management policies, for example, set the modalities for raising public revenues through taxation, intergovernmental transfers, exploitation of natural resources, and so on. They also, for instance, define the ways in which public sector entities are to held accountable to the public for the use of monetary and financial resources. Yet, despite the centrality of the 'treasure' tool in the design and implementation of public policies, the study of public financial management policies has been relatively circumscribed within a specialised circle of accounting and finance-oriented scholars.

The aim of this panel is to draw broader attention to the public policies that are specifically intended to orient the management of financial resources in the public sector. Contributions to this panel may focus on the making, implementation and evaluation of public policies that are specifically focused on the management of public monies. Alternatively, they may focus on how public financial management policies relate to the design and execution of public policies in any particular policy domain. Other works may place a specific attention to issues of public financial management policies in developing countries. Other works may also be attentive to issues of public financial management policies at the international and transnational level.

CALL FOR PAPERS

About a decade after the 'Great Financial Crisis', many countries in the world still struggle to get their fiscal house in order. Massive public intervention to salvage the financial system resulted in increased amounts of public debt up to levels that most countries have never experienced before. Measures to contain deficits or to generate surplus entailed the cutting of some public expenditures and a renewed attention to enlarging the tax base, preventing profit shifting, and combating tax evasion. Weak demand and uncertainties about the future still hold the economy far from restoring pre-crisis levels of growth and employment. Within such context, citizens call for even more stringent controls on the management of public financial monies.

On the basis of these considerations, this panel invites submissions that aim to analyse, empirically investigate, evaluate, and critically assess policies for public financial management. For example, we welcome papers that:

- Develop explanations for the rationales, design and effects of public financial management policies
- Analyse policies related to any particular function or process of public financial management, such as planning and budgeting, revenue and taxation, accounting and financial reporting, and auditing
- Empirically investigate policies and change of policies for public financial management in any particular country or through comparisons across countries
- Evaluate the consequences of particular public financial management policies especially in relation to financial sustainability and economic growth
- Critically assess the performance of present systems of public financial management and possible ways for reform, including attention to developing countries

T17bP19 / Public Financial Management Policies: Issues of Governance, Accountability, and Reform

Chair : Alberto Asquer (SOAS, University of London)

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Session 1 Decentralisation and local public finance

Thursday, June 29th 08:15 to 10:15 (Block B 2 - 3)

Discussants

Shubhashansa Bakshi (Tata Institute of Social Sciences Mumbai)

Glendal Wright (Bankworld, Inc)

China's Local Public Finance at the County-Level over 1993-2006: Patterns and Causes

Hui Li (LKYSPP@NUS)

Ying Jiang (Dalian University of Technology)

What are the patterns of the county-level public finance in China over 1993-2006? How serious is the fiscal crisis/difficulty for county-level governments? What has caused county-level budget deficits? Are the budget deficits caused by revenue or expenditure side? What types of expenditure or revenue are major causes of budget deficits? Are these types the same between the fiscally healthy and unhealthy local governments? Local governments especially county-level governments in China are seriously under-funded relative to their assigned expenditure responsibilities for public services, resulting in the infamous "revenue-expenditure gap". Previous research on local public finance in China has primarily focused on consolidated subnational or aggregate provincial level analysis without enough attention paid to respective sub-provincial levels of government (prefecture, county and township level respectively), although there has been a growing body of studies on local public finance below provincial level especially county-level governments in recent years. Still scholars and practitioners have very limited understanding of the variation across Chinese counties and county-level cities in their patterns and causes of fiscal crisis. This study attempts to improve our understanding of the different patterns and causes of county-level fiscal crisis and provide helpful guidance for the reform of the fiscal system in China.

This study will employ a panel data analysis to identify the different causes of county-level fiscal crisis. We will use the size of budget deficit as a measure of the level of fiscal crisis for county-level government. The budget deficit can be explained by the shortage of revenues or extravagant expenditures. Since there would be many sub-categories of revenues and expenditures, we would use quantile regression to test what types of expenditure or revenue are the major causes of budget deficits and whether these types are the same between the fiscally healthy and unhealthy county-level governments. For this analysis, we will use a comprehensive county-level panel dataset compiled from multiple issues of published fiscal and statistical yearbook series including the National Fiscal Statistics of Prefectures, Cities, and Counties, and the China County (City) Social Economic Statistical Yearbooks from 1993 through 2006. The above comprehensive secondary data have been collected by the PI during her start-up grant research activities.

There has a growing body of studies on the fiscal crisis of local governments in China, however, most of them are qualitative studies and the very few quantitative studies employ aggregate data and descriptive analysis without paying enough attention to the variation across different counties. This empirical study will first help better understand the different patterns of local public finance at the county-level against the backdrop of the 1994 tax-sharing system reform. Second, instead of the "one size fits all" revenue-expenditure gap argument, the study will provide more specific and meaningful explanation for the different patterns of fiscal crisis observed at the county-level. Third, the findings from this study will provide useful guide for the reform of the fiscal system in China.

New Rules for Implementation of Fiscal Decentralization

Glendal Wright (Bankworld, Inc)

This paper reviews the issue of how well fiscal decentralization has been implemented and how successful these projects have been in achieving a new level of local government financial capacity and service delivery. It reviews the most recent research literature that has assessed the success and failure rates of fiscal decentralization in a global and Central and Eastern European context. Overall, the levels of success have not been encouraging with fiscal decentralization having a positive impact. Professor Roy Bahl in a 1999 paper titled "Implementation Rules for Fiscal Decentralization" defined the basic approach to implementing fiscal decentralization and many of these rules have been the guiding principles for implementing fiscal decentralization. This paper addresses the deficiencies in these rules based on the experiences over the past decades and formulates new rules for implementing fiscal decentralization. The paper concludes that new rules need to be formulated and encourages more dialogue and discussion among researchers and practitioners engaged in implementing fiscal decentralization.

Centre-State Negotiations for federal financing in India: Review of approaches of negotiations by state governments for greater horizontal devolutions

Shubhashansa Bakshi (Tata Institute of Social Sciences Mumbai)

Paper Project: Centre-State Negotiations for federal financing in India: Review of approaches of negotiations by state governments for greater horizontal devolutions

Intergovernmental transfers are crucial for the subnational governments in India. Low own resource base and huge inter-state variations in development emphasizes the need for greater untied resources in the hands of State governments. The recommendations of the Fourteenth Finance Commission has been a major step towards assigning greater untied resources to States through divisible pool of taxes, duties and grants. The objective of balancing equity and efficiency through horizontal fiscal equalization has been influencing the recommendations for the formula of vertical and horizontal devolutions for successive Finance Commissions (FC) of India. Fourteenth Finance Commission has recommended 42% of devolutions to States in line with the responsibilities of State governments in comparison to the Union. It has assigned criteria of population, demographic changes, area, forest cover and income distance by assigning requisite weights so as to achieve equity and efficiency in devolution of funds. This has been a major step forward in the direction of balancing the resource requirements of States and helping them in planning for inter-regional development gap within each State. The real success is dependent on the actual ability of states to utilize increased fiscal flexibility and move on a path of fiscal consolidation. Allocation of the fiscal space towards local development priorities in an outcome based framework is crucial. However, it's important to explore the possibilities in terms of negotiations with the Central Finance Commission that the low and high income states enter into before the actual formula is decided. States that are low contributors to the pool of shareable resources face inability to generate more funds on account of cost disability and low fiscal capability and they demand more share to address developmental needs. However, states that contribute heavily also demand more, as they are faced with high spending obligations and also need to address huge inter regional disparities that require additional resources. The paper explores the approaches of political bargain that states enter into with Finance Commission. This is further analysed against the performance of past finance commission's allocations to states and any relation between the rates of growth in GSDP allocation of Indian states individually and the rate of GDP growth of India GDP combined, as the shares in horizontal devolution have risen over successive finance commissions.

Research Question

The paper explores the paths followed by States in India while negotiating for a greater share in vertical and horizontal devolutions. States depict a huge variation in terms of size of income (Gross State Domestic Product), ability to absorb funds and level of human and physical infrastructure. High income states like Tamil Nadu, Maharashtra and low income states like Bihar, Jharkhand equally face the challenge of addressing the inter regional(inter district) disparities. So the relevance of inter-governmental transfers cannot be overstated. Rich and poor states are equally dependent on the pool of untied funds that are allocated to them annually by way of the horizontal devolutions of Central Finance Commission. The present paper dives deeper into the following questions:

Whether the horizontal devolutions are in line with States' development trajectory

What kind of approach do these negotiations represent? Whether different states follow a political bargain approach?

Methodology

The paper will be based on secondary desk top research of the trends in fiscal devolutions to states by the Central Finance Commission over successive periods of FC(Tenth FC(1995-2000) to Fourteenth Finance Commission(2015-2020)). The empirical research on negotiations of states with the FC is drawn from the author's

experience of executing projects in Finance Departments of Bihar, Maharashtra, and Gujarat during the formulation of States' Memorandum of Demands submitted to the Thirteenth and Fourteenth Finance Commission. The author will document the detailed process of negotiations and summarise the process of negotiations from the perspective of a low income state (Bihar) and a high income state (Maharashtra). The synopsis of pattern of negotiations will be further strengthened with a discussion on issues related to optimal allocations. The analysis on trends in growth of GSDP, the correlation between share of horizontal devolution and the overall GSDP growth will further throw light on the utility of negotiations on impacting the growth of GSDP through the tool of FC devolution.

Relevance into the panel topic chosen

The Paper Project as proposed above well fits into the panel T17bP19 / Public Financial Management Policies: Issues of Governance, Accountability, and Reform. The focus of my research is the empirical investigation of the approaches followed by State government in the context of fiscal federalism in India. It explores the outcomes of negotiations that sub national governments enter as part of demanding more untied funds through the Central Finance Commission.

Demonetization: Innovation In Currency Management Policy

shounak kothekar (Nirma University, Institute of Law)

Alakananda Devi Duggirala (Institute of Law Nirma University)

Demonetization: Innovation In Currency Management Policy

-Shounak Kothekar and Alakananda Devi Duggirala

PAPER PROPOSAL:

It is too early to conclude the Indian Government's move of Demonetization as a success or failure in terms of its larger political goals. As a broader view, they aimed at cleansing the system of the existing black money, fake currency which abets the activities such as terrorism and other illegal activities and to convert the existing informal and cash based Indian economy into a economy that is formal, less cash dependent and Digital in nature. However, the policy taken by the Indian Government is worth an analysis and the authors try to analyze the same.

Currency management issues cause creation of informal sectors and reduction in tax collection which has a direct impact on government revenue and thus Public finance. Demonetization is a major currency reform. A study on India's economic growth from 1999 to 2016 and the Cash to GDP ratio of India showcases the presumption that such move was inevitable in future if not now. The author also argues that the criteria of the policy was in line with security considerations and other logistical issues and that it is near to impossible to come up with a criteria which is universally acceptable and wouldn't cause any hardships or short term economic shock in the present economic and demographic situation of India. Thereby this paper tries to analyze the immediate need for India to demonetize currency and balance the costs and benefits.

Currency management is a major aspect of public finance management. The study in this paper includes logistical analysis of the process of remonetisation which includes printing of the new currency in limited time, distributing it to various parts of the country and distribution of the currency back to the market proportionate to the demand of the market which is largely cash dependent. This also includes innovation introduced in the area currency management in form of digital methods of currency exchange. For a country like India with medium set of tech savvy public, a transition from cash-based to cash-less economy led to a lot of disturbance. With availability of devices, awareness, internet facilities etc still India has been reluctant for a digital transformation. As India aims to solve a currency issue through the use of digital technology the plausibility of such reform is analyzed in this paper. The Digital Campaign led by the government includes promotion of Digital payments through advertising and incentives. The paper aims to analyze the extent to which the campaign was a success.

RESEARCH QUESTIONS:

The paper is divided in three parts answering the following research questions;

- 1) Whether there was a need for India to demonetize and have sudden currency reforms?
- 2) Did this policy reform answer the issues of Indian government aims?
- 3) Is Digital payment or the idea of cashless economy a success story for developing country like India?

RESEARCH METHODOLOGY

The authors through Empirical research try to understand the acceptance of its importance in Public.

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Session 2 Public debt and revenue at the local level

Thursday, June 29th 10:30 to 12:30 (Block B 2 - 3)

Discussants

Alain Dimitrius Izquierdo Reyes (Universidad de Guadalajara)

Ishida Kazuyuki (Tokushima University)

CONTROL INSTRUMENTS IN PUBLIC DEBT: VIABILITY OF THE NEW LAW FINANCIAL DISCIPLINE OF THE FEDERAL ENTITIES AND MUNICIPALITIES: THE CASE OF MEXICO

Alain Dimitrius Izquierdo Reyes (Universidad de Guadalajara)

Juan Diego Omar Martínez Delgado (Universidad de Guadalajara)

PhD.c. Alain Izquierdo Reyes

University of Guadalajara and

Universidad Panamerica (México)

Fiscal Studies Program

Ms.c. Juan Diego Martinez Delgado

University Of Guadalajara (México)

In recent years, the problem of public debt at the subnational level is a concern among specialist, private sector, politicians and congressional representatives, since in some cases the states and municipalities have borrowed beyond their financial capacity and may have a risk payment compliance with its obligations; as well as the provision of public goods and services.

This essay is a brief review of the control instruments on public debt, and the main tools of fiscal responsibility are discussed today in the implementation of public policies around the world, especially in the countries with high levels of public debts.

In these cases, could be in the subnational level too, for examples in federal regions and with high decentralization. This, caused by weak regulation and poor administrative controls; as well as regional autonomy in local governments.

It can lead to the loss of the fiscal sovereignty of public entities and create a vicious circle: lower revenues, pressure of public spending, therefore greater probability of contracting debt

The first part is a description at the conceptual level, then examination the experience and tools to generate fiscal sustainability and debt control in the states in Mexico. Second, check the behavior of public debt, the implications and proposals in the national legislative level to control this problem. Third, the recent law passed by Congress that defines the regulation that apply to subnational governments and their implications.

Finally, consider what are the challenges, that will face these governments to implement real controls that inhibit excessive public debt to finance public policies in their territories.

FRAMEWORK

To Borensztein, Levy and Panizza (2000) public debt is one of the main outstanding instruments of economic policy, which can be a powerful mechanism to efficiently reach the goals of the local governments (finance infrastructure investments), or to finance extraordinary events as are the financial crises or natural disaster.

However, can also cause serious damage if it does not have adequate control. They note that poor implementation and management of public credit can have serious implications for the over-indebtedness in the short and long term.

At the subnational level, Zhao (2012) defines fiscal sustainability as the long-term capacity of state and local governments to provide public services demand and willing to have a balance in revenues and expenditures of the public sector over the weather. For its Coronado part (2009) in a paper for the Programme for Capacity Analysis and Debt Strategy for Heavily Indebted Poor Countries defines sustainability of public finances in subnational governments the ability to generate or raise sufficient resources to permanently meet its expenses, and honor the debt service without incurring arrears, renegotiate debt or make a significant fiscal adjustment. Therefore, look for mechanisms in sustainable public finances to inhibit the risk of falling into financial insolvency and default on sub-national governments. In this case, as the recent law can contribute to fiscal sustainability in the long term to finance public policies.

KEYWORDS

México, subnational government, fiscal sustainability, public debt, public policies, Governance.

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KEYWORDS

México, subnational government, fiscal sustainability, public debt, public policies, Governance.

Relationships between Diversity and Changes in Municipal Tax Revenue: Empirical Results from Japan's municipalities

Ishida Kazuyuki (Tokushima University)

This paper shows relationships between revenue diversity and changes in perspectives of short and long term in Japan's local tax. A change in the short term means a revenue stability and a change in the long term means a revenue growth. This paper uses tax revenue data in Japan's municipalities from FY2009 to FY2013, and estimates two relationships between revenue diversity and changes. The first one is a relationship between diversity and stability, and the second is a relationship between diversity and growth. The revenue diversity is measured by the HHI index. The short term stability of local tax revenue is measured by an income elasticity in the short run and estimated by an error collection model. The long term growth of local tax revenue is measured by an income elasticity in the long run and estimated by an ordinary level mode. Expected results are as follows; (1)the more diversified local tax revenue structure has the more stable local tax revenue; (2)the more diversified local tax revenue structure has the more growth local tax revenue.

An initial overview of how education and career background shapes local managerial strategies for intergovernmental versus own local revenues: A case of rural local governments in Mexico

Flor Gerardou (Leeds Trinity University)

Fiscal decentralisation results in a complex design and managing of intergovernmental fiscal relations which can create incentives, good and bad, for local actors. From the managerial perspective, education and career background have been found to be relevant. But, how do education and career background influence the managerial strategies when dealing with intergovernmental transfers versus the generation of own local revenues? This paper presents an initial assessment to answer this question. Overall, the findings point to the importance of both education and career background, particularly entrepreneurship. They also indicate that local managers with these demographic characteristics adapt better to the decentralisation system and make use of a range of financial managerial strategies.

Keywords: fiscal decentralisation, intergovernmental transfers, own revenues, conditional funds, unconditional funds, managerial strategy, elected local mayors

The Implementation of Accrual Accounting: A Lesson Learned of Basic Requirement Model at Local Government in Indonesia

Deddi Nordiawan (Universitas Indonesia)

Hertianti Ayuningtyas (Universitas Indonesia)

Vidiya Arinanda (Universitas Indonesia)

Siva Fadillah (Universitas Indonesia)

The government must have the procedural requirements for the use of public financial resources in order to meet the criteria of accountability in good governance. Therefore, the government must establish a reliable accounting system to produce information for accountability, as well as useful in designing and implementing public policy.

Government Regulation 71/2010 of Indonesia stipulated **the implementation of Accrual Accounting** at Budget Year 2015. One of the significant objectives of this regulation is strengthen government capacity to produce information for public accountability. However, the implementation of accrual accounting is still not as expected. Effectives strategies are needed to enhance the capacity of both institutional and human resources.

Basic Requirement Model (Ouda, 2004) said that implementation of accrual accounting necessitated a good management on some factors, which are management changes, political and bureaucracy support, professional and academic support, communication strategy, willingness to change, consultation and coordination, budgeting of adoption costs, specific accounting issues, and information technology capability.

This study will explore the management of some basic requirements of successful accrual implementation (Ouda, 2004) by local governments in Indonesia and its implication to the capacity building strategy. Research will be conducted in eight local government that represents the type of government in Indonesia, studying each aspect with qualitative approach through a series of interviews, observations and study of the documents. This multi-case study will lead to the mapping of conditions and directing the formulation of appropriate strategies for improvement of accrual accounting. Besides, the mapping will also benefit central government to develop

capacity building, either through issuance of technical regulation or the training of human resources.

The results of this research will provide significant inputs in this panel discussion, because of these factors. *First*, the practice of financial management is largely determined by the reliability of the accounting system. *Second*, it is impossible to provide the accounting data for decision-making without accrual. *Third*, innovation strategies for accrual implementation are much awaited by many stakeholders.

T17bP19 / Public Financial Management Policies: Issues of Governance, Accountability, and Reform

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Session 3 Public financial governance and accountability

Thursday, June 29th 13:30 to 15:30 (Block B 2 - 3)

Discussants

Kylie Coulson (Curtin University)

Yu-Ying Kuo (Shih Hsin University)

Public Financial Management and Governance among ASEAN Member States: Reform Priorities toward Excellent Financial Performance and Competitiveness

Jephte Munez (University of the Philippines - National College of Public Administration and Governance)

With the ASEAN integration and in the spirit of competitiveness, member states are faced with more stringent financial resource management and allocation challenges that may have not been present prior to the socio-cultural and political-economic integration. The paper intends to elucidate pertinent stakeholders who are prime movers in the direction of the management of financial resources in the public sector among the ASEAN 10-member states. The paper intends to establish the key drivers in pursuing continuous public financial management reforms, in the following areas: 1) revenue and taxation, 2) procurement, 3) financial reporting, 4) internal and external auditing, 5) public debt management, 6) capacity building, 7) budgeting and 8) governance. Ultimately, financial performance evaluation should lead towards achieving intended outcomes. OECD countries have reported a number of benefits from the use of performance information, as follows: a) it generate a sharper focus on results within the government; b) it provides more and better information on government goals and priorities and on how different programs contribute to achieve these goals; c) it encourages a greater emphasis on planning and acts as a signaling device that provides key actors with details on what is working and what is not; d) it improves transparency by providing more and better information (to parliaments and) to the public, and has the potential to improve public management and efficiency (Curristine, Lonti and Joumard:2007).

The paper intends to provide answers to the following research questions: 1) How does the public financial management systems of the ASEAN member states similar and different across various areas? 2) What were the reform priorities carried out by these ASEAN member states? 3) How were the ASEAN member states' financial performances in relation to governance and competitiveness?

The paper project will be a triangulation of qualitative and quantitative methodologies. Through content analysis of various related reports as well as relevant quantitative review and analysis of financial statistics, commonalities and differences will be identified. The paper will look into the ASEAN member states' historical (FY 2006 – 2016) and current state of competitiveness. Competitiveness' developments and areas for improvement in the ASEAN countries will be compared and contrasted for a comprehensive understanding of certain complexities prevalent in the South East Asian region. As a validation on the competitiveness policy directions to be taken by ASEAN countries, the World Governance Indicators' six dimensions (voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption) will be regressed with the ten-year average Global Competitiveness Index and Financial Performance Indicators.

Despite of the ensuing global economic downturn and the vulnerability of the region to changes in the global market, the principle of sustainability in policy processes in the region will have to be reinforced, in a collective effort to pursue a trajectory of achieving sustainable development fueled by competitiveness.

Keywords: Public Financial Management, ASEAN, Governance, Competitiveness

Sovereign wealth funds: Spending now and in the future

Kylie Coulson (Curtin University)

Governments around the world are increasingly setting aside money to meet future financial commitments, such as infrastructure investments or pension obligations. Sovereign wealth funds (SWFs), including those known as "Future Funds", have been established by national and sub-national governments around the world using a variety of structures, investment strategies, legislative frameworks and investment timeframes.

In a period of strong economic growth and government budget surpluses, investing for the future is a policy direction that is difficult to argue against, and it is the political attractiveness of SWFs that increasingly see them introduced into the fiscal debate. To use a household budget analogy, it is similar to investing in superannuation to fund future retirement plans.

In times of public sector debt and budget deficits, however, is investing in a SWF akin to leaving money in an online savings account while carrying a credit card debt at a much higher interest rate?

This paper considers the emergence of SWFs around the world in different historical, geographical and political contexts, including successful SWFs such as those in Norway and Chile, and the past failures such as in Nauru. It studies the different purposes, structures and investment outcomes of existing SWFs, including how and when funds are distributed, and the level of transparency in reporting.

Of interest to academics, policy makers and practitioners, this paper identifies good practice and successful models to inform responses to future economic booms.

Accountability of Public Pension Management in Taiwan

Yu-Ying Kuo (Shih Hsin University)

Accountability of Public Pension Management in Taiwan

Almost each developed country has faced the aging issue, and great efforts have been placed on establishing appropriate pension system. In Taiwan, the pension reform has been dramatically moved due to fiscal difficulty and foreseeable shortage if no action was taken. The pension reform has been endeavoring since the civil service pension, military pension, teacher pension and labor pension are all engaged, not to say many stakeholders made the issue more complicated. In order to shed light on a country's global competitiveness and reasonable economic safety for the aged, the accountability of pension management and the sustainability of pension funds have become urgent issues. The accountability and openness of pension management, including contribution, payment, and fund investment, need to be carefully examined.

Callahan (2007) pointed out that good governance includes performance, accountability and public participation. Pension reform in Taiwan circulated with the three elements to promote fiscal performance, enhance accountability and encourage a wide degree of public participation. Since June 23, 2016, 20 pension reform meetings and 4 regional meetings have been held under Vice President's supervision. With public participation, various stakeholders' perspectives and opinions were collected for consolidating consensus for future reform. The study plan to analyze government documents, public opinions, and secondary data to understand pros and cons of current pension system, by examining the contribution rate, payment scheme, and financial investment of public pension funds. Moreover, intergenerational equity and inter-professionals equity will be explored to assure responsiveness to various target groups. It is expected that the openness of relevant information and the participation of the general public will enhance accountability of public pension management.

Key Words: Accountability, Openness, Pension Management

Reference:

Callahan, Kathe, 2007, Elements of Effective Governance: Measurement, Accountability and Participation, Taylor & Francis.

NPM's utopic ideas on accountability and control of outsourced activities

Henk ter Bogt (University of Groningen, Faculty of Economics and Business)

NPM's utopic ideas on accountability and control of outsourced activities

Henk ter Bogt[1]

Abstract

Many government organisations have outsourced parts of their tasks following the ideas of New Public Management (NPM). NPM suggests that in controlling outsourced tasks, governments have to focus on outputs (rather than on 'traditional' inputs and processes). Accounting is a tool to provide the output information required for this type of control (Hood, 1995, p. 94). Since a municipality is in several cases still responsible for the outsourced tasks, it has to retain control over these activities, and be able to hold the external party accountable for them.

NPM strongly focusses on outputs, which would suggest accountability and transparency with respect to outputs. However, transparency as regards output and output control can be rather problematic in the public sector (Hofstede, 1981; ter Bogt and Tillema, 2016). Therefore, in cases where output is difficult to measure, more informal types of control and 'trust' may be used (Ouchi, 1979; Van der Meer-Kooistra and Vosselman, 2000, pp. 59-61).

Based on research of 25 cases of outsourcing in municipalities in the Netherlands, this paper has found that in a 'typical' relationship between a municipality and the external party, the latter shows a low level of transparency regarding its outputs. Furthermore, a municipality generally not primarily focusses the control on outputs, but rather concentrates on 'traditional' financial issues. Trust in the external organisation seemed to play an important part with respect to the outputs realised.

Of course, a low measurability of the outputs may 'inevitably' lead to a stronger focus on financial information and, for example, the reputation of the external party. However, it seems that municipalities generally made a low use of the output information available to them. And this finding might be regarded as a further indication of the important role played by informal controls and trust. This suggests that the control relationship is often not so much based on the NPM idea of the 'principal' and the 'agent'.

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The relationship between finance and industrial policy in the promotion of renewable technology: an agent-based model for the challenges to promote photovoltaic in Brazil

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Photovoltaic (PV) power generation is a growing renewable source in the world. It has a strong potential and is currently increasing output and decreasing costs as it becomes more available. Incentive policies are however still pivotal to promote PV power generation. Regarding incentives, they are generally divided in two groups: guarantee of demand and financing mechanisms or policies. Most studies focus on the first, nevertheless, financing is a key factor in the promotion of renewables, especially in developing countries.

The Brazilian electricity mix is mainly composed of renewables, with a large penetration of hydro and wind power generation. The country expects a vigorous growth of the solar source: from 27 MW in 2016 to 7000 MW in 2024.

In Brazil, the capacity auctions are the mechanism responsible for guaranteeing demand: they contract power plants through ex-ante competition. The Brazilian Development Bank (BNDES) is majorly responsible for the financing mechanism of the sector: most of power generation projects are largely funded by the public bank. However, the bank is not currently funding any solar projects contracted through auctions in Brazil. Companies involved in the auctions blame the high local content requirements of the bank: BNDES promotes the internalization of industrial chains through a local content criterion. Less than 10% of solar power plants are currently under construction and a large part of the contracted capacity is scheduled for entering into operation in 2017. Thus, the auction mechanism appears to work, whereas the financing mechanism does not. This is a consequence of the replication of the financing mechanism used in wind power generation: BNDES successfully promoted the wind source in the country, leading to its astounding growth in late 2000's. As such, this is our research question: is BNDES capable of learning from the failures of its current financing methodology and improving upon them, promoting the PV source and enabling the emergence of a PV sector in country?

We utilize an agent-based model, encompassing a complexity approach to economics. Therefore, we simulate the policy maker learning process in a dynamic way: gathering information from the past and present and simulating cases for the PV sector in Brazil. We simulate mainly through the Netlogo program. We utilize: the Dynamic Capabilities theory, especially regarding commercial capabilities; and the technological lock-in/lock-out concept, regarding increasing returns to adoption. We develop a robust methodology for the analysis of the Brazilian case, discussing its viability and current status. Conclusions gathered from the model provide insightful information for international policy makers related to the energy field and the public investment field, and are applicable for the Brazilian economy.