Budget tools to help focus effectiveness of support for economic transformation

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BETTER POLICIES FOR BETTER LIVES

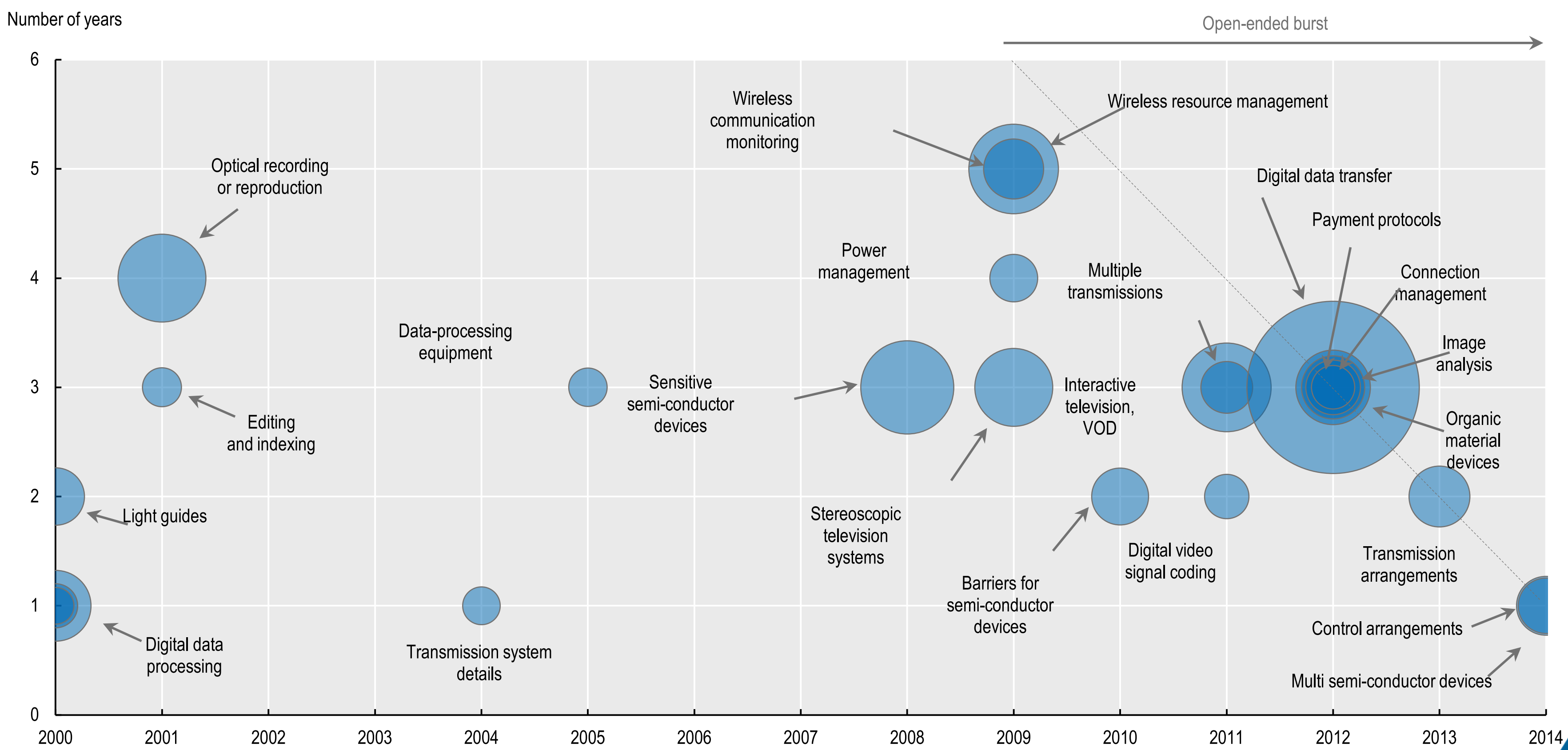
Overview

- Digital disruption demands greater agility of resource allocation
- Tools for introducing agility: these differ depending on the time-frame and the level of uncertainty
- What can ministries of finance do to prepare for broader transformation?

Technological change is unpredictable

Intensity and development speed in ICT-related technologies, 2000-14

Intensity of bursts (bubble size) and duration over time



Source OECD Science, Technology and Industry Scoreboard 2017 - © OECD 2017 (http://dx.doi.org/10.1787/9789264268821-en)

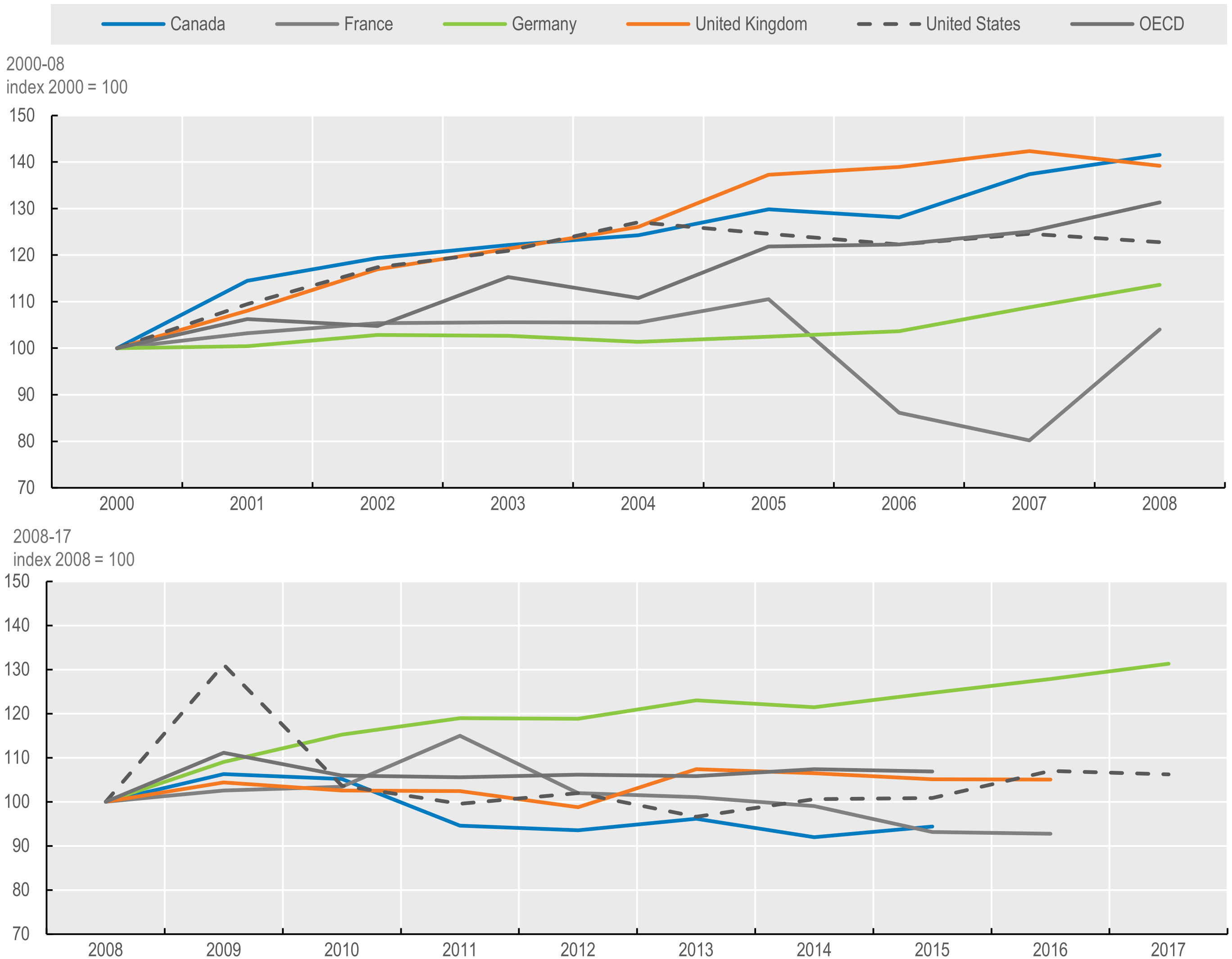
So long-term bets on a given technology are risky

- New business and economic models based on disruptive technologies are difficult to predict.
  - [**Taxi industry**] Transition from taxis to ride-sharing (Uber)
  - [**Hotel industry**] Transition from hotels to (Airbnb)
  - [**Entertainment industry**] Transition from Cinemas to online streaming (Netflix)
  - [**Communications industry**] Transition from phone companies to messaging platforms (Kakao Talk/WeChat)
  - [**Retail industry**] Transition from brick-and-motor shops to online retailing (Alibaba/Amazon)

- As such, governments need to hedge their bets, i.e. consider and invest in a wide range of options

Continuous innovation required to respond to digital disruption

Government budget allocations for civil R&D



Pre-crisis (2000-2008)

- Trends in public R&D, on average, were increasing

Post-crisis (2008-2017)

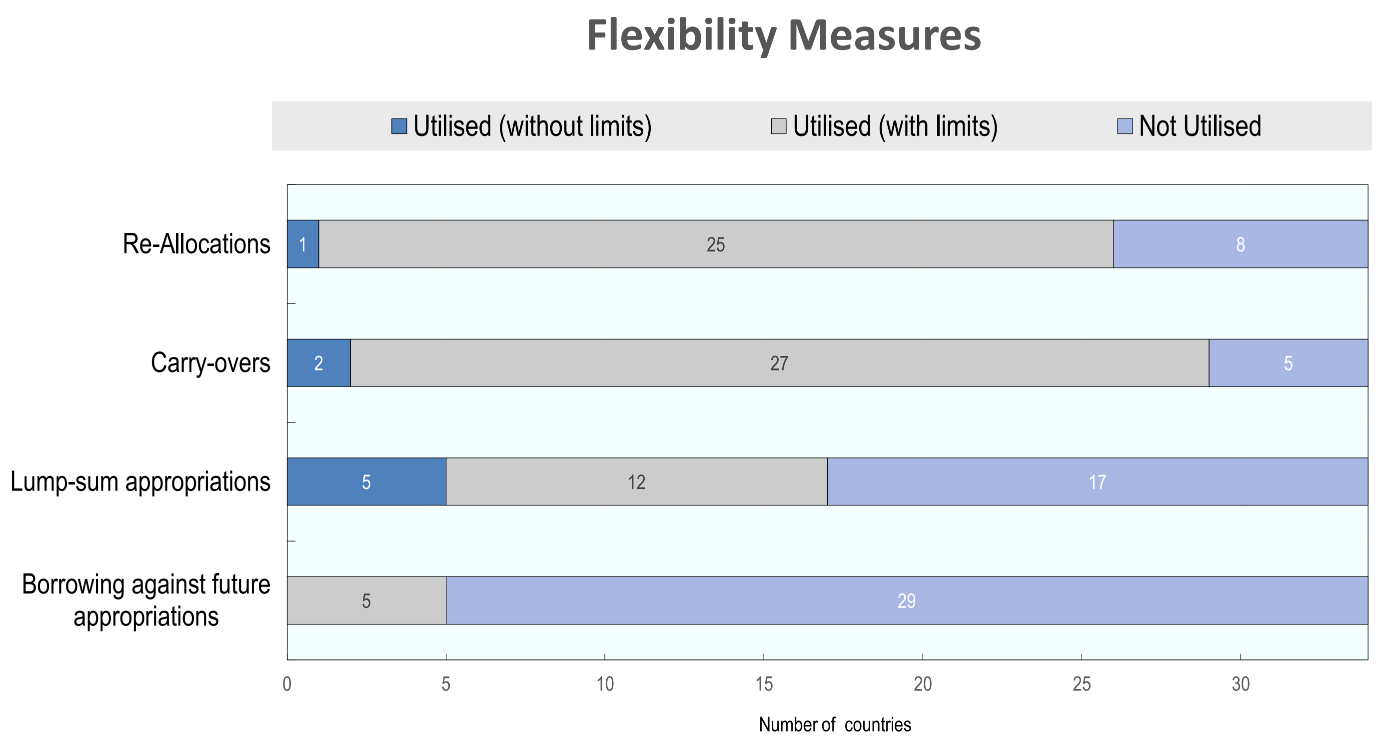
- Fiscal pressures -> R&D decreased or flattened

Yet traditional budgeting processes are not well-equipped to support innovation

- Traditional, top-down budget processes are not well-equipped to account for the needs of bottom-up innovation and horizontal collaboration
  - **Asymmetric Information**:
    - MoFs and the legislature do not have all the information to make allocative decisions
  - **Strict Limitations on Programming:**
    - Restrictions on programming handcuff agencies and opportunities for innovation
  - **Siloed Efforts:**
    - Lack of budgetary flexibility induces siloed structures
  - **Inefficient Public Administration structures:**
    - Micromanagement leads to poor service delivery

Greater agility is required, but how to balance budget flexibility and accountability?

- Trends indicate greater levels of flexibility measures given to public managers across OECD



Source Budgeting and Public Expenditures in OECD Countries 2019 - © OECD 2019 (https://doi.org/10.1787/9789264307957-en)

Tools for introducing agility

Can past information keep up with future needs?

Delivering on today

mission-oriented public sector innovation

Delivering on tomorrow

anticipatory innovation

Ensuring constant readiness

engaging with new ideas, new methods and new ways of working and delivering

Short-term *(known objectives, known technologies)*: target spending to priority areas & create pressure to innovate

Strategic planning

Coordinate resource planning with strategic objectives to help meet core investments.

(USA)

Spending Reviews

Help identify core priorities and relevant measures for reallocation.

(Netherlands)

Efficiency dividends

Encourage spending ministries to "harvest" efficiencies by assuming efficiency savings.

(Australia)

Medium-term *(shifting objectives and technologies)* : adjusting approaches based on continuous feedback

Portfolio Management

Investment approach to support new technological solutions, and to scale up promising solutions.

(Finland, Australia)

Experimentation

Instil a culture and practice of measurement, evaluation, learning and reallocation across government.

(Canada)

Agile project management

Continuous adjustment of objectives and methods based on assessment and evaluation.

Long-term *(unknown pathway and technologies)* : mission-oriented investments

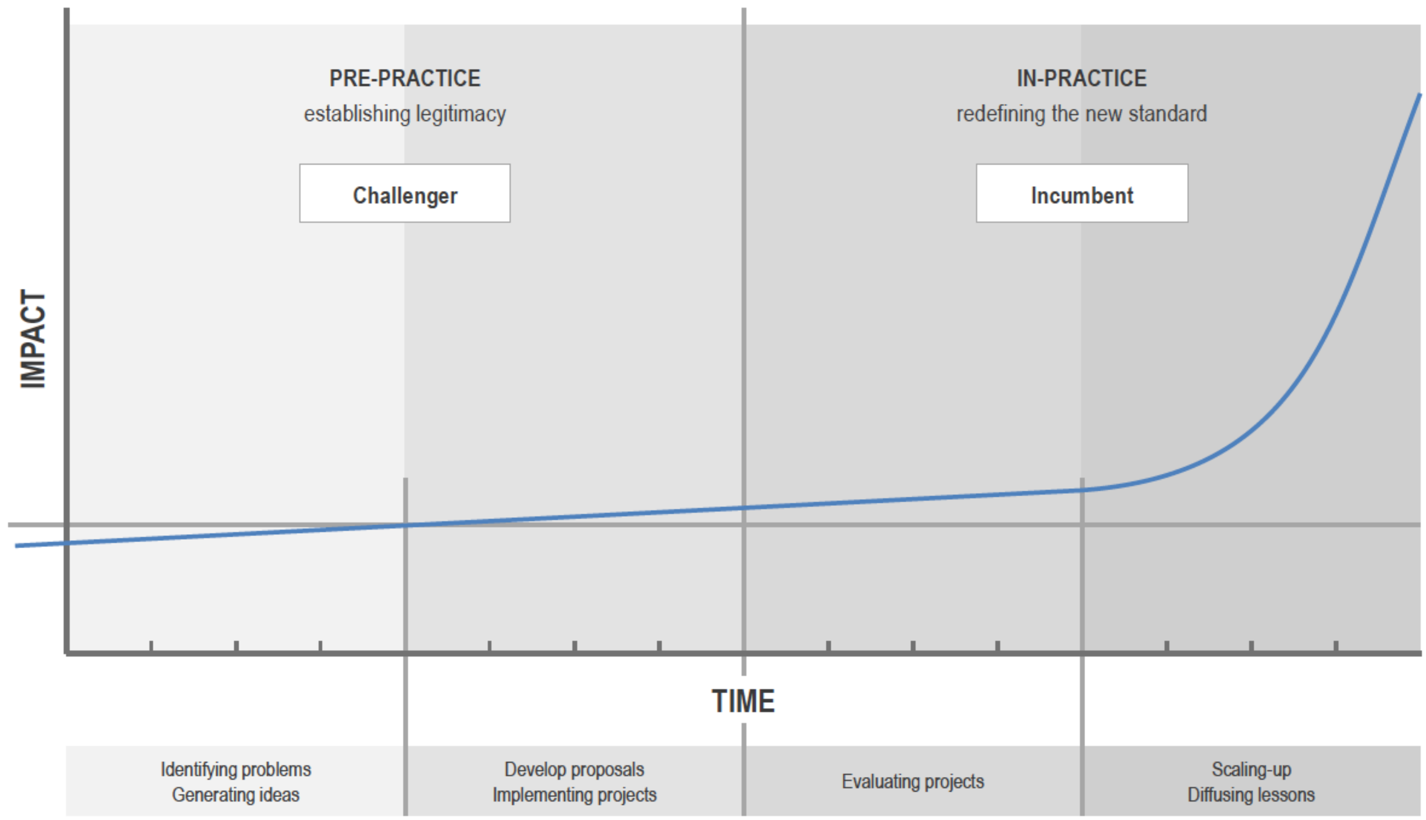
- Stable financial commitments to support a long-term vision and mission, while remaining agnostic as to the ultimate pathway and technological solution.
  - In the long-run, initial expectations on what is appropriate and needed will be wrong
  - Anticipatory approaches and scenario planning.

What can ministries of finance do to prepare for broader transformation?

Improve the co-ordination of strategic planning/budget process

- Coordinated effort to ensure budgets remain realistic while supporting strategic objectives

Development stages of innovation practice with the public sector



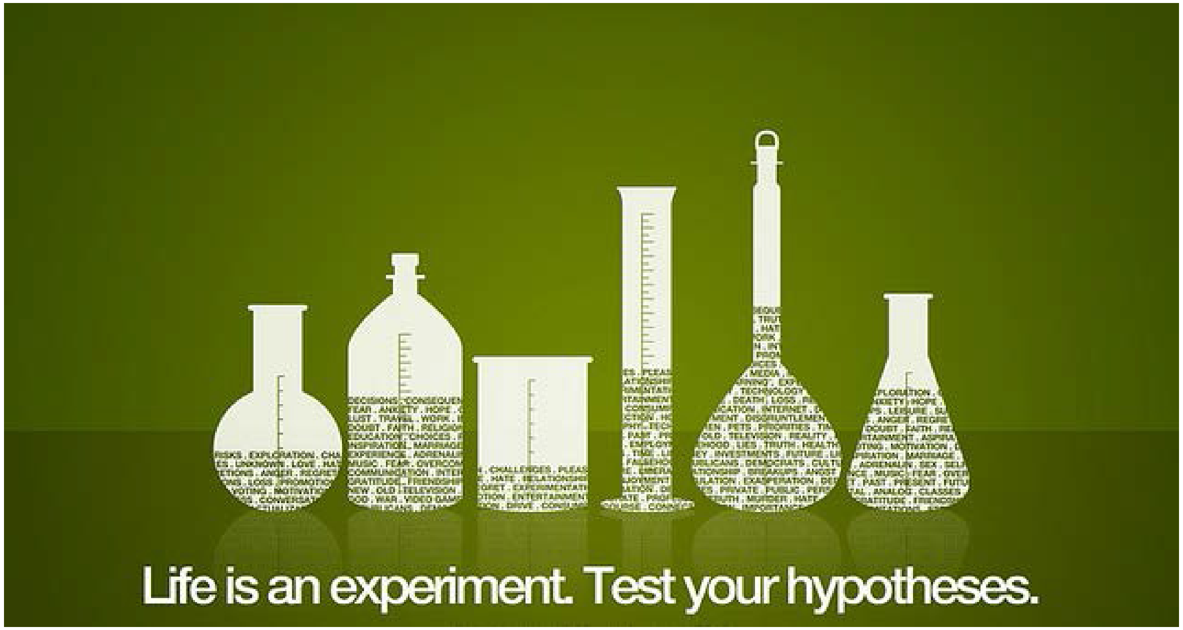
Source OECD, Fostering Innovation in the Public Sector, 2017

Challenges to the performance/ transparency paradigm

- **Capturing the complexity of performance**
  - Top-down KPIs can miss opportunities, set ceiling instead of floor, lack causal linkages
  - Overly rigid 'theory of change' can inhibit benefits realisation, new learnings, innovative solutions
  - Cascade of objectives can reinforce stovepipes and miss important contextual and external factors (behavioural insights), system interactions
- **Relevance of data**
  - What can be measured may not be what matters
  - Evidence gaps: outcome data, managing uncertainty
  - New sources of information (open data, big data)
- **Timeliness of data**
  - Fast-pace of accountability requires more timely information
  - Strong links between policymaking and implementation require shorter feedback loops
- **Transparency and openness**
  - Citizen-input at all stages, including accountability criteria
  - But greater transparency can also reduce risk-taking

Encourage and build capacity for experimentation

- Frame the problem
- Identify the intended goals
- Identify possible solutions
- Set an hypothesis
- Select a method
- Define the levels of success
- Test
- Review and communicate results
- Make a decision: pull out, re-test or scale?
- Launch
- Monitor and evaluate



Data-driven public sector: make better use of data for decision-making and foresight

Foresight

- Predictive analytics
- Identifying trends and preparing for the future

Delivery

- Efficiency and reliability

Performance

- Data-based fraud controls: from 81% success vs 30% before

Sustainable and inclusive governance

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Case Example

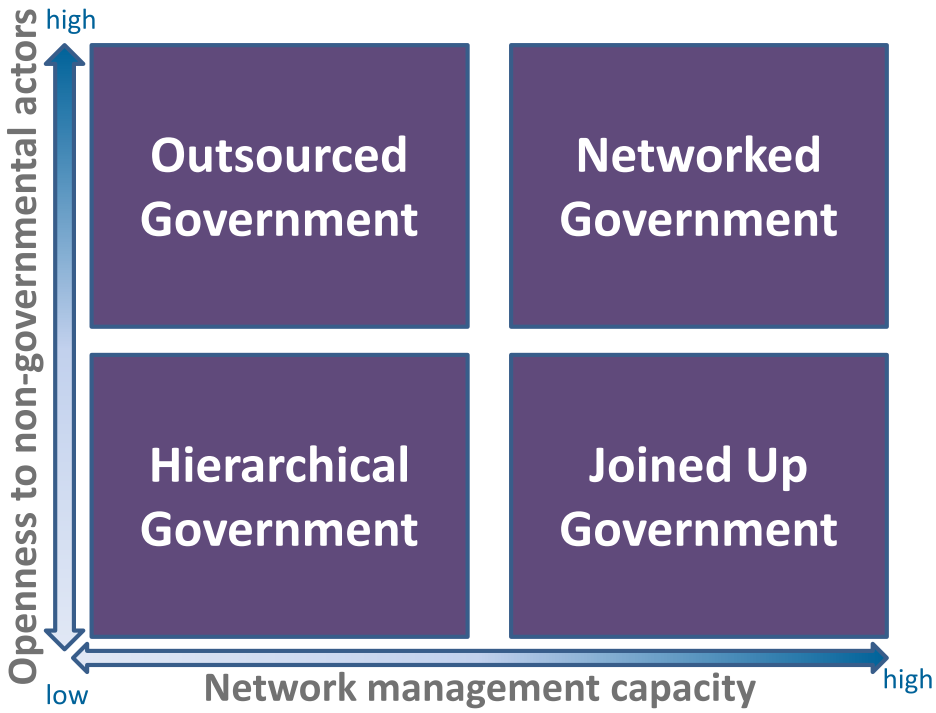
New Zealand Social Investment:

- Context: Global Financial Crisis and appetite for new ways of doing business
- Utilised a ”Whole of Government” approach using evaluation data to inform programmatic decision-making
- Practice of using impact evaluations to assess effectiveness

Spreading risk through greater openness & learning capacity

- The **systems and tools** of governance are increasingly digital, open and networked

- Crowd-source solutions through open-source technologies.
- Ex ante budget consultation to better understand potential impacts of resource allocation decisions.
- Greater involvement of stakeholders at a pre-commission stage of public procurement.
- Share and learn from results.



Open data to increase transparency and engage other actors in public value creation

2017 OECD Open Useful and Re-usable Data (OURdata Index)