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Budgeting in Greece

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Greece is undertaking important reforms with the aim of making the budget a more modern strategic policy document. This article examines Greece's recent economic and fiscal performance and the developments that led to the launch of the programme budgeting pilot in 2008. The article discusses the budget formulation process, the role of Parliament, and various aspects of budget implementation and management. The report concludes with a discussion of accounting, audit and accountability.

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Executive Summary of Recommendations

Developments to date

The recommendations of each of the succeeding sections are summarised below. It is important to present these recommendations in the context of what Greece has accomplished to date. The Greek programme budgeting pilot (2008 budget) is an excellent first step that clearly will be a great help in making the budget a more modern strategic policy document. In addition, it strengthens transparency in its clear overview presentation of the special accounts and the budget appropriations. The reduction of the special accounts and the very cautious use of accruals should also be commended. It is recommended that a pilot programme budget for all ministries is developed as planned for the budget for 2009 and that the programme budgeting reform be implemented as quickly as possible afterwards. Greece should delegate responsibility to the line ministries as part of the reform so that increased responsibility is mirrored by increased autonomy.

There seems to be strong bipartisan support in Parliament regarding the need for reform of Parliament's role in the budget process. There also seems to be broad support for the modernisation of the budget, in particular the introduction of programme budgeting. It is essential to ensure that this support is sustained in order for the reform to have the greatest possible effect.

Greece has a new framework law which acknowledges the need to shift from *ex ante* controls to a new more modern system of *ex post* controls, decentralised responsibility, and focus on evaluation, efficiency and effectiveness. Despite the lack of detailed plans for implementing this law, it reflects the direction of the future.

It should finally be mentioned that an amendment to the Constitution and to Parliament's Rules of Order concerning the budget procedure was added in June 2008. The change entails that, in future, Parliament will be able to make amendments to the budget if the budget totals are unchanged – *i.e.* that Parliament can reallocate between line items and not only vote on the budget on a block basis.

Budget preparation

The first priority should be given to introducing a programme budget with a focus on policy objectives. The programme budgeting system should reduce the number of line items from 14 000 to about 1 000. Some input controls and caps on administrative expenditures should be maintained as in most OECD countries. The current institutional structure should be used as the basis; lessons from other OECD countries warn against using budget reforms to change institutions. In addition, the use of some form of performance information for programmes based on quantitative indicators should be implemented.

Line ministry autonomy and accountability should be strengthened. As part of the increased transparency that a new programme budget will attain, it is important that accountability and responsibility are decentralised. The line ministries should be given a strong mandate to manage within the new system and be held accountable for the results. Each line ministry should establish a central budget office to co-ordinate the budget and financial management functions of the ministry.

The top-down element in budget preparation needs to be increased. The top-down procedure could involve the Council of Ministers early in the preparation process, to set overall fiscal targets and the expenditure ceilings for each ministry, and to highlight areas of reform in the budget and the funds available for reforms. A ceiling for ministries will give ministers the incentive to look at reallocation as a source of funding for new initiatives within their area of responsibility, thus weakening the impulse to submit unrealistic budget proposals.

The comprehensiveness of the budget should be increased. The special accounts should be brought on budget. The use of net budgeting (*i.e.* the budget only containing the transfer of funds, not the total expenditure) to fund public law entities and hospitals creates transparency problems and should shift to a gross budgeting basis as is recommended in the "OECD Best Practices for Budget Transparency" (OECD, 2002). The split between the ordinary and the investment budgets should be abolished, and full cost commitments of public investment programmes should be published. As a first step toward integration, investment budget data should be included in top-down ceilings and investment data should be included in programme budget presentations.

The use of the economic assumptions should be streamlined. A full set of data for making forecasts should be added to the circular sent out in the spring. Such data should include: projected GDP growth, inflation, unemployment, social security insurance take up, demographic developments, and other variables or indicators that are of importance in the forecasting process.

The budget documentation should include multi-year estimates (years t+2 and t+3) on the basis of maintaining current policy. These estimates should be at programme level and should be continually updated in light of new policy decisions.

The capacity of the General Accounting Office to conduct *ex ante* and *ex post* value-for-money analysis should be strengthened, as well as other functions needed in a modern budget bureau. The responsibility for the investment budget and the ordinary budget should be integrated institutionally.

It is important to ensure that political commitment to the reforms is clearly and strongly communicated. In order to secure the institutional strength of the modernisation process, it would be beneficial if the unit responsible for the budget reform is given status as a directorate. The Government Budget Reform Unit of the GAO should be expanded to support an ambitious schedule for implementation of programme budgeting and medium-term budgeting.

A focus on value for money should be ensured when considering the use of public-private partnerships (PPPs). PPPs can be an efficient way of delivering public services if affordability and value for money are in focus. However, PPPs should not be initiated for their own sake or in order for the volume of PPPs to reach some specific target. Creating a PPP unit with knowledge of the PPP process is often a good thing, but at the same time it is important that the unit manages to clearly separate its role as promoter of PPPs from its role as scrutiniser of potential PPP projects.

Parliamentary approval

A stronger role for Parliament in the pre-budget consultation should be introduced. In comparison with other OECD countries, the Greek Parliament has an exceptionally limited role in the budget process. A debate on a pre-budget policy statement by the government, which sets out fiscal policy objectives and budget priorities over the medium term, should be introduced.

Sufficient time for parliamentary scrutiny should be secured. It is recommended that the presentation of the budget occurs no less than three months prior to the start of the fiscal year.

Access to analytic capacity should be increased. The establishment of a small budget research unit within the Parliament, of five to ten researchers, should be considered.

Parliament should take a strong role in reviewing the budget on a programme basis. As part of the reform, the budget documentation will contain programme objectives and performance indicators. These should serve as the basis for parliamentary programme review.

In-year control by the Greek Parliament should be enhanced. The in-year reports should be strengthened and a parliamentary procedure could be added.

Budget execution

Control procedures should be made more efficient. The Greek budget execution system focuses an extraordinary amount of attention on ensuring the legality and propriety of expenditure. Staff resources at all levels are used to process transactions rather than to analyse budget policy or performance. To address these issues, it is recommended that the following actions be taken:

- The accountability of ministries should be strengthened. Shifting to a results-oriented programme-based budget will require the delegation of budget responsibility to programme managers and/or ministries. Ministries and agencies should have primary responsibility for programme management and for budget execution. Agencies should demonstrate performance of their programmes and eventually meet programme objectives. Detailed review of budget adjustments should be substantially reduced.
- The primary responsibility for budget execution should be transferred to spending units. The Ministry of Economy and Finance (MOEF) should provide agencies with clear guidance on budget execution requirements and deadlines for budget reports.
- GAO staff should be reviewed and reallocated. All phases of the budget workload, in particular budget execution functions, should be reviewed to consider which functions are duplicated and which functions add value. This will certainly entail fewer tasks for the Fiscal Audit Offices (FAO) of the GAO. Excess FAO staff could be reallocated to the strengthened financial directorates of the line ministries or within the MOEF, perhaps as temporary facilitators of the programme budgeting reform. Staffing for ministry budget and finance offices should be expanded to assume responsibility for budget execution and to provide oversight of programme budgeting within the ministries. Similarly, the GAO will need to expand its budget analytical staff to strengthen its policy review,

programme analysis and programme evaluation skills. The GAO also needs to build a staff to provide training within the GAO and in ministries on programme budgeting, evaluation, and programme review.

Accounting and audit

The most important recommendation is to institute an in-depth dialogue on the reform of audit and accountability that brings together all relevant actors – in particular the GAO and the Court of Audit, as well as Parliament – to consider the following issues:

- Public sector accounting should be improved. Though the central government accounts do need to be modernised, they generally appear to be reliable; however, this does not apply to other parts of the public sector. The GAO should standardise the public sector accounting systems and impose standards on all off-budget entities. The standards should be in line with international practice and should prescribe enforceable deadlines for financial reporting to allow the GAO to produce consolidated financial reports for the Greek government.
- The implementation of the new accounting and financial information system should be divided into short-term deliverable functional components. Thus the contract should be established with detailed project specifications. If necessary, the contract should be renegotiated to ensure this.
- It is paramount to focus on enhancing the quality, timeliness and comprehensiveness of the cash-based accounts before considering a move to accrual accounting, which should not be a priority at this stage.
- Pre-audit activities should be reduced. A more modern approach is for pre-audits to be part of internal control processes within the ministries. The Court of Audit should review their effectiveness, but otherwise focus on post-audits. Pre-audit work by the GAO is appropriate in the short term, but long-run improvements in the quality of financial management will require greater involvement of line ministries.
- Public management would benefit from a shift towards assessing the performance of public services. The GAO should invest in the development of a capacity for programme review that would support prioritisation within a medium-term framework. In addition, the Court of Audit should develop capacity for *ex post* performance audits and should receive adequate assistance and resources for this purpose.
- The Court of Audit and Parliament should engage in a dialogue on how their interaction could be strengthened. The role of the Special Standing Committee on the Financial Statement and the General Balance Sheet of the State should be reviewed.

Process challenges

In order to encourage support in line ministries for the modernisation of the budget process outlined above – in particular, the new programme budget – the line ministries need to be involved, and it must be ensured that they are given increased decision-making autonomy. Ensuring the support of line ministries and agencies is dependent on their recognition that the reform will help them do their job well. It is important to identify the modernisers in the line ministries and to make them an integral part of the steering group of the modernisation taskforce for the relevant area.

The use of pilots is a good idea, although it is important that the reforms are not bogged down in the discussion of details. A firm and published timetable with deadlines for the various actions and with political backing is important to drive the process forward. Line ministries should be made responsible for implementing clear reform goals at a specified time. Mistakes will be made and should be tolerated within reason for the first budget under the new rules.

1. General characteristics

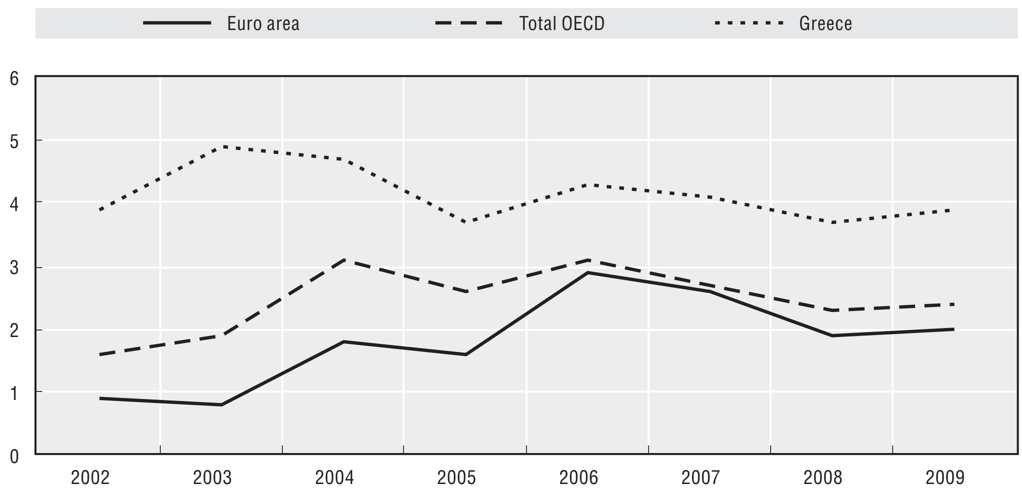
Greece, also formally known as the Hellenic Republic, is a peninsular country possessing an archipelago of about 2 000 islands. The country measures about 131 940 km^2 and has about 11.2 million inhabitants.[1] In 1972, Greece became a parliamentary republic and abolished the monarchy. In 1981, Greece joined the EC (now the EU); it became the 12th member of the euro zone in 2001. Greece is among the founding member countries of the OECD.

1.1. Economic development

Greece has a modern market economy with the public sector accounting for about 40% of GDP and with per capita GDP (purchasing power parities) at 89% of the euro zone average. The sector of agriculture, forestry and fishing employs 10.5%, the industry and construction sector 19.4%, and services 70.1%.[2] Immigrants make up nearly one-fifth of the work-force, mainly in agricultural and unskilled jobs. Greece is a net beneficiary of EU support, equal to about 2.4% of annual GDP (in 2007).

Figure 1. **Growth in real GDP**

Percentage change from previous year



Source: OECD Economic Outlook, Volume 2007/2, No. 82, December.

Growth in GDP per capita over the last decade has been among the most rapid in the OECD and the EU. The Greek economy grew on average by more than 4% per year between 2002 and 2007. Most of the explanations for this strong growth performance – in particular, the effect of a large reduction in competition curbing product market regulation and financial markets deregulation – are of a transitory nature. The risk that the current period of strong growth will end with a hard landing is however reduced by factors such as:

the absence of currency risk; household credit still relatively low in relation to income; and the increasing diversity in export markets. The recent reduction in the government's deficit to below 3% of GDP is important, but further fiscal consolidation is needed while growth remains strong because of the high level of government debt and prospective costs of ageing. The latest *OECD Economic Survey of Greece* indicated a number of structural reform priorities: pensions, reduction of labour market rigidities, strengthening of the competition in key network industries and tertiary education (OECD, 2007a, p. 21; OECD, 2007b, p. 124).

Economic performance was strong in 2007, despite the impact of forest fires and a slowing of housing investment towards a more sustainable level. According to the OECD projections, growth is set to weaken in 2008 before edging up again to around 4% in 2009. Growth is expected to continue to outpace the euro area average.

Table 1. **General government gross and net financial liabilities, per cent of GDP**

System of National Accounts, SNA

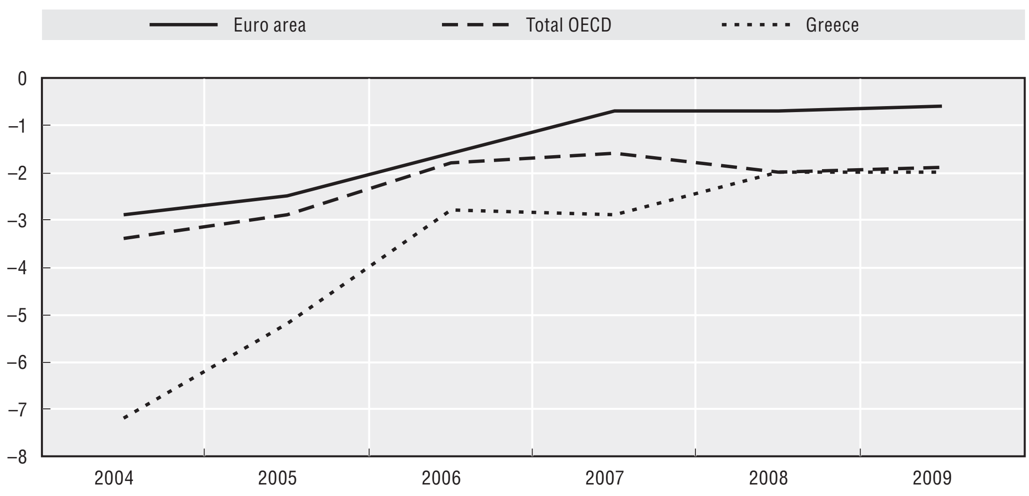
	2004		2005		2006		2007		2008		2009	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Euro area	75.8	51.3	76.9	51.2	74.8	48.5	72.4	46.1	71.2	44.8	70.0	43.5
Total OECD	75.8	44.0	77.6	44.2	77.1	43.1	76.6	42.6	77.1	43.2	77.4	43.5
Greece	114.4	88.8	112.3	83.8	106.0	76.6	103.8	74.4	100.8	71.7	98.1	68.8

Source: OECD Economic Outlook, Volume 2007/2, No. 82, December.

Since the current government took office in 2004, reversing the relentless rise in the deficit that had been occurring since the late 1990s has been the over-riding objective of economic policy. In 2004, Greece was placed under the EU excessive deficit procedure (EDP) with the requirement to bring the deficit to below 3% of GDP by 2006. This requirement was met with measures leading to a general government deficit of 2.8% of GDP in 2006, resulting in the termination of the EDP (see Figure 2).

Figure 2. **General balance: comparison with the euro area and total OECD**

Per cent of GDP



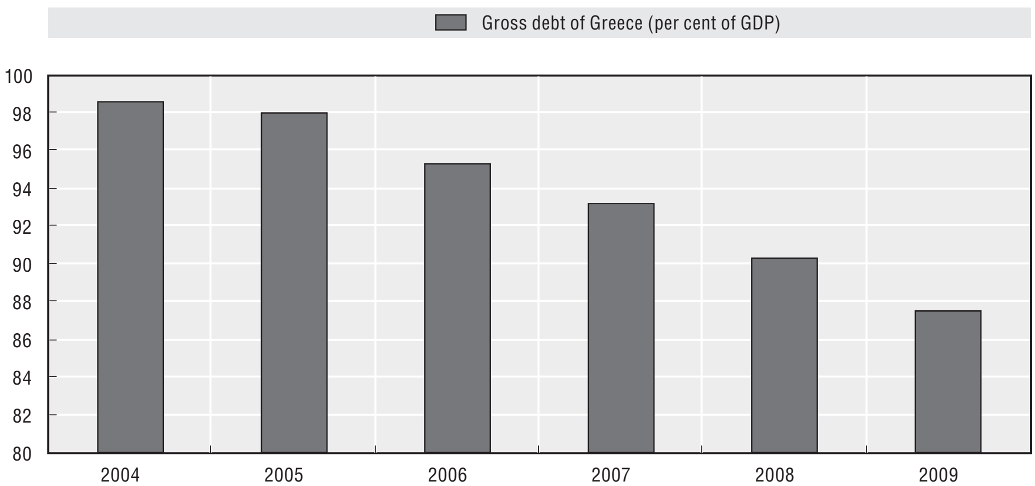
Source: OECD Economic Outlook, Volume 2007/2, No. 82, December.

This important improvement coincided with a marked reversal of the previously strong pro-cyclical fiscal stance between 2004 and 2006 from 7.2% of GDP to 2.8% of GDP. The most important factors that have contributed to this achievement are: *i)* a fall in capital expenditures, much of which is due to the ending of Olympics-related expenditures; *ii)* an increase in other revenues, partly related to one-off items and partly to the inclusion of revenues from taking over a bank pension fund; and *iii)* a reduction in debt service payments.

Although the general government debt burden (using the Maastricht definition) has fallen from 98.6% of GDP in 2004 to around 93.2% of GDP in 2007 and is expected to be reduced further to 87.5% of GDP in 2009, it remains among the highest in the OECD area (see Figure 3). The main reason for this reduction has been the strong growth of nominal GDP and the lower interest rate paid on debt, with the primary balance playing a smaller role. In the current risk-averse financial market environment, the risk premium for Greece appears to have grown compared to, say, Germany. Reducing the price of borrowing reinforces the imperative for fiscal consolidation. Better tax collection is thus also necessary for reducing the price of borrowing.

Figure 3. **Greece's gross debt**

Maastricht definition



Source: OECD Economic Outlook, Volume 2007/2, No. 82, December.

Note that in 2007 the Greek GDP of 2000 was upwardly revised by 9.6%. The level of GDP for the years 2000-06 was correspondingly revised, but growth rates were little changed. The timing of the revision was a result of the fact that the European System of Accounts (ESA) requires a revision of the base year every five years. Most of the revision was needed because of improved measurement of the fast-growing service sector (OECD, 2007a, p. 22).

From 2005 to 2007, the unemployment rate fell from 10.4% to 8.6%. However, it remains rather high if compared to other EU countries. This is especially true for young people, first-time labour market entrants, and re-entrants (mainly women).

In order to guarantee long-term fiscal sustainability, the Greek government has to deal with the future public expenditures flowing from the ageing of the population, the burden

Table 2. **Unemployment rate**

	2004	2005	2006	2007	2008	2009
Greece	–	10.4	9.3	8.6	8.4	8.3

Source: OECD Economic Outlook, Volume 2007/2, No. 82, December.

of which is estimated to be among the largest in the OECD. Fiscal consolidation is to be fostered, requiring a better control of primary spending, wide-ranging reforms of the pension and health-care systems, and the increase of tax revenues. Related to these objectives, other important steps to be taken are the improvement of the efficiency of the Greek administration and the reduction of tax evasion.

In this context, the new law of March 2008 reforming the pension system is a welcome development. The key feature of the law is to address the fragmentation of the pension system. At the moment, the social security system includes 155 main and auxiliary public funds monitored by five ministries. The law provides for substantial consolidation of these funds, aiming at the realisation of efficiency gains to be achieved through (among other things): effective monitoring; introduction of common rules; limiting contribution evasion; reducing health insurance expenditures; better management of assets; and the publication of financial reports according to international accounting standards. These initiatives are promising although their effect has yet to be seen.

Any delay of the fiscal consolidation would spread longer-term costs in terms of higher taxes and additional debt service costs, would increase the risk premium paid on government debt, and would distort the tax burden towards future generations.

2. Budget formulation

The formulation phase of the Greek budget process could benefit from adjustments based on best practices in some other OECD countries. As in many countries, the Greek budget lacks strong top-down procedures, does not cover all government expenses, and has a very detailed input focus. The Greek government is aware of the problems and is rolling out a number of reforms to remedy the situation. The reform agenda touches on many aspects of the budget process, with the primary focus on introducing a programme-based budget. A pilot programme budget for the Ministry of Culture and a functional classification of the whole budget were part of the 2008 budget (as an appendix to the annual budget).[3] The current plan is to include a similar pilot for all ministries on a programme basis, planned for the 2009 budget.[4]

This section begins by highlighting important features of the Greek budget formulation process. Next, the budget formulation cycle is described. The final sub-section discusses the Greek budget formulation process and planned reforms *vis-à-vis* other OECD countries.

2.1. Key characteristics

- Weak top-down budgeting.
- Lack of a unitary budget.
- Detailed input orientation.

2.1.1. Weak top-down budgeting process

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

The meeting of the Council of Ministers (see below) is a general discussion on the budgetary position but with no specifications of overall political priorities or budgetary developments at a ministerial level. Ministerial spending ceilings are not set at this stage nor at a later stage of the budget process except the more or less formulaic calculation of personnel expenditure. The initiative for new policy and fiscal measures is left to the line ministers. The overall Stability and Growth Pact targets are discussed. This organisation of the budget preparation process gives little incentive for the line ministers to think in terms of reallocation and prioritising instead of asking for additional funds, and indeed often leads to strong pressure on the expenditure side. In comparison, a more top-down process – where an early decision is taken on overall expenditures which is then subdivided into ministerial ceilings – has proven to be more effective in containing costs and making the line ministry feel ownership for fiscal decisions within the ministry's area of responsibility.

2.1.2. Lack of a unitary budget

The "OECD Best Practices for Budget Transparency" state (OECD, 2002, p. 8): "The budget is the government's key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed." The Greek budget still needs to make progress in this regard because: *i)* there is a split between the "ordinary" annual budget and the investment budget; *ii)* special accounts belonging to line ministries, agencies and other budget users are excluded from the ordinary budget process; and *iii)* the scope of the budget is not sufficiently inclusive.

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

A number of OECD countries, such as France, have previously had a ministry of planning (*Commissariat Général du Plan*) that focused on investment, and countries such as New Zealand and the United Kingdom maintain a separate process for capital budgeting, but integration of capital and current budgets has become the norm in the OECD area.

Before 2002, the split of the two Greek budgets was reflected institutionally in that the responsibility for the investment budget was in the Ministry of National Economy while the ordinary budget was the responsibility of the Ministry of Finance/General Accounting Office. Since 2002, the Ministry of National Economy and the Ministry of Finance have been unified in the Ministry of Economy and Finance. However, as the responsibilities are still in two different directorates, the co-operation between the budget office (the General

Accounting Office of the Ministry of Economy and Finance) and the Directorate for Public Investments is limited, and a real merger of the responsibilities of the ordinary and the investment budgets has not occurred. The split in responsibilities applies to both budget preparation and budget execution.

Special accounts

Part of central government activity is financed through special accounts. These 130 accounts are not incorporated in the budget. They are financed through earmarked revenue, but also financed partly (about 25%) via the budget. Their expenditures may be used for earmarked purposes that are specified by law. Their expenditures are not subject to the same *ex ante* and *ex post* scrutiny and rules as appropriations in the annual budget. Given that the detailed ordinary budget is governed by a tight fiscal law, line ministries appreciate the discretionary spending freedom allowed by the special accounts. Since 2004, a table containing a gross overview of the special accounts (by ministry) has been part of the budget documentation, so some transparency concerning these accounts has been introduced. The revenues from the accounts amounted to EUR 4.5 billion in 2006, EUR 5.2 billion in 2007, and are expected to be EUR 5 billion in 2008. For 2007, their revenue amounted to 2.3% of GDP. A trend in recent years has been an accumulation of unspent funds in the special accounts; in 2006, the amount was EUR 2.8 billion, and it is expected to have increased further in 2007 by about EUR 0.3 billion. About EUR 2.5 billion from the special accounts is collected and spent in the Ministry of Economy and Finance; this is also where the accumulation of the funds mostly takes place. The total amounts that are at the discretion of different budget users differ between special accounts. For the Ministry of Culture, the amount represents approximately 25% of total expenditures from the ordinary budget, the investment budget and special accounts. The Ministry of Economy and Finance must approve the opening and closing of the special accounts.

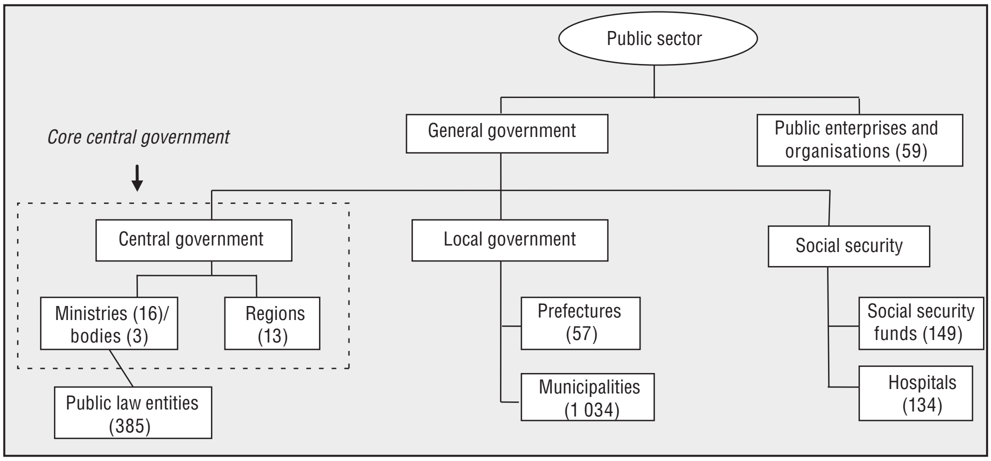
Although special account revenues have to be spent within the legislated purpose for each one, the legislation can be quite vague in some cases. Thus, special account revenue can be spent by the relevant line minister with fewer restrictions than is the case for funds from the ordinary budget. Given the spending restrictions in the detailed ordinary budget, line ministries appreciate this greater discretionary freedom afforded by the special accounts. Reallocating appropriations to fund cost over-runs or new spending during budget implementation involves a complex administrative procedure with the Ministry of Economy and Finance, while using funds from the special accounts is an internal line ministry exercise.

Central government sector and the budget

The scope of the budget is not sufficiently inclusive (Figure 4). The “core” central government – which together comprises the central government budget – consists of the ministries and the regions. Not included are public enterprises and organisations, social security funds and hospitals, prefectures and municipalities, and public law entities. However, budgetary transfers to these organisations are included.

Public enterprises and organisations are mainly self-financed activities – like utilities, railways, trams, and ferries – and the companies are often listed but with a majority stake owned by the government. In addition, they receive annual cash loans to cover their projected deficits. Their borrowing requirements in 2006, 2007 and 2008 (projected) represent 0.74%, 0.85% and 0.98% of GDP. Public law entities on the other hand are entities more closely related to government-funded service provisions. The difference is that they are organised as separate legal entities with a large degree of managerial freedom, but primarily financed via the annual budget. Examples of public law entities include universities, where two-thirds of expenditures are funded by the central government budget. Only the amount transferred from the central government is visible in the budget; thus, what is noted in the budget is a net transfer to the entity, not the gross expenditure. The "OECD Best Practices for Budget Transparency" state that expenditures should be presented in gross terms in the budget. In addition, earmarked revenue and user charges should be clearly accounted for separately; this should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.

Figure 4. **Demarcation of sectors in the public domain**



It is mandatory for all employees to belong to a social security fund. These funds are financed through employee contributions and a mix of employer contributions and transfers from the central government. The social security sector is governed by two systems. With regard to the public sector, the annual budget finances the pensions of retired public sector employees on a pay-as-you-go basis. In addition, all costs related to health and other social security costs for public sector employees are financed via the annual budget. For the private sector, social security costs (including health expenditures) are financed via a number of extrabudgetary funds and pension funds. Every social security fund draws up its own budget which is then approved by its board and by the Minister of Employment and Social Protection. The state contributes to the funds' revenues by grants via the state budget. However, it is not the state budget that defines the nature and the level of the expenditure but the specific provisions of the funds. Parliament is only given information on, and asked to approve, the total transfer of grants and contributions to these funds from the state budget, without a due presentation of the funds' budgets. While this is not an unusual way of financing social security, health care and pensions in OECD countries, there is a need to co-ordinate decision making concerning expenditure in the budget process and to ensure transparency through a clear presentation of general government data in the budget documentation.

Box 1. **The General Accounting Office: the central budget authority in Greece**

The Ministry of Economy and Finance, one of 16 ministries in the Greek government, is the central hub in the budget preparation and execution process. Important parts of the Ministry of Economy and Finance are the General Accounting Office (GAO) and the Departments for Tax Administration and Economy, each headed by a deputy minister. The GAO is the central part of the Ministry of Economy and Finance in the budget process and plays the role of the central budget authority despite its name. This central role applies to both budget preparation and budget execution. The overall responsibilities of the GAO are to:

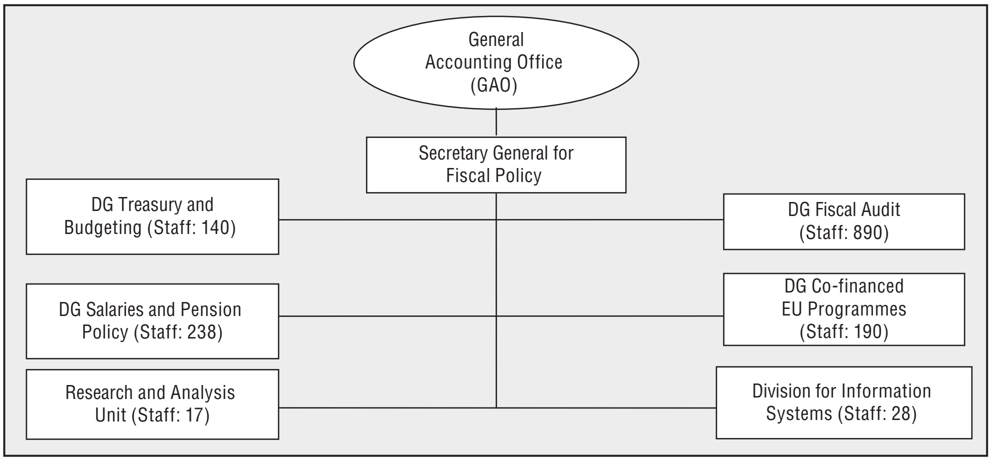
- Prepare the annual budget, financial statements and overall balance of the government.
- Oversee implementation of the budget and exercise control over public expenditures.
- Exercise financial control over funds from the state budget and EU-funded projects.
- Manage cash and administer state assets.
- Manage debt and guarantees.
- Issue payroll regulations and payments of wages and pensions for civil servants/ pensioners.

2.1.3. Detailed input orientation

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

The detailed classification system discussed above creates a number of problems. First, the annual budget consists of many thick books of detailed tables where too much detail makes it difficult to have an overview and analyse the budget, even if there are summary tables included in the budget introductory report. Second, detailed line-item specifications make it difficult for spending units to easily reallocate funds in the light of changed circumstances (see also Section 4 below on budget execution). Third, the classification system gives managers of spending units little room for maneuver to organise their activities as efficiently as possible (*i.e.* to decide on the input mix), as appropriations are tied to specific economic spending categories. Also, it might lead to lesser responsibility and accountability of managers, as they feel that everything is decided for them and no responsibility is given to them to fulfill their task. It should be noted, though, that this rigid and complex system of continuous monitoring by the Budget Directorate and the Fiscal Audit Offices of the GAO is viewed by many to be a response to a less than adequate degree of responsibility and accountability in the line ministries.

Figure 5. **The organisation of the General Accounting Office**



2.2. Annual budget process

The Greek budget is approved on an annual basis, with the budget year corresponding to the calendar year. As noted, it consists of two parts: the ordinary budget and the investment budget. The revenue and expenditure of the special accounts, discussed above, are not part of the budget. However, these accounts are noted in the pilot programme budget for the Ministry of Culture.

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

The macroeconomic forecasts are not used in the line ministries' budget preparations; rather, as discussed below, they develop their own forecasts. This practice naturally hampers the use of the estimates and indeed undermines the integrity of the budget. The Greek budget is valid for one year as in all OECD countries, but does not contain any estimates for out-years. Most OECD countries use multi-year estimates, among other things in order to maintain a medium-term perspective on the consequences of current policy. The political involvement starts in early spring with a meeting of the Council of Ministers (Cabinet) which is chaired by the Prime Minister. The Prime Minister informs ministers of the overall budget position for the next year. Each minister is allowed to bring up policy proposals at this meeting, but usually no decisions are taken on the proposals. The meeting concerns the main political priorities for the government as a whole. At this meeting, or later during the budget submission phase, each line minister will bring forward his/her own policy suggestions. The updated Stability and Growth Programme is presented by the Minister of Economy and Finance and sets the main parameters for the budget. Top-down ceilings for each line ministry are not set at this meeting.

Later in the spring (May), the Budget Directorate (part of the GAO) sends a budget circular to line ministries and regions. This is the start of the budget formulation process in line ministries. The circular contains two parts: main fiscal policy targets and overall targets for the overall deficit (the ones already discussed in the Cabinet meeting); and technical instructions to line ministries on what should be included in their budget submissions and deadlines for budget submissions. The circular is a very brief document that gives line ministries very limited instructions in terms of new policy or limits on overall ministerial expenditures or on new proposals as a starting point for the budget formulation process. Also, the circular does not include the macroeconomic forecasts, and line ministries are not obliged to use the specific parameters, like price and volume indexes, prescribed by the Ministry of Economy and Finance or agreed with that ministry when they submit their budget proposals. Each line ministry, or its spending departments, develops and uses its own indicators that influence appropriations under its responsibility, and there is no overall co-ordination. Sometimes, line ministries develop their submissions in a discussion with the MADI (*e.g.* unemployment benefits), but that is not mandatory. A situation is thus created where it is difficult for the GAO to oversee and evaluate the submissions from line ministries. This situation also raises the issue whether the budget as a whole is consistent, as submissions from different ministries may not be actually based on the same set of figures although similar indicators influence their areas.

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

The deadline for budget submissions, both for the ordinary budget and for the investment budget, is in mid June. As soon as submissions from the line ministries have been received by the GAO and the Directorate for Public Investments, they are scrutinised by the respective directorates, and overall assessment is done on the size of the submissions compared to what can be managed given the deficit target and revenue estimates. As line ministries are not limited in the initial phase of the budget preparation process, submissions are often higher than what is possible, given revenue estimates and the targeted deficit. Thus, a heavy political prioritisation process has to be initiated. Spending proposals are first discussed at lower levels and, if they cannot be resolved, are raised ultimately to ministerial level. If the line minister and the Minister of Economy and Finance cannot agree, ultimately the Prime Minister will decide. This is not common but happens occasionally. The lack of top-down ceilings means that the finance ministry has less time to focus on thorough analysis of major expenditure areas; the weeding out of expenditure increments is very time consuming.

Parallel to the process of discussing appropriations, tax legislation is discussed. Even though tax legislation is separate from the annual budget, both the revenues and the expenditures are discussed together. Tax increases to finance higher-than-expected appropriations are supposed to be used only as a last resort. The lack of a top-down budgeting procedure could result in the government not knowing how large the overall expenditures will be, thus complicating the task of adhering to the Stability and Growth Pact deficit limit of 3% of GDP.

The deadline for submission of the preliminary draft budget executive summary to Parliament is the first Monday of October. The preliminary draft budget is scrutinised and discussed in Parliament (see Section 3). Parliament gives feedback to the government and the ministries. The Ministry of Economy and Finance then prepares and submits its draft to Parliament no later than 21 November (see also Box 2). Proposals from Parliament practically never lead to increased or decreased expenditures and/or revenues.

Box 2. **Budget formulation timetable**

January-February	Update of the macroeconomic forecasts.
Early spring	The Council of Ministers discusses and decides on main fiscal parameters (deficit and debt).
Spring (May)	The circular from the Ministry of Economy and Finance (MOEF) is sent to line ministries and regions. The circular contains two parts: the main fiscal policy targets and overall fiscal policy parameters (deficit and debt); and a technical part specifying the deadlines and the information to be included in the line ministries' budget submissions.
Spring (June)	Investment budget circular.
Mid June	Deadline for budget submissions from the line ministries and the regions.
First Monday in October	Preliminary draft budget submitted to Parliament.
No later than 21 November	Draft budget submitted to Parliament.
No later than 31 December	Budget is voted in Parliament.

2.3. National Plan of Programs: pilot

The Greek budget for 2008 included for the first time a pilot programme budget for the Ministry of Culture as well as a functional classification for the entire budget.[5] The document was not legally binding, but was added in an appendix to the budget documentation.

The basis for the new overall programme classification is the internationally used COFOG classification (Classification of Functions of Government). To adapt the COFOG classification for domestic circumstances, Greece use 13 functions instead of the original 10 in COFOG.[6]

The functions in the National Plan of Programs, with the two-digit Greek functional code, are:

00 Revenue

01 External affairs

02 Governments specific domestic actions

03 Local governing

04 Education

05 Culture, religion and sports

06 Defence

07 Public safety and justice

08 Economic affairs and development

09 Rural development

10 Environment and housing

11 Infrastructure and transport

12 Health and social policy

The National Plan of Programs will classify all expenditure according to: functions; programmes; actions; and economic classification (see Table 3). In addition, there will be an institutional classification (ministries). The line-item level has not been determined. Current appropriations will be grouped into programmes and matched with programme goals. At present, the draft programme budget contains 73 programmes. A reduction from about 14 000 line items to about 1 000 line items is expected.

Table 3. **Future National Plan of Programs: hierarchy of functions, programmes and actions**

	Investment budget	Ordinary budget	Special accounts	Total
Functional classification				
XX Functions				
XX.XX Programmes				
XX.XX.XX Actions				
Economic classification				
1. Compensation of employees				
2. Use of goods and services				
3. Interest				
4. Subsidies and grants				
5. Social benefits				
6. Other expenses				

As the reform does not at this point envisage a removal of the specifications for economic classification, each action will have specifications for: 1) compensation of employees; 2) use of goods and services; 3) interest; 4) subsidies and grants; 5) social benefits; and 6) other expenses. The economic classification will be the same for the ordinary budget, the investment budget and the special accounts. This new economic classification is in accordance with the *Government Finance Statistics Manual* (GFS) of the International Monetary Fund.

In the same appendix for the 2008 budget, a pilot programme budget was introduced for the function "05 Culture, religion and sports" using 2006 out-turn data. The functional area broadly covers the Ministry of Culture. This pilot programme budget contained a breakdown of each programme according to actions, which involved grouping expenditures of the ordinary budget, the investment budget and the special accounts into programmes. The pilot also included the human resources breakdown per action. The pilot is basically the model for how Greece plans to pursue reform in the area of programme budgeting.

Box 3. Programme budgets

A programme budget is a budget in which expenditures are classified according to programmes or output areas. While there are many types of budget format, the programme budget yields the most information for planning and decision making. It benefits strategic planning and focuses on results within the ministry and government at large, but does not necessarily require performance measurement.

Introducing programme budgeting can substantially reduce the number of line items (*e.g.* in the Netherlands, the new programme budget reduced the number of line items by more than 75%, from around 800 to around 200). Output-oriented account reclassification is a first step that does not require the abolition of all input controls. In particular, budgets for administrative expenditures need to be ring-fenced.

A programme budget typically includes:

- A line item set towards a policy goal.
- A qualitative description of the activities and their relations to the goals, but not necessarily in the budget documentation.
- Some kind of measurements that are reported on, but not necessarily in the budget documentation.
- Less input detail in the appropriations.

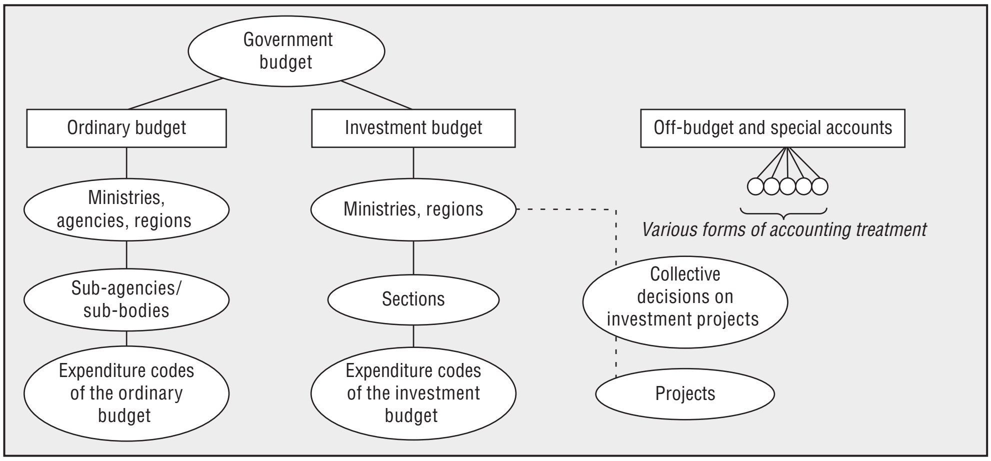
The current organisation of line items in the budget is a hierarchy of institutional, functional and economic classifications and could not always serve as the new classification (see Figure 6). Other problems during the 2008 pilot included lack of information on specific purposes of some expenditure, how to allocate operating or administrative expenditures to different functions and programmes, and how to match the investment budget to programmes. The pilot phase concerning the area of "Culture, religion and sports" was driven by the Ministry of Economy and Finance, but in close co-operation with the line ministries. To ensure their buy-in and ownership, the involvement of line ministries will be essential.

In presentational terms, the framework used in the pilot improves the situation significantly compared to the current situation. A number of overview tables presenting all expenditures (investment budget, ordinary budget and expenditure from special accounts revenue) will be available both in terms of functional breakdown (programmes) and institutional breakdown (ministerial-functional programme).

2.4. Recommendations

Regarding budget formulation, the first priority should be to introduce a programme budget. The current budget is too focused on input details, which effectively hinders the use of the budget as a strategic political steering document. The number of line items should be reduced from 14 000 to about 1 000. The suggested reforms towards programme budgeting are going in the right direction, but current plans seem to retain the line-item specification in terms of economic classification which could make it difficult to reduce the total number of line items. As line ministry appropriations become less specified, the need for flexible special accounts diminishes. Importantly, though, input controls and caps on administrative expenditures should be maintained, as in most OECD countries. Less specification would free capacity in the Ministry of Economy and Finance, in that the vast

Figure 6. **The existing budget system**



number of reallocation requests would no longer be necessary. The current institutional structure should be used as the basis in this reform towards programme budgets. Lessons from other OECD countries warn against using budget reforms to change institutions; that is, it is better to modify the programme and account structure than to force through institutional changes in order to fit new programme and account structures. Indeed, the pilot reflects that this fact is well known in Greece.

As part of the introduction of the programme budgeting reform, the budget documentation should be revised to present qualitative explanations of the programmes. In particular, budget proposals for new programmes should be easy to view and should be treated in some detail – *i.e.* focus on the policy objectives and how they are to be attained. The budget documentation should also include some form of performance information for ongoing programmes based on quantitative indicators, but it would not be advisable at this time to tie the appropriation directly to the performance indicators. Indeed, very few OECD countries do this, and then only for very specific areas such as some education and health services. The purpose of performance information is transparency, not to point fingers at bad performers. The performance objectives should provide information to the relevant parties, but should also be a management tool for the line ministries and agencies. Because "what gets measured, gets managed", particular attention has to be given to the format of the indicators. A trade-off between inclusiveness and information overload has to be carefully managed. An area where a number of countries use performance indicators is higher education, which could possibly be worth studying with a view to developing a pilot programme.

As part of the programme budgeting reform, line ministry accountability should be strengthened and the line ministries should be given a strong mandate to manage. Responsibility is only meaningful if there is autonomy in decision making. In this regard, ministries should be required to assume responsibility for accuracy of the budget, thus making it easier to review the effectiveness of the ministries and agencies in the context of their performance.

The top-down element in budget preparation should be strengthened. The bottom-up procedure for expenditures other than salaries should be modified, as indeed is the trend in OECD countries. The bottom-up procedure encourages line ministries to make unrealistic demands for new spending and to ignore prioritising within the relevant baseline appropriation. The bottom-up procedure results in a considerable burden on the Budget Directorate in the Ministry of Economy and Finance in that it has to get involved in a multitude of policy details where there is massive information asymmetry *vis-à-vis* the relevant line ministry. By using a more top-down macro approach, labour capacity could instead be spent on focused programme budget analysis (*ex ante* and *ex post*), which should be one of the core tasks of a modern central budget authority. The top-down procedure could involve the Council of Ministers early in the preparation process, to set overall fiscal targets and expenditure ceilings for each ministry, and to highlight areas of reform in the budget and the funds available for reforms. A ceiling for ministries will give ministers the incentive to look at reallocation as a source of funding for new initiatives within their area of responsibility – in effect making each minister his/her own finance minister. The implication would be less detailed control by the central government of a line ministers' budget and less input control, as envisaged in the programme budgeting reform. A number of OECD countries, like the Netherlands and Sweden, have positive experience with top-down budgeting and the use of expenditure ceilings.

The comprehensiveness of the budget should be strengthened. As is clearly acknowledged in Greece, special accounts reduce transparency, weaken the annual budget as the main policy document for the government, and reduce the roles of the government and Parliament in making policy judgments. It should be applauded that the Ministry of Economy and Finance has already started the process of abolishing the special accounts, although the next steps are a bit unclear. It should be noted that the pilot programme budget (Ministry of Culture) explicitly notes expenditures from the special accounts and thus improves transparency. However, the pilot still excludes them from *ex ante* and *ex post* scrutiny compared to regular appropriations. In addition, the problematic use of net budgeting in funding public law entities and hospitals creates transparency problems, as the gross expenditures are not made public. Furthermore, there are problems with regard to the monitoring of these institutions by the central government.

The split between the ordinary and the investment budgets and the separation of responsibility within the Ministry of Economy and Finance for these two groups of expenditures hamper an efficient trade-off between different types of spending. The unification of the Ministry of Economy and Finance in 2002, when the responsibility for the ordinary and investment budgets was moved under a single umbrella in that ministry, was a good step forward. The key is to make sure that the decisions on current and capital expenditure are not developed independently of each other; this could perhaps be secured if the central budget authority in the form of the GAO is given overall responsibility for all expenditures in the budget, as in nearly all OECD countries. Full cost commitments of public investment programmes should be published.

The use of the economic assumptions should be streamlined. The information provided to line ministries from the macroeconomic forecasting process does not seem to be co-ordinated fully. Line ministers using their own indicators and estimates, without central co-ordination from the Ministry of Economy and Finance, might lead to a situation where the budget is not internally consistent – *i.e.* the same figures would not be used as the basis of calculation. A full set of data for making forecasts – such as projected GDP growth, inflation, unemployment, social security insurance take up, demographic developments and other variables or indicators that are of importance in the forecasting process – could be added to the ordinary budget circular sent out in the spring (and to the investment budget circular). Also, as the development of many expenditures (both entitlements and others) is often linked to certain price and volume developments, the indicators used for calculating a baseline scenario for expenditures could be developed with GAO oversight. That would make it easier to oversee cost development of old policy and discretionary policy in the budget process.

To further strengthen the top-down process and fiscal discipline, some form of medium-term perspective should be added once the programme budget has been introduced. The budget documentation should include out-year estimates (years t+2 and t+3) on the basis of maintaining current policy. These estimates should be at programme level and should be continually updated in the light of new policy decisions. Making the estimates at programme level ensures that they are realistic and "living" documents. They then serve as the basis for the top-down allocation of the ceilings for the budget year, and will often be identical to the ceiling. Most OECD countries have estimates that contain two or three years beyond the budget year. Australia considers its multi-year estimates to be one of the most successful reforms it has undertaken, and many other OECD countries agree that it is well worth the effort. A distinction should be made between having multi-year estimates and multi-year ceilings. Multi-year ceilings are budget caps that the government has set for more than the budget year, possibly as part of a fiscal rule.[7] Some countries include entitlements under the ceilings (Sweden) and some do not, in that this might be pro-cyclical. In addition, tax expenditures should be included. (More details on medium-term fiscal frameworks are provided in Annex A.) The introduction of a programme budget should occur first, followed by the introduction of fixed multi-year ceilings in a year or two. The Netherlands has had success in promoting fiscal sustainability by using expenditure caps within the constraints of the Stability and Growth Pact.

Concerning the organisation of the Ministry of Economy and Finance (MOEF), some changes could be considered – in particular, strengthening the capacity of the General Accounting Office to focus on budget and policy analysis rather than checking details. The responsibility for the investment budget and the ordinary budget should be integrated institutionally. As mentioned above, the use of top-down budgeting should be introduced. This would necessitate developing the skills and procedures for setting overall caps for each ministry, conducting *ad hoc* efficiency and effectiveness reviews, programme evaluation, budget monitoring, defining appropriate reporting criteria for new legislation, and developing briefing formats for new initiatives (*e.g.* Australia's Green Briefs; see Annex A).

The Government Budget Reform Unit currently has a staff of five analysts with each analyst working with three to four ministries. In order to meet the ambitious reform agenda, the staff should be approximately doubled. The reform unit will provide leadership for the establishment of top-down controls, the implementation of programme budgeting and multi-year budgeting, and the integration of the investment and operating budgets. The reform unit will provide assistance to the Budget Directorate as it shifts its focus from budget administration to budget policy review, and will provide support to line ministry budget offices as they assume new responsibilities. Finally, it is important to ensure that political commitment to the reforms is clearly and strongly communicated. In order to secure the institutional strength of the modernisation process, it would be beneficial if the budget reform unit is given status as a directorate.

3. Parliamentary approval

Box 4. The Hellenic Parliament

The origins of the Hellenic Parliament date back to 1843. It is a unicameral legislature with 300 members elected for a four-year term under a complex system of reinforced proportional representation. Greece is divided into 8 single constituencies and 48 multi-member constituencies for 288 seats, and one multi-member nation-wide constituency for the 12 remaining seats. Voters can choose different candidates from within a party list. To enter Parliament, parties must achieve a minimum of 3% of the total votes. In the 2007 elections, five political parties gained representation: New Democracy (ND; 152 seats), the Panhellenic Socialist Movement (PASOK; 102 seats), the Communist Party of Greece (KKE; 22 seats), the Coalition of the Radical Left (Synaspismos; 14 seats), and the Popular Orthodox Rally (LAOS; 10 seats). Following each election, parliamentarians form parliamentary groups; these consist of the parliamentarians who belong to the same political party. Parliament has six large standing committees: Cultural and Educational Affairs; Defence and Foreign Affairs; Economic Affairs; Social Affairs; Public Administration, Public Order and Justice; and Production and Trade. In addition, there are two special standing committees, including the Special Standing Committee on the Financial Statement and the General Balance Sheet of the State. There are also special committees, internal committees (such as the Committee on Parliament's Finances), investigative committees and *ad hoc* committees.

Sources: Hellenic Parliament, *www.parliament.gr;* The Economist Intelligence Unit, *www.eiu.com.*

3.1. Pre-budget consultations

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

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

In practice, this pre-budget debate does not appear to have any substantive effect on budget policy. The draft budget presented in October and the budget presented in November are broadly the same. Box 5 gives examples of pre-budget consultations in other countries that enable more substantial parliamentary involvement.

3.2. Approval of the annual budget

The timing of the parliamentary budget process is regulated by Article 79(3) of the Greek Constitution, which requires the Minister of Economy and Finance to present the

Box 5. **Pre-budget involvement of the Parliament in Sweden and Canada**

Several OECD countries have taken steps to involve Parliament prior to the presentation of the annual budget. In Sweden, budget reforms in the mid 1990s instituted a two-step process whereby Parliament first decided on a "Spring Fiscal Policy Bill" with aggregate expenditure ceilings for the upcoming budget plus two further years, as well as indicative ceilings or "frames" for 27 expenditure areas. This bill was presented for the first time in April 1996, preceding the presentation of the draft budget by five months. The Finance Committee received responsibility for scrutiny of the Spring Fiscal Policy Bill. Following parliamentary approval of the bill in June, the executive finalises a draft budget to be presented to Parliament in September, more than three months before the beginning of the fiscal year in January. In recent years, the Spring Fiscal Policy Bill has provided only general guidelines for budget policy, and the Budget Bill in September is used to propose aggregate expenditure ceilings for the medium term.

In 1994, Canada introduced a pre-budget consultation process with Parliament to broaden participation and as a vehicle for educating the public about difficult fiscal choices. Starting in late September, the House of Commons Standing Committee on Finance begins public hearings on budget policy. In mid October, the Minister of Finance appears before the committee to outline the current and prospective economic situation and broad budget policy objectives. The minister's presentation is a major event that is televised nationally. Concurrently, the Ministry of Finance releases the Economic and Fiscal Update, which provides supporting material. During this presentation, the Minister of Finance outlines a number of specific questions for the committee to report back on. In a typical year, the committee holds a total of 20 public hearings in ten different locations throughout Canada, following which it presents a report in early December that the executive considers in finalising its budget proposal. The Estimates must be presented to Parliament no later than 1 March, one month prior to the start of the fiscal year.

Sources: J.R. Blöndal (2001), "Budgeting in Sweden", *OECD Journal on Budgeting*, 1(1); J.R. Blöndal (2001), "Budgeting in Canada", *OECD Journal on Budgeting*, 1(2); J. Wehner (2007), "Budget Reform and Legislative Control in Sweden", *Journal of European Public Policy*, 14(2).

budget at least 40 days before the beginning of the fiscal year. Article 8(1) of the budget law (Law No. 2362/1995) requires at least one month. The reason for this discrepancy appears to be that the law predates the constitutional reforms in 2001 that slightly extended the time allotted to Parliament. The constitutional deadline for presenting the budget is adhered to in practice. Some current Members of Parliament do not recall instances of delays.

The budget submitted to Parliament comprises the ordinary budget as well as the public investment budget. Article 5 of the budget law requires a detailed institutional classification. For the first time, the Ministry of Economy and Finance published an appendix to the 2008 budget that attempted to structure the budget on a programme basis. The budget is accompanied by an introductory report that comments on economic developments and government policy. The documentation also includes information on state guarantees and tax expenditures. There are no multi-year forward estimates. Moreover, Parliament does not receive comprehensive information on the consolidated public sector including local government, social security and other public law entities. There is information on some off-budget funds, but Parliament only approves contributions to their revenues in the form of grants from the budget. Hence, the available documentation is not comprehensive and of limited use for scrutinising government policy.

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

Following the conclusion of the committee's discussions, a report is transmitted to the full chamber at least three days prior to the opening of the debate in the plenary. The plenary debate on the finance bill lasts at least five consecutive days; its format is regulated by Article 123 of the Standing Orders, and it takes place along party political lines. The Minister of Economy and Finance starts the debate with an opening statement, following which the different parties are given an opportunity to present their views on the budget. The debate on the finance bill must conclude at midnight of the day of the last session, and is immediately followed by a vote in the plenary. Rejection would bring down the government, and this has not occurred. Commenting on the lack of in-depth scrutiny, one Member of Parliament summarised the debate on the floor as "a very imperfect process".

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

It should be mentioned, however, that a new amendment to the Constitution and to Parliament's Rules of Order concerning the budget procedure was added in June 2008. The change entails that, in future, Parliament will be able to make amendments to the budget if the budget totals are unchanged – *i.e.* that Parliament can reallocate between line items and not only vote on the budget on a block basis.

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

3.3. *Lack of in-year oversight*

There appears to be little parliamentary interest in budget execution. The Standing Committee on Economic Affairs does not consider the monthly actual spending and revenue updates released by the Ministry of Economy and Finance, nor the mid-year report. There is a sub-committee of the Standing Committee on Economic Affairs that considers the annual accounts and balance report. This sub-committee could be used to ensure parliamentary oversight of implementation on a more continuous basis during the fiscal year, but this opportunity is not utilised. Hence, only a minimal degree of oversight of execution occurs, and with a substantial delay, during the parliamentary debate on the accounts, which is described in more detail in Section 5.

Article 8(2) of the budget law regulates the conditions under which adjustment appropriations must be presented for approval. The article stipulates that when actual revenues or expenditures deviate "significantly" from those approved by Parliament, the submission of a "supplementary or corrective budget" accompanied by a report is required. In practice, the government has interpreted these provisions permissively. There are often large deviations between the approved budget and actual expenditures, and overspending is not uncommon. For instance, actual spending on the ordinary budget has exceeded the voted total by more than 5% in some recent years. Yet, these deviations have been interpreted as not meeting the test of "significant". In practice, the Ministry of Economy and Finance has never submitted a supplementary budget.

3.4. *Support for budget reform*

Members of Parliament in the Standing Committee on Economic Affairs are aware of the weaknesses of the Greek budget system. Moreover, there is strong cross-partisan support for the main aspects of the government's budget reform proposals (including efforts to strengthen the comprehensiveness of the budget by eliminating off-budget funds and special accounts) and for the introduction of medium-term planning and programme budgeting, combined with an increased focus on performance. There is also support for accounting reforms and demand for improved information on assets and liabilities as well as tax expenditures. The impressive level of support for the government's reform agenda in Parliament provides a unique window of opportunity to carry forward the main aspects of the initiative.

Not surprisingly, it is mainly opposition Members of Parliament who support a strengthening of the legislature's involvement in the budget process. One suggestion is to enable Parliament to amend the budget within the expenditure total in the budget proposed by the Minister of Economy and Finance. This would allow shifts between different items, but in a way that an increase in one item would have to be offset by a decrease in another item. Several MPs also voiced support for the creation of a non-partisan parliamentary budget analysis unit to support Parliament's deliberations on the budget.

3.5. *Recommendations*

In comparison with most other OECD countries, the Greek Parliament has a very limited role in the budget process. It has little time to scrutinise the budget, no powers to amend the executive proposal and no access to independent analytic support. In addition, its role of authorising the budget is undermined by the degree to which the executive can reallocate and increase expenditures during execution without having to directly notify Parliament and present an adjustment budget. Hardly any other OECD country legislature is sidelined to such an extent (Wehner, 2006).[8] While the role of legislatures in the budget process reflects political dynamics and normative choices in the context of individual countries, several specific aspects merit reconsideration and are discussed below.

Meaningful pre-budget consultation: In Greece, interaction on fiscal and budget policy between the Ministry of Economy and Finance and Parliament is limited. The current pre-budget consultations in particular are not an effective mechanism for dialogue. These consultations could be developed into a debate on a pre-budget policy statement by the government which sets out fiscal policy objectives and budget priorities over the medium term. Such a debate would tie in well with a move to programme budgeting within a medium-term framework. The pre-budget debate could focus on the overall direction of medium-term policy, rather than the details of the upcoming budget.

Sufficient time for parliamentary scrutiny: The "OECD Best Practices for Budget Transparency" state that presentation of the budget "[i]n no case should… be less than three months prior to the start of the fiscal year". The constitutional provisions for presenting the budget would allow for it to be brought forward, although this would require adjustments to the timing of pre-budget consultations.

Access to analytic capacity: Access to independent and non-partisan analysis of the budget can improve parliamentary scrutiny (Anderson, 2005). Only the United States Congress has a research unit as large as the Congressional Budget Office, which has about 230 staff. However, a growing number of legislatures in OECD countries have created smaller analytic units, for instance the Netherlands and Sweden. The Canadian Parliament has recently decided to create such a unit. A small budget research unit with between five to ten researchers could significantly strengthen the scrutiny capacity of the Greek Parliament and the Standing Committee on Economic Affairs in particular.

A new focus of parliamentary scrutiny: Parliament should take an active role in reviewing the budget on a programme basis, including programme objectives and performance indicators. Consideration could be given to dividing oversight of programme performance among the parliamentary committees on the basis of sectoral mandates and expertise. This presupposes that the programme budgeting reform goes ahead.

Binding budget totals: In-year control by the Greek Parliament should be enhanced. The legal requirement relating to adjustment budgets needs clarification (*i.e.* defining "significant"), since current practice undermines parliamentary authority as well as fiscal discipline. It should be obligatory for the Ministry of Economy and Finance to notify Parliament of any adjustments to the voted allocations beyond an explicit numerical threshold. Moreover, an increase in whole-of-government aggregate spending above the voted total should require parliamentary approval.

4. Budget execution

4.1. The organisation of budget execution

The implementation of the Greek budget is the responsibility of the ministries, controlled to a high degree by the Minister of Economy and Finance, through the Fiscal Audit Office and the Budget Directorate of the General Accounting Office. The GAO Budget Directorate is heavily involved in quarterly allocation of the budget and consideration of modifications to the budget. All budget transactions are reviewed for legality and regularity by the GAO Fiscal Audit Office and by the Court of Audit.

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

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

- to collect and study the necessary documentation for the formulation and modification of the ministry's budget;
- to collect, examine and send to the GAO Fiscal Audit Offices the necessary documentation for the validation of the ministry's expenditure (except some of the mandatory expenditure);
- to prepare and approve the payment of some of the mandatory expenditure (salaries, rents);
- to procure buildings, equipment and services needed for the good functioning of the ministry, and to take care of their maintenance; and
- to warehouse materials.

The ministries oversee the finances of executive agencies and public institutions within their control, such as special decentralised services like hospitals and universities.

The Fiscal Audit Offices (FAOs) answer to the GAO. These FAOs are responsible for the review of each transaction to ensure that the expenditure meets legal requirements and is appropriately documented. Total staff of the FAO is 850 personnel, the majority distributed among 16 ministries, other government bodies (the Presidency of the Republic, the Secretariat General for Communication/Secretariat General for Information, the municipality of Athens, public law entities supervised by the Ministry for Rural Development and Food) and 57 prefectures (including the 13 regions). The Court of Audit (COA) carries out an overlapping pre-payment review of most major expenditures. Its functions are carried out through 16 units in ministries, 9 in municipalities and 57 in prefectures. The COA has an authorised staff level of 650, with 180 current vacancies. The COA expects the retirement of 250 additional personnel over the next few years.

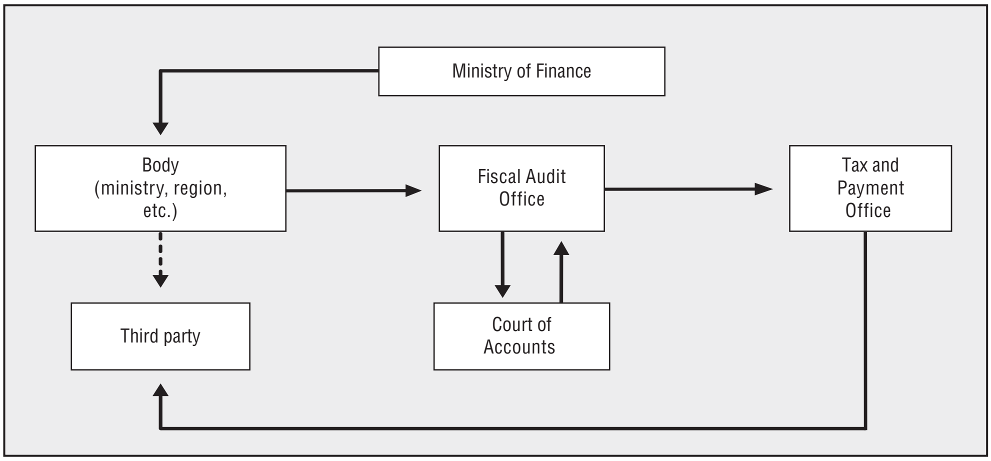
Once the expenditure has been approved by the FAO and the COA, a voucher is presented to the Tax and Payment Offices for payment. The Tax and Payment Offices are under the responsibility of the Ministry of Economy and Finance. There are 287 Tax and Payment Offices around the country.

4.2. Execution steps

4.2.1. Ordinary budget

Appropriation and payment limits: In January, the Ministry of Economy and Finance releases a circular providing instructions for execution of the budget. Before the beginning of each quarter, the MOEF-GAO sets limits within which, for broad categories of expenditure, budget holders can create obligations (appropriation limits). These limits are usually set as a percentage of budget allocations for specific categories of expenditure. Appropriations for expenditures such as salaries, rents, and pensions are available on their total from the beginning of the budget year. The appropriation limits may be further restricted by the Directorate for Financial Planning and State Liquidity Management of the GAO as it sets monthly limits for payments by each ministry and region to manage the cash requirements of the government.

Figure 7. **Execution steps (excludes salaries, rents and pensions)**



Implementation of expenditure: The budget holder (minister, general secretary of a region, regional director, or other official authorised by law) creates the obligation of the body (ministry or region) towards third parties. The financial directorate of the body gathers and initially reviews all relevant documentation that is subsequently forwarded to the FAO.

Control of expenditure, cash payment: After receipt of the documentation, the FAO reviews the expenditure for the legality and sufficiency (preventive control) of each payment and then issues a payment order. Payment orders, after being certified by the Court of Audit, are sent from the FAO to the Tax and Payment Offices of the Ministry of Economy and Finance for payment.

Payments of salaries, rents and pensions follow simpler procedures and are not subjected to preventive control, but they can be subjected to *ex post* control by the Court of Audit. The reason for this less rigorous control is that there is practically no discretion concerning these expenditure items. Appropriations for salaries, pensions and rents are mandated centrally by the Budget Directorate of the GAO.

4.2.2. Investment budget

Expenditure limits for investment expenditures voted by Parliament are classified by sector of economic activity: roads, health, public administration, agriculture, etc. Limits are also set by ministries, regions and prefectures.

In January of every year, the Directorate for Public Investments (DPI) in the Ministry of Economy and Finance sends a budget circular to all the involved parties (ministries or regions). This circular determines the general payment limits for every sector of investment and gives instructions to the involved parties on making their proposals for amounts needed for new projects or continuing projects. After the submission of the proposals by the ministries and regions, the DPI issues "collective decisions" that determine the current year's payment limits for every project. For each project, a responsible manager is authorised to make payments and afterwards submit all the supporting documents to the FAO in charge for *ex post* control.

For example, within the Ministry of Culture, the Directorate of Programming and Development is responsible for the investment budget. There are approximately 150 to 250 projects per year; there were 198 in 2007. Based on the approved investment budget and the guidance from the Ministry of Economy and Finance, operational directorates of the Ministry of Culture submit requests for financing and funding: for example, the construction of the new Acropolis Museum. Directorate of Programming and Development makes decisions to approve funding. The DPI then approves a collective decision allocating funding for specific projects.

The DPI sends out three circulars a year, controlling investment expenditures by time period throughout the year. Many times within the year, the relevant authorities ask for modifications of their budgets, credits for specific projects, or increases in their total payment limit. The final circular is sent to the relevant authorities in early December, giving directions for the closing of the current year and the beginning of the following year.

The Minister of Economy and Finance presents a mid-year report to Parliament to allow Parliament to monitor budget execution. The report does not appear to be an important contribution to Parliament's modest role in scrutinising the budget.

4.3. Budget flexibility and reallocation

There are currently approximately 14 000 line items within the Greek budget. This extremely detailed budget structure makes the Greek budget inflexible and reduces the accountability of the budget holders. To respond to the need for more flexibility, there are annually "thousands of budget adjustments".

For 2006 and 2007, Table 4 shows the number of decisions and the total amounts reallocated after approval of the budget. Particularly noteworthy is that almost half of the approved adjustments were for reallocations of less than EUR 5 000. Usually about EUR 6-8 billion are reallocated during the year.

Table 4. **Number of budget adjustment decisions in 2006 and 2007**

Amount per decision	2006	2007
Less than EUR 5 000	2 538	2 587
EUR 5 000 to 10 000	853	839
EUR 10 000 to 20 000	549	783
EUR 20 000 to 50 000	699	757
EUR 50 000 to 100 000	396	441
EUR 100 000 to 500 000	623	671
More than EUR 500 000	511	572
Total	6 169	6 650

Source: Data supplied by the General Accounting Office of Greece.

4.3.1. Ordinary budget

Reallocations may be made for discretionary spending line items during the negotiation process if they are considered to be justified. Mandatory expenditures like salaries, allowances, pensions and social security subsidies are determined by the GAO.

After the budget has been approved, line items concerning salaries, allowances, pensions, social security subsidies, rents and other mandatory items can be modified only by a decision of the Minister of Economy and Finance. Transfers of appropriations between different bodies (ministries), sub-bodies (specific agency or service of a ministry), categories and sub-categories can be made only by the GAO, after approval of a justified request from the ministry. Ministries have the right to transfer appropriations within the same group and to modify line items according to their needs.

Box 6. **International experience with in-year flexibility**

In New Zealand, Section 5 of the Public Finance Act governs the "transfer of resources between classes of outputs" within the same vote or ministerial budget during the fiscal year (also known as virement). The amount transferred may not increase an appropriation for a class of outputs in a fiscal year by more than 5%. Furthermore, Section 5 specifies that no other transfer to that class of outputs may have occurred during that fiscal year, and the total amount appropriated for all classes of outputs in that vote must remain unaltered. Any such transfers must be included in an appropriation bill for the succeeding fiscal year.

Similarly, Section 43 of South Africa's Public Finance Management Act allows ministerial accounting officers to shift up to 8% between main divisions (programmes) within a vote (ministerial budget), with some additional restrictions and unless the Treasury directs otherwise.

In the United States, details are included in the legislative general provisions of appropriation bills providing transfer authority to specific agencies. For example, in 2007, the Department of Justice and the Department of State were authorised to transfer up to 5% of any appropriation and could increase any account by no more than 10%. The Department of Defense was authorised to transfer up to USD 4.5 billion in working capital funds. The Departments of Health and Human Services and Education could transfer up to 1% of any account as long as the transfer did not increase any account by more than 3%. The Executive Office of the President was authorised to transfer up to 10% of White House Office funding.

For the remaining discretionary expenditures in the budget, the spending ministry can handle unforeseen expenditure by reallocating appropriations within its budget chapter. If the needed funds cannot be covered with this procedure, the ministry can make a formal request for additional funds to the Budget Directorate of GAO.

As an example, the leadership of the Ministry of Economy and Finance has limits on its discretion to approve budget adjustments, as follows:

- Head of unit: EUR 30 000.
- Budget director: EUR 300 000.
- Director general: EUR 600 000.
- Secretary general: EUR 1 200 000.

- Minister: may adjust the budget according to the size of the reserve (in 2008, the reserve was EUR 100 million).

4.3.2. Investment budget

For the investment budget, reallocation between different projects can only be made by the Directorate for Public Investments within the Ministry of Economy and Finance. The investment budget contains projects that run for more than one year. A minister may request an increase of the year's payment limit or of the project's amount. Transfers between the investment budget and the ordinary budget are not allowed.

4.4. Overspending

Rules for overspending are determined by the Organic Budget Law. According to these rules, Fiscal Audit Offices may not issue payment orders for any expenditure if the amount needed for the payment exceeds the appropriation limits or the allocation that has been assumed in the budget line item for this expenditure. These detailed budget allocations represent the most detailed assumptions in the budget documentation. In special circumstances, there are exceptions to these rules:

a) Obligations that have been undertaken and that exceed the year's total appropriation limit (but not the budget's appropriation total) can be paid by means of a decision of the Minister of Economy and Finance.

b) Obligations that have been undertaken and that exceed the year's appropriation total can be paid by means of a decision issued by both the Minister of Economy and Finance and the Prime Minister.

For categories *a)* and *b)*, the expenditures will be covered by the relevant appropriations of the next budget.

c) Special (mandatory) expenditures for salaries, pensions, rents, clinical expenses, etc., that exceed the foreseen appropriations can be paid by the relevant minister without the need for an explicit appropriation. Any such payments are submitted to Parliament for approval after the fact, with the approval of the Annual Financial Statement of the government.

The Minister of Economy and Finance is required to submit a supplementary budget when expenditure and revenue differ "significantly" from the budget estimates. In practice, the Ministry of Economy and Finance has never submitted a supplementary budget.

4.5. Special accounts

Additional flexibility is provided to the Greek budget by the existence of a large number of special accounts. These accounts have independent sources of revenue and are not fully incorporated within the budget. For example, the Ministry of Culture has an account called "Greek Organisation of Football Prognostics" financed by sports fees. This special account provides funding for sports expenses and infrastructure; included in expenses are salary supplements for employees of the Ministry of Culture.

4.6. Cash and debt management

The GAO Directorate for Financial Planning and State Liquidity Management is responsible for cash management in Greece. The process of cash management includes the preparation of the "budget expenditure implementation plan" and of the "cash plan". Both plans are backed up by the monthly cash limit decision.

The "budget expenditure implementation plan" shows monthly forecasts of expenditures. It is prepared for the entire fiscal year, and is updated and rolled over on a monthly basis. The plan is based on the budget appropriations. The monthly forecasts are prepared by using the assumptions underlying the budget preparation and monthly historical data.

The "cash plan" puts the "budget expenditure implementation plan" in the context of the revenue forecasts. It is on a pure cash basis and shows daily cash inflows and outflows from the "Single Treasury Account". Revenue forecasts are based on historical data from the previous period, current economic trends, and changes in the tax administration system. The "cash plan" is reviewed and updated every day for the whole month and every month for the whole year. The monitoring system includes a continuous flow of data from the Treasury's departments, the Central Bank, the Fiscal Audit Offices, and the local Tax and Payment Offices. The "cash plan" is a tool for ensuring that there will be adequate cash balances to meet the budget obligations. The forecasts of the cash plan are used for decisions on borrowing and for investing the cash surpluses.

The forecasts are elaborated and a ministerial decision is issued, defining a monthly cash limit for every unit involved. Fiscal Audit Offices and Tax and Payment Offices are required to ask for special approval before payments above a certain amount are made (EUR 3 million). The limits are checked against the monthly outcome data and cross-checked against information received on a daily basis by the Central Bank.

Cash balances are centralised through a Single Treasury Account (STA) which is held at the Central Bank. The STA is a set of linked accounts through which all budget receipts and payments are made. The daily balances of the account bear interest, the rate of which is defined by a contractual agreement between the Ministry of Economy and Finance and the Central Bank.

The Directorate for Financial Planning and State Liquidity Management invests the daily surpluses in the commercial banks if their interest rate exceeds the rate offered by the Central Bank. The decisions on the amounts and the duration of the investments are based on the forecasts of the cash plan. These operations take the form of up to two months time deposits.

The bulk of the payments are made through the STA by means of orders issued by the Treasury. However, significant amounts of payments are made by the local Tax and Payment Offices. The Treasury, through the cash plan, sets monthly cash limits for budget expenditure, and controls individual transactions above certain limits (EUR 3 million). However, there are accounts in the STA which are not fully controlled by the Ministry of Economy and Finance.

4.7. Service delivery: the organisation of general government

The government of Greece has four major levels of organisation: ministries, regions, prefectures and municipalities. The central government functions are primarily carried out through ministries and regions (see Figure 4 above). According to the national accounts, 60% of the general government's spending is carried out by the ministries and regions, 3% by public law entities, 6% by local government, and 31% by social security funds.

Box 7. **Systems of cash management**

There are basically three models of cash management in central governments. In the decentralised model, all budgetary institutions have their own account with the commercial banks. These accounts are funded by periodical cash advances supplied by the Treasury on the basis of cash flow estimates and cash allotment decisions. Budgetary institutions make payment orders by drawing on their own accounts.

In the centralised model (in place in Greece), budgetary institutions are not allowed to have their own accounts with commercial banks. There is only a single account (with sub-accounts), usually kept at the Central Bank, which belongs to the Treasury. Since the Treasury is not allowed to borrow from the Central Bank, the Treasury handles short-term borrowing by auctioning securities among the commercial banks. All budgetary institutions have to send payment orders to the Treasury in order to draw upon their sub-accounts.

In the hybrid model, budgetary institutions are allowed to have their own bank accounts with a single commercial bank, but any positive balances in these accounts are daily transferred to the Treasury account with the Central Bank, and bank accounts are daily supplied with cash advances. The contract with the commercial bank is usually auctioned. Similarly, short-term borrowing is centralised at the Treasury. Budgetary institutions make payments by drawing on their own account with the commercial bank.

Both the centralised model and the hybrid model realise efficiency gains through consolidation of balances and centralisation of short-term debt management at the Treasury.

The central government is responsible for national defence, environment and housing, rural development, public safety, education staffing, culture, external affairs, and transfer payments to individuals. The regions are decentralised units of the central government. Their primary function is planning and co-ordination. The regions oversee the legality of local government actions, but do not supervise the direction or purpose of local government expenditure. Local governments have relatively limited functions for local roads, parks, waste management and provision of local public buildings including schools.

In addition to the direct operation of the ministries, there are public entities which are mostly dependent on either subsidies provided by government grants or on revenues regulated by law. Most of the expenditure of these public entities is devoted to implementing government policy. Examples include universities and hospitals. Public entity operations are overseen by the ministries, but only included in the budget to the extent of direct grants. The central government partially finances 149 social security and pension funds. The Ministry of Labour and Social Services supervises 94 of these social insurance funds. The 13 regions are decentralised units of the central government which oversee a number of prefectures organised geographically.

4.8. Social security funds, special accounts, and off-budget funds

The budget of Greece needs to be more comprehensive. There are a variety of non-budgetary, off-budget and special accounts that are not fully presented in the Greek budget. Some of these accounts should not be included in the budget totals because their finances are only indirectly dependent on public revenues for their support. Others receive some public support and some private support, and still others are supported by means of dedicated fees or taxes which should be included within the budget totals. The budgetary goal should be to fully describe the fiscal impact of all government activity. For activities not included in the budget totals, there should be budget displays that report on their financial activity. As it is now, a clear picture of the fiscal situation can be difficult to obtain.

The government of Greece has 149 social security and pension funds which are extrabudgetary. The social insurance funds are organised by major employment categories (for example, farmers, lawyers, merchant marine, bank personnel, etc.) and are financed by a combination of payroll taxes, employer contributions and subsidies from the government. Only the expenditure for subsidies from the government is included in the budget. The Minister of Labour and Social Affairs supervises these funds. Social security funds are managed by management boards whose chair and members are appointed or approved by the Minister of Labour and Social Affairs. Financial information about the social security funds should be included in the budget. On 3 April 2008, the government of Greece enacted a new social security law reducing the number of social security funds from 149 to 13. While the new law is expected to simplify the management of social security, it did not address the budget treatment of social security.

In addition, there are a number of special accounts, as mentioned above, that finance normal government activities. The Greek government intends to revise its budget documents so that appropriations are given on a programme basis. As mentioned, one of the first steps in that process was a programme budget for the functional area "05 Culture, religion and sports" as a pilot project. The pilot budget amounted to EUR 1.1 billion, 24% of which was from special accounts[9] and 23% from the investment budget. The programme presentation substantially enhanced the transparency of the budget for the Ministry of Culture, by including special accounts and investment funding within the budget presentation. This was particularly important for the sport category, 65% of which is off budget via the special accounts. Special account spending for sports is primarily for competitive sports, which could be incorporated within the budget.

4.9. State-owned enterprises

There are 59 public enterprises monitored by the Special Secretariat for State-Owned Enterprises in the Ministry of Economy and Finance. These enterprises mainly operate in the sectors of transport (railways, buses), defence, aerospace and ports. Some of these enterprises are indirectly subsidised by the Greek government through the granting of state guarantees on their long-term bank borrowing. Many state-owned enterprises face financial difficulties due to the inelasticity and inefficiencies of the wage policy, which does not allow the restraint of high payroll costs, and to high interest costs of former bank loans. The annual budget does not include the amounts of new guarantees, but does include information on the total outstanding guarantess for state-owned enterprises. This lack of transparency should be rectified. The government policy is to indirectly subsidise these enterprises through state guarantees, not directly through grants from the state budget.

The major public utility companies (electricity, water and telecommunications) are listed in the Athens Stock Exchange, and the Greek state holds the majority of their equity capital (except for the Hellenic Telecommunications Organisation in which the state holds a minority stake of about 28%). These enterprises operate under private economic standards and are self-supported. As such, they derive their funds from the banking sector and the capital market without being subsidised by the state. The Greek budget for 2008 proposed continued privatisation of a number of state-owned enterprises as part of a general effort to reduce public sector participation and market intervention and to increase private sector ownership.

4.10. Public-private partnerships

In 2005, Greece passed a law to establish a new legal framework for the implementation of public-private partnerships. This legal framework aims to promote the implementation of PPP projects, taking into consideration the experience gained from concession agreements that were successfully implemented in Greece as well as from recent attempts to implement privately funded projects. Many of the latter, however, were not successful because of inadequate preparation of the contracting authority, incomplete business justification, or unrealistic estimation of their feasibility. For the first time, the PPP law introduced a stable legal framework designed to overcome the above-mentioned obstacles.

The law defines the government entities (central administration, local government organisations, and legal entities under public law) that can implement partnership contracts with private entities, in areas falling within the scope of their competence. The private sector undertakes a significant part of the risk related to financing, constructing and providing infrastructure or services. The private sector investment is repaid either by the contracting authority or by the end users. This means that these projects are funded, in total or in part, by funds and resources of the private sector. PPPs are not allowed to engage in projects or activities that are the direct and exclusive province of the state, under the terms of the Constitution of the Hellenic Republic, such as national defence, police functions, the awarding of justice, and the execution of judicially imposed penalties and sentences. The law defines the minimum content of a PPP contract, with a clear description of the rights and obligations of both parties, regulating particular issues such as financing, the participation of government entities in partnerships, the payment mechanism, granting of permits, protection of the environment, treatment of archeological findings, expropriations, and cases of projects undertaken by public utility companies. Moreover, legal issues related to these partnerships – such as the transfer of claims, validity of sureties, taxation and resolution of disputes – are clearly defined.

The PPP law established two new administrative bodies to improve the effective preparation and management of PPP projects:

- The Inter-Ministerial Committee for Public-Private Partnerships (IMPPP Committee) is a collective governmental body that defines and specialises PPP policy, approves PPP projects that fall under the PPP law for the provision of infrastructure and the delivery of services by private funds, and co-ordinates and monitors the implementation of PPP projects.
- The Special Secretariat for Public-Private Partnerships (PPP Unit) within the Ministry of Economy and Finance identifies projects that can be delivered via a PPP scheme, promotes their implementation, and provides support and assistance to the IMPPP Committee and to the government entities in the context of all necessary procedures for the finalisation of a PPP project. The PPP Unit is currently staffed with 12 professionals

(legal, technical and financial advisors) from both the public and the private sectors. The functions of the PPP Unit include:

❖ the identification of the works or services which might be constructed or provided through partnerships and be included under the provisions of the PPP law;

❖ the evaluation of the proposals submitted by government entities and their subsequent forwarding to the Inter-Ministerial PPP Committee for approval;

❖ the promotion in general of the construction of works or the provision of services through the partnership framework;

❖ the facilitation and support of government entities in pursuing contract award procedures, as defined in the PPP law, for the selection of private entities;

❖ the monitoring of the implementation of partnership contracts.

The evaluation criteria that the PPP Unit takes into consideration, when evaluating a proposal submitted by a government entity, are the following:

- The competence of the government entity to implement the project;
- The maturity of the proposed PPP project;
- Financial criteria, namely the feasibility, bankability and value for money of the project relative to a public sector comparator;
- Socio-economic criteria, such as the necessity of the project, the consent of public opinion, a boost to entrepreneurship, etc.;
- Technical criteria, such as improved quality of services to the end users, etc.

According to the new legal framework, parliamentary ratification of PPP contracts is no longer needed. Greek PPP procurement procedures are in line with the EC Directive 2004/18, aiming at the customisation and standardisation of relevant procedures and the improvement of the efficiency of public administration.

According to a procedure set by the Inter-Ministerial PPP Committee, the annual payments for PPP projects are presented in the budget under a separate category in the Public Investments Programme. These amounts ensure the timely payment of private sector partners, since funds that have been reserved for the reimbursement of a private partner of a PPP project cannot be used for any other purpose. Since no PPP project has been completed to date, this procedure has not yet been used.

As mentioned above, the evaluation is based on a number of criteria such as value for money and the amount of risk. These evaluations are carried out for each PPP project, but the Greek budget does not include a risk assessment for PPP projects or an analysis of the potential long-term costs of the projects. The long-term obligations that the government enters into, and the risk associated with the contract, are important to take into account both when deciding whether to launch a PPP or not, and in budgeting and reporting. Due to the off-budget nature of PPPs, this evaluation is especially important to ensure that PPPs are not pursued for the sake of being off budget, but rather for reasons of value for money. As noted by the OECD (2008), the budget documentation should include transparent reporting of risk, fees, guarantees and contingent liabilities. Because of the long-term nature of PPP contracts, this reporting should preferably be done together with a long-term fiscal sustainability analysis.

Greece sets a limit on the amount of PPPs as a percentage of the Public Investments Programme. This limit is set at 15%. The United Kingdom has been using PPPs for many years and, on average, PPP projects have amounted to 10-15% of the United Kingdom's investment expenditure (government investment expenditure) in recent years. Given the longer experience of the United Kingdom with PPP projects, capping PPPs in Greece a bit lower than the present 15% may be appropriate, but by far the most important concern should be value for money. The United Kingdom has further limited PPP funding by deciding that the mechanism should not be used for IT projects. This restriction was based on the poor performance of PPP projects in the IT field. The Inter-Ministerial PPP Committee has currently approved 34 projects with a total indicative budget of EUR 4 billion. This figure accounts for 3-4% of the annual Public Investments Programme.

4.11. Organisation and financing of sub-national governments

The Greek government is dominated by the central government, and Greece is a centralised unitary country. Total expenditure by sub-national governments amounts to less than 3% of GDP. The 13 regions are part of the central government, and the head of each region is appointed by the central government. The regions supervise sub-national government activities, focusing their supervision on the legality of prefectural and municipal actions. The 57 prefectures – elected after 1994 – are the part of local administration that are assigned significant central government functions, financed mostly (95%) by tax revenues of the central government. At the lowest local level, there are 1 034 municipalities, elected locally. Prior to 1997, there were 5 751 municipalities. The municipalities are financed in part (about 60%) by the central government (tax revenues). The primary functions of the municipalities are for local roads, garbage collection, public cleaning, medical dispensaries, provision of shelters for homeless people, cultural events, care for the elderly and nurseries.

The primary source of local government finances comes from taxes of the central government called central autonomous resources (CAR). CAR revenues for prefectures come from 10% of traffic duties (prefectures) and 2% of VAT. The distribution of funds for prefectures is defined by law: half of VAT for operational and other expenses, half of VAT for investments financed exclusively by national resources, and the revenue from traffic duties for expenses concerning the improvement, maintenance and restoration of the road network. The distribution of the CAR among the prefectures is determined by the Minister of the Interior after consultation with the Union of Prefectures of Greece (ENAE). In 2002, 96% of the prefecture revenue came from the CAR.

The CAR for municipalities come from 20% of the tax levied on interest on deposits, 19.5% of the income tax on individuals and companies, 50% of traffic duties, and 3% of property transfer duties. The distribution of the CAR among the municipalities is also based on a ministerial decision, after consultation with the Central Union of Municipalities of Greece (KEDKE). Funding to the municipalities is to cover operational expenses, finance mainly social actions, finance specialised programmes, and improve the quality of service delivery to citizens. In 2002, 58% of municipal revenue came from the CAR. Local taxation and non-tax revenues accounted for the remainder. The distribution of the CAR among prefectures and municipalities is primarily based on population and geographic distribution.

The local government budgets must be in balance. There are two main restrictions on local government borrowing. First, for every loan, approval is required from the municipal or prefectural council, and for loans above EUR 3 million, there must be a council majority of two-thirds. Second, each loan requires a report on the repayment capacity of the municipality or prefecture, which must be approved by the regional administration on behalf of the Minister of the Interior.

4.12. Human resource development

In June 2006, the civilian public sector employment – including personnel of the ministries, the regions, the prefectures and the hospitals, but excluding military personnel – totaled 486 580, including 436 557 permanent staff, 16 215 open-ended contract staff, and 33 808 fixed-term contract staff. Salaries are determined by the GAO Directorate for Salaries and are established for 18 categories of public sector official, including civil servants, judges, school teachers, university professors, priests, and doctors of the National Health System. The salary budget is treated as a mandatory expenditure and, for budget execution purposes, is not subjected to extensive pre-payment reviews. In addition to the on-budget salary expenditures, about EUR 1 billion is added via the special accounts (about 25% of the total special accounts expenditure). Public enterprises have their own salary levels based on collective bargaining agreements between boards of directors and unions.

Management of the development of human resources is the responsibility of the Secretariat General for Public Administration and E-Government of the Ministry of the Interior. The Greek system is based on the employee spending his/her whole career in the authority where first hired, and in practice it is very difficult to fire civil servants. There is very limited mobility within the Greek public sector, but employees may be reassigned from unit to unit within the same authority (*e.g.* ministry, agency) or may be transferred between authorities upon request where there is a vacancy. Secondment from one authority to another is possible, upon the request of the employee. Reassignments to border areas are promoted by financial incentives, but require a ten-year commitment from the employee. The central human resource authority (there are also human resources directorates within ministries) has overall responsibility for defining the rules and procedures governing recruitment of public employees and contract personnel and for assessment, promotion, training and selection of heads of units, directorates and general directorates for the public sector. The authority is also responsible for the main part of the procedure concerning the general civil service exams, which constitute the main entrance for a career in the civil service.

Public salaries in Greece are set according to five employment ranks (based on educational level), time of service and a satisfactory personnel appraisal. In the past, personnel assessments have not involved a realistic evaluation of performance. The assessment criteria have been updated to make them more transparent and substantive: knowledge of the subject, effectiveness, behaviour, interest and creativity, and participation in committees and working groups. Due to a number of circumstances – such as initial salary limitations, the existence of special accounts, the "clientist-populist" tradition that exists in many other cases and not only in salaries – bonuses are given to all staff rather than to individuals based on performance. Salary limitations have resulted in the creative use of special accounts to augment salaries. Salary limitations present problems for keeping good staff, in particular after about 10-15 years of experience. This is not an issue for the new public servants, because their overall "compensation packages" are well placed to compete with the private sector. In the view of the Ministry of Economy and Finance, problems for the efficient allocation of human resources are posed by strict employment contracts, low mobility and real wage rigidity.

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Law No. 3230/2004 introduced the "management by objectives" system in order to enhance the strategic orientation of the Greek public administration. The law provided for the establishment of Quality and Efficiency Units in every ministry and region. The Directorate for Quality and Efficiency of the Ministry of the Interior has a special co-ordinating and planning role in the procedure. These units, in co-operation with the services of the General Accounting Office and the economic departments of the bodies, could have a supporting role in the performance budgeting procedure.

4.13. *Public procurement process*

Greece has adopted the EU procurement directives and harmonised them by law. Greek procurement regulations were imposed by a presidential decree in 2007.

The Secretariat General for Commerce in the Ministry of Development is responsible for a sizable portion of procurement for central ministries with the aim of reducing costs through lower prices for common items as well as increasing the transparency of procurement procedures. Thus, a Single Procurement Programme is presented annually, based on the proposals of the agencies.

Major procurements (*i.e.* those above EUR 1 million) are subject to pre-agreement audits by the Court of Audit. Both the Fiscal Audit Offices and the COA subject payments for procurements to pre-payment controls targeted at ensuring that all payments are legal and proper.

4.14. *Recommendations*

Control procedures should be made more efficient. The Greek budget execution system focuses an extraordinary amount of attention on ensuring the legality and propriety of expenditure. The functions of the financial divisions in ministries, the Fiscal Audit Offices and the Court of Audit frequently overlap. The current detailed budget structure results in excessive budget adjustments. Detailed review of pre-payments and budget amendments by the GAO are not productive. The fragmented budget structure creates an impediment to a comprehensive programmatic or policy view of the budget and to the impact of the budget on fiscal policy. Staff resources at all levels are used to process transactions rather than to analyse budget policy or performance. To address these issues, further actions should be taken, as outlined below.

The accountability of ministries should be strengthened. Shifting to a results-oriented programme-based budget will require the delegation of budget responsibility to programme managers and/or ministries. Reducing the number of budget line items from thousands to hundreds of programmes should reduce the need for detailed oversight by the Ministry of Economy and Finance and should increase the flexibility of programme managers. Ministries and particularly agencies should be required to have primary responsibility for programme management and for budget execution. Each line ministry should have a central budget office to co-ordinate the budget and financial management functions of the ministry. Pre-payment reviews should be mainly the responsibility of the agencies, not the Fiscal Audit Office. Ministries and agencies, depending on their decision-making powers, should be held legally accountable for the legality and sufficiency of expenditures. In some OECD countries, failure to meet the requirements for legal accountability can result in criminal prosecution.[10] Shifting to a results focus should initially require agencies to demonstrate the performance of their programmes and eventually to meet programme objectives. Detailed review of budget adjustments should be substantially reduced, as programme managers assume responsibility for spending and as appropriations are shifted to programme categories. The Ministry of Economy and Finance should organise training for ministry staff on delegated budget responsibilities.

Primary responsibility for budget execution should be transferred to spending units. The Ministry of Economy and Finance should provide ministries with clear guidance on budget execution requirements and deadlines for budget reports. Funds should be apportioned or distributions approved on a programme basis, with funding distribution implemented on an automatic quarterly basis unless specific programme requirements warrant an alternative distribution. Distribution of the funds could be made dependent upon programme requirements, such as submission of implementation plans or evaluation structures. The GAO should shift its focus from detailed monitoring of transactions to analyses of budget execution anomalies and to reviews of programme effectiveness and performance.

GAO staff should be reviewed and reallocated. All phases of the budget workload, in particular budget execution functions, should be reviewed to consider which functions are duplicated and which functions add value. This will certainly entail fewer tasks for the FAO. Excess FAO staff could be reallocated to the strengthened financial directorates of the line ministries or within the MOEF, perhaps as temporary facilitators of the programme budgeting reform. Staffing for ministry budget and finance offices should be expanded to assume responsibility for budget execution and to provide oversight of programme budgeting within the ministries. Similarly, the GAO needs to expand its budget analytical staff to strengthen its policy review, programme analysis and programme evaluation skills. The GAO also needs to build a staff that provides training within the GAO and in ministries on programme budgeting, evaluation, and programme review.

When considering the use of PPPs, the focus on value for money should be ensured. Public-private partnerships can be an efficient way of delivering public services if affordability and value for money are in focus. However, PPPs should not be initiated for their own sake or in order for the volume of PPPs to reach a specified target. Creating a PPP unit with knowledge of the PPP process is often a good thing, but at the same time it is important that the unit manages to clearly separate its role as promoter of PPPs from its role as scrutiniser of potential PPP projects.

5. Accounting, audit and accountability

5.1. Accounting

Accounting for the Greek budget is on a cash basis. According to the General Accounting Office (GAO) of the Ministry of Economy and Finance, a move towards accrual accounting is ultimately envisaged, but the authorities are proceeding very cautiously in this direction. There are six different public sector accounting systems: one each for hospitals, social security funds, municipalities, public law entities (including prefectures), local authorities and the central government. The annual accounts for the central government cover all transactions at the Bank of Greece as well as some other specific accounts, for instance for debt and guarantees, defence projects and participation in international organisations.

Responsibility for annual accounting for the central government is centralised in the GAO Directorate of Public Accounts. Line ministries have no independent role in the preparation of the annual accounts. The Tax and Payment Offices and the Special Cashier of the State (a unit under the GAO Directorate of Public Accounts) record accounting entries for payments and receipts. On the basis of its budget execution data, the GAO compiles monthly reports and an "Annual Financial Statement and Balance Sheet of the State". The classification of the annual accounts is the same as for the budget, as required by Article 73(2) of the budget law. In accordance with Article 76(1) of the budget law, the "Annual Financial Statement and Balance Sheet of the State" has to be submitted to the Court of Audit by the end of September following the end of the relevant fiscal year, and the Court has to return them together with its declarations to the GAO within one month of receipt. In practice, delays are common with both steps of this procedure. Investment expenditures in particular are often not recorded until April after the end of the fiscal year, causing delays in the preparation of the final accounts (see Table 5).

The National Statistical Service of Greece produces fiscal information on the consolidated general government that is used for the preparation of national accounts, drawing on GAO data as well as a survey of public entities. In the past, this information has proved unreliable (Koen and Van den Noord, 2005). In 2004, the government initiated a fiscal inventory with the co-operation of Eurostat, the statistical agency of the European Union. This led to the discovery of a number of errors in the data used to assess Greece's compliance with the fiscal rules in the Stability and Growth Pact. For example, the reported budget balance was affected by off-budget military spending and overestimated surpluses in social security funds. The Greek government is now co-operating closely with Eurostat to strengthen the quality of its consolidated accounts.

Table 5. **The timing of the annual accounting process**

Financial year	Annual Financial Statement and Balance Sheet forwarded by the GAO to the Court of Audit	Audit results sent by the Court of Audit to the GAO
1998	7 September 1999	11 October 1999
1999	21 September 2000	20 October 2000
2000	9 October 2001	5 November 2001
2001	11 October 2002	19 November 2002
2002	2 October 2003	11 November 2003
2003	7 October 2004	11 November 2004
2004	11 October 2005	14 November 2005
2005	10 October 2006	8 November 2006
2006	11 October 2007	5 November 2007

Source: Data supplied by the Hellenic Court of Audit and the General Accounting Office.

In order to create a modern accounting system for the central government and to achieve connection with other entities of the public sector, the GAO has created a special Unit for Government Accounting System Reform to oversee this project.

To modernise its reporting, the government has entered into a contract of EUR 11 million for the design and implementation of a new accounting and financial information system. There is a very poor track record worldwide for the development of large-scale budget and accounting IT systems. Clearly specified requirements are essential to success. Thus far, the GAO has not defined detailed requirements for this new system.

5.2. Development of internal audit

The focus of the current control arrangements is on the pre-audit of expenditures as part of the budget execution process (see Section 4 above). Law No. 3492/2006 aimed to reorganise financial control and provided for the establishment of internal audit units in ministries and agencies. Article 1 created the Directorate General for Fiscal Audits (DGFA) within the GAO in the Ministry of Economy and Finance. Its mission is to ensure sound management of the state budget and the budgets of bodies receiving public money.

According to Article 2 of the law, the DGFA is responsible for controlling the financial management of bodies receiving public money, so as to verify whether allocated amounts are used for the purposes for which they were given, whether disbursements adhere to budgetary and legal commitments and sound financial management, and whether revenue is collected efficiently and according to the relevant provisions. The DGFA is also charged with ensuring adequate management and control systems, and it can impose sanctions.

The law requires internal control units in every ministry and region of the country as well as in the agencies under the supervision of the ministries and the regions which have a budget that exceeds EUR 3 million (Article 12). The DGFA is charged with issuing the standards and methodologies for the management and control systems. Moreover, it is to develop standards for the organisation, internal operation and responsibilities of internal audit units of ministries, regions and other agencies. Article 15 contains a detailed list of the specific responsibilities of internal auditors, which also includes a mandate to evaluate agency performance.

In order for the provisions of this law to be fully enacted, a number of presidential decrees and ministerial decisions have to be issued. The DGFA will have three new directorates and will absorb some existing structures, including the Fiscal Audit Offices. To implement the legislation, the GAO is currently planning to recruit about 250 additional staff.

5.3. External audit

The Hellenic Court of Audit is the supreme audit institution of Greece. Its origins date back to 1833, when it was created along the lines of the French *Cour des Comptes*. In 1887, the Court acquired responsibility for pre-audit or preventive audit, which has remained an important component of its work. Article 98 of the Constitution established the main responsibilities of the Court, supplemented by the provisions of Presidential Decree No. 774/1980 which has been amended several times.

The Court of Audit is part of the judiciary and is the highest judicial authority for matters pertaining to public finances. It has the authority to impose sanctions on officials who misuse funds. The Court's jurisdiction includes central government ministries, local government and other public sector bodies, but it excludes private law legal entities (National Audit Office, 2001, pp. 133-134). The Court notes that many special accounts "escape" effective control. Moreover, for national security reasons, secret defence and foreign affairs expenditure (including defence procurement) is excluded from external audit and parliamentary scrutiny. Box 8 provides an example of more effective oversight of secret spending items.

Box 8. **The audit of secret and politically sensitive activities in Germany**

In 1969, the German Parliament amended the Basic Law to establish the principle of full audit coverage of all government activities. However, special procedures can apply to secret matters. Audit by the Federal Court of Audit is ensured, but restrictions apply to the number of auditors and the nature of reporting. Defence expenditure is fully audited. However, public reports may omit or contain only generalised information on a small number of highly sensitive items. Moreover, the federal budget sets out only the totals appropriated by Parliament for the three secret services. A confidential sub-committee of the parliamentary Budget Committee discusses these totals in detail and communicates to the main committee the totals to be provided, which are approved without further discussion. The auditors examine the secret services in a similar way as any other government agency. However, the audit findings are only reported to the confidential sub-committee, the responsible ministry and the Ministry of Finance. Finally, the president of the Federal Court of Audit personally audits the secret and special purpose fund of the Foreign Ministry and the discretionary fund of the Federal Chancellor, and communicates the findings to the permanent secretary of the Foreign Ministry and the head of the Federal Chancellery. If the president of the Court judges the findings to be of major parliamentary interest, they may be communicated only to the presidents of the two chambers of Parliament, the Chancellor and the Minister of Finance.

Source: SIGMA (1996), *The Audit of Secret and Politically Sensitive Subjects: Comparative Audit Practices*, OECD, Paris.

The Court maintains a decentralised structure, with 245 of its staff located in its headquarters, a further 160 in other units in Athens, and the remaining 245 in regional offices. Of the total 650 staff, 400 are auditors and the remainder are administrative staff. The current staffing level is an issue. At present, the Court reports 180 vacancies, partly due to lack of funding. The Court fears that its capacity will be further undermined when a substantial portion of staff retire within the next few years.

The focus of audit work by the Court is on the legality and regularity of spending. The Court maintains that there are good reasons why thus far it has not developed performance audit capacity, notably its inability to hire appropriately qualified staff as well as the constraints imposed by its existing legal mandate. Moreover, the structure of the budget, which lacks a programme basis, does not lend itself to a performance perspective. In principle, however, the Court is aware of international developments that include an increasing focus on performance audit in the work of supreme audit institutions (Pollitt, 2003). The court also agrees on the necessity for it to develop a capacity to carry out such audits.

The constitutional framework obliges the Court to carry out both pre- and post-audits, *i.e.* audits before and after the fact respectively. In practice, pre-audits absorb about half of its audit capacity, and in 2003 this role of the Court was extended to cover local authorities. The Court's pre-audit work relating to the central government focuses on non-mandatory items in the state budget, excluding the majority of spending for instance on salaries, pensions and debt servicing costs. According to the Court, there has been a steady decline in the number of rejected payment orders relating to the state budget, but problems at the local government level are more persistent. The fraction of transactions detected as problematic is in general less than one per cent. Nonetheless, the Court regards pre-audits as an important part of its work.

A key characteristic of auditing in Greece's public sector is the extent of overlapping activities by various bodies. The Fiscal Audit Offices of the GAO as well as the Court of Audit are involved in pre-audits. Moreover, the Court is not the only organisation to carry out post-audits. For example, a special unit within the GAO carries out post-audits of salary payments which can lead to the recovery of funds, for instance due to the incorrect application of salary increments or bonus payments. The implementation of Law No. 3492/2006 may further complicate audit arrangements.

5.4. *Parliamentary oversight and accountability*

Parliamentary Standing Order 31A establishes a Special Standing Committee on the Financial Statement and the General Balance Sheet of the State, which is a sub-committee of the Standing Committee on Economic Affairs and consists of 13 members. In practice, the Special Standing Committee meets only once a year prior to the debate on the financial statement and balance sheet in the plenary. It does not call witnesses. Parliament debates the financial statement and balance sheet for two days, which can involve dialogue with the Minister of Finance. In practice, this debate and the following vote are always along party political lines. The audited financial statement and balance sheet are considered within 12 months after the end of the financial year.

The Court also prepares a separate annual report, as required by Article 42 of Presidential Decree No. 774/1980. This report contains a summary of its audit work and may include commentary on possible improvements and reforms in the management of public finances. The annual report is addressed to Parliament and delivered by the president of the Court of Audit to the Speaker of Parliament. This is followed by a short press conference. According to the Court, there is "no real dialogue" with Parliament on its annual report, partly because it relates to spending which occurred about two years before. For instance, the annual report relating to the 2004 financial year was published in October 2006 and the 2005 report in December 2007. The Court notes that it often receives relevant data late, particularly on investments and sub-national expenditures, and that it is further delayed by a lack of computerisation and "outdated" data processing procedures. The Court has recently invested in new information technology and expects an improvement in timeliness, which may increase parliamentary interest. Box 9 provides examples of more extensive parliamentary scrutiny of audit findings.

5.5. *Recommendations*

There is a pressing need to review the existing arrangements for audit and accountability in Greece before adding to the partly overlapping and overly complex assignment of responsibilities through the creation of new structures. It appears that there is insufficient consultation and co-operation between the GAO and the Court of Audit in particular, and parliamentary oversight is not effective. Hence, the most important recommendation is to institute an in-depth dialogue on the reform of audit and accountability that brings together all relevant actors – in particular the GAO, the Court of Audit and Parliament – to consider the issues described below.

Improvement of public sector accounting: Central government accounts generally appear to be reliable, even if there are still aspects that need to be modernised, but this does not apply to other parts of the public sector. The GAO should standardise the public sector accounting systems and impose standards on all off-budget entities (including local authorities). The standards should be in line with international standards and should prescribe enforceable deadlines for financial reporting to allow the GAO to produce consolidated financial reports for the Greek government. The implementation of the new accounting and financial information system should be divided into short-term deliverable functional components. Thus the contract should be established with detailed project specifications. If necessary, the contract should be renegotiated to ensure this. It is paramount to focus on enhancing the quality, timeliness and comprehensiveness of cash-based accounts before considering a move to accrual accounting, which should not be a priority at this stage.

Box 9. **Parliamentary audit scrutiny in the United Kingdom and France**

Relations between supreme audit institutions and legislatures vary greatly across OECD countries, but there is an overall trend towards increased parliamentary scrutiny of audit findings. In many Westminster-type parliamentary systems, there is extensive interaction between auditor generals and a specialised public accounts committee (PAC). In the United Kingdom, the Comptroller and Auditor General is an Officer of Parliament and reports to the PAC of the House of Commons that was created in 1861. The PAC sits twice a week while Parliament is in session. The chair of the PAC is a member of the Opposition. The focus of the PAC is on the achievement of "value for money" which refers to "the three Es" of economy, efficiency and effectiveness. The National Audit Office produces about 60 value-for-money audits per year, most of which are discussed by the PAC. The PAC does not question underlying policy, and it is rare for the committee to debate financial audit findings. The principal witness questioned during meetings is the accounting officer of a ministry or agency, *i.e.* the most senior civil servant. Meetings are public and attract a substantial amount of coverage in the media. Many Commonwealth countries have similar institutions and procedures, including Australia and Canada.

In systems that follow Napoleonic traditions, relations between audit courts and the legislature have historically been less extensive, but this is changing. In France, relations between the Court of Accounts and Parliament traditionally were at arm's length and mainly limited to the annual reports. In 1999, the National Assembly decided to establish the Mission of Evaluation and Control (MEC), which is a sub-committee of the Committee on Finance, General Economy and Planning. The MEC has two co-chairs, one from the main governing party and another from the main opposition party. The Mission's reports are based on audit results from the Court as well as other information gathered by the MEC, including during hearings. The MEC produces about three reports per year. Its inquiries have dealt with a diverse range of topics such as the governance of universities in the context of public financial management reforms, defence procurement, trends in the cost of processing asylum applications, and railway financing. Since 2004, there has also been a separate Mission of Evaluation and Control on social security finances (MECSS), which reports to the Committee on Cultural, Family and Social Affairs.

Sources: SIGMA (2002), *Relations between Supreme Audit Institutions and Parliamentary Committees*, OECD, Paris; J. Wehner (2003), "Principles and Patterns of Financial Scrutiny: Public Accounts Committees in the Commonwealth", *Commonwealth and Comparative Politics*, 41(3); National Assembly of France, *www.assemblee-nationale.fr*.

Streamlining pre-audit activities: The heavy emphasis by the Court of Audit on pre-audit work is old-fashioned and an obstacle to its modernisation. As the International Organization of Supreme Audit Institutions cautions (1998, Section 2.3), pre-audit "has the disadvantage of creating an excessive amount of work and of blurring responsibilities…" A more modern approach is for pre-audits to be part of internal control processes. The Court should review their effectiveness, but otherwise focus on post-audits. Pre-audit work by the GAO is appropriate in the short term, but long-run improvements in the quality of financial management will require greater involvement of line ministries.

Assessing performance: Public management would benefit from a shift towards assessing the performance of public services. At present, neither the Court of Audit nor the GAO have a clear understanding of the requirements for and approaches to the assessment of performance. As a first step, the GAO and the Court should convene a joint working group to reach consensus on their respective roles and to develop the structures and procedures for such work on a pilot basis. The Court should receive adequate assistance and resources to develop capacity for *ex post* performance audits, which would provide input to Parliament and the public on the achievement of value for money. The GAO should invest in the development of a capacity for programme review that would support prioritisation within a medium-term framework.

Effective parliamentary scrutiny: The Court of Audit and Parliament should engage in a dialogue on how their interaction might be strengthened. At present, Parliament does not engage sufficiently with audit findings. The role of the Special Standing Committee on the Financial Statement and the General Balance Sheet of the State should be reviewed. While the creation of a separate Public Accounts Committee may not be appropriate, the Special Standing Committee could carry out a number of investigations on specific topics per year, similar to the Mission of Evaluation and Control in the French Parliament. In addition, parliamentary oversight of secret spending items should be ensured.

Notes

1. *Source:* General Secretariat of the National Statistical Service of Greece, *www.statistics.gr* (statistical.data/demography).
2. *Source:* General Secretariat of the National Statistical Service of Greece, *www.statistics.gr* (statistical.data/national accounts/employment).
3. *Source:* Ministry of Economy and Finance, *Program Budgeting 2008 Executive Summary,* available at *www.mof-glk.gr/en/budget/pb_2008.pdf*.
4. The pilot is planned to include tables with appropriations on a programme basis. In legal terms, appropriations in the 2009 budget will still be according to today's detailed input structure.
5. See *www.mof-glk.gr/en/budget/pb_2008.pdf*.
6. The ten functions of the Classification of Functions of Government (COFOG) are: 01 General public services; 02 Defence; 03 Public order and safety; 04 Economic affairs; 05 Environmental protection; 06 Housing and community amenities; 07 Health; 08 Recreation, culture and religion; 09 Education; and 10 Social protection.
7. Greece is part of the euro zone and is subject to the EU Stability and Growth Pact.
8. According to one recent comparison, taking into account the institutional features listed above, the Greek Parliament is second to last among a group of national legislatures in 27 OECD countries in terms of its institutional capacity for legislative control of the budget (Wehner, 2006, Figure 1). Only the Irish Parliament ranked marginally below the Hellenic Parliament.
9. The pilot budget figures were based on the 2006 out-turns for the special accounts.
10. The Anti-Deficiency Act in the United States provides for individuals to be held accountable for failure to maintain budget accountability, with penalties ranging from reprimand, to removal, to criminal penalties for non-compliance (see *www.gao.gov/ada/antideficiency.htm)*.

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ANNEX A

Medium-term expenditure frameworks

The International Monetary Fund defines a medium-term expenditure framework as a framework for integrating fiscal policy and budgeting over the medium term by linking a system of aggregate fiscal forecasting to a disciplined process of maintaining detailed medium-term budget estimates by ministries reflecting existing government policies. Forward estimates of expenditures become the basis of budget negotiations in the years following the budget, and the forward estimates are reconciled with final outcomes in fiscal outcome reports (IMF, 2007, Glossary).

In more detail, a medium-term expenditure framework could be said to consist of a set of ceilings and/or estimates for total expenditure, budget chapters (usually ministries and constitutional bodies) and social security funds in the medium term: the budget year plus one, two or three out-years. From a conceptual point of view, the distinction between estimates and ceilings is important. Estimates are descriptive and should be permanently updated to fit reality. Ceilings are prescriptive and should be as stable as possible. In many countries, the framework will contain a one-year ceiling for the budget year combined with estimates for the out-years.

Most OECD countries work with some form of medium-term expenditure framework. The framework is decided at the beginning of the annual budget cycle and provides a top-down direction to budget preparation. This does not mean that ministers may not put forward proposals for new spending. However, such proposals must be accommodated either within the ministerial ceiling or in the ceiling for the total (through reallocation between the ministerial ceilings). Typically the ceiling for the total is unalterable during budget preparation, but the ceilings for the ministries and social security funds are flexible and allow reallocation.

Apart from the discipline that follows from the early decision on the totals, the main advantage of a medium-term expenditure framework is that it allows planning in the medium term. Under a fiscal framework, the medium-term consequences of new initiatives must be made visible from the beginning. Multi-annual estimates for the new initiative must be accommodated under the multi-annual ceiling. It is thus important that multi-annual estimates for new initiative are realistic.

Medium-term expenditure frameworks are also important for the planning of retrenchments in terms of fiscal restraint. Major cuts usually cannot be implemented in the upcoming budget year, because they require more time to be realised: changes of entitlement laws, organisational overhaul, downsizing personnel, etc. Medium-term expenditure frameworks allow the inclusion of such reforms in the budget documentation via the use of the out-year ceilings and estimates.

Medium-term frameworks can be used in two fundamentally different ways: either they can be constructed at the beginning of every budget cycle (*i.e.* yearly) or they can be maintained over a number of years. In the first case, the framework can be called flexible because it allows adjustment. In the second case, it can be called fixed because the total of expenditures is maintained over a number of years. Some OECD countries such as the Netherlands, Sweden and the United Kingdom have moved to fixed frameworks and some are considering it (France, Hungary and Turkey). Many OECD countries combine one-year ceilings with estimates of the out-years.* Fixed frameworks are not entirely unalterable. They typically allow reallocation between ministries from year to year, as well as updating for new inflation estimates. Moreover, the total can be changed from year to year under the strict condition of compensation by structural tax measures (tax relief must lower the ceiling; the rise of ceilings must lead to new taxes). Some fixed frameworks do not cover entitlements. However, apart from these possibilities, the total of a fixed framework is unalterable from year to year. In this light, a fixed framework can be seen as a fiscal rule: it imposes a multi-annual constraint on an important macro-budgetary parameter (expenditures). This further contributes to budgetary discipline, provides stability and predictability to the budget users and has an automatic macroeconomic stabilisation effect.

Fixed frameworks can be rolling or periodical. A rolling framework is updated from year to year (the unalterable total is confirmed) and a new out-year at the end of the planning period is added in each budget cycle. A periodical framework is also updated from year to year, but no new out-year is added. A periodical framework expires at the end of the planning period (usually coinciding with a Cabinet period) and then a new framework is put up for the next planning period. Sweden has rolling fixed frameworks; the Netherlands and the United Kingdom have periodical fixed frameworks.

Australia's Green Briefs

For each submission concerning a new policy measure from any ministry, the Australian Department of Finance and Deregulation prepares a "Green Brief", named for the colour of its cover. The Greens summarise the proposals and bring together all available information, as well as providing the perspective of the Department of Finance on policy issues. A total of 78 Greens were produced for the 2007/08 budget compared to 44 for the 2006/07 budget. In order to prepare their own ministerial briefs, line ministries will get to see their respective Green before the relevant meeting of the ministerial Economic Review Committee. Greens reflect the professional civil servant view of the Department of Finance. Ministers will lobby the Minister for Finance once they know of the Greens' contents. Even the finance minister may sometimes disagree with the contents of a Green. The Department of Finance submits an overview Green which summarises the contents of the individual Greens. This overview Green provides the framework for the discussion in the Economic Review Committee.

Performance information

The programme budget is meant to secure a political strategic focus in the budget process, and performance information enhances this effect by offering transparent indicators of progress. Although one can function without the other, it is recommended that they be viewed as a package in order to maximise the overall impact of the reform.

Performance information is information concerning government results in the form of outputs and outcomes, measured against goals and targets. Outputs are defined as goods and services provided by government agencies. Some examples include teaching hours

* *Source:* OECD Budget Practices and Procedures Database, *www.oecd.org/gov/budget/database*.

delivered, immunisations provided or welfare cases treated. Outcomes describe the impact of a government programme on social or economic indicators. Examples include the change in student test scores following an increase in hours taught, the change in the incidence of a disease following an immunisation programme, or the change in road fatalities. Data on outcomes are often difficult to obtain and to verify, and the causal relationship between government policy and societal effect may be difficult to establish. Concerning goals and targets, there is a hierarchy running from those that refer to high-order objectives to those that refer to specific outputs to be achieved by a government organisation.

Despite the advantages of performance information, a number of caveats should be taken into account. For example: information about the contribution of government programmes to policy objectives is often unclear; goals are sometimes formulated in too abstract form; what gets measured gets managed – so measurement needs to be inclusive; and there may be information overload and a lack of political interest in the performance measures.

In general, experience in OECD countries suggests that performance-oriented reforms have led governments to focus on achieving tangible results (Box A.1). If successfully implemented, such reforms enable politicians to clarify objectives, to set priorities over the short and medium term, and to better communicate what results are expected from the public sector. For instance, in Australia, Canada, the United Kingdom and the United States, all individual ministries are required to produce strategic plans, including medium-term performance goals. This approach also makes it easier to show how individual programmes fit into the government's wider policy strategy. Most OECD countries have opted for a pragmatic and gradual approach to the use of output information. All OECD countries have moved to a performance-oriented budget system to at least some extent, and nearly three-quarters of OECD countries include non-financial performance data in their budget documentation (although many of them do not link expenditure to outputs/outcomes).

Box A.1. **Examples of performance-oriented budget reforms in selected OECD countries**

In Denmark, universities receive between 30% and 50% of their funding in proportion to their educational "production". For each student who passes an exam, the university receives a grant which it can allocate internally. The budget is therefore calculated as an activity multiplied by various tariffs.

In the Netherlands, the budget line "youth policy" has one general objective ("children grow up healthy and safe") and five operational goals (*e.g.* parents will receive help in time to bring up and care for their children; parents whose children have problems with their development will receive support). The operational goals are accompanied by a multi-year funding table and performance indicators. For instance, targets include a reduction of school drop-outs in 2010, a shortening of waiting lists for youth care, and a reduction in crime by 20-25% in the period 2008-10.

In 2007, the government of the United Kingdom listed a number of targets, such as: 597 000 people of working age to achieve a first level (or above) literacy qualification and 390 000 to achieve a first level (or above) numeracy qualification; 130 000 apprentices to complete the full apprenticeship curriculum; and participation in higher education of those aged 18 to 30 to reach 50%, with an increase of at least a percentage point every two years to the academic year 2010/11. The measured results play a role in determining resource allocation the following year.

Source: OECD (2007), *Performance Budgeting in OECD Countries*, OECD Publishing, Paris.