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ADMINISTRATIVE REFORM IN PORTUGAL

AN ASSESSMENT OF THE CRISIS IN PUBLIC MANAGEMENT

WITH

RECOMMENDATIONS FOR ACTION

Report by: John Macy, Jr., Team Leader
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Alan Post
Frank Sherwood

Prepared in cooperation with: The Office of Rural Development and
Development Administration

Development Support Bureau
United States Agency for
International Development

April 1979

INTRODUCTION

The following report represents the findings of a U. S. advisory panel which was requested to evaluate and comment on the Portuguese Government's administrative reform plan. During its three-week visit in Portugal, March 5-25, 1979, major elements of the public sector were assessed through first-hand interviews. Our hosts could not have been more hospitable in their welcome nor more cooperative with the panel's fact finding efforts.

The Panel was composed of the following members:

John Macy, Team Leader, former Chairman, U. S. Civil Service Commission and former President, the Corporation for Public Broadcasting.

Nesta Gallas, former Dean and now Professor, John Jay Whitney School of Criminal Justice, New York City University.

Frank Sherwood, former Dean, University of Southern California School of Public Administration, Director of its Washington Center, now professor at the Federal Executive Institute.

Alan Post, former Legislative Analyst, State of California; most recently Chairman, California Fiscal Reform Commission.

The three first panelists are all past presidents of the American Society for Public Administration and all panelists are members of the prestigious National Academy of Public Administration, each with lengthy foreign experience in development administration.

I served as Technical Coordinator of the panel and as a team member on rural and agricultural development matters.

Although this final report represents a team effort, John Macy, the Team Leader, was principal editor. The final product, although brief, provides a sensitive assessment of the public administration crisis in the new Portuguese democracy. But more important, it clearly indicates a plan of action that could lead to dramatic improvements in the efficiency and effectiveness of public sector performance. There remain many issues and areas of important inquiry that we did not have time to examine and comment upon. But the dialogue has begun. And it is in this spirit that the report is presented: an opening statement in that dialogue.

Harlan H. Hobgood, Director
Office of Rural Development and
Development Administration
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April 27, 1979

Honorable Richard J. Bloomfield
United States Ambassador
Lisbon, Portugal

Mr. Glenn O. Patterson
AID Representative
Lisbon, Portugal

Dear Mr. Bloomfield and Mr. Patterson:

I am transmitting herewith the report of your public administration panel of advisers on Administrative Reform in Portugal. The elements included in the report are:

1. Executive Summary
2. Major Recommendations and Action Plans for Implementation
3. Overview Report
4. Supporting Papers
 - A. Financial Management
 - B. Decentralization, Deconcentration and Devolution
 - Section 1: Summary discussion and recommendations
 - Section 2: Detailed background
 - C. Rural Development
 - D. Personnel Policies, Manpower Development and Management Training
 - E. Panel Findings and Discussion on Public Enterprise Management

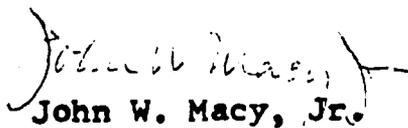
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All of the panel members join me in expressing appreciation to you both for the privilege and stimulation of participating in this important mission. It is our hope that what we have observed, evaluated and now present may be useful to you in your assistance to the Government of Portugal in achieving administrative reform. We share with you the sense that such reform is an essential ingredient in the political and economic development of post-revolutionary Portugal. The Government leadership has determined its development objectives. The contribution of the United States can be a collaborative contribution to the articulation, design and implementation of the means by which those objectives may be reached in the best interests of the Portuguese people.

We look forward to receiving your reaction to this report and your plans for its possible use.

Most sincerely,


John W. Macy, Jr.

EXECUTIVE SUMMARY
OF REPORT ON
ADMINISTRATIVE REFORM IN PORTUGAL

THE PANEL OF U.S. CONSULTANTS

MARCH 5-25, 1979

Improvement in administrative performance in the public sector has become a high priority objective for the Government of Portugal. It is widely recognized that a more effective and efficient conduct of the public's business is essential to implement the intentions of the new constitution of 1976. Past patterns will not foster the march toward human and economic development expected by the people. The measurement of citizen acceptance of its new democratic government will be in terms of the responsiveness of the public sector to popular expectations. The political parties reflecting this voter interest can unite around the cause of administrative reform.

While the necessary changes cannot be accomplished immediately a precise series of action steps toward reform need to be articulated and initiated promptly even in the face of political and economic uncertainties. Those symptoms, along with the crisis in public management, call for early action to correct deficiencies, increase capacities and solve longstanding problems.

Beyond these internal imperatives is the national determination to become a member of the European Economic Community. This international incentive applies in a meaningful fashion to the Government's capacity to raise the level of the nation's economic health to permit effective competition and dynamic participation as a co-equal member of that Community.

A commitment to the concept of Administrative Reform supported by impressive global planning to achieve it has been set in motion. But the pace and intensity of the process must be advanced to meet the challenge. To assist in that advance a panel of five senior public administration consultants from the United States was invited by the Government to spend three weeks to evaluate current policies and practices, review plans for change and advise administrators on the process.

The report that follows sets forth the panel's conclusions, its recommendations for a plan of immediate action along with

supporting papers analyzing key sectors and major issues. This section briefly presents the salient findings of the panel. The action recommendations follow. A more detailed overview succeeds the recommendations which are supported in the indexed annexes.

The accomplishment of the Government's goals in administrative reform is dependent on three key factors:

- Executive leadership to create an environment for constructive change;
- The rapid dissemination of the tools and skills of public management that will sharply improve the performance of the public sector in providing more and better goods and services at reasonable cost;
- The mobilization of not only the public employees themselves but the citizens as well to share in the reform and its benefits.

Executive leadership is the essential element in creating the environment for change. That leadership must come from the top - from the Ministers, the Secretaries of State, the career managers and supervisors. But it must have the tools for executive action. Such tools are now lacking in the office of the top manager, the Prime Minister. While acknowledging his critical political role, his managerial capacity must be enhanced. The functions of planning and budgeting now in the Ministry of Finance along with new functions of executive personnel and program evaluation should be placed in that Office. They are needed for coordinating sectoral programs and for setting production and service objectives for the entire public sector. A unit concerned with the administrative reform itself could profitably be elevated to that Office to guide the planning, design the implementation and monitor the execution.

The financial management of the Government requires immediate, serious attention. From the planning and budgeting of capital projects to the final audit of expenditures there is need for critical evaluation of existing practices to design means for overcoming deficiencies in the existing fiscal system. Serious deficits are now projected without critical examination of expenditures or realistic estimates as to revenues. Budgets are formulated without regard to measures of the outputs in goods and services they are to accomplish. A soundly conceived and well implemented public budget process is the primary tool for the allocation of limited financial and human resources in a manner

which recognizes the primary aims of the Government and supports their achievement. Currently budget estimates of revenue fail to accrue and expenditures exceed budgetary limits thereby creating large budget deficits. Management technologies are available to improve this process. But significant policy and attitudinal changes are also required. The improvements suggested here include structural changes, effective training programs for key personnel and new procedures that would involve the Ministry of Finance, the Ministries and agencies and possibly the Assembly. Output measurements for the production of goods and services by work units need to be established to form the basic building blocks for performance oriented budgeting and management.

The existing audit system is primarily directed toward examination and certification for compliance with legal requirements. This system should be extended to cover an examination of financial and management controls as well.

To mobilize the public work force and more importantly the people themselves in the process of national development the Government needs to focus reform energies on the triumvirate of decentralization, deconcentration and devolution. Initial steps in that direction have already been taken, but they need to be accelerated and extended. Basic concepts in support of this direction have been articulated but the strategy lacks a precise action program. Firm and integrated schedules for short and long term change must be prepared for and by each ministry, region, district and municipality. In consultation with local officials and elected representatives, these schedules should become an action program of the highest priority for each level of government.

Further legislative action on the Local Finances Law will necessitate a more critical executive evaluation of municipal resource requirements. This should permit a higher degree of decision-making at the local level and lead to a fulfillment of the objective to reallocate decision-making downward and outward throughout the public sector. This process of change can be expedited through an early and precise definition of functional responsibilities to be performed by the local authorities with the long-term development toward a locally controlled resource base for self-managed development. Concurrently steps should be planned to energize the capacity of local public service through authority to utilize capital markets, the training of the necessary professional and technical skills to fulfill expanded responsibilities and the further development of the GATs as municipal support entities.

To give force to deconcentration of national programs to locations outside of Lisbon, an expeditious analysis of current allocations of decision-making authority in each ministry needs to be completed and an authoritative (decentralization law, if necessary) reallocation must be mandated and executed.

The recent creation of the autonomous regions of the Azores and Madeira affords special opportunities for innovative design and implementation of more effective, decentralized, locally oriented public investment planning and resource administration.

While all sectoral programs have their important part to play in national development, none is more important than agriculture and rural development. The Ministry of Agriculture should be encouraged to pursue its plan to decentralize its support system in regions, sub-regions and agrarian zones. Each aspect of administrative reform, decentralization, training, financial management, and, most important, service to the public, should be emphasized in this sector. A dynamic rural development program will stimulate a rise in economic well-being for those dependent upon agricultural production for their livelihood. The extension service offered by the Government should be redesigned to mobilize the initiative of the individual farmer in developing and adapting more productive technologies and in satisfying the enrichment of his existence and the economic viability of the country.

At the core of administrative reform are the men and women employed by the Government. The rate of change will largely be determined by the attitude and performance of the 375,000 people who staff the public sector. It is alleged that this number is generally excessive to the operating requirements of the Government by one-quarter to one-third. However, the apparent burden of large public employment can become an opportunity. The fundamental management requirement is the design and execution of processes that will result in the most productive utilization of public sector manpower. This calls for review of existing programs, organizations and staffing, consideration of existing qualifications and performance of those now on the payroll, the reallocation of excess personnel in some sectors to existing vacancies in others through job-related retraining programs, and a reduction in genuinely excess personnel through early retirement and perhaps through setting up a "reserve" for those not otherwise assignable.

The relationship between the Government and the 42 public employee unions which have been formed since the Revolution calls for the constructive preparation of a framework of policy and procedural relationships to overcome present uncertainty and potential conflict. The compensation of public employees is a crucial issue in increasing productivity and seeking financial stability. Salary rates are not now determined on the basis of job content or pay for comparable work in the market-place. Rationalization of the compensation system is essential to avoid wage and pay decisions made solely in response to employee union or political pressures.

The imperative of training must be recognized throughout the Government with initial emphasis upon the development of the management skills of those who exercise leadership. The highest priority should be given to that group of approximately 2,000 men and women in the senior ranks who will set the pattern for a service and production-oriented public sector. It is they who will assert the professional stature, the dignity, and the continuity for the public service career. The creation of the National Institute of Administration can offer an immediate location for such a program of in-service management training. However, if the mission of the Institute is to be pre-service training at the outset, which will be of distinct value to the Government in the longer term, a separate institution, preferably associated with the office of the Prime Minister, should be established for top management, in-service training.

A staff of skilled training personnel needs to be mobilized and assigned on a priority basis to pursue these objectives with the forceful leadership of top governmental officials and with public support from the citizens throughout the country.

In each area of recommended action foreign experts in the public management sciences could be provided if desired by the Government. The pattern of their advice would need to be tailored to meet the needs and order of emphasis determined by the Government and to supplement and collaborate with existing capability.

The basic reform objective has already been constructed by the Government of Portugal. The means by which programs may be delivered to the people have been identified as a prerequisite to democratic government. The panel offers its proposals to facilitate the achievement of these objectives.

MAJOR RECOMMENDATIONS AND ACTION PLANS
FOR IMPLEMENTATION

To accelerate and extend the improvement in public administrative performance established as an objective by the Government of Portugal, high priority recommendations have been formulated by the panel. These ideas have been selected for particular emphasis facilitating the achievement of these national objectives. The six proposals that follow are presented to stimulate action within the Government. They are supported by a brief schedule of action steps for implementation of the ideas advanced. These do not represent the totality of the panel's proposals. Additional recommendations are offered in the accompanying overview.

These recommendations have been drafted from within the global approach and long range sweep of the planning already directed toward administrative reform by the Secretary of State for Public Administration and his predecessor, the Minister of Administrative reform. The panel is impressed by the philosophy and concepts evident in these plans. These recommendations are intended to assist the Government leadership in making choices and in initiating action for execution.

To realize the promise contained in these recommendations an environment for change must be created throughout the Government. To achieve that purpose the leadership of the Government must mobilize all elements of the Government to participate in the process of change. The ultimate lead must come from the Prime Minister. He must be followed by those Ministers, Secretaries of State, Directors General, regional and local officials who join him in making reform a reality. In recognition of that need a task force is proposed to provide corrective study and planning under the direction of the Prime Minister.

1. Strengthen the managerial capacity of the office of the Prime Minister through the transfer and assignment of the functional units for planning and budgeting, the creation of an executive personnel unit and an entity to supervise the decentralization process and the development of management information and program evaluation functions.
 - a. Establish a task force on the development of the office of the Prime Minister with membership drawn from SEAP, Finance and other appropriate units.
 - b. Develop the enabling legislation and implementation plans for approval by the

Prime Minister, the Council of Ministers and the Assembly.

- c. Identify and train those staff officials who will direct these activities for the Prime Minister.
 - d. Revise existing organizational units to conform and to relate appropriately to the Office of the Prime Minister.
 - e. Secure technical assistance from professional sources in Lisbon and abroad to assist in the design and execution of these plans.
2. Improve all aspects of financial management from the planning of investments and the budgeting of expenditures through the auditing of accounts and the evaluation of performance.
- a. Establish a task force for financial management under the chairmanship of the Deputy Prime Minister with professional assistance from the Ministry of Finance and with membership from the major sectoral ministries, regional and local authorities.
 - b. Secure outside technical assistance from business, the universities and foreign advisers.
 - c. Prepare the enabling legislation to authorize the improved practices.
 - d. Develop a specific schedule for the institution of new procedures on a phased basis.
 - e. Conduct training throughout the Government for use of the new procedures as they are installed.
 - f. Require periodic evaluation of the new procedures in terms of more effective and efficient allocation and use of financial resources.

3. Accelerate the process of reallocating authority to regional, district and local authorities to permit more expeditious decision making and delivery of service.
 - a. Establish a task force on decentralization within the office of the Prime Minister and associated with the new monitoring unit (see No. 1 above) with membership drawn from the major sectoral ministries and representatives from regional and local authorities.
 - b. Secure the services of technical advisers with experience in decentralization, de-concentration and devolution.
 - c. Require each ministry to examine the programs and functions within its jurisdiction to determine the pattern of re-allocation to units closer to the public.
 - d. After task force review define in precise terms the decision making responsibility at each level of Government with the ministry headquarters retaining responsibility for planning, national budgeting, policy making, standards setting, operational coordination, and program evaluation.
 - e. Develop action plans for the installation of the new authorities in this priority order: 1) municipalities, 2) autonomous regions, 3) continental regions, and 4) districts.
 - f. Monitor the implementation of the new allocations of authority for decision making in each ministry under the oversight of the decentralization unit in the office of the Prime Minister.
 - g. Hold a series of meetings throughout the country to explain to the local officials and the citizenry the new pattern for delivery of service.
 - h. Prepare enabling legislation (a decentralization law and additional legal authorization to local authorities for financial discretion) to implement the above steps.

4. Expedite administrative reform in demonstrable terms in the sector of rural development and agriculture.
 - a. Establish a task force on rural development under the Deputy Prime Minister with professional staff support from the Ministry of Agriculture and membership from appropriate ministries such as Finance, Public Works, Commerce and Labor.
 - b. Secure professional assistance to assist in the development of action plans for this purpose.
 - c. Prepare the enabling legislation to authorize the reform steps proposed.
 - d. Select specific areas in the north and south and perhaps in one of the autonomous regions for demonstration installation of new administrative policies and techniques.
 - e. Arrange for special training programs to provide qualified personnel to administer new programs.
 - f. Conduct meetings throughout the country to explain new programs and to gain participation on the part of those directly served by the program.

5. Prepare on an accelerated basis the necessary policies, organizational and procedural changes, and installation of administrative reforms in manpower planning, personnel administration and labor management relations.
 - a. Establish a task force under the leadership of the Secretary of State for Public Administration to participate in the design and application of these changes; in view of the government-wide implications of these changes the task force membership should include representatives of all ministries and major agencies and the task force should continue as a long term instrument for interministerial communication and participation.
 - b. Review the existing plan of action for 1979 in SEAP to assign priority to reforms with the most significant implications for improved program performance through early implementation.

- c. Supplement each policy change with a schedule for implementation including testing, training and the development of the necessary instructions and procedures.
 - d. Consult with supervisors and employees on an organized basis during the policy development process and at each step in implementation.
 - e. Secure technical assistance from experts from domestic and foreign sources to supplement existing professionals in personnel administration.
 - f. Arrange for the promulgation of the necessary legislation or decrees to provide the legal basis for the changes proposed.
 - g. Organize specialized training programs for the implementation of each new policy with particular emphasis upon performance of the personnel function in affirmative terms on a decentralized basis.
 - h. Organize and train a cadre for evaluation of personnel management performance throughout the Government under the new policies.
6. Mobilize existing resources and design new institutions to provide on an accelerated basis the training of Government managers at all levels.
- a. Establish a task force on management training in the office of the Prime Minister with the Secretary of State for Public Administration providing the professional support and with membership from major sectoral ministries, particularly from Education, Finance and Agriculture, and selected regional and local officials.
 - b. Secure technical assistance for the task force from outside of Government - universities, business and foreign sources.

- c. Activate at the earliest possible date the National Institute of Administration with priority emphasis upon the development of in-service training for existing managers.
- d. If the Institute is unable to meet the urgency of this requirement, establish a Center for Management Training attached to the Office of the Prime Minister with professional assistance from a council of advisers and SEAP.
- e. Relate the Center for Management Training to the program for the identification of civil servants in the top four levels in the classification system.
- f. Establish standards for supplementary management training in each ministry to develop capability aimed at the specific programs in the ministry's jurisdictions.
- g. Emphasize in management training programs the objective of improving managerial behavior, performance and effectiveness.

OVERVIEW REPORT
ON
ADMINISTRATIVE REFORM IN PORTUGAL

March 5-25, 1979

Introduction

The Government of Portugal has established as a development objective the administrative reform of its public sector. Under its new constitution it is committed to a course leading to economic expansion and greater responsiveness to the will of the people. All political parties are generally in accord on the need to improve Government's effectiveness and efficiency in delivering services to the citizens. There is a rising realization that such improvement can be achieved only through affirmative change in the policies, systems and attitudes prevailing in the public sector.

An incentive for achieving that improvement is expressed in the national determination to "reenter Europe" - to become a member of the European Economic Community. This objective is recognized by Government officials and private citizens in contemplating their future actions to strengthen Portugal's role in this important international arena. Although specific administrative standards are not prescribed for membership, the reality of competition necessitates changes to improve public sector performance.

The pursuit of the administrative reform objective has already started within the Government. A ministry of administrative reform was created shortly after adoption of the new constitution. More recently, a prominent successor unit, reporting at the staff level to the Prime Minister, the Secretary of State for Public Administration (SEAP), has been established with responsibility for future reform efforts. A program of action has been outlined by SEAP and is in process of implementation. Improvement in administrative performance has been accepted as a goal across the entire Government establishment.

To assist in the planning and execution of such improvements a panel of five public administration consultants, selected by the Government of Portugal with the collaboration of the United States Agency for International Development, conducted a three week reconnaissance of Government institutions and policies to identify targets of opportunity for administrative reform and potential areas in which technical assistance from outside Portugal might prove beneficial.

The members of the consulting panel were:

John W. Macy, Jr., Chairman

Nesta M. Gallas

Harlan Hobgood

A. Alan Post

Frank P. Sherwood

The program for the panel was organized and guided by the Secretary of State for Public Administration, Antonio de Figueiredo Lopes, and his associates in that office. During the consultants' reconnaissance period interviews were arranged with officials in the Ministries of Finance and Plan, Internal Administration, Agriculture and Fisheries, Industry and Technology, Labor, and Education and Scientific Research and legislative and political leaders with interest in administrative reform available for discussion of the needs for change.

To gain an understanding of public sector conditions outside of Lisbon, panel members visited the new autonomous regions of the Azores and Madeira and called upon regional and local officials in Santarem, Porto, Amarante, Mirandela and Cachao. Government representatives provided extensive documentation in the form of statutes, decree-laws, research studies, prospective plans and other material pertaining to changes in governmental structures and practices.

Climate for Reform

The visit of the panel coincided with Assembly consideration of the Government's plan and budget for 1979. Toward the end of the tour, the Assembly rejected both proposals, with a significant block of members abstaining, and thereby created uncertainty about the future of the Mota Pinto Government and the general financial state of all Government programs. Concurrently, another action on the part of the Assembly had confronted the Government with an urgent issue in public administration decision-making. By legislative mandate the Government was directed to increase substantially financial resources available to local authorities for their discretionary investment in local public works. This mandate forced immediate consideration by the principal sectoral ministries of the budget pattern to be followed to comply with this intent.

With the Government threatened by the negative vote on the budget and with new elections in the coming year, it could be argued that the political environment in Portugal at this time was not sufficiently stable to support programs for administrative change. The necessary preoccupation of governmental leadership

with political and financial crises might seriously deflect the necessary concentration on the means for execution of Government programs. But the panel concluded otherwise. Certain administrative reforms, particularly in the area of financial management, were essential prerequisites to more effective distribution of resources for Government programs. Improved administration, in and of itself, could contribute to increased public confidence in Government. Besides, the urgent necessity of administrative reform had been identified by successive governments and demand for its execution could be heard on all sides. Specific changes of significance were already in the design stage and could be advanced in response to leadership direction.

Scope of Administrative Reform

The scope of administrative reform can be as broad or as narrow, as general or as specific, as the Government wishes. On the one hand, there is the danger of a too comprehensive sweep of change. On the other hand, there is the potential exhaustion from concentration on minor changes with relatively limited impact. Perhaps the greatest danger of all is that of formalism, a reform that is sweeping and legally based but remains unexecuted for lack of effective tools of implementation.

Certain changes may contribute order or symmetry within the public sector but have only restricted benefits in more equitable conditions and in service for the good of the people. There is always a temptation to seek improvements in public administration in terms of theory or concept without meeting the test of more responsive reaction to the needs of the people. And no change in administration can be achieved unless the process of change not only generates the essential concept and produces the necessary statutory or regulatory direction, but it must include the actual execution of the new policy in action terms.

Greater concentration on implementation is an immediate requirement. Particular attention and resources should be directed toward those demonstrable changes that will improve the delivery of more and better public goods and services to the Portuguese people.

The panel has concluded, therefore, that there is an urgent need for Government attention to administrative change or improvement in a number of major areas most of which have already been identified by those responsible and in many instances are marked by active current planning. While it is possible to identify separately the principal areas requiring attention, it must be recognized that they are closely inter-related and should be viewed as an integrated whole rather than as separate, isolated projects.

Service to the People

Throughout the public sector the Government needs to present the reality of expeditious, responsive, and knowledgeable performance of Government's services to the people. To that end, the existence of these services should be more effectively communicated to the people. Public officials must alter their attitudes by emphasizing the principle of service to the citizen rather than the practice of control and discipline. Procedures and paperwork required of the citizen in his relationship with the Government should be simplified through the application of a ruthless standard of necessity for each requirement. To overcome the traditional impression of inordinate delay in conducting business with the Government and to encourage administrative judgments in the context of local conditions, decisions by public officials should be reallocated to the levels closest to the people to be served with the corresponding authority and resources necessary to carry this out. The evaluation of performance by public managers should include primary emphasis on their ability to produce against stated program goals and their relations with the publics served.

To accomplish these objectives major changes must be instituted in structure, training, supervision, financial and program management. The thread of improved service should run prominently through the fabric of any administrative reform.

Financial Management

A high priority for improvement should be assigned to the planning, budgeting and financial practices. Not only the panel but other financial advisers have reinforced the Government's concern over its critically unfavorable financial situation. Not only has approval of the budget been delayed for more than a quarter of the fiscal year, it has not been subjected to critical analysis by central or ministerial authorities prior to its presentation. Serious deficits are projected without critical examination of expenditures or realistic estimates as to revenues. Pressures are building to authorize increased compensation to public employees in light of highly inflationary conditions. The Government admits to excessive staffing to the extent of at least one-third.

The budget process is a major element of needed administrative reform. A soundly conceived and well implemented budget process is essential to the allocation of limited financial and human resources in a manner which recognizes the primary aims of the Government and supports their achievement. The panel review revealed conceptual deficiencies in the budget process. There was substantial empirical evidence of the degree to which the

budget estimates of revenues have failed to accrue and expenditures have exceeded budgetary limits, thus creating large budget deficits.

There are accepted reforms available to provide major improvements if it is recognized that significant policy and attitudinal changes are required. The suggested improvements include structural changes, effective training programs for key personnel and augmented procedural approaches affecting the Ministry of Finance, the ministries and agencies and possibly the Assembly.

The budget staffs of both the Ministry and the autonomous regions are primarily accountants or economists who have not been trained in modern budget capability including the techniques for analyzing expenditure plans and patterns in terms of organization unit efficiency or effectiveness based on clear production and service goals for that unit. This is particularly significant because of a similar lack of program or effectiveness review by the auditors.

A four pronged program should be initiated at the earliest possible date to:

1. initiate a rigorous review of each program and service in the public sector to establish output measurements for the production of goods and services by work units as the basic building blocks for performance oriented management,
2. identify the data and procedural elements needed to strengthen the public review process as it would apply conceptually to the current Portuguese situation,
3. assign program analysts to those areas which are most important to the budget and the economy and develop, with sectoral managers, the specific data and analytical factors which most accurately reflect the resource inputs and performance outputs of each program, and
4. design a program articulation and review approach in the internal ministry budget unit and a Ministry of Finance program and budget analysis staff capability.

There is need to reexamine existing capital investment projects in priority terms, giving closer attention to costs in relation to value and equitable distribution and, in particular, to relate plan implementation more closely to the data and policies employed in developing proposed current budget expenditures in the same areas. Since current program needs

and approaches often change, existing six year plan schedules are not sufficiently frequent.

The existing audit processes are primarily directed toward examination and certification of compliance with legal requirements. This is appropriate as far as it goes. What is equally important, however, is an examination of financial and management controls. Capacity to conduct such examinations should be installed gradually to provide a representative degree of comprehensive auditing which calls for examination of:

1. financial controls,
2. reporting to the Assembly,
3. attest and authority,
4. management controls,
5. data processing controls, and
6. program effectiveness in achieving output objectives.

A more extensive discussion of improvements in financial management is presented as Annex A elsewhere in this report.

Managerial Tools for the Prime Minister

Extensive changes in the organization chart of the national Government are probably inappropriate in the light of other more urgent requirements. However, there are two changes that might have decided benefit in fostering administrative improvement.

First, the Prime Minister as the managerial as well as the political leader of the Government possesses only limited instruments for his effective performance of that role. There are certain administrative tools which would enhance his capacity to direct and coordinate ministries and public enterprises functioning under his leadership. Constructive gains could be achieved through the location of the planning, budgeting and evaluating functions in an organizational unit of the Prime Minister's office rather than in the Ministry of Finance where they are inadequately performed; the remaining functions of disbursement, accounting and revenue collection constitute a major responsibility for that Ministry.

The Prime Minister has a key responsibility in the selection of Ministers, Secretaries of State, and other top officials who through their performance create the Government's

record in the eyes of the voters. Professional staff assistance in this function would assist the Prime Minister in identifying potential candidates in government, business, universities and professions, in evaluating those candidates in terms of current qualification requirements for key positions and in selecting those who will become his principal policy makers and managers. These staff activities could be closely tied to career staff development for top level positions described in the next section.

In addition, as the chief executive, the Prime Minister requires a management information system which can provide him with highlighted data concerning the accomplishment of planned programs, signal potential crises and reveal current financial conditions. His office should be the pinnacle point in a computer based system which provides program performance data for sectoral managers.

Second, a major administrative change is in prospect with respect to the devolution of government power to local authorities and the decentralization of national programs to regions and districts. General responsibility for such actions presently rests with the Ministry for Internal Administration, a ministry which traditionally, in the eyes of the people and in actual fact, is viewed as primarily responsible for law enforcement. These two functions lack compatibility. The national police function should be separated from concern for the growth and strengthening of decentralized units of Government. The planning and monitoring of devolution and decentralization would be centered more effectively in a small unit reporting directly to the Prime Minister and exercising the coordinating authority of that office.

Parliamentary Administration

The current Administrative Reform plan of the Government of Portugal might also consider the need to strengthen the internal administration and management of the recently reconstituted parliamentary bodies. For the National, Regional and Local assemblies to perform their important responsibilities, effective and efficient supporting staffs are essential. Committee processes need logistical support from staffs trained in the management of the legislative process. These staffs must: organize hearings; prepare and log draft legislation; control the successive iterations of bills and appropriations; record and publish the proceedings of committees, subcommittees, commissions and the parliament as a whole; promulgate the laws; maintain a flexible retrieval, archival and reference system; handle such internal details of parliamentary finance as pay-rolls, buildings and supplies; and provide the parliamentary body with basic logistical support during its deliberative sessions.

This need was most clearly expressed by the President of the Regional Assembly of the Autonomous Region of Madeira, who explained how the Assembly was "feeling its way through unknown and new territory" as it learned to manage the legislative process. This learning could be expedited with external technical assistance. For example, it might be beneficial to arrange an observation tour for parliamentary leaders from the Autonomous Regions to the Commonwealth of Puerto Rico, where analogous processes could be observed and, as appropriate and useful, adapted to the Portuguese environment. Specialized, in-service training on each of the support functions discussed above could be provided for the support of staffs of the National, Regional and Municipal Assemblies. Through these training processes, the National Assembly staff could develop flexible operating guidelines adaptable to Regional and Municipal legislative bodies. This would facilitate reasonable procedural standardization, and maintain a range of free choice appropriate to a democratic society. Both U.S. and European experience in the administration of routine parliamentary processes is relevant to these concerns, and should be made available in this program.

Decentralization, Deconcentration and Devolution

The Government's move toward decentralization, deconcentration and devolution needs to be accelerated and expanded. Initial steps have already been taken. The island areas of the Azores and Madeira have been designated as autonomous regions, coordinated regional planning commissions have been established, particularly in the northern area, broader discretionary powers are contemplated for the municipalities, the Ministries of Agriculture and Fisheries and Education and Scientific Research have formulated plans for transfer of certain functions to organizational elements outside of the ministry headquarters. These moves are in the proper direction, but their detailed implementation and intersectoral coordination must be planned and assured under committed leadership in Lisbon. Firm and integrated schedules for short and long term change need to be prepared in consultation with local officials and wherever possible with elected representatives of the people to be served.

The argument against prompt decentralization was advanced on the grounds that insufficient personnel existed outside of Lisbon to perform these delegated responsibilities. Obviously, this argument has some validity and it would form the justification for expanded training programs. The evidence offered the panel revealed a high level of commitment on the part of local officials and an impressive grasp of the problems they could solve if they had sufficient authority and resources.

Throughout the land there are well documented complaints about the excessive centralization of decision making at the present time. Perhaps most important is the corresponding lack of authority and capacity to initiate local solutions to local

problems. Frustrating delays, or even lack of response, was the basic theme of local experience with headquarters. In some communities these officials have abandoned hope of Lisbon approval of long needed projects. Appreciation of local conditions and popular priorities can be measured better in the community itself.

The headquarters purpose should ultimately be limited to planning, budgeting, determining program goals and standards, setting operating and administrative policies and procedures, coordinating operations, providing central technical assistance and training, and evaluating program results and compliance with standards. Operations should be reallocated to appropriate and well defined levels in specific program terms.

The autonomous regions themselves present a challenge to public administration. The local leaders in the islands are in the process of shaping the institutions and preparing the staff for the exercise of the autonomy granted by the national Government. The scope and definition of that autonomy need to be clarified to permit government development which will serve the needs of the island population while continuing their constructive relationship as important elements in the Portuguese nation.

An elaboration of these ideas is set forth in Annex B, Sections 1 and 2.

Emphasis on Agriculture and Rural Development

Since the measure of effective local management should be judged in terms of specific programs, one particular program might serve as a demonstration of the benefits of decentralization. No national program has higher priority than agricultural development with the accompanying improvement in the quality of rural life, an increase in production, processing and marketing of food. The Ministry of Agriculture and Fisheries has already been authorized to adopt a decentralized system with regions, sub-regions and agrarian zones. The Minister has enunciated a policy of "effective regionalization of structure" to implement this objective. Comprehensive plans for implementation and execution of this policy in the shortest reasonable time would provide evidence to the Portuguese people that new and more responsive Government performance had in fact been created.

Specific additional points with respect to rural development are presented in Annex C.

Public Enterprises

The requirement for administrative reform is not limited to the sovereign entities of the Government itself. More than 50 public enterprises are also within the public sector. Some of these corporations are of long standing,

others recently entered the public domain through nationalization decisions. A majority are in financial trouble and constitute a drain on public revenues through coverage of deficits or subsidies to augment income. Almost all of them are in varying states of transition without national policy guidance. Such guidance and early decisions on policies relating to governance, accountability, financial and social objectives must be included in the agenda for administrative reform. Specifically, it is recommended:

1. An independent Institute of Public Enterprises be established to provide research and policy analysis, training, technical consultation and evaluation.
2. A program on the policy and management of public enterprises be created within a major university.
3. The Auditing Service, foreseen in Decree-Law 260, be established.
4. As the unit in the Ministry of Finance and Plan responsible for the public enterprise sector, the Treasury initiate a process for rationalizing and improving the business budgeting and information systems of the enterprises.

The findings and conclusions supporting these recommendations are developed in detail in Annex E.

The Imperative of Training

The need for training has been recognized through the establishment of basic skill and administrative courses by SEAP through its Personnel Service Center, the programs in individual ministries and the new public administration curriculum in certain universities and training centers. But the imperative of training should be recognized at all levels of management within the Government. Whereas academic curricula in administrative theory and practices should be encouraged to provide a talent pool from which Government may select future managers and specialists, the highest priority should be assigned to meeting the training requirements for increased productivity and improved performance on the part of the civil servants on today's Government payrolls. As a matter of national policy each manager, with professional assistance, should be urged to study the human resource needs of his organization and to identify the skill areas where additional training will be beneficial not only to the employee but to the Government. Training programs within ministries should be designed to fulfill those needs either through ministry conducted programs, or where Government needs are general, by central agencies such as the SEAP Personnel Service Center and/or the National Institute of Administration.

Leadership recognition of these needs is reflected in the recent Government action approving the creation of the National Institute of Administration. This proposal, complete with governance structure, curriculum outlines, faculty staffing and student objectives, was prepared by a distinguished task force committed to administrative improvement in the public sector. An installation commission has been appointed to implement the approved design for this institution which will eventually offer a public administration curriculum leading to Bachelor's, Master's and Doctor's degrees in preparation for Government careers. The expeditious creation of the Institute is strongly encouraged as an academic base for public management professionalism.

Likewise, other endeavors to develop educational preparation in Portugal's universities and training centers for public service careers should receive support. This is an activity which benefits from expansion and competition. New academic subjects and techniques, particularly in the behavioral, social and managerial sciences, should be considered for inclusion in the curriculum offered in addition to the more traditional law-based instruction.

But in light of the even greater need for strengthened and expanded in-service training, the Institute could be the organizational location for advanced management training for top level civil servants. Or that purpose could be achieved through a separate entity within the Government itself in close association with the office of the Prime Minister.

Special Attention to Top Level Personnel

A draft decree-law, now under preparation within SEAP, emphasizes the important need for special attention for top level personnel. Under this proposal a special personnel system would be designed for those individuals appointed to positions assigned to the four top levels of the existing pay structure. The incumbents of these positions constitute the managerial and professional continuity for the Government. These men and women should become the leaders in the movement for administrative reform in each ministry or department regardless of the government in power. The development of management capability is essential to overcome the universally recognized managerial deficiencies in the public sector. The career patterns and opportunities of those who are likely to succeed in these positions in the future should be studied and policies and practices designed to increase their skills and to prepare them for added responsibility. The proposed system could be structurally related to the advanced training center and the executive personnel unit in the Prime Minister's office.

Conversion of Redundancy to Productivity

Top Government and public enterprise leaders interviewed by the panel were nearly unanimous in identifying "excess personnel"

as their principal management problem. No effort to quantify accurately this excess staffing was offered but figures ranging from one-quarter to one-third of the 375,000 civil servants were frequently cited. While this problem was forcefully identified, there was an absence of response to the request for suggested solutions. Since the Government had no processes for orderly lay-off of excessive personnel, managers were most pessimistic about prospects for correction. In fact, it was generally assumed that the existing administrative legal requirements necessitated continued employment whether or not there was necessary work to perform. Although an admitted policy of "Government as a last resort in employment" was not declared, the political and human realities constituted such a policy. Beyond this, the Government had an obligation to absorb over 40,000 civil servants who had returned from the former African colonies. The situation has been further compounded by substantial increases in public employment during the years since 1974.

If Government performance is to improve, this condition cannot be allowed to continue indefinitely. The compensation costs for unneeded personnel are a heavy burden on the deficit budget. Redundant personnel further reduce the efficiency of those with jobs to perform. Citizen respect for the public service is further diluted through the appearance of time servers in Government offices.

But in gross numbers this volume of public employment may not be excessive. As a percentage of the total working population it is not higher than the public sector percentages in other democratic countries. The problem may well be one of maldistribution of public manpower. There are clearly certain areas, such as the municipalities and the autonomous regions, where a shortage of qualified personnel, accompanied in some instances by a shortage of funding, has retarded necessary development. Schools could benefit from more teachers, agriculture from more extension agents, and public works from more engineers. A redistribution of public servants out of Lisbon and into the provinces, urban centers and rural areas would reduce the excess and provide skills where they are in short supply. Through job-related training those now in the service may be offered more meaningful work in essential development programs.

The fundamental management requirement is the design and execution of processes which will result in the most productive utilization of manpower in the public sector. To meet this requirement the following program should be launched by the Government in each ministry and department:

1. The review of existing programs, organization, processes and staffing to identify, in a systematic fashion, those positions necessary for program accomplishment in an effective and efficient fashion.
2. The review of qualifications and performance of all employees now on the payroll to ascertain which ones meet the requirements of the identified positions.
3. The reassignment of excess personnel to other departments or ministries or the government activities outside of Lisbon where their skills can be employed in recognized vacancies.
4. The institution of job-related training programs to convert employee skills to meet position requirements.
5. The determination of eligibility for retirement, possibly at an earlier age than now permitted, for those for whom positions are not available.
6. The consideration of a new "reserve" status, outside of the present employment location, until other opportunities arise for those not assigned through the other steps.

These steps proposed for solution of this problem are the same management moves that should be a regular part of the planning, budgeting and staffing cycle in each governmental unit. Central agencies, SEAP and the Ministry of Finance, should develop the capacity to assist the ministries in developing the means for performing these functions.

Improved utilization of public sector manpower is directly related to the total national effort to plan, guide and evaluate the human resources development in all sectors of employment. Portugal's highest valued asset is the labor and creativity of its people. A national environment in which men and women can be productive at the peak of their skills is a top priority development objective. Government plays a leading role in promoting that environment through economic growth, employment opportunities, education and training. The administration of that role deserves special scrutiny and evaluation in the program for reform.

Labor-Management Relations in the Public Sector

For many years union activities in the public sector were prohibited. With the Revolution such prohibitions have disappeared. The Government is faced with an important new management responsibility. It must deal with 42 different unions representing a wide range of Government employee groups. At the present time discussions between Government and union representatives are held on an ad hoc basis without benefit of policies or processes. While these new found means of communication have produced benefits for both parties, the absence of a framework within which the relationship can be conducted produces uncertainty and potential conflict. Consequently, there is an urgent need to devise an appropriate Portuguese labor-management relations pattern for the public sector. Such a pattern should recognize the objective set forth in the new constitution and the relationship of Government unions to political parties.

In the course of the panel's Lisbon experience there was a two week work stoppage by revenue collectors in the Ministry of Finance. Although this pay dispute was resolved and the employees returned to their financially essential task, the terms and the processes of settlement may very well establish precedents which, lacking a policy framework, may lead to future difficulties.

In light of the urgency of this issue an interministerial task force, with staff assistance from SEAP, might be formed by the Prime Minister to undertake immediately a broad review of the current situation and the formulation of proposed policies for dealing with it.

Reform in Personnel Policies

The need for policy determination in the personnel development area has already been cited in the case of training, determination of job requirements and labor-management relations. But there are other policies, particularly those pertaining to compensation, which have already been identified in the SEAP work program under the heading of "Enhancement of the Public Service." Each of the 21 projects under this designation has been assigned a target date for completion within 1979. The completion and acceptance of these projects will provide Portugal with a new personnel system intended to be more responsive to the country's future needs.

To assure a reasonable degree of acceptance among managers and employees, the policy substance in the new system needs to be formulated with the participation of ministry officials who must rely upon the skill and productivity of civil servants to achieve their program goals. There is little evidence of such participation at the present time. It would be desirable to form an interministerial advisory committee to evaluate the relative significance of the individual projects in relation to operating needs and to participate in the drafting of the new

proposals. In fact, a continuing group of ministerial personnel representatives would be salutary as a part of the policy development machinery in personnel administration and as a display of the concern in SEAP for the views of program managers.

In the years since the Revolution there have been substantial increases in the salaries paid to public employees. These increases have been justified on the grounds that civil servants were intentionally underpaid under the Salazar-Caetano regime and inflation had seriously eroded the real value of compensation. It is generally assumed that public employees are still disadvantaged when their salaries are contrasted with those paid in the private sector. Even with the budget in serious deficit, there is general support for yet another round of increases. Most of the increases have been politically determined on the basis of past experience but without reliable data to compare total compensation (salaries plus benefits such as tax exemption) with total compensation paid for like duties and responsibilities in the private sector. Both in fairness to employees and with concern for the unbalanced budget more rational comparative measures should be instituted to assist in reaching critical salary decisions. The existing projects in the compensation area need to be expanded to include these measures as a part of future salary administration.

An expansion of these observations on personnel, manpower, compensation and training is provided in Annex D.

Management Information and Program Evaluation

In their review of the public administration condition in Portugal the panel members examined the performance of the several management functions. As indicated earlier, increased emphasis was considered necessary in planning, budgeting, organizing and staffing in each of the program sectors. The existing means for accomplishing these functions are generally inadequate in most of the ministries. As suggested above, improvement in the management tools available to the Prime Minister should include the placement of these staff activities within his immediate office.

Assuming a more effective capability at successive management levels, there remains the essential execution of those programs which constitute the *raison d'etre* for each Government agency. In many instances the panel observed well prepared statements of program concept and even legally perfected decree-laws authorizing administrative action. But the impression was conveyed that the step from concept to execution was proving particularly difficult. The transition from analysis to action was underdeveloped. The conversion of plans into implementation calls for specialized attention by those responsible for results as well as the staff agencies.

The Government has been giving increased attention to its data processing capability. Within SEAP a special unit has been created to provide an overall governmental review of information systems. This review has been largely a control mechanism to date in an effort to rationalize the acquisition of computer equipment in the various ministries and to assure optimum compatibility of systems between ministries. The extension of this responsibility to the design of management information systems for the Prime Minister and ministry executives would be a logical and desirable step. Without such information top management will be handicapped in exercising overall management control of programs with decentralized operations. Without the expense of elaborate computer systems the critical points of program achievement can be recorded for evaluation purposes at successive levels of management.

And systematic evaluation is another managerial gap which needs to be filled. Utilizing data provided through the information system, those engaged in the valuation function can measure and assess performance. But data alone is not sufficient. Program and administrative specialists should periodically review on-site program activity in Lisbon and throughout the country. Such evaluation should be closely related to the audit function exercised for financial control purposes as described earlier.

A recognized connection should be established between the evaluation function and the planning activity for the Government at large and for each sector in order to assure that future program plans recognize the realities of past program execution.

Conclusions

By initial planning and authorizing actions the Government of Portugal has signaled its intent to include administrative reform as a major development thrust for the future. There is recognition of the importance of administration in the accomplishment of national goals in a fashion meaningful and beneficial to the Portuguese citizens. From this start an expanded and expedited program can be pursued if there is top leadership commitment and if the necessary professional assistance can be developed or secured. Assuming the commitment has been manifest in the request for this panel's advice, it is proposed that an administrative reform program be specified as a short and long term goal with priority given to the areas described in this report:

1. Improved services and communications to the public.
2. Improved budgeting, accounting, and other aspects of financial management.
3. Design and installation of additional managerial tools for the Prime Minister.

4. Expansion of internal administration and management for parliamentary bodies at national, regional and local levels.
5. Special program and organization to assure expedition and facilitation of decentralization, deconcentration and devolution.
6. Concentration of reform in the accomplishment of national goals in the critical program of agriculture and rural development.
7. Evaluation and rationalization of the management of the public enterprise.
8. Formulation of policies and programs to reflect imperative need for public service training, including preparation for establishment of the National Institute for Administration.
9. Concentration of the career development, training, mobility and performance of top level managers and professional personnel.
10. Initiate comprehensive program for identification retraining and reassignment of existing excess public personnel.
11. Design and install a policy and process framework for the constructive relationships between management and unions.
12. Expansion and expedition of reformed policies relating to all aspects of personnel management.
13. Study and design of new systems for management information and program evaluation.

Trained staff for work in these administrative reform areas already exists in SEAP and the ministries. They need to be mobilized and assigned on a priority basis to these objectives with the support of top governmental leadership and with public support engendered through an information program citing these objectives. In each area foreign advisers with international experience could be provided if desired by the Government. The pattern of advice should be designed to meet the needs and supplement existing professional capability. In a number of areas it would be possible for a single adviser to assist concurrently in more than one project. From the initial reactions received from Portuguese officials interviewed, the panel believes

that assistance from foreign advisers in most of these areas would be welcomed.

The Government of Portugal has recognized an imperative of statecraft all too often overlooked by national leaders. They have identified the means by which programs are delivered to the people as a prerequisite to effective democratic government. With that recognition and with commitment to fulfill this goal, this essential objective of administrative reforms is on its way toward achievement.

FINANCIAL MANAGEMENT

Principal author - Alan Post

Planning and Budgeting Capital Projects

There is need to reexamine existing capital investment projects in priority terms, giving closer examination to costs in relation to benefits and, in particular, to relate plan implementation more clearly to the data and policies employed in developing proposed current budget expenditures in the same area. Planning and budget officials affirm that there is little or no regular procedure for examining the basis for current budget expenditures alongside the expenditures made to carry out related capital projects. Corresponding improvements are necessary to develop the data which most accurately reflect both current support and capital investment needs.

For example, in hospital support, and related construction, data should include patient population classified as to both acute and chronic care. As support budgets are developed, the patient population estimates for the budget year should be compared with program data used to justify capital priorities. Prison needs should be expressed in numbers of felons expected to be supported and housed, classified by minimum, medium and maximum security constraints. Education institutional needs should be annually related to current budget requirements, as reflected in student enrollments, by grade levels, career preferences etc.

It should be emphasized that current program needs and approaches often change and that six year, or even three year, capital investment plan schedules are not sufficiently frequent to reflect optimal efficiencies or effectiveness. It is desirable that data bases be determined which can be most useful in both current and capital budgeting and that such needs be applied annually to sectoral or program budgeting.

The current system, both on the mainland and in the Azores, lacks review by planning staff of the project costs at the time of appropriation or during construction. Such review is essential to monitor changes in scope of projects or changes in costs relative to original assumptions. Where discrepancies appear between either scope or cost assumptions and current experience, adjustments should be made either in the projects, if feasible, or in the funding. The failure to do this results in uncompleted or delayed projects, or it may result in serious overexpenditure for one project at the expense of adequate funding for other projects of equal or even greater priority.

Budget and Management Information Systems

Specific attention should be given to improving the collection and reporting of budget and management information. While there is voluminous reporting of statistical information most administrators allege that it is of dubious quality.

This was confirmed by the representatives of the National Statistical Institute. It would appear that the statistical system with both its policy Council and its operating Institute reporting directly to the Prime Minister, supplemented by consultative statistical committees, is a sound structure which over time will improve the quality of data. The factor that appears to be lacking in respect to fiscal and program review is an agreed upon set of statistical measures which reflect the highest budgetary and related program review needs, collected and reported in a manner which assures their reliability.

It is, therefore, recommended that a consultative statistical committee be established pursuant to Section II of the Decree Law establishing the National Statistical System, charged with the responsibility of identifying the particular elements of data needed for program review in connection with the budget process and for developing data collection and reporting methods which will assure consistent and accurate information for budgetary and management purposes.

More emphasis should be placed on data which show expenditures per capita for individual programs, per unit of activity or, more important, per unit of service delivered. Questions which illustrate this emphasis: what are expenditures per railway passenger mile, and per dollar of passenger

revenue collected? How does this compare with last year's expenditures and revenues? What are the trends in the cost elements of fuel, maintenance and personal services as measured by appropriate units of data?

Performance Reports

Performance reports should become standard forms of measurement. The performance report compares the actual cost and accomplishment with what was projected in the budget. Periodic reports issued during the fiscal period can prod managers to examine their program actions and hopefully take corrective steps.

Portuguese agencies have not uniformly stayed within their budgets. The reporting of actual costs of specific programs on a more current basis can assist in making adjustments directed toward cost containment. Similarly, it can direct attention to increased production or service delivery as distinguished from cost containment. While emphasis on service delivery will not directly help resolve Portugal's critical fiscal problems, it can help assure that the public receives a reasonable return for its tax or other costs, and help to maintain public support for legitimate government programs and for the government generally.

A widely recognized and criticized problem is excessive government controls, especially by the central government.

This criticism is directed particularly at required budgetary and personnel approvals. It should be recognized that budget controls can be reduced by the development of performance or output standards, and their application to such activities as purchasing, personnel assignments and pay, requisitions and travel. These standards must be carefully developed and administered lest they become equally onerous. Properly utilized, however, they serve to free the budget process so that it can serve more properly management responsibilities. If accurately and currently compiled, standards can be used to justify the administration of programs and thereby avoid undue expenditure controls.

Revenue Estimates

Revenue estimating for the budget is done largely by one individual in the Ministry of Finances. While very knowledgeable, he suffers from a lack of good data. He would gain independence from political pressure to increase estimates above those which his data support by employing a collaborative effort participated in by banking, academic and private sector experts. This effort could produce conceptual elements of the composite projections, as well as individual comments and estimates of the elements. Such a voluntary committee might be most helpful through receiving, probably during November of each year, a draft prepared by the budget staff of the assumptions and associated economic and tax collection

data which are tentatively to be the basis for the prospective budget revenue estimates. The particular subject area which might be assigned to individual members would include assumptions as to international economic factors, price income, and estimates of gross national product prepared by the Bank of Portugal representative. Estimates of sales of automobiles and other durable consumer goods might be analyzed by industry or academic members. Income factors also should be analyzed by agricultural, industrial and commercial and savings banking experts.

The suggested basis for making revenue estimates is (1) to develop a series of economic assumptions leading up to an assumed gross national product for the budget year, (2) to develop tax or other revenue estimates consistent with these economic data and, (3) to prepare a composite statement of economic and tax projections with national income and other economic data identified.

The advantage of spelling out the economic and related revenue assumptions, participated in by banking, academic and private industry financial or sectoral experts, is the greater precision attained, the broader base of professional support achieved and a reduced ability to inject other than objective factors into the estimates for political reasons.

Such a formal procedure should be instituted immediately with the basic data and methodology for both economic and revenue projections developed prior to next November by the suggested committee comprised of expert representatives of the Bank of Portugal, the National Statistical Institute, academic institutions and several major economic sectors. The budget staff should next develop a draft economic and revenue projection paper employing this methodology for review by the committee during November or December.

The budget document which goes to the Council of Ministers for approval should include a summary statement of the procedure followed and the assumptions and tax estimates developed in accordance with the data and method. In the event that major economic and planning or fiscal policy changes are made by the Council of Ministers which would alter economic and revenue assumptions, they should be reviewed and expressly reestimated in conjunction with the committee of experts in the form of a new draft set of projections and assumptions.

The final form of the budget which goes to the Assembly should include the revised summary statement and projections in a special section devoted to revenue estimates.

Audit

Portugal's audit processes are primarily directed toward examination and certification of compliance with legal requirements. This is appropriate as far as it goes. What is

equally important, however, is that an examination of financial and management controls be made. Capacity to conduct such examinations should be installed gradually to provide a representative degree of comprehensive auditing. Comprehensive auditing calls for examination of the following:

- Financial controls.
- Reporting to the Assembly.
- Attest and authority.
- Management controls.
- Data processing controls.
- Program effectiveness in achieving output objectives.

The objective of comprehensive auditing is to provide the parliamentary bodies of Portugal and its autonomous regions with objective and comprehensive examination and evaluations of ministries, departments, and the independent entities on a cyclical basis and to coordinate these efforts with the internal audits of these agencies. Most auditing in Portugal is carried out by the internal auditors, and while the Court of Accounts carries out independent audits with annual reports to the Assembly, there appears to be need for a stronger system than the present one which places emphasis on verifying legal authorization and compliance, with almost complete reliance upon certifications by administrative officials.

It would be desirable to define the responsibilities of the Court of Accounts. Such definitions should include, along with expression of opinions on financial statements and annual reporting on instances where there is insufficient accounting and control over public resources, the responsibility to report cases where money has been spent in demonstrably inefficient or uneconomical ways. Such reviews would be complementary to reviews of efficiency and effectiveness made by the Budget Department in connection with evaluation of needs and costs reflected in preparation of the budget.

With this increased responsibility, the Court of Accounts which reports directly to the Assembly will be able to recommend specific corrective actions free from executive pressure to support uncritically all acts of the administration. A well designed effort to strengthen the separate authority and role of the Assembly as the "public overseer" can do much to motivate reform in public administration. The audit function, appropriately broadened, is an important such step.

Parliamentary Budget Review

An additional area of parliamentary concern is the review of budgets prior to authorization of expenditures. The budget is a document of singular importance, reflecting the national policies for all matters which require financial support. Concern has been expressed about the failure of

the executive ministries to carry out effective review of the costs, results and related fiscal needs of the various functions and activities of the government. Too much reliance is currently placed upon the various agencies to determine for themselves the most efficient and effective allocation of funds. The total budget thus grows in expansive fashion unchecked by independent, informed skepticism and analysis.

A corollary to the suggested development of expert program budget review by a budget unit in the Prime Minister's Office is the development of a small, but expert, staff to the Assembly which is charged with examining both the internal budget formulation of the various agencies and the comprehensive budget decisions of the Government as developed for it by the Budget Office. This review is unique and equally valuable because it is "independent." The office would be responsible to and present its analysis and reports to the committee of the Assembly which reviews the budget. It might ideally present a report which goes simultaneously to the entire Assembly membership as well as to the committee. In this form it would emphasize compilation of the budget data which portray most clearly the major fiscal issues, as well as constructive program information and issues for both parliamentary committee review of budgets and the effectiveness of related organic statutes which create the functions, structure and administrative policies of the executive branch of government.

This proposal should not precede or take the place of the installation of improved and broadened program review by the budget office in preparing the budget. That office can be more directly effective in causing the individual executive agencies to develop their own internal program review processes as a response to budget requirements. The proposal is, however, a step which ideally should be initiated in conjunction with executive improvements.

Tax Administration

The tax system of Portugal is a national one, in which the autonomous regions have only the authority to reduce customs fees or make exemptions from such fees. Local governments may establish fees for municipal services, but because taxes have become extremely burdensome, particularly with the drop in real income of wage-earners, local councils have been unwilling to increase service fees. Many, if not most of these, have not been increased since the 1930's. These include fees for water service, electrical service, garbage collection as well as rental rates of public housing. Portugal's tax administration appears to be deficient primarily in respect to its unwillingness to enforce collection of tax liability. This weakness exists also in the autonomous regions, where central Government officials and auditors are equally responsible for administration. The principal

reason expressed by administrators for this unwillingness is the extreme financial difficulties currently encountered generally throughout the country. Citizens regard the tax burden as oppressive and Government officials state that Portugal has one of the highest tax structures in Europe. A perception, incidentally, which is not borne out in the data available. The OECD reports that Portugal's general government revenues as a percentage of GNP are probably the lowest or second lowest in Western Europe.

Tax audits are selective with most intensive audit being made of higher income and professional returns. Computer systems are being installed, but a specific program of utilization is vague. There is no present plan to conduct a one hundred per cent check of mathematical accuracy of income tax returns, for example, which appears to be a good initial step for improvement and a highly effective use of computer equipment. Similarly, a series of procedures for computer selection of returns which show abnormally high deductions or relatively low tax liabilities could be developed. Additional study of the details of tax laws would be necessary to suggest specific tax audit stratification and computer application. This area appears, however, to merit technical assistance.

DECENTRALIZATION, DECONCENTRATION AND DEVOLUTION

SECTION 1

SUMMARY OF DISCUSSION AND RECOMMENDATIONS

Principal author -Harlan Mobgood

The Portuguese public administration suffers from a significant anomaly in its decision-making structure. While it lacks the tools for information gathering and analysis, for resource assessment and allocation, and for inter-sectoral coordination at the center (i.e., in the Office of the Prime Minister), it is excessively centralized in its decision making structure in each of the sectors (ministries). The forthright commitment in the 1976 constitution and subsequent government policy statements and decrees to decentralize the bureaucracy, deconcentrate the agencies whose staffs are largely in the Lisbon area into regional and sub-regional field offices, and to devolve public functions to secondary and tertiary levels of government (regions, districts and municipalities) is still largely rhetorical. Decision making is still excessively centralized in the offices of the Ministers and Secretaries of State. Secondary and tertiary levels of government have not had devolved to them either the functional responsibilities that would expand their ambit of operations at the local level or the authority over resources necessary to carry out the functions they now have, let alone the undeveloped functions that could be allocated to them. The Portuguese strategy for administrative reform has not absorbed the simple doctrine of democratic administrative polity that "decisions should be made at the lowest level possible and executed under the closest surveillance of the people themselves."

Perhaps the single most urgent decision that must be made by the Government in regard to its Administrative Reform is at the strategic level: to what degree does it really intend to implement its general policy of decentralization, deconcentration and devolution. When it comes to grips with this large policy, or strategic decision, it then can deal with the tactical matters of how to execute it. On the assumption that the Government does mean what it is saying, in the Constitution, planning documents and several decree laws, the following observations must be made:

Local Authority and Capacity Building

The panel is addressing this subject as an administrative question and not a political one. Therefore the following fundamental requirements are essential to the completion of a minimally sufficient, operationally sound, administrative environment for developing responsible and responsive units of management at the points where goods and services are delivered to the people (by central ministry offices, by the autonomous regions, by the municipalities):

1. Decision-making Must be Reallocated Downward and Outward

Centralized decision making continues to impede the public's business. By law and by tradition even routine operational decisions must be made in Lisbon and specifically in the Offices of the Ministers of State and the Secretaries of State. Action documents dealing with simple local projects (school repair, small housing projects, potable water system

construction, road maintenance, rural electric distribution systems, health center improvements) languish on the desks of overworked Ministers while field officials and municipal officers wait for the authorization to act. Clearly these impediments to responsive government must be removed. An expeditious analysis of the current allocation of decision-making authority needs to be completed and an authoritative ("decentralization law" if necessary) reallocation downward must be effected. One well informed national political leader suggested that to be effective such a reallocation would have to be specific and essentially prohibitive rather than permissive. That is to say that in order to change the current bureaucratic behavior at the top, it will be necessary to specifically authorize certain decisions at lower levels in the organizational structure and prohibit their retention at higher levels. It was argued that in the current environment, permission to delegate would not work since habit and tradition would certainly reinforce old centristic decision-making patterns. Reluctantly, it is concluded that this is probably correct.

2. Functional Responsibilities Must be Clearly Defined for Local Authorities

There remains substantial ambiguity over the roles that local governments shall play in the new Portuguese democracy.

It is urgent that any reallocation of functional responsibilities to the local level carry with them a corresponding reallocation of local decision-making authority. Under the present practice, most major municipal undertakings still have to be reviewed and passed on in Lisbon by one Ministry or another. It is essential for the development of local government that this state of affairs be reversed, regardless of the extent to which devolution of new functions is executed. Local democratically elected leadership must stand before the electorate fully accountable for their trust. They cannot do so if every uncompleted project can be excused as the fault of the anonymous, irresponsive hierarchy in Lisbon. At the very least, a system of central review by exception needs to be initiated. That is, each local authority should be empowered to act over its entire range of functional responsibilities within a decisional time frame (e.g., within 60 days after a project has been fully prepared and submitted for technical review to the appropriate central authority). The central authority should have only the right to stop its execution based on major exceptions. This is significantly different that the current system wherein a positive central approval must be obtained before any significant action can be taken locally. In order to execute such a reallocation of

decision making, it must be clear which functions belong to which jurisdictions, and under whose authority the review process may be conducted.

3. A Locally Controlled Resource Base for Self-managed Development

Equally important to the process of developing responsible local government is the need that local authorities have sufficient authority to generate resources necessary to execute their locally planned programs. The recent local finance law does not touch this issue directly. At best it would provide a very substantial subsidy to the local authorities to carry out urgently needed social and economic development programs (although the functional areas for these programs yet lack clear definition as noted above). But it would not permanently transfer to the municipalities a revenue base that they in turn could utilize as a means for self-determined public-resource generation to meet locally determined priorities. The new law perpetuates the old patterns: one must always look to Lisbon for help. Until the structure permits local governments to look to themselves for their self-development needs to be met, effective popularly controlled "engines of development" will not emerge from the traditional municipal structures. Clearly such a radical devolution of a resource base for local management (i.e., authority over property taxes and

rates thereon, over commercial licenses and their rates, over local transaction fees, over public service and utility user fees and rates) must be accompanied by information and training on how the new authority can be utilized as a public trust while a system of central post-audit needs to be implemented to assure the integrity of the system (This is discussed following under Technical Assistance and Training).

Given this, however, there is a wide range of fiscal management tools that are currently denied local authorities that should be considered immediately for the energizing of the local public service capacity:

(a) Local governments need the authority to utilize capital markets. Clearly modern fiscal management argues that local governments which are to play critical roles in the generation of long needed public goods and services should have a wide range of choice on how to generate the resources needed to the task. These fiscal tools need to be developed in Portugal. A study should be executed that would result in enabling legislation to permit local authorities to enter capital markets in several ways:

- direct borrowing from the national banking system or from a new institution that might be created such as the Bank of Local Credit in Spain, the National Municipal Bank in Honduras, or the system of municipal and community Development Foundations in Venezuela;

- general revenue bonds-- or project specific bonds (such as housing, highway, water, hospital or other specific purpose bonds should also be optional fiscal tools for local governments).

In this latter regard, local authorities-- particularly the autonomous regions of Madeira and the Azores--would use bonds as opportunities to capture a portion of the large flows of remittances from abroad for public investment. There is little doubt that a municipal bond market, properly designed, could result in substantial new investment from overseas Portuguese seeking sound means of saving while still making these savings available for the development of their homeland. Undoubtedly the Bank of Portugal would have to design the regulative means to assure that foreign exchange obtained in this fashion would be properly controlled while assuring investors of maintenance of value and reasonable "inflation proof" interest. But these are issues of technical execution. The principle is a fundamental one: local government will not develop unless it feels that it is both capable and responsible for setting its own development objectives and for executing these objectives. So long as local authorities are made to await handouts from Lisbon, they will not take those initiatives so urgently needed to disperse the development process throughout the national

territory and to make it a trust of the people at the level of government where they can best be heard, headed and helped --by their own, self-determined initiatives.

(b) Local authorities need the professional and technical skills to undertake their expanded responsibilities. Many urban bureaucrats and political leaders in Lisbon perceive of the local Portuguese authorities as essentially unmotivated and incompetent rustics. The field visits to municipal authorities resulted in a completely contrary conclusion. However, these visits did confirm that there is a self-recognized need at the local level for better technical and professional training for local personnel if a larger range of responsibilities is to be executed with efficiency. Clearly if the fiscal management capacity of the local authorities is expanded, an entire range of local finance expertise needs to be developed through direct training and through indirect means such as operational manuals, standardized accounting guidance, project design and analysis guidance, etc.

4. Technical Assistance and Training -- Central Support for Decentralized Development

A most significant recent development in Portuguese local government has been the establishment of the Gabinetes de Apoio Tecnico para As Autarquias Locais (GATS). The field reconnaissance visits indicated that these technical units are functioning very effectively within the limits of the current system of limited local decision making and resource generation authority. They are functioning well enough that the municipalities we visited wanted not only more of their services to design public works projects but clearly would like to have more direct "ownership" of the GATS.

It is concluded that the GATS need to be strengthened and expanded. Each GAT should have added to its current technical staff of engineers and architects technicians trained in the cost-benefit approach to project design and analysis. At present, lacking this capacity, projects are developed without a technically sound analysis of their impact, including their likely distribution of benefit. Without this analysis, it is difficult to place in priority order local public investments, decisions are made on "intuitive" political level, sometimes to the good, other times with unfortunate consequences. Also needed are technicians in local financial management who can assist in the development of the accounting, auditing, planning, budgeting, and revenue administration personnel needed as fiscal responsi-

bilities are devolved to local authorities.

To achieve these increments in the capacity of the GATS, a central capacity within the recommended Ministry of Local Government, should be established to train new personnel for these decentralized technical support units. This training capacity should be able to mobilize training programs for clusters of municipalities also, by working through GATS as training programs are developed with their support.

Perhaps the Government should also seriously consider the sense of the Municipalities that they would like to have real "ownership" of the GATS. There are several ways that this could be achieved: for example, in each sub-region where a GAT operates, an Association of Municipalities could be formed through which a board of governors for the GATS could be established. To maintain their relationship with the Regional Planning Commission, the Director of each Region could be the chair of this board. Thus the two systems could be harmonized to achieve both local "ownership" and regional coordination and oversight. Obviously, this arrangement would require further detailed analysis before it is implemented. But it is undoubtedly a workable scheme, which, in large part, is currently the informal mode of operation for the GATS maintained by the Regional Planning Commission of the North.

A similar scheme could well be developed for the two autonomous regions of Madeira and the Azores. The municipalities in

these regions receive their support directly from the Regional Authority. However, the proposed Ministry of Local Government's training unit could well provide these Authorities with training services for building an improved capacity for technical support to the islands' local governments and these local governments could become more effective participants in the management of this technical support resource through a region-wide council of municipalities.

5. Need for Simplification in Local Administration

Although upgrading the skill levels of local government personnel and of local administration is a key component of the rural development process, it should be recognized from the start that there will always be a severe shortage of skilled staff at the local level. It may be desirable, therefore, to place more attention on developing and disseminating more simplified tools of analysis, planning models, reporting, and financial management procedures which are better suited to the existing levels of competence and staff than those currently in use. In other words, rather than defining an abstract standard of performance which we must bring local staff up to, it may be more efficient to invest in new administrative technologies which will permit them to perform the required job with existing, or only slightly increased, skill levels. A good example might be the utilization of simplified computer package programs (e.g., SPSS) to replace the more complicated FORTRAN system. This has brought data management skills within the reach of many local authorities.

To support such an effort, regional centers can provide valuable technical assistance and services to local authorities and thus reduce the level of staff skills required at lower levels. These services may include the preparation of standardized formats to assist project design (e.g., cost analyses), analytical work to define problems, direct technical assistance for more complex tasks (e.g., the establishment of tax rolls), or even the preparation of grant proposals to higher authorities. The combination of simplified procedures and technical assistance may reduce the technical demands on local staff and, in consequence, keeping skill levels low rather than forcing them upwards may help to reduce administrative costs at the local level and to encourage more direct citizen participation in decision making and administration, on a part-time basis.

6. Regional Planning and Coordination

Critical to the Portuguese strategy to achieve better spatial balance in national development and a more equitable distribution of the benefits of development throughout the national territory and to all levels of society, is the regionalized planning function. Indicative planning is now being done in each of the regions. However there are several critical deficiencies in the process that need to be developed or improved:

(a) Information Systems and Technical Capabilities Need Development. The information base for developing regional indicative plans is inadequate. Each regional planning authority needs a small, but well trained staff capable of designing sample survey instruments and executing them so as to generate up-to-date information necessary for planning operations. It also needs a staff of project design and analysis technicians schooled in the best methodologies for cost-benefit analysis and for project

impact analysis for determining the incidence of benefits in terms of target populations for specific programs and projects. Our field visits indicate that neither the continental or the autonomous regions currently have these technical personnel.

(b) Planning as an interactive process -- Improved information flows need to be systematized in each region, so that local priorities as developed at the municipal level in cooperation with the GATS are clearly captured in the regional plan. At the same time, indicative planning guidance should flow downward to the GATS and the Municipalities to provide frame-of-reference bench-marks for local priorities. Linkages with the central sectoral ministries must be improved so that sectorally generated investment plans are coordinated with and influenced by the regional planning process as it captures local priorities through the upward information flows. To achieve this kind of operational planning program, the planning technicians at the regional level, in the Ministries and in the GATS need to be trained on a common set of procedures and interactive processes. It needs to be clearly understood that such a planning system is essentially iterative; it is never captured at one moment in time and frozen into a fixed two, five or ten year investment program. Within indicative targets, the horizontal and vertical communication process is constantly tuning investment objectives to the resource realities of the operating year and to the changing priorities of a dynamic, democratic decision-making process. Such a process of

of planning requires, if anything, more and not less technical skill to make it work. It is concluded that substantial training is required to develop the cadre of planners needed to make this process function. As soon as possible, the Planning Secretaries of the Ministry of Finance should carefully assess the total personnel needs centrally, regionally, and in the GATS, to implement adequately the Portuguese planning effort. Based on this assessment, the training program should be developed and immediately initiated. It is recommended that it be done region by region until all appropriate personnel had received a first round of technical training to be followed by more in-depth training on planning technologies using a modular package approach (perhaps in brief packages of two to three weeks each, conducted by mobile training teams).

In summary: The strategic issue must be resolved by the Government of Portugal: how seriously does it want to take its own rhetoric on decentralization, deconcentration and devolution. If it is serious, then the technical means for carrying it out are available. They only require a precisely fashioned, step-by-step action plan that can be incrementally executed over a medium-term period of perhaps five years. Such a program would require enabling legislation, a sound training and information dissemination program, and support from the center to stimulate local initiative.

DECENTRALIZATION, DECONCENTRATION AND DEVOLUTION

SECTION 2

DETAILED BACKGROUND

Principal author - Frank Sherwood

Portugal is a nation in which all roads lead to Lisboa.

Such a tendency to concentrate all social, economic, and political activity in a single metropole is not unique to Portugal; others have also felt the same strains of overconcentration in a single center. Further, once such a process starts, it is difficult to stop. The disincentives of life in the country and the continued magnetism of the metropole operate to expand disparities further.

Nor does a major political event, such as the significantly changed orientations of the government after the revolution, have a significant impact on such trends. Lisboa remains dominant. Another metropole has been emerging in Porto, of course, but that too is due to economic and social, as well as political, factors.

Thus Portugal today is a country in which its assets, material and human, are centered in a very small part of its national territory. The inevitable result has been to focus initiative, resources, the capacity to act, and control on the metropole. In a corollary sense, the majority of the Portugese living outside the metropole have lost significantly the freedom and capacity to deal with their own problems. They have had to deal with delay, red tape, and abstract, unrealistic assumptions about their needs and problems.

The panel found substantial consensus with this diagnosis. The government is overly concentrated in Lisboa. The revolution has had no real effect on the situation. It appears that all political parties are agreed upon the need for change; but their views about its nature obviously diverge widely.

The problems of overconcentration are conceived generally in terms of the rigidity it has engendered. The move to whittle the dominance of Lisboa is antibureaucratic in its nature, which is an understandable orientation. There is considerable research that suggests that the Portuguese have seen themselves in a "subject" relationship to the government; they have not felt themselves participants. Any government must therefore deal with the high level of alienation that accompanies a perception of a relationship as essentially subordinate.

At the same time the revolution seems significantly to have changed expectations and aspirations. The constitution adopted in 1976 was humanistic and democratic in its philosophy; and thus it was to be assumed that the government would be a positive, supportive force and not a negative, controlling one.

Yet the constitution also placed added responsibilities on the government. Not only was it to play a major role in the upgrading of the quality of life in Portugal in the traditional ways, but it also assumed the task of managing the nation's largest businesses. At a time, then, when closeness and intimacy were asked of the public service, its scale and scope of operation were greatly multiplied. To handle such complex, and in some ways

contradictory, undertakings effectively would require the most sophisticated management; unfortunately, that resource of managerial skill has been tragically lacking.

The issues of bureaucracy and overconcentration are not narrowly managerial. They can have great consequence for the preservation of a viable democratic system. Studies of life in the villages since the revolution reveal a profound disappointment that the promises of a more participative, service-oriented system have not materialized.

In considering the complexities of shifting the power equilibrium within the Portuguese territory, it is important to consider two other factors: a) the concentration in Lisboa does not mean the integration and coordination of government activity at the center in the traditional ministries; and b) the presence of approximately 100 public enterprises, nearly all of which are headquartered in Lisboa, tends to produce further centralization and at the same time fragments the effects of attempted reforms.

Elsewhere in this report it is reported that the ministries appear to operate quite independently and separately from one another. There are few mechanisms that support the integration of effort to set common directions and pursue them. For that reason it is strongly urged that the staff resources available to the Prime Minister be expanded. The failure to integrate goals and approaches at the top ramifies throughout the system. Thus a mayor, concerned with what happens in his community as a whole, finds himself dealing with a Ministry of Housing and Public Works that is preoccupied with its function. The same occurs in the Ministry of Transport and Communications. Because the

ministries are heavily centralized and engage in relatively little coordination at the top, it is easy to understand why any brokerage by the mayor at his level is virtually impossible. No wonder he views the structure as an intractable, monolithic whole, even though the reality is one of extreme fragmentation in Lisboa. Thus an essential condition of decentralization is that the central government get its act together in Lisboa.

The public enterprises also pose issues of coordination at the top. For example, EDP, the national electricity company, now is responsible for the generation of nearly all the power in the country; and its distribution grid covers more than half of it. The intent is to create one system, thereby removing the municipalities from any involvement in this utility. Yet it has been found in various other countries that it is convenient to separate power generation from the distribution, the former requiring a central entity but the latter providing an important support to devolution. There may be an ideological basis for the policy of EDP that is shared throughout the government; on the other hand, the ramifications of the current approach for decentralization and devolution may never have been fully considered.

Concepts and Terminology

Because shifts of power within the national territory can have significant political implications, it is not surprising that semantic confusion surrounds consideration of these issues. It is important to recognize that power is involved.

Fundamentally, there are two ways in which power might be reallocated:

- a. One is through decentralization, in which the central government would shift decision and action authority from Lisboa to its units in the field. Thus these changes would occur within the hierarchical framework of a single organization.
- b. The other alternative is devolution, in which separate units of government are assigned areas of responsibility within which they have the capacity and the autonomy to act. The recognition in the constitution of the regions and the municipalities as separate elements in the total governance system is reflective of devolution. The creation of autonomous regions in Madeira and the Azores was a devolutionary act.

Both approaches have the fundamental goal of reallocating power but decentralization is more limited in its intent. It sets a framework embracing the goals of the organization within which the delegation can occur. Devolution promotes the idea that separate organizations are free to set their own goals within a broad grant of responsibility.

In Portugal three terms are used to describe various approaches to moving power out of Lisboa: decentralization, deconcentration, and regionalization. There is little reference to devolution.

The term regionalization appears to be employed broadly to describe the redistribution of power, in which discretion is made available at the point at which the decision/action should be taken. Regionalization also tends to be used as a term to describe the more specific act of creating regional governments, as provided in the constitution.

Decentralization appears to be used in a variety of ways. The newspapers have used the term, for example, in explaining the assignment of more power to the municipalities through the additional monies provided in the Local Finance Law. In the National Assembly debate on that law, there was one exchange where the terms decentralization and deconcentration were used interchangeably. The preamble to the 1976 decree law setting the basic organization structure of the Ministry of Agriculture and Fisheries, however, used the word in its traditional sense to describe the delegation of power and authority to the field units.

Deconcentration appears to have a rather unique meaning in Portugal. While there is some tendency to consider it synonymous with decentralization, there is a more prevalent view that it represents a less extreme form of delegation than decentralization. Thus a policy-administration dichotomy is clearly envisaged, in which the center sets the terms and the periphery takes action within a specified framework. In fact, deconcentration tends to be a statement of classic, top-down decentralization theory.

In Portugal somewhat greater confusion has been added to this terminological thicket because certain delegations are seen as moving from the center to the municipalities. Obviously

this raises the question whether the municipalities are to have the separate status envisaged in the constitution or are to function in a traditional role of dependence. As an illustration, deconcentration has been used to describe a projected approach of the Ministry of Education and Scientific Investigation. Under the plan certain education operations currently performed by the ministry would pass to the municipalities. They would perform such a function as the selection and appointment of teachers; but they would do so within highly specific national standards and guidelines. Because it has been fashioned to emphasize continued policy control from the center, deconcentration appears to have more acceptance than decentralization.

As already observed, devolution is a term that has not been commonly employed. But it is important to recognize that there is a qualitative difference between the reallocation of power that applies to the autonomous regions of Madeira and the Azores and what is being undertaken in the Ministry of Agriculture and Fisheries. For purposes of communication and discussion, it seems important to utilize words that indicate such a distinction. The ambiguity of words perhaps most clouds the status of the municipalities, whose historical dependence on the central bureaucracy is assumed in the deconcentration proposals being considered in the Ministry of Education. On the other hand, the constitution clearly delegates powers to the municipalities; it does not enumerate what they must do. Thus the municipalities were seen as setting their own goals and purposes. Further, the debates on the Local Finance Law reveal a strong current of opinion in the National Assembly that money is needed by the municipalities

to strengthen them as institutions and not as operating arms of the center. It was pointed out that the municipalities were entitled to a greater share of government resources as a constitutional right, which would seem to lend additional weight to their status as institutions. A CDS spokesman said in the debates that additional funds were required by the municipalities to achieve "political and administrative decentralization." The phrasing seems apt. Classic decentralization is administrative in character; devolution introduces an important political dimension.

While it may have seemed a digression to examine these various concepts in such detail, our experience in other countries has been that these concepts are difficult to communicate. The subtle but important distinctions are often ignored; and actions taken are frequently simplistic and impractical. For the purposes of this report there are only two basic ideas involved: decentralization, which involves the delegation of power and authority within the central government, and devolution, which involves relationships with the autonomous regions of Madeira and the Azores. The present status of the municipalities is ambiguous, though it is assumed that the public philosophy expressed by the National Assembly is that they shall have a devolved status.

The Need for BOTH Decentralization and Devolution

To this point much of the decentralization/devolution interest has focused on the institutional development of the municipalities. The constitution gives strong impetus to the devolution of power to the municipalities through the legitimation

of their role, the election of leaders by local citizens, and through the grant of broad areas of freedom within which to exercise initiative. The functions of the municipality are totally "free," they are not "mandated."

However, the devolution of power to the municipalities was far from complete. The practice has been to continue to exercise central administrative control; and the municipalities' financial capacity remains inordinately low. A study completed in 1977 showed that the municipalities' percentage share of total government revenues (9%) was by far the lowest in Western Europe. The municipalities of France, famed for its centralization, shared nearly three times the percentage of revenues (24%). Under the local finance legislation enacted by the National Assembly in October, 1978 the share would rise to roughly 20% (18% of total expenditures). In March 1979 the legislation had not been implemented. It was unclear how much money the municipalities would receive and what kinds of additional expenses (as in Education) they would be required to incur.

Thus there are many questions as yet unresolved in respect to the role and status of the municipalities.

It appears that devolution has advanced somewhat further in the autonomous regions of Madeira and the Azores. Particularly in the Azores such symbols as an anthem and a flag indicate separate institutional status. However, the same financial and administrative problems that trouble the municipalities also appear in the autonomous regions. Quite apparently, much negotiation over the terms of devolution still must occur.

Even if achieved fully, though, devolution is not enough. On the continent the central government is still likely to make 80% of total government expenditures. It is likely to continue to have direct and important contacts with the citizens of Portugal in such areas as education, health, agriculture, social security, police, and tax collection. To put it another way, highly responsive, flexible municipalities will have no discernible influence on the way in which much important government business is transacted with its citizens.

It seems quite evident that the way in which the individual citizen sees his relationship with the government, either as subject or as a participant, will continue to be dictated in the largest part by the actions of the center. And those interactions may be the critical ones in shaping the future of democracy in Portugal.

Yet there are only the most modest stirrings of interest in decentralization, i.e. the reallocation of power within the central bureaucracy. A noteworthy exception is the Ministry of Agriculture and Fisheries, for which decentralization was planned in the Decree-Law of 1977. Several governments later, and with a further Decree-Law that program was fully implemented on March 29, 1979 with the investiture of seven regional directors. (Interestingly, the newspaper identified this act of decentralization as a "regionalization of services.")

Triggered by the municipal finance law, a ministerial committee is considering functions and activities that might be delegated to the municipalities. Such planning has achieved

rather significant proportions, for example, in the Ministry of Education and Scientific Investigation. But the real question is the reallocation of power (delegation) within the central bureaucracy.

It is imperative that decentralization and devolution efforts be pursued concurrently. The analysis and recommendations below operate from this assumption.

Approaching the Decentralization (Delegation) Imperative in the Central Government

Aside from the broader social and political goals, there are two immediate objectives of a strategy of decentralization in the central government:

- a. To move the discretion for decision and action to field levels, both to improve the quality and the speed of action and to develop a sense of responsibility for the delivery of services.
- b. To provide a more effective mechanism for collaboration and support between the central government and the municipalities, both because of greater decision freedom on the part of individual ministry officials and because of coordination among the various ministries.

In order to gain a better picture of decentralization within the terms of these objectives, the approach undertaken in the Ministry of Agriculture and Fisheries is pertinent. The 1977 Decree-Law and later regulations provide for:

- a. Seven regions with technical, administrative, and management capacity.
- b. Freedom to decide and act in the field.
- c. Assignment of major parts of the work force to the field (approximately 50% currently with a goal in four years of 60%), and with appropriate pay grades to reflect such major responsibilities.
- d. An articulated system of field units that will provide for generalist teams in direct contact with farmers.
- e. Overall, a structure and a set of processes that suggest the idea of decentralization is rather well established in the organization.

How unique the MAP approach is within the ministries of the central government can be illustrated by comparison with the management of the secondary schools, of which there are about 300. In effect these schools, distributed throughout the country, are supervised directly from Lisboa. There are national inspectors who make periodic visits to the various units; but they examine particular functions rather than the whole of the school operation. The supervisors themselves are said to visit the schools rarely if ever.

The Ministry of Housing and Public Works with its highly centralized orientation has made it difficult for the municipalities to establish close, collaborative relationships with the national government. Such an intimate working association between the ministry and the municipalities is particularly important because MHOP provides most of the grant funds. The sources of irritation

are long communication lines, delays in decisions, uncertainty and ambiguity about decision processes with attendant unpredictability about outcomes, and the general impersonality with which the ministry in Lisboa approaches the problems of the individual municipality.

There can be no question that the orientation and commitment to centralization is strong in the ministries. Officials in the Ministry of Internal Administration who are responsible for regional and local government reported they feel themselves in a constant fight to represent the interests of devolution, and, implicitly, decentralization. Ministerial discussions over the division of responsibilities between the central government and the ministries have apparently generated considerable disagreement.

Any real decentralization of the national government will have to involve a transformation of values, primarily on the part of Lisboa officials. Though such a change is urgent and ought to be undertaken immediately, its accomplishment will occur only over the very long term. Within this context these general comments about strategies for decentralization in the national government are offered.

- a. Significant changes in management philosophy must occur, involving less emphasis on control as the essential responsibility, and more on support in the accomplishment of shared goals and tasks. There are many "climactic" factors involved in this process, including heightened trust and

confidence, increased communications of a two-way nature, and greater willingness to risk. The key in all this is delegation.

- b. At the same time there must be a greater systems orientation, in which goals and functions are as clear and specific as possible. With loosened formal controls, it is the common understanding of purpose that provides a predictability in judging decision/action consequences and imposing a discipline of accountability.
- c. Such philosophical assumptions (a and b) must emanate from the top. Both from a legal and personal view, the Ministers and the Secretaries of State have to model the kind of behavior they want throughout the organization. In effect, they are the ones who must "first engage in "value transformation."
- d. Coordination at the top through the office of the Prime Minister is an essential condition of an effective decentralization effort. The national government must seek to develop a unified presence in its approach to regional and local problems. Only then can it begin to address the unique needs of a situation. But such coordination in the field is possible only when the framework has been established by the ministries in Lisboa.

- e. Long term training and development (most particularly at the top levels of the government) on institutional and personal approaches to delegation must be regarded as an essential strategy in moving toward decentralization.

Approaching the Devolution Imperative: Developing and Supporting the Municipalities as the Units Essentially Responsible for the Delivery of Urban Services

There are 284 municipalities on the continent and another 30 in the autonomous regions of Madeira and the Azores. It is a pattern of local government that has existed for approximately 150 years.

It is important to recognize that the constitution does not make a demand on the municipalities to perform specific functions; that is, it does not mandate what they must do. Instead, it lists a great many activities in which the municipalities are free to engage; but the final decision is up to the individual community. In this respect the municipalities have been treated as separate institutions, with discretion to set their own goals and directions.

The municipalities have generally assumed burdens that are immediately related with the quality of life in the community. The impression is that the municipalities of Portugal put the bulk of their energies and resources into:

1. water systems
2. streets and roads
3. housing

4. sanitation and sewers
5. electricity (even though the national electric company is tending to pre-empt this function)
6. planning and building control
7. various kinds of community structures, including markets, cemeteries, recreation facilities, parks, and so forth.

It appears that the municipalities have been particularly affected by the rising aspirations of the Portuguese. Today it seems insupportable that a person would have to walk six kilometers in order to secure potable water; or that some young people may not receive schooling because there are no roads on which buses can travel to pick them up; or that a town of 100,000 people should have 2,000 of its families without any housing.

Though these problems are present because of the failure to make essential infrastructure investments at the local level over a period of many years, it is the elected leadership of the municipalities who now have the problem of dealing with a dissatisfied citizenry. It is understandable why local officials feel such great urgency; their own political futures depend on their capacity to make some highly visible changes. Unless rather substantial improvements do occur at the local level, extreme instability is likely to characterize local political structures. Unable to accept or even understand the deep roots of the infrastructure problems at the local level, citizens are likely to be impatient and to turn to the figure who will make the most extravagant promises.

Headquarters officials in Lisboa do not seem to comprehend the dilemmas faced by local political leaders. They see them as generally ineffective and irresponsible; as a result, there is little inclination to remove the heavy administrative controls under which the municipalities labor or to increase substantially the amount of money available to them. It is the members of the National Assembly who seem to be much more in touch with the needs of the municipalities than the administrative officials of the government.

In the eight municipalities visited by the panel members the quality of elected leadership was impressive. In each case the mayor was informed, eloquent in stating the needs of his community, and highly committed to bringing about improvement. The unanimity of stated attitude and feeling emphasizes again that there is really no partisan way in which to operate a water system. It is true, that the municipalities are meeting their responsibilities only in the most limited ways because of inadequate resources, human and material. They have particularly lacked the technical competences required to construct and operate a range of complex municipal services.

Political/Administrative Structure and Problems.

There is general agreement that Portugal has too many municipalities. They are of insufficient scale to secure necessary economies and also to support the technical and professional staff that the functions they perform require. Further the Porto and Lisboa situations suggest that there is a growing mismatch between the scale of the socio-economic problems and the capacity of

relatively small, fragmented local governments to deal with them. It is likely that urban growth and interdependence are outdistancing the boundaries of the municipalities in many other parts of Portugal.

The Porto and Lisboa cases are obviously special ones; in general, however, there seems to be agreement that the 284 municipalities on the continent should be consolidated into 60 or 70. Yet it is both heartening and disconcerting that citizens feel so strongly about the present configuration of municipal institutions that any mergers are seen as occurring only over the very long run.

Internally, there is both promise and problems in the local government structure. Both the constitution and the decree-law governing the municipalities specify in detail the political structure to be followed. It is a system built on a further subdivision of the municipality into parishes which perform limited administrative services, function as points of liaison with the municipality, and are represented in the municipal assembly. The legislative function itself is relatively limited, with the Assembly meeting on a very intermittent basis. In some municipal buildings it was very hard to discover where the Assembly did meet.

The critical element in the structure is the camara, which combines both political and administrative functions. On paper the camara appears to be a plural executive. In fact, however, the President of the camara is very much the head man, the mayor. Depending on the size of the municipality, other members of the camara might function in a full-time capacity;

but they are subordinate to the President. While the President is the political and the administrative head of the government, the camara does appear to play an important role. Open meetings are held on at least a weekly basis, involving in most communities five to nine people; and the major policies of the government are debated and voted.

Within the limits of any universalistic approach, the municipal structure mandated by the constitution seems quite ingenious. In practice it has permitted the emergence of an individual as a political and administrative leader; but it has also retained the possibility for a representative system to function and to have influence in the policy process. It is therefore a system with advantages that could be recommended to other nations.

Much obviously depends on the leadership skills and capacity of the President of the camara. Any supports that could be provided him, in terms of information, training, and technical assistance, would likely produce many benefits. Yet reference to this possibility did not elicit enthusiasm from anyone, including the Presidents themselves. The local government system is seen as highly politicized; and the assumption is that no common ground could be found that would make any associative activity useful. On an individual basis or within a party framework, on the other hand, the expressed interests were substantial.

Recognizing that there are difficulties of politics, it is evident that the Presidents share broad areas of common interest. Two Presidents also identified themselves as non-party.

Because the role of the President is so critical in the local government structure, possibilities for support ought continually to be sought. In the very long run and recognizing all the political sensitivities the suggestion will elicit, some thought might be given to non-partisan elections at the local level.

The internal management structure of the municipality is stipulated also by the central government; and it has resulted in a rather unfortunate dichotomy between those who perform the traditional, record-keeping functions of the government and those concerned with the construction and delivery of major public services. The functionaries involved in the administrative routine are members of the permanent cadre of municipal employees; and the technical professional people (engineers, architects, for example) have no tenure. They function on a contract basis.

The highest status, permanent position in the municipality is the Municipal Secretary, who has overall responsibility for the permanent staff. It is apparently an office which in the past has had considerable status, is regarded as professionalized, and has generally involved appointment on the basis of merit. Since the revolution, there apparently have been no examinations; but officials in the Ministry of Internal Administration indicated an intention to resume this practice. In one of the municipalities, it was clear that the Municipal Secretary was playing a major coordinative role in the government. He provided an example of how useful such a person could be. Furthermore, there seems to be considerable interest in providing training and development opportunities for the Municipal Secretaries.

It is in the personnel area where the controls of the central government are most apparent. Salary levels are set nationally, as are numbers of total permanent personnel and the positions that comprise the complete schedule. In effect these personnel rules set the terms for much of the internal organization of the municipality. Still, it is reported that local government personnel were unprepared for their tasks and had few opportunities to secure necessary training. It appears that the control orientations are strong but that relatively little is forthcoming in support of system improvement.

Financial Structure and Problems.

The dominance of the central government is further seen in the fact that the municipalities have no tax sources that are strictly their own, do not set the rates for any taxes, and do not collect them. Tax sources are specified nationally, with a few to be reserved exclusively to the local governments under the 1978 local finances law. Still, the rates are set nationally and tax collection is by the Ministry of Finance and Planning.

While the situation could change under the new local finances law, the experience to this point is that the municipalities are dependent almost entirely on the central government for resources. With no capacity to influence the tax structure and profound problems in charging economic fees for services, the municipalities exist in overwhelming degree on grants, the great bulk of them categorical. In this respect their most basic supplier of funds is the Ministry of Housing and Public Works. As a result,

there is extreme unpredictability in respect to the level of resources that will be available to a particular municipality. Any budget discipline therefore becomes a virtual impossibility.

Local governments do have the discretion to charge fees for services performed. Presumably, such levies could be a significant source of income, but they are not. The reasons are, in substantial degree, political. In several municipalities water rates had not been raised in a number of years. Indeed, in one case, the rate structure went back to the thirties. When the obvious query about raising rate levels was raised, local officials shrugged their shoulders. It was simply impossible to do politically. In the case where the rates went back to the thirties, the President reported that the quality of water had declined over the years. Hence people did not feel they should pay more for poorer water.

While the setting for rates tends to be seen as a political issue, much of the problem lies in accounting perceptions. Services that are presumably to be supported in substantial degree out of their own revenues are not viewed as separate cost centers. That accounting concept is particularly important in providing the rate structure of the service with some flexibility. The municipality might, for example, have a policy of subsidizing the water system at a certain percentage level, perhaps 20% of costs, and fees would have to be adjusted to produce the remaining expenditures. Thus the political issue is the level of subsidy provided from general funds, which is a rather straightforward question. Under the present structure, the subsidy itself is not confronted. Citizens simply mobilize to oppose rate increases.

The failure to create an accounting discipline for such services, with the consequent likelihood of a rigidity in the fee structure, can very frequently lead to a decline in service quality. The subsidies do not appear in sufficient degree; fees cannot be raised; and the only point of "give" is a decline in the service.

Another problem seems to be appearing, primarily in the area of sanitation and waste disposal. In the larger cities such services are costing increasing amounts of money; in Funchal, for example, a new waste treatment plant involved an investment of 47,000 contos. Because the municipalities do not have money for subsidies and really do not assume that fees will support the service, they are advocating the creation of new public enterprises. The net effect will be further fragmentation of government entities in the larger urban communities; and a subsidy from the central government is likely further to complicate a tangled set of financial arrangements.

The current revenue structure in the municipalities impedes the development of the municipalities as institutions. As an institution, it must be able to raise new resources and undertake new programs when circumstances require such action. The limited capacity of the municipalities to influence their resource levels is a very real deterrent to institutional development. While the local finance law provides for a major increase in the amount of resources available to municipalities, it essentially sets a new level of income. It does nothing to increase the capacity of the municipality as an institution to influence the scale of resources available to it; and that, for many observers, is the essential idea in local autonomy.

There is no recognition that such autonomy involves a freedom to raise money within the community for strongly-felt needs. The years of centralization cause political leaders and citizens alike to look to Lisboa. The building of the municipalities to institutional status, therefore, will not come easily. Municipalities will first have to be valued for their effectiveness and their supportiveness; only then will they be seen as an element of government to which resources are voluntarily directed.

On the expenditure side of local government finances, the uncertainty about income levels undoubtedly has negative effects. It is difficult to plan expenditures when revenues are so erratic. The current budget situation is illustrative. In the first place, the proposed national budget contained no funds for the municipalities; but at the same time the 1978 local finances law abolished the categorical grants. Then, in March, the proposed national budget was rejected by the National Assembly. The consequence has been to introduce a new element of chaos into the municipalities, which are being supported on a month-to-month basis through an ad hoc grant program.

Some indication of the pressures on local government officials to improve the quality of life in their communities is seen in the tremendous emphasis placed on capital programs. A very major share of municipal income (in some cases more than half the total) was being channelled into infrastructure investments, such as water systems, roads, and housing. That is perhaps inevitable under the categorical grant system; but whether the imperative is local or national, the result is that very limited

funds are available for operating purposes. As a result, most municipal buildings are in a very poor state of maintenance; and there is extreme overcrowding of office space.

Again, it is worth noting that the municipalities have relatively little capacity to influence investment levels. Either they get the money from the central government to undertake a project, or it cannot be done. There is no access to alternative credit institutions; and the debates on the local finance law in the National Assembly indicated how strong is the ideological feeling by the Socialists and the Communists against allowing either regional development groups or farm credit associations to be involved in capital financing. The result is, of course, that everything is on a pay-as-you-go basis. There is no means by which a waste disposal system, with perhaps a 25-year life, could be amortized over that period.

Finally, the tremendous increase in infrastructure investment at the local level has created major problems in the process of letting and managing such contracts. The municipalities themselves do not engage in "force account" construction. They rely on private or public enterprises to do the work. Yet there are relatively few such organizations; and they work primarily in the littoral areas. Municipalities in the interior report it is extremely difficult to secure competition for construction contracts. Further complications occur in the monitoring of such work, both because there is little technical capacity to do so and also because the enterprises adopt a "take it or leave it" attitude. In fact, municipal officials report that the terms of signed contracts are seldom honored fully.

Thus, the entire area of capital investment at the local level poses many problems. At base the system is a rather disorderly one, in which the behavior of the central government continues to be the determining dimension. While the government has declared that civil construction is to be given special emphasis in Portugal because of its labor intensive features, the results of that emphasis have not yet been experienced in most of the municipalities of Portugal. There are too few qualified enterprises, public or private, to provide the kind of competitive climate within which efficiency and integrity of performance are likely to be achieved.

The Local Finance Law and Its Implications

Though reference has been made above to the Assembly's enactment of a new law greatly expanding the income of the municipalities and increasing their discretion over these monies, the step is so significant that it deserves more extended treatment. It is indeed revolutionary for the following reasons:

- a. It roughly doubles the absolute resources of the municipalities and also doubles their proportion of total government expenditures from about 9% to 18%.
- b. It eliminates all other grant programs (particularly the comparticipacoes) and substantially expands the discretion of the municipalities in expenditures. The only basic limitation is through the reservation of certain funds solely for investment purposes.
- c. It implements the constitutional provision that the municipalities have a right to share in the revenues of the central government.

The formula for revenue sharing is reasonably complex. It involves three forms of income:

- a. The full receipts from certain types of taxes of a largely local nature, including a type of property levy on urban and rural properties; a tax on cars; a tax on tourism; and an impost for fire services.
- b. Not less than 18% of the receipts of certain other taxes which are largely related to income levels. Portugal does not have a unified income tax but does impose levies on the professions, industry, and capital returns, for example.
- c. A share of other receipts sufficient to provide "financial equilibrium," which is to insure that the total income of the municipalities will not be less than 18% of the total expenditures of the central government. It should be noted that the calculation uses expenditures and not revenues as a base; and thus, with a deficit budget, the percentage of revenues should approach 22%.

In the overall, the legislation requires that the total revenues of the municipalities must rise from 19.2 million contos in 1978 to 45.6 million contos in 1979. Obviously, the scale of the absolute increase has been a source of great concern within the government.

It is also important to realize that the statute places great stress on the distinction between current operating and capital investment expenditures. The principle is that the

first two sources of income (a and b) must be adjusted upward (with a minimum of 18%) to make up for any shortfalls. The 1978 expenses of the municipalities were computed at 14,500,000 contos, which would require that 19% of category b. revenues be shared

All the revenues shared in category c. must go to investments; and the result of the legislation is to shift dramatically the locus of these decisions. It was reported that in 1978 the total investments of the central and municipal governments were 39 million contos, of which 13 were made by the municipalities, leaving the central share as 26. However, it should be noted that 80% of the so-called municipal investments came from the central government as categorical grants. In effect, the government in Lisboa controlled virtually all investment decisions in the nation.

In 1979 the principle of the new law calls for a drastic shift in the power to make investment decisions. If total investments were set at 40 million contos, the local governments would make decisions involving more than 75% of the money, 31 million contos. Thus the effect of this provision would be to change drastically the locus of power in Portuguese government.

One way of reducing the degree of change in traditional ways of making financial decisions is to expand the operating costs of the municipalities. The transfer of certain activities currently performed by the central government would produce such a result; and in effect the municipalities would then be required to conduct certain programs and services. With an increase in such

current expenses, the sharing of category b. revenues would be moved upward from 19%. At the same time, however, the central government would presumably reduce its operating costs in similar degree.

With the expansion of revenues for operating purposes, a reciprocal reduction in category c. revenues for investments would also occur; for the "equilibrium" sought through the category c. revenue shares is only to be enough to bring global income of the municipalities to 18% of central expenses. Thus, the more that goes to operating costs, the less the central government must share with the municipalities in the investment area.

As a result, the 1978 law which seemed to focus exclusively on the finance issue has precipitated a major debate over the division of functions between the central government and municipalities. Indeed, Article 10 of the law requires that the government present a proposal to the National Assembly not later than April 30, 1978, in respect to the "... delimitation and coordination of central, regional, and local government actions relative to their respective investments." It should be noted that the legislation appears to assume that investment decisions will move to the municipalities in 1979 as provided; and it is also important to observe that Article 10 says nothing about a proposal in regards to the distribution of operating functions, the area in which the government is currently concentrating its interests.

There is no question that this new proposal will have profound consequence for the institutional development of the municipalities in which three dimensions seem most critical:

- a. Approaches such as that being discussed in the Ministry of Education will add to the management burdens of municipalities, which are already deficient in technical and professional resources.
- b. The addition of the responsibilities of the central government will proportionately diminish the financial resources of the municipalities to perform in areas for which they have already assumed responsibility. The Presidents of the camaras feel they need all the added financial resources in order to carry out already-assumed tasks.
- c. The process of "mandating" functions that must be performed by the municipalities will fundamentally change present constitutional arrangements, in which the municipalities have been free to undertake those tasks which have highest community importance. Further, many questions can be raised in respect to divisions of responsibility between the two levels; and the time frame for its treatment seems very short for a matter of such profound societal consequence.

The Units of Technical Support

One of the important undertakings of the central government has been the GATs (Gabinete de Apoyo Tecnico), which provide direct technical support to groups of four to six municipalities. They are subordinate units of the regional commission of planning, which in turn report to the Ministry of Internal Administration.

Review of the work of the GATs included discussions with the responsible official of the Ministry of Internal Administration, requests for evaluation by the Presidents of the camaras, and a visit to the seat of one of these units. The GATs do not exist in the autonomous region of Madeira; and their absence was observable. In Madeira the Presidents were much more apt to speak of the lack of technical support and help.

The effect of the new Decree-Law will be to expand the functions of the GATs to include finance and management concerns. Among the specializations permitted under the personnel provisions are architects, economists, engineers, lawyers, sociologists, and technicians of accounting and management. Thus it is assumed that the GATs will be dealing with certain of the institutional questions facing the municipalities and not just with advice on their public works projects.

The Decree-Law also observes that the role and responsibility of the municipalities may undergo rapid change in the near future; and hence it provides that this basic statute must be revised by the end of 1980. Interestingly, it foresees the likelihood that the GATs will be absorbed into the administration of the municipalities. This, of course, would involve a fundamental change in the relatively brief life history of the GATs.

In the Ministry of Internal Administration the GATs are viewed as important agents of change. In their emphasis on technical matters, they are expected to insert a new discipline in the handling of increasingly complex programs. But the longer-term goal is to employ them as the vehicle for new patterns

of cooperation among municipalities. With success in this kind of collaborative activity, the theory is that the individual municipalities will be more accepting of later consolidation efforts that might produce 60-70 municipalities by the year 2000.

There are four features of the GATs that appear to have accounted in substantial degree for their wide acceptance and approval:

- a. They are centrally funded (for example, all personnel costs) but they also require a modest contribution by the municipalities (typically travel and living expenses). Thus the municipalities have a financial stake but the burden is not too great. In terms of the role of the GATs as long-term agents of reform, this financial arrangement seems particularly appropriate. Yet there are strong pressures, even within the Ministry of Internal Administration, to shift more of the financial burden for the GATs to the municipalities.
- b. The use of the GATs is purely voluntary. They are an available service, not another central government demand on the municipalities.
- c. The work programs for the GATs, and the subsequent allocation of resources, is made jointly by the Presidents of the camaras in association with the director. The central government plays no part in reviewing or controlling the work program.

- d. The GATs are highly merit-oriented, with the Ministry playing a dominant role in this respect. The municipalities do not participate in the selection of personnel.

For these reasons the GATs are an extremely attractive vehicle through which to provide support to local governments in Portugal. The new Decree-Law does provide some expansion of their function; and other ministries of the government have sought to involve them in other programs. However, strong reservations have been expressed in respect to any major increase in the responsibility of the GATs. It is considered very important, from the strategic point of view, that they be seen as engaging in neutral, technical services, around which substantial consensus can occur. In this respect the long-term agenda for the GATs, to provide the means by which municipalities collaborate as a forerunner to later consolidations, must be particularly borne in mind. Immediate programs, though intrinsically worthwhile, may seriously jeopardize this long-run objective.

Within these constraints, the GATs should be recognized as an initiative in support of local government. Anything that can be done to strengthen them institutionally should be done.

Recommendations: Decentralization

It is important that Decentralization and Devolution be approached concurrently. Decentralization efforts apply specifically to delegation within the bureaucracy of the central government. In framing recommendations there is concentration on areas in which technical assistance from foreign experts might be useful.

1. Strengthen the staff resources of the Prime Minister as a means of integrating effort at the top - a necessary precondition to delegation to the field.
2. Develop the understanding of the Ministers and the Secretaries of State on the importance of decentralization to their own capacity to perform.
3. Support the pilot efforts toward decentralization in the Ministry of Agriculture and Fisheries.
4. Support the program proposed by the Acting President of the Regional Planning Commission of the North to create a council of the field officers of the central ministries in the north, to be supported technically by the Commission.
5. Create institutional resources for training and development in the area of institutional and personal delegation. Ideally, this should be done through a new training entity that would focus particularly on the top leadership elements of the government.
6. Develop research evaluation on the experience with decentralization efforts.

Recommendations: Devolution

Though the consideration of relationships with the autonomous regions of Madeira and the Azores would be part of the total effort at devolution, these recommendations are restricted to proposals involving the municipalities.

1. Support the municipalities (and the GATs) through the creation of a new national technical institution, somewhat on the order of the Brazilian Institute of Municipal Administration.
2. Work toward the creation of new credit institutions for municipalities, both to provide additional resources and also to provide financing that is more consistent with the long life of the projects being undertaken. (It is possible that a national technical institution might also have responsibilities in the credit and investment areas, as is occurring in Latin America.)
3. Provide support in the area of municipal organization, particularly in the strengthening of the role of the municipal secretary (secretario de escritorio), in order to provide for an integration of technical and administrative operations. This should include a substantial training component.
4. Provide support in carrying out three phases of the new Law of Local Finances:
 - a. A new financial management, accounting system.
 - b. Continuing work on defining responsibilities between the central government and the municipalities.
 - c. Monitoring the whole experience with the law, as an aid to the required report and evaluation in 1981.

5. Develop a pilot program where opportunities exist to work in a relatively autonomous environment with significant urban problems. Funchal, Madeira might be a good possibility.
6. Offer specialized technical assistance in rural (community) development, water systems management, project and construction management, public sanitation, housing (including management, self-help, credit, and urban planning).
7. Undertake to identify incentives and mechanisms that will support the government's general objective of reducing unemployment through civil construction and at the same time provide more prospective bidders for municipal construction contracts, particularly in the development of small scale organizations in the private sector in the interior.
8. Encourage increased international interchange on the common problems of urban and rural life. In the United States it would be highly desirable to establish a close relationship with the Council on International Urban Liaison, which is comprised of the major local government organizations. Similarly, associations with organizations such as the Brazilian Institute of Municipal Administration would be highly desirable.

and to devolve to the rural communities the authority necessary for fuller participation in a process of democratic self-management through local control and local self government. Clearly all of these steps are necessary to turn Portuguese agriculture into an engine of development to serve the income and service needs of its rural peoples, feed the cities, and increase Portugal's productive capacity as a coequal member of the European community. Although the immediate "outlook seems discouraging, yet the very backwardness of Portuguese agriculture means that yields could be increased not by 10 or 20 percent but by 200 or 300 percent given a sustained well orchestrated effort over the long term."³

The World Bank is collaborating with the Government of Portugal in an effort to address problems deriving from the seriously under capitalized rural sector. However, from the viewpoint of a rural development strategy that attempts to address both production needs and distribution concerns, there remain many areas in which externally supported applied research and technical assistance in rural development could be of assistance to the Government of Portugal in elaborating and carrying out its rural development strategy.

3. Ibid. p 5.

PUBLIC MANAGEMENT, RURAL DEVELOPMENT

AND THE AGRICULTURAL SECTOR

Principal author - Harlan Hobgood

Portugal is Western Europe's most rural society:

- "nearly one-third of the labor force still depends on agriculture for its livelihood, and similarly, agriculture and forestry products make up about one-third of total exports." ¹
- a majority of its population lives and works in market centers, rural municipalities, and small villages-- outside of the major urban centers of greater Lisbon, the Porto region, and Funchal.

Yet its agricultural system is considered the least efficient in Western Europe. Although it employs about 1/3 of the labor force it contributes only a 14% share to the Gross Domestic Product.² Moreover, from 1973-1977 the sector suffered an average annual decline in productivity of 3.5%.

The Government of Portugal has clearly recognized the urgency of modernizing its agricultural sector. It has initiated a series of programs to increase agricultural productivity, to achieve a more equitable distribution of national income in favor of the rural poor, to decentralize the extension and support services of the Ministry of Agriculture,

1. Portugal, Current and Perspective Economic Trends.
World Bank, November, 1978. Page 4.

2. Ibid.

1. Decentralization of the Ministry of Agriculture

It is of great significance that the Government is initiating a process of decentralizing its capacity to support rural development by moving technical and administrative personnel out of Lisbon into regional and sub-regional offices. This process of deconcentration of scarce support personnel complements a rural, people-oriented strategy. However, in order to insure that deconcentration means quality attention to rural needs, it must be complemented by intensive in-service training to reorient the previously centralized staff to a new, dynamic philosophy of rural development that draws its strength from the mobilization of the rural population: the agricultural producers and processors themselves. The development of such a training effort should be based on a recognition that successful rural development programs around the world, such as Taiwan, Japan, Korea, have depended to a large degree on rural based initiatives. "The pace at which new inputs and techniques become productive to supply domestic needs and raise rural incomes will depend as much on individual initiative of Portuguese farmers as on government policies and external assistance." ⁴ Therefore the management of the decentralization program must be trained to a new set of opportunities that will increase technology choices, relieve constraints on local initiatives, reduce risk in experimentation, and reward creative effort in the sector.

4. Portugal, Agricultural Sector Survey. World Bank, November 1978 p.5.

2. Managing Extension Services and Agricultural Research

Perhaps the weakest element of the Ministry's current technical capacity is its limited ability to mobilize the necessary technology choices for modernizing the productive capacity of the sector. This is as much a systematic management problem as it is a purely technological one. Portugal has a rare opportunity to avoid serious mistakes--including some made in the United States and in Western Europe--by taking appropriate management decisions that will avoid the bureaucratization of its decentralized agricultural research and extension systems. External assistance could be provided on how to mobilize small farmers, through a ministerially supported program to initiate self-managed research and extension on agricultural technologies and how to avoid the errors of a top-down program conducted solely by the Ministry for the farmer. It is clear now that to achieve the rapid adoption of improved varieties, breeds, and methods of farming, the most effective agricultural development strategy is to involve the farmer, at the outset, as his own change agent. To do this the public function becomes one, in large part, of sharing and minimizing the risk inherent in technological change. New production practices, built whenever possible on the years of experience embodied in Portuguese farmers, have to be developed and transmitted through entities close to and trusted by the farmers: his organizations, associations, or respected neighbors. And to minimize the time lag, modern

communication technology--video and audio cassettes, TV and radio programs--should be engaged to bear some of the burden traditionally shouldered by the extension agent.

3. Credit and Rural Investment

As has been clearly pointed out by the World Bank, the Portuguese rural sector is seriously undercapitalized. Although the sector contributes 14% of the GDP it receives only about 6% of total credit, and of that, 90% is in commercial bank loans at short term--one year or less. The poorest farmers have no or very limited access to credit, and when they do it is expensive. The management of an efficient credit program for small producers, and small on-farm or off-farm rural enterprises, that will be productively used is, in itself, a specialized technology. To develop it adequately for Portugal will require a careful program of applied research that will identify clearly the key constraints in the present system so as to relieve them in a responsible and effective program--balanced between the mobilization of savings within the sector itself and an injection of new capital in a manner that will significantly increase the net flow of investment to it. A collaborative effort with experienced rural financial market experts in this field could be of great utility to the rural credit managers and planners of Portugal in the Bank of Portugal, in the Ministry of Finance, in the Ministry of Agriculture and in the private sector.

4. Marketing

With the exception of milk producers and wine producers-- in limited areas of the country--small farmers in Portugal face an impersonal market that is often perceived to be rigged against them. This perception of the farmers is not uncommon around the world. But this does not mean that markets are necessarily unfair to small producers.

One must approach marketing questions--vis a vis the smaller producers--with the understanding that it is not sufficient to attempt to introduce more efficient marketing systems with the expectation that all producers will benefit. Indeed experience has been that the smaller farmer can benefit from improvements in marketing but only if special care is taken to insure his participation.

The Ministry of Agriculture should undertake an action research program to explore marketing technologies, drawing upon the experience of nations around the globe, to focus on small farmer access questions. From this research effort, it should develop programs and strategies that may provide to the rural producers greater leverage on the system, a larger share of economic benefits, and a reduction in their sense of isolation by market forces.

5. Stimulating Rural Mobilization

Perhaps the most appropriate characterization of Portuguese agriculture is fragmentation: very small units of production,

seldom linked with others for collective action and mutual support, isolated from support systems (extension service, credit, favorable marketing systems) and a corresponding individualization of the overall socio-economic rural system.

Economies of scale that will redound to the benefits of the poorest rural families--from the small terrace plots of Madeira and the North to the somewhat larger holdings in the center and south--clearly are required. This is a management challenge. The stimulation of cooperative, collective local-action units in rural societies is considered a sine qua non for accelerated rural development. There is a wealth of external experience in assisting cooperative organizations that the Portuguese Ministry of Agriculture could draw upon. More recently these efforts have focused on specific rural environments and on specific production, credit, marketing and rural consumer needs. Again in this area, the Ministry should be engaged in an applied research program to develop an effective action program to support local cooperative formation.

6. Organizing for Integrated Rural Development by Region and Sub-region

One of the greatest challenges to Portugal's rural development planners and managers is to facilitate the process of accelerated rural development on a socially and economically

as well as territorially balanced basis. To do so in a genuinely democratic manner, that assures that there will be the fullest possible participation by the poorest and previously most marginal people in the rural society, is critical to the enterprise. That participation must indeed be complete in all of its four major characteristics:

--Participation in a just system of access to the factors of production--land, credit, water, technologies; to the marketing system; etc.

--Participation in the life enhancing products of a dynamic society: education, adequate health service, minimum shelter and services, etc;

--Participation in the planning and decision-making on all of those public and private matters that affect the dignity of the person as well as his social and economic status; and finally

--Participation through the effective contribution of their own means--labor, capital, organizational and practical skills--to a self-managed development effort.

To achieve this kind of democratic process of rural development, within a planned program of integrated rural development, will require both a planning/management technology that is appropriate for Portugal and a special sensitivity that encourages and requires the participation of the intended beneficiaries. The technology must be capable of dealing with

the least sophisticated and most isolated peasant community as well as the most sophisticated international marketing enterprise.

There is a range of technology choice available to be utilized in implementing the Government's program of regionalization in Agriculture, some of it emerging from recent experience in rural development both in the developing areas and the more advanced societies. Portugal's regional planners, in the autonomous regions, in the North, Center and the South and in the Ministries, should be systematically trained on the potential application of these technologies to their important tasks. This training should include, among others:

- A thorough understanding of socio-economic data requirements for a sound planning and management system;
- The best technologies for project identification, design and analysis;
- The utilities of central place theory, public choice theory, market analysis, and assessments of institutional capacities;
- Organizing programs to appropriate scale--how to achieve integrated rural development objectives while avoiding the diseconomies of organization excess;
- Coordinating mechanisms that can facilitate horizontal and vertical collaboration among line ministries, local and regional authorities, and with the private sector including small producers, consumers and market organizations;

-- Identifying -- through sustained action reserach -- on- and off-farm employment generating opportunities through labor intensive, value-adding processing activities as well as through new consumption-oriented local industrial and service investment.

The current Portugese initiatives in regionalization are a significant step toward rural mobilization. But they need sustained support to become fully effective.

7. Farm Management -- The Farmer as Entrepreneur and Change Agent

Although the foregoing clearly indicates that there are areas where direct initiatives are required from the Ministry of Agriculture, perhaps the one most important initiative that the Ministry could take would be to facilitate the farmers' understanding and adoption of the total program discussed above by making it his own. Based on experiences from many countries struggling to modernize their agricultural base it now seems abundantly clear that a progressive agricultural sector depends on the development of progressive farmers. The Ministry could avoid its own over-bureaucratization in the field, by turning its energies into the establishment and operation of regionally based farmer training centers. These should be centers where farmers from the region come to share their experiences and to learn how to improve their farm management practices. At the centers new technologies (seeds, pesticides, fertilizers,

animal health, etc.) could be discussed with the farmers by experienced extension agents and, more importantly, among themselves. Farmers could be encouraged-through risk shared programs sponsored by the Ministry- to undertake on-farm experiments with the new technologies. Systems for evaluating, not only the experiments, but also the total operation of the farm enterprise through family based budget systems, could be introduced. Information sharing on the results of these self-evaluation/self-management information systems should be developed to provide the participating farmers with feed-back and with comparison information from their neighbors -- relative to input costs, capital investments, and market results.

The farmer training centers could become the key vehicles for disseminating information about new credit availabilities, about how to process loans, about new market information and how to use it, about new package programs or extension, weather, etc. to be regularly presented by radio or television, or about information on how to form cooperatives and savings associations. Such an operation should work from the clear evidence that the Portugese farm family is, in spite of over-all poor sector performance, a sound business enterprise. If given some new, useful tools -- at reduced risk -- their good business sense will cause them to adopt and manage effectively new technologies, adapted to their own farms; use credit to improve their production

and their capital investment; approach the market to their better advantage, and generally provide the power to drive a vitalized sector.

There is no doubt that the level of public sector investment to use this approach to research, extension, and farmer motivation, is much lower and provides far greater results than the option of having an army of government extensionists, research centers, etc. -- all lecturing to the farm community. Obviously, the choice is not entirely to do one thing or the other. It is through a network of effective farm management training centers that the skilled and sensitive personnel of the Ministry can do their best work. The Ministry's personnel needs to be trained to undertake such a task, and effectively allocated in the field to support such a program. A network of farm management training centers needs a network of agricultural support agents, going to the field to develop feed-back and information to support the farmer driven effort. To design and implement this kind of decentralized, farmer-centered, agricultural development effort, a beginning needs to be made very quickly at the management levels of the ministry. If not done soon, Portugal can expect to repeat many of the errors of other states which developed research and extension programs divorced from the farmer, bureaucracies oriented toward their own centristic self-fulfilling careers, and little change in the lasting power in an agricultural sector based on small farmer production.

If the Government of Portugal chooses to move toward the farm management approach to development, it should have expeditious cooperation and support because the time is critical.

In summary: The development of Portugal's agricultural sector requires not only the large planned investments in the infrastructure necessary for rural modernization -- roads, dams and irrigation systems, rural electrification, etc. -- but also the management, planning and social change technologies essential to the effective mobilization of the rural poor. It requires a broad program of well designed, on-going applied research and training in regional planning, integrated rural development, rural financial markets, local mobilization, marketing, new production technology, and extension.

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PERSONNEL POLICIES, MANPOWER DEVELOPMENT
AND MANAGEMENT TRAINING

Principal authors - John Macy
with Nesta Gallas

In the public sector of Portugal the human element requires thorough study, critical evaluation and constructive planning for policy formulation and implementing action. In governments throughout the world there is a prevailing concern over the performance of public servants in meeting the program goals for national development and service to the people. A rising demand for "civil service reform" can be heard in almost every national capital. Fundamental problems relating to manpower planning, skills training, competitive selection, compensation and fringe benefits and union relations are high on the agenda of executive and legislative leaders seeking more effective and efficient performance.

Recognition of these problems already has been demonstrated in Portugal. The former Ministry of Administrative Reform and now the Secretary of State for Public Administration have been created to concentrate on the search for solutions to personnel problems. This organizational emphasis is a response to the desire of government leadership to change the patterns of public service which prevailed for so long prior to the Revolution. The principles of responsive service, equitable treatment and increased productivity are woven into the fabric of the new constitution. Such an emphasis establishes the civil service as an agent of change rather than a defender of the status quo, as a promoter

of democratic behavior rather than a bastion of regulation and control.

Development of Personnel Policies

While these goals have been articulated and fundamental plans for change have been outlined, the processes of change have not advanced at a pace necessary to meet the imperatives of the new Portugal. The panel was impressed by the project list prepared by the Director General for Public Service, under the leadership of the Secretary of State for Public Administration, intended to achieve the "enhancement of the public service."

The 21 projects, each with a completion date in 1979, constitute a comprehensive coverage of the basic problems of personnel administration insofar as legislative or regulatory purposes are concerned. While there may be some disagreement on the part of the panel with respect to the order of priority in attacking these problems, there is support for each of the areas of attention and a belief that the successful completion of these undertakings will provide a policy framework within which civil service improvement may be pursued.

To strengthen and expedite these studies and the application of their intent, the following recommendations are offered:

1. Secure additional participation on the part of ministry representatives from Lisbon and the field in the design of policy and the development of implementation plans. To that end it might be beneficial to establish an inter-ministerial committee on personnel reform with

representatives from the ministerial personnel offices under the chairmanship of the Secretary of State for Public Administration. Such a body would be constructive in developing continuing communication between operating officials with responsibility for the execution of national programs and the central personnel agency. Such communication is limited at the present time.

2. Test the application of new policies through demonstration application in selected bureaus prior to final enactment. This would permit the evaluation of new policies in actual support of program objectives rather than exclusively in terms of theory or in the interest of uniformity. The necessity for certain areas of policy discretion in administering specific programs may be identified by this process.
3. Prepare with ministerial representatives a specific time-table for the application of new policies and processes related to them. Such action plans should include time periods for procedural development, necessary training, and elimination of inevitable defects.
4. Obtain the supplementary service of experts in specific areas of personnel management from elsewhere in the Government, appropriate disciplines in the universities and specialists from abroad.

The Imperative of Training

The word "training" runs through all commentaries on manpower development. This is particularly true in a period where substantial change in personnel practices in support of new national programs has high national emphasis.

The need for training has been met initially through the establishment of the basic skill and administrative courses by SEAP in its Personnel Service Center. The curriculum has been designed to respond to ministry needs and to promote understanding of policies and program for which SEAP has jurisdiction. The courses are also intended to provide needed training for retornados who are being placed in continental Portugal after their return from Africa. These efforts should be sustained and expanded through close communication with the ministries and a continuing identification of training needs throughout the Government.

There is need, however, for a statement of national policy with respect to the importance of training in the public sector. Such a statement from the Prime Minister to all Ministers should declare that training is an inherent part of management and the development of understanding and capacity for improved performance of assigned programs by civil servants is a major managerial responsibility of all those in authority. In addition to its operational endeavors in the training field, SEAP should provide professional assistance, through its own resources or from consultants, to other elements of Government in performing this responsibility.

A major step in recognition of need for public service training has been reflected in the recent action to approve the creation of the National Institute of Administration. Although final authorization for the Institute has not been granted, there is every expectation that it will be established in the early future. An installation committee has been appointed to implement the approved design. The original proposal is complete with plans for governance structure, curriculum outlines, faculty staffing and student objectives. The proposal was prepared by a distinguished task force, including the Secretary of State for Public Administration and the Minister of Education, committed to administrative improvement in the public sector. The primary emphasis in these plans is upon pre-service training. The institution would offer a public administration curriculum leading to Bachelor's, Master's and Doctor's degrees. The program would prepare talented, younger people for careers in Government. The expeditious creation of the Institute is strongly encouraged in order to establish an academic base for public management professionalism.

There is growing interest and planned activity in developing new public administration curriculum at the Catholic University of Portugal, the University of Lisbon and the University Institute of the Azores. In addition, other institutes for management training exist with primary emphasis upon the private sector. While there is a limited supply of qualified professionals to staff these institutions, they should be encouraged because the existing management shortage constitutes a strong justification for increased attention to training of this type.

National Institute of Administration

The urgency is so great in the public sector that the immediate requirement is for the training of those individuals already in the service and expected to exercise management responsibility. This group should receive immediate attention. The National Institute of Administration could be the organizational location for advanced management training for top level civil servants. There is some evidence that the founders of the Institute intend to give initial attention to this group. If so, immediate plans should be prepared for that purpose. If, however, the pre-service function is viewed as more appropriate within the Institute, a separate entity within the Government itself should be established for this purpose in close association with the office of the Prime Minister.

Special Attention to Top Level Personnel

When the training of top level managers was discussed, SEAP officials pointed to a draft decree-law which would create a special personnel system for those individuals who occupy positions in the four top levels (A, B, C and D) of the existing pay structure. According to available information there are approximately 2,000 positions in those levels. The positions occupied by the incumbents constitute the leaders of the career service. For the most part these incumbents have served in the Government for an extended period of time, usually in the same ministry, and provide the managerial, professional continuity for the Government. These men and women should become the

leaders in the movement for administrative reform in each ministry or department regardless of the government in power.

Personnel Policies, Manpower Development and Management Training

Throughout the Government today there is a ready admission that a serious shortage in managerial skill exists. The concern about this deficiency leads to excessive centralization of decision making and an unwillingness to decentralize to lower levels at headquarters or to officials outside of Lisbon. Much of the training that has been provided to managers is oriented toward the belief that law is the form and substance of administration and that hierarchical, centralized and positional structures define the decisional points that should control. The patterns of bureaucratic behavior created by these conditions have not produced an administrative methodology that is conducive to administrative reform. To secure improvement in managerial behavior there is need for a new approach to management as a socio-psychological or behavioral and systemic process as well as a legal process. Change along these lines is not likely to occur unless there is a predisposition to change among a critical mass of officials who can become involved in the training and development effort. It is necessary to find among the existing officials a nucleus of potential managers who are identifiable in a particular ministry. The development of management capability needs to be addressed not only to the management processes but to the specific conditions related to specific programs in the Portuguese context.

The top level management element in government must be a continuing concern. The development of management capability must be an essential goal to overcome the recognized deficiencies. The career patterns and opportunities of those who are likely to succeed in these positions in the future should be studied and policies and practices designed to increase their skills and to prepare them for added responsibility. The system to be created under the proposed decree-law should be designed to nurture managerial development within this manageable group of 2,000 officials. That system should be structurally and functionally related to the advanced training center whether it be within the National Institute of Administration or in a special center for management training.

"Excess Personnel"

When panel members met with top ministry officials and inquired as to the most serious problem in public administration, the almost unanimous response was the presence of an excessive number of employees. At no point was this condition disputed. In fact, it was generally accepted as an uncorrectable situation with which the nation would have to live. It was pointed out that there had been significant increases in the number of employees in the recent past. This expansion had been in part a reaction to broadened Government involvement since the Revolution. The decision of more than 40,000 civil servants to return from the former African colonies introduced an additional increment. An extended briefing on the conduct of the retornado placement program revealed the care and skill applied by SEAP in the

handling of each case. There is a longstanding tradition, backed by statute, that those employees inducted into the permanent service have virtual job guarantees. With national unemployment at a level of about 10% the expectation of substantial reduction in force is unlikely.

There has been no effort to quantify accurately the extent of the alleged excess staffing but it is generally believed that from one-quarter to one-third of the 375,000 civil servants fall in that category. The conditions are generally similar for employment in the public enterprises.

These conditions cannot be accepted as inevitable and continuing. The compensation costs for excess personnel place a heavy burden on the deficit budget. Redundant employees further reduce the efficiency with jobs to perform and have an adverse effect on the Government's efforts to increase productivity. Furthermore, the citizen respect for the public service is further diluted through the appearance of time servers in Government offices. A hopeless attitude toward the problem will seriously dampen the enthusiasm for other approaches to administrative reform. Because of the importance of this issue some comparisons have been made between the percentage of public employees in the total workforce in Portugal with similar percentages in other democratic countries. The conclusion must be reached that the Portuguese percentage is not higher than those recorded in other democratic countries. Consequently, in gross numbers the volume of public employment may not be excessive. Instead it may be a symptom of

maldistribution of public manpower. There is ample evidence that in certain areas, such as the municipalities and the autonomous regions, where a shortage of qualified personnel exists, necessary development has been retarded. Schools could benefit from more teachers, agriculture from more extension agents, and public works from more engineers. A redistribution of public servants out of Lisbon and into the provinces, urban centers and rural areas would reduce the excess and provide skills where they are in short supply. Through job related training those now in the service may be offered more meaningful work in essential development programs.

If these conditions are accepted the resolution of the excess personnel problem becomes an exercise in the utilization of manpower resources. Whereas there may be need for legislative modifications to authorize such a reform program, significant change can be promoted through management decision and action. To give some reality to such an undertaking the following program would be recommended for application by the Government in each ministry and department.

1. The review of existing programs, organization, processes and staffing to identify, in a systematic fashion, those positions necessary for program accomplishment in an effective and efficient fashion.
2. The review of qualifications and performance of all employees now on the payroll to ascertain

which ones meet the requirements of the identified positions.

3. The reassignment of excess personnel to other departments or ministries or the government activities outside of Lisbon where their skills can be employed in recognized vacancies.
4. The institution of job-related training programs to convert employee skills to meet position requirements.
5. The determination of eligibility for retirement, possibly at an earlier age than now permitted, for those for whom positions are not available.
6. The consideration of a new "reserve" status, outside of the present employment location, until other opportunities arise for those not assigned through the other steps.

These steps proposed for solution of this problem are the same management moves that should be a regular part of the planning, budgeting and staffing cycle in each governmental unit. Central agencies, SEAP and the Ministry of Finance, should develop the capacity to assist the ministries in developing the means for performing these functions.

Improved utilization of public sector manpower is directly related to the total national effort to plan, guide and evaluate the human resources development in all sectors of employment. Portugal's highest valued asset is the labor and creativity of its people. A national environment in which men

and women can be productive at the peak of their skills is a top priority development objective. Government plays a leading role in promoting that environment through economic growth, employment opportunities, education and training. The administration of that role deserves special scrutiny and evaluation in the program for reform.

Labor Management Relations in the Public Sector

Another crucial area requiring early attention is a distinctive new one in the Portuguese public sector. It is the relationship between the Government and its employees who have formed and joined labor unions. This is a new and evolving relationship which must be considered in terms of Portuguese history. For many years union activities in the public sector were prohibited. With the Revolution such prohibitions have been removed and union activity has been actively undertaken throughout the Government. It is reported that there now exist some 42 different unions representing a wide range of Government employee groups. No definitive pattern of industrial or craft unions has emerged. To date there has been little inclination toward unification or federation of the various union groups. Government management has virtually no experience in relationships of this nature. In a number of instances there is doubt on the part of management as to whether they should be members of the union or representatives of the Government as management.

There have been initial moves toward communication and consultation between SEAP and union representatives on a government-wide basis. But most of the dialogue has been conducted on

an ad hoc basis within each ministry. Adjustments in response to union pressure, sometimes in the form of a work stoppage, have been ad hoc and without reference to impact on other parts of the Government. In the course of the panel's Lisbon experience there was a two week work stoppage by revenue collectors in the Ministry of Finance. The walkout was motivated by a pay dispute peculiarly related to the ministry's policies. The dispute was resolved on the basis of ministry decision, but the terms and processes of settlement may very well establish precedents which, lacking a policy framework, may lead to future difficulties.

All citizens will be watching the Government's policy decision in this area as a possible gauge of future attitudes toward union activity. While the means of communication have produced benefits for both parties, the absence of a framework within which the relationship can be conducted produces uncertainty and potentially may produce conflict. Consequently, there is an urgent need to devise an appropriate Portuguese labor management relations pattern for the public sector. Such a pattern should recognize the objectives set forth in the new constitution and the relationship of Government unions to political parties. In light of the urgency of this issue it is recommended that an interministerial task force, with staff assistance from SEAP, should be formed by the Prime Minister to undertake immediately a broad review of the current situation and to prepare a comprehensive policy and procedures to define future relationships.

Employee Compensation

In the years since the Revolution there have been substantial increases in the salaries paid to public employees. These increases have been justified on the grounds that civil servants were intentionally underpaid during the Salazar-Caetano regime and that inflation had seriously eroded the real value of compensation. There had apparently been a conscious policy of paying public employees less than their counterparts in the private sector.

Since 1974 there have been several increases in pay to improve the income situation for public employees. Most of these advances have been across-the-board increases with the result that the differential ratio between the bottom and the top pay schedule has contracted substantially. It is generally believed that public employees are still disadvantaged when their salaries are contrasted with those paid in the private sector. Even with the current budget in serious deficit, there is general support for yet another round of increases to offset the ravages of inflation. Even with these changes in pay there have been no changes in the structure of the pay system. Positions are ranked in an alphabetical order from A through U. Career patterns are established for broad categories of jobs, usually with two or three steps to provide advancement on a seniority basis. While there is some recognition of job content and responsibility, the allocation of grade levels is largely on the basis of educational attainment.

These problems relating to compensation are receiving concentrated attention within SEAP. These efforts should receive

support; technical assistance may be useful in such areas as job analysis, job evaluation, the collection and analysis of compensation information. Both in fairness to employers and with concern for the unbalanced budget, more rational comparative measures should be instituted to assist in reaching critical salary decisions. Likewise, fringe benefits outside of compensation should be evaluated. For example, the tax exemption available to Government employees should be evaluated as a part of total compensation.

PANEL FINDINGS AND DISCUSSION OF
PUBLIC ENTERPRISE MANAGEMENT

Principal author - Frank Sherwood

More than is true in many other countries, there is a considerable degree of clarity in the designation of three sectors of activity in the Portuguese system:

- a. Public Administration, which embraces the traditional functions of government within which the obligations of the sovereign are undertaken.
- b. Public Enterprises, which are also a part of the arena of government activity but which are characterized by their promotive and developmental functions. According to law, they are given financial and administrative autonomy in respect to their relationship to the general government.
- c. Private Enterprises, which function according to private law, and are therefore free to pursue private as distinct from public purposes. The government does possess significant ownership interests in 200 private businesses; but its purpose is largely to realize profits out of such undertakings.

The panel's concern is largely with the sovereign activities of government, as expressed through Public Administration. However, it is extremely important to recognize that the Public Enterprises in Portugal, of which there are about 100 major ones, play a highly critical role in the overall system.

Not only do they have responsibility for delivering highly critical service, but their financing today constitutes a major problem for the general government.

While structure and problems of the private sector enterprises are not within the scope of this report, it is necessary to emphasize that the boundaries between the public and private enterprises overlap. Legally, the distinctions seem to be quite clear. But they share many common problems, such as in credit and financing, in managerial capacity, in constraints imposed by the society, and in diminished levels of incentives for entrepreneurial behavior. Such problems will be discussed within the context of the public enterprises; but it appears that they are equally present in the private sector.

The Public Enterprises

Decree Law No. 260, promulgated on April 8, 1976, provides the basis for public enterprise operation in Portugal. Virtually all enterprises that are significant to the state have become public, including organizations which have a bearing on national defense and security, all monopolies, essentially all financial institutions, and other entities whose social importance is very high. Thus activities range from oil and steel as strategic, basic industries to electricity as a monopoly enterprise to railroads as both a monopoly and an essential social service.

The burden of responsibility for these enterprises rests squarely with the government; they are 100% government-owned.

Unlike other countries, Portuguese law has not embraced a "mixed enterprise" system, in which there is still the symbolism of private participation. In this sense the alienation between the Portuguese citizen and the government is no longer an issue solely for the sovereign units but also must be a concern of the electricity company, the Lisbon water organization, the oil refinery, and many other undertakings under direct government ownership.

To understand the context within which the public enterprises operate, two factors seem particularly worth noting:

- a. The public enterprises are seen as public; and this perhaps is nowhere more clear than in the limitation on salaries imposed on a government-wide basis. The President of the National Railroad (CP) receives the maximum, 60,000 escudos per month, and in return he must provide leadership to an organization of 27,000 employees. Further, taxes and fringe benefit charges on salaried employees are very high. Hence, enterprise leadership resources must be sought and utilized in a condition of austerity and constraint.
- b. The financing of the public enterprises continues precarious. It has been noted by high officials that these organizations are "capital-intensive," which in itself imposes high investment costs. Much of the debt is external. That which is obtained internally is through high interest bank loans. Overall, the

low capital investment levels of the society have a profoundly marked effect on the long-term viability and effectiveness of the public enterprises.

The General Government and the Public Enterprises

Decree Law No. 260 charted quite specifically the nature of the relationships of the public enterprises to the general government. Philosophically, the Decree Law was assumed to be a mix between the freedom and "disparities" which characterized public enterprise activities in Western Europe and the universalistic, command orientation of the Eastern European states. There was a particular desire expressed to avoid inflexibility and to allow for the "adaptation of the statutes to the special characteristics of each enterprise," thus avoiding the rigidity which is "incompatible with the internal dynamics of an economy in transition."

The Decree Law requires that at least two leadership bodies be established in each public enterprise, with a third generally left to the discretion of the oversight ministry. One requirement is that there shall be a council of management, composed of three to seven persons, and the second calls for a board of control, which is really responsible for the supervision of financial affairs. It is to have three to five members, one of whom will have the specific obligation of reviewing the accounts.

Appointments to the board of control are made jointly by the Ministry of Finance and Planning and the oversight ministry.

Political credentials rather than merit were too frequently the dominant criteria in membership selections. Such an injection of political factors may further jeopardize the capacity of these enterprises to achieve effectiveness and productivity goals.

The third leadership body for the enterprise, to be established at the discretion of the oversight ministry, is a General Council, which is expected to represent the interests of the government, collateral organizations, and users in a more formal way. The oversight ministry is clearly to have a major role in this organization, with details to be worked out on an enterprise-by-enterprise basis. The General Council is expected to function as a legislative body: approving the general programs and budget for the enterprise; injecting itself into the policy processes as seems appropriate; and receiving and evaluating reports on enterprise performance.

Chapter III of the Decree Law provides a broad grant of authority to the oversight ministry in its supervision of the individual enterprises. In Article 13 it was declared that ministry oversight involved the following responsibilities:

- a) Give directives and instructions to enterprise leaders in respect to the development of overall policies for the sector.
- b) Authorize or approve certain acts by the enterprise which are expressly required in the particular statutes of the organization.
- c) Require information and other information necessary to evaluate the performance of the organization.

- d) Order inspections and other inquiries into the function of the enterprise.
- e) Exercise any other powers which are either conferred by law or by the statutes of the enterprise.

The article also listed a number of areas which required the specific approval or authorization of the oversight ministry. They include:

- a) Annual and multi-year programs and financial plans.
- b) The annual budget, both for current operations and for investments.
- c) The financial accounts and operating results.
- d) Loans of any amount in foreign currency and those of more than seven years in national money.
- e) Acquisition of shares in other organizations beyond a determined value or percentage stated in the organization's statutes, as well as their sale.
- f) Pricing policies, both for goods and for services rendered.
- g) Personnel rules, particularly in respect to salary levels.

On February 19, 1979 a new Decree Law (No. 25) was promulgated that expanded the extent of government control over the enterprises. With some small exceptions, the responsibilities of the oversight ministries remained the same. In addition, the Ministry of Finance and Planning was assigned a major supervisory responsibility. In the introduction to Decree Law No. 25, it

was observed that the enterprises had been assigned "necessary" autonomies to facilitate efficient and dynamic management.

The oversight responsibility of the Ministry of Finance and Planning has been lodged in the Treasury, over which Sr. Antonio de Almeida presides as Secretary of State. The Department of Organization and Management of the Office of Secretary of State for Public Administration has prepared a detailed compilation of the public enterprises with an identification of their oversight ministries. As might be anticipated, responsibilities for oversight tend to be concentrated in a few ministries: Industry and Technology, Transport and Communication, and Finance and Planning.

Beyond its government-wide responsibilities, the Ministry of Finance and Planning has responsibility for the direct supervision of virtually all the financial institutions (a total of 34), which include banks, credit institutions, and insurance organizations. The Ministry of Industry and Technology has 19 public enterprises, many of them very large, under its responsibility. They include such industries as shipyards, petro-chemical, refining and fuel distribution, iron and steel, electricity, paper, cement, and tobacco.

The other ministry deeply involved in oversight tasks is Transport and Communications, which supervises some of the biggest and most troubled of the enterprises, including railroads, airlines, buses, trucking, shipping, airports, and telephones. Four ministries have rather limited oversight responsibilities. They are:

- a. Social communication (5), involving radio and television and news agencies.
- b. Housing and Public Works (3), involving Lisbon's water and sanitation and (interestingly) the electric enterprise in Madeira.
- c. Commerce and Tourism (2), involving sugar and alcohol, as well as tourism.
- d. Agriculture and Fisheries (2), involving cereals controls and marketing and agri-business activity.

The general panel conclusion is that the system of controls set forth in the decree laws exists largely on paper. Either by design or because of preoccupation with more pressing business, the general government organizations have not injected themselves substantially into the operating realm of the enterprises. In at least two instances, for example, operating plans and budgets were submitted last October. Thus far there had been no formal reaction; and agreement with their propositions was presumed.

The top leadership has little time (and perhaps inclination) to deal with any but the most cosmic questions. Thus, it seems that major investments involving heavy borrowings must run the gauntlet of approvals. Similarly, the heavier the subsidy requirement, the more likely is the enterprise to feel itself subject to the policy dictates of the general government. When resources are more abundant, it appears that enterprises have a very large area of freedom. There appears to be little evidence,

for example, of efforts to set financial performance targets that might return monies to the general government either in lieu of taxes or as profits.

Overall, the Decree Laws have placed significant supervisory tasks on the Ministry of Finance and Planning and a few other ministries, further congesting decisions and evaluations in a few elements at the top. The result has been only the most limited kind of oversight, which has neither served the interests of the overall government nor provided a support system that might have engendered greater motivation to perform within the enterprises themselves.

The Problem of the Public Enterprises in the Portuguese Economy

Two documents reveal the kinds of issues which the public enterprises currently present to the leadership of the government. One is the statement, "The Grand Options of the Plan for Economic and Social Development for 1979," which was rejected by the National Assembly in March. The other is the address by Secretary of State Almeida to the National Assembly during the debate on the options and the budget.

Though the statement of options was rejected, it does seem that the Government of Portugal will have to bring its budget into greater balance, at the same time reducing its reliance on foreign borrowings. Since the public enterprises currently place a heavy drain on general government resources, pressures on them to perform more efficiently and economically will increase in the future. This pressure will be aimed at

not only returning their own costs but contributing to a more general pool of resources. That may mean not only emphasis on efficiency of performance but prices that more accurately reflect the costs of doing business.

Finally, the problem of investments must be recognized as continuing and perplexing. The nationalized industries tend to be basic and therefore capital intensive. They do not help the government to deal with its serious unemployment problem. Yet they sop up half the current investments; and that comes in substantial degree from the government's operating funds. In the strictest sense there is no capital market operating in Portugal which might ease the impact of investments over a longer period of time. Even with this drain on the general government, many of the enterprises are seriously under-capitalized. For example, the railroads appear to be in a particularly precarious condition. Within this perspective, the Grand Options statement appears to have dealt with public enterprise problems that transcend any current budget debate.

In his speech to the National Assembly, Secretary of State Almeida discussed in very considerable detail the finances of the public enterprises. He indicated the steps that had to be taken to improve their overall financial performance. The Secretary's first sentence was that the year 1979 would see financial support to the enterprises on the order of 19 million contos and the additions of tens of more millions of contos in debts. These expenditures would be incurred, he noted, in about

100 public enterprises and through the 200 private businesses, in which the State was a participating owner. He reported that the budget for 1979 provided for a major reversal in the flow of central government monies to the public enterprises. Where about two-thirds of the monies in 1978 had gone to subsidies (10.8 million contos) and one-third to investments - additions to capital (7.2 millions), the proposal for 1979 called for two-thirds to additions to capital (11.5 millions) and one-third to subsidies (6 millions). In explaining this change, Sr. Almeida noted that the enterprises were suffering from serious capital shortages and 5 millions of investment money promised in 1978 had not yet been provided.

In conclusion, he observed that the continued utilization of subsidy funds at the 1978 rate would exhaust them by June or July. If past scenarios were replicated, the subsidies would continue and the budget deficit would be aggravated. Instead, he urged a renewed look at the problem, hopefully supported by more precise data, "in an environment of open and candid discussion."

Yet the generally somber words of the Treasury Secretary reveal how generally undisciplined is the situation. All must seemingly depend on leadership courage. There are no forces in the environment that automatically impose penalties for waste or inadequacy of performance. In short, there are no self-correcting mechanisms that can support the government in its effort to restore financial and operating health to the public enterprises.

Internal Management Problems of the Public Enterprises

The previous paragraphs reveal the tremendous importance

that attaches to improvement in the performance of the public enterprises for Portugal's economy. Despite certain formal changes that have occurred recently, accountability as an element of discipline in enterprise operations is generally lacking.

It must be remembered that public enterprises are different from traditional public administration because they are expected to operate on a business basis. Where traditional public administration is accountable within formally established hierarchical arrangements, public enterprises are accountable for their performance as businesses. It is therefore extremely important to set specific goals, both of a programmatic and financial nature, against which the performance of the enterprise can be measured. As operating and investment supports are required of the general budget, the participation of the government becomes the more necessary.

It appears that the general government does little to provide supports to the enterprise, as for example facilitating coordination among the various elements. Even within the same ministry, the railroads have not been able to establish a modus vivendi that will split routes and responsibilities with the truckers in such a way as to maximize resources.

A direct question asking for examples of ways in which the oversight ministries provided support and assistance to the enterprises elicited essentially no response. To put it simply, the ministries seemed to exercise some control but no leadership.

The Managerial Crisis

The managerial crisis now gripping Portugal is strikingly evident in the public enterprises. Many are vast undertakings, highly complex in their structure, requiring advanced technologies, and some (like TAP) are in competition with skillfully managed foreign firms. Certainly this is a time when Portugal desperately needs skilled and experienced managers. Yet the report was that such people are in short supply. A number have been lured away by other opportunities and more money in countries such as Brazil; and it is conceded that Portugal had a limited supply of such skills to begin with. The necessary investments in an infrastructure for managerial development had not been made in the past. Finally, the introduction of political criteria into the process of selecting leaders has been seen as a contributing factor.

Portugal lacks a tradition of entrepreneurship, which is important in public enterprises as it is in private ones. In this sense leadership responsibility is fundamentally different in the public enterprise and in public administration, where resources are allocated from a central source and in accord with legislative definitions of public requirements. A distinguishing feature of the enterprises is a capacity to influence the level of resources which will come to the organization. As the President of CP commented, "I was criticized because I wanted to increase the revenues of the railroad. It was hard for people to understand that the more we got for our services, the more and better quality

services we could provide to the people. One most certainly does not have to think in terms of private profit. Yet it is very difficult to find people in the public enterprises who think in entrepreneurial ways."

While there was much criticism of present leadership performance, it was also acknowledged that few incentives exist to generate increased commitment and effort and it appears the enterprise leaders are government executives transferred to somewhat nicer offices.

Though there are many factors which operate as dampers on the motivation of enterprise leaders, there can be no question that salaries are a very big element. One official in an enterprise reported his salary at 40,000 escudos per month, with a take home of 26,000. That was not appreciably different from the official in the public administration sector who had to pay no taxes (therefore making the take-home about equal) and seeming to have somewhat less responsibility.

Policy Processes and Decisions

The lack of specific goals for the individual public enterprises is reflected in internal policy and decision processes; and this ambiguity is further exacerbated by the government's key financial role in providing both investment capital and operating subsidies. In the current case, for example, it is very unclear what the levels of support from the government will be; and that makes disciplined internal planning within certain of the enterprises virtually impossible.

As is true in many other countries, it is often difficult to take unpopular decisions particularly in terms of pricing and service levels. The more the general government intervenes in these processes and thereby introduces criteria of a non-optimizing nature, the less likely that the enterprise will emphasize resource maximization strategies. In short, the enterprise must take account of the various factors that are most likely to influence its resource levels and service obligations.

The railroads provide one illustration, as it is an organization which is said to be overstaffed by at least 50%. Most of the redundant people, however, are scattered around the country in a galaxy of small stations, many of which should be closed. It was pointed out that Spain has a railroad that is four times larger but which operates with one-fourth the stations. One station which the company sought to close had an expenditure of 3,500 escudos per day and a revenue of 200. While that station was closed, the battle was so great as to limit the number of times the fight would be waged. Thus the company declares it is wasting money at a time when funds are desperately needed for its major service responsibilities. Without a clear policy that relates financial resources, including subsidies, to services that cannot be supported out of revenues, the railroad loses the possibility of obtaining a rigorous, disciplined internal decision process.

A rather different decision problem was encountered in the national electric company. Here it is government policy that

every citizen is entitled to electricity. Yet it is a fact that many of the homes, particularly in the interior, are not electrified. How, then, are decisions made about priorities in the extension of services? Is it not assumed that there are insufficient investment funds to finance all service extension requests? While it is certainly a desirable long term goal to electrify all homes, such a generalized aspiration does little to advance a paced, prudent development of the energy network in Portugal. Further, decisions about the location of such a key utility have tremendous consequences for population growth; and they thus have long term consequences for the economic viability of the company and for the quality of urban and rural life.

The absence of a clear set of goals for the enterprises makes it very difficult to hold them accountable for efficient, effective levels of performance.

Personnel

The redundancy problem exists in the public enterprises as well as in public administration. Nobody feels that much can be done about the situation, given the political factors operating in such enterprises and the general unemployment situation.

However, there are other complicating factors. One is the advanced age of many of the employees. In one public enterprise with about 4,000 people, it was reported that 40 per cent should be retired within the next two years. Yet there is currently an inadequate pension system for such people; and the enterprise faces another major financial problem in providing an honorable and dignified retirement to people whose capacity to perform effective services in the organization has passed.

It also seems apparent that a "civil service" mentality has permeated many of the enterprises. In some cases the enterprises were created from units in public administration, thereby transferring employees from the public function. Great resistance was experienced; the absolute security of government employment was something few wanted to lose. The tendency, as a consequence, has been to insist that employment in the enterprises is just as secure as in public administration. In other cases, formerly private enterprises were nationalized. Since that time, a great many people have been added to the rolls; and again the tendency has been to emphasize security and rights in the job.

Financial Management

Much has already been reported on the financial condition of the public enterprises. However, it also must be remembered that Secretary of State Almeida was required to declare on several occasions that reliable and current data on the financial performance of the enterprises were not available to him. Obviously, the availability of data that are consistent and uniform from one enterprise to another is crucial to any overall evaluation and setting of accountability standards.

The budgeting process followed in the enterprises ought to be qualitatively different from that of the general government. In essence, what is required is a business budget, in which a plan may be approved but in which expenditures are closely calibrated with revenues. Such budgets typically are not a part of the legislative appropriation process but are provided simply as annexed information.

Conclusions

1. There is major consensus that the financing, management, and operations of the public enterprises constitute a significant problem of government in Portugal.

2. Since the consensus also seems to be high in support of the continued operation of the enterprises by the state, it is apparent that strategies for reform will have to be pursued within a governmental and not a private context.

3. It is critical to recognize that the public enterprises do constitute a third sector of political, social and economic activity within the state. Approaches in respect to their institutionalization, accountability, and performance should be conceptualized in quite different terms than are the traditional public administration and private sectors.

4. The general rules and approaches to the oversight responsibility of the general government provide a useful, formal basis for control actions, within the current situation. In the longer run, however, they may prove to be unduly constraining on the flexibility and discretion of enterprise management.

5. The most immediate problems confronting the enterprises tend to lie outside their sphere of influence: the setting of clearer financial and performance goals that will facilitate accountability measures; a financial process that will enable enterprise leadership to plan more predictably; emphasis on merit in enterprise leadership appointments; the creation of incentives for effective managerial and organizational performance; and an

auditing and evaluation process that will insert an accountability dimension into enterprise discipline.

6. Today there is no institutional mechanism operating in such a way as to provide many of these positive leadership supports.

7. Even in the best of circumstances, however, it should be understood that there are no overall, universal answers to the problems of the public enterprise sector. Because they are conceived as businesses with unique situational requirements that imply managerial flexibility in response, approaches to control and accountability must be post-hoc terms. That is why strong emphasis should be placed on developing an accountability system that is disciplined through effective goal-setting processes and systematic evaluation of results.

8. Approaches to public enterprise reforms should be conceived in differing time frames: the long term, which could involve major institutional and policy changes developed out of experience and research; the medium term, which could involve major attention to problems of resources, both financial and human; and the short term, which could include more conscious goal-setting, performance information, and auditing within the current context.

Recommendations

In his speech to the National Assembly, Secretary Almeida identified six areas of needed reform in the public enterprise sector. They are:

1. Correct programming, evaluation, and financing of investments.
2. Adequate fixing of objectives.
3. Updating of prices of some products and services.
4. Financial improvements and restructuring.
5. Increase of productivity.
6. Non-partisanship in management.

While Secretary Almeida's list places an obvious emphasis on the financial dimensions, they also imply significant attention to policy and management questions. For this reason, and also because they do reflect the views of the government, this agenda for reform provides a valuable departure point for panel recommendations.

The proposals that follow are framed in terms of areas in which external support and technical assistance might be useful. Obviously, there are many difficult policy decisions that the government might take; but these appear to lie outside the panel's charter.

The four recommendations below all have a strongly institutional character. The strategy of change tends to focus on the development of structures that will mediate the necessary reforms rather than proposing the reforms themselves. Many of the issues are profoundly ideological, as in the credit and debt areas; the immediate need is to develop support systems that can enable the public enterprises to function more effectively in their current context and to provide a basis of research and understanding

that will inform the debates that will inevitably occur in regard to these questions.

1. An independent Institute of Public Enterprises should be established.

The needs and purposes of the public enterprises as a third sector are substantially different from those of the public administration sector. For this reason it is proposed that the creation of a separate organization would be seen as providing leadership support services to the public enterprises.

Its functions would be research and policy analysis, training, consulting, and evaluation. The evaluation activity would essentially be in terms of programs and management, designed to make a positive contribution to enterprise improvement.

- a. The research and policy analysis should involve examination of the long-run issues that confront the management of the public enterprises. In some cases, the research and analysis may focus on a specific economic sector, such as transport, or even on a specific enterprise whose problems have significant societal impact, such as the railroads.
- b. The training should concentrate on managerial levels and might in considerable degree parallel the managerial development efforts of the Institute for State Participations in support of private sector enterprises. It is critical, however, that the unique imperatives of the public enterprise sector be recognized in the managerial development provided.

- c. The consulting should involve close associations with top managerial levels and should be confined to major policy, program, and institutional dimensions of the enterprise. The service should undertake to generate a high level of confidence on the part of enterprise managers, thus opening up the possibility of providing support and assistance in the more sensitive, more intractable aspects of leadership responsibility. It should not be involved in routines and mechanized processes.
- d. Evaluation should be closely articulated with research and policy analysis. The process should not be deficiency-oriented but should be designed to help the managers identify areas in which they themselves seek improvement. If such a distinction between a negative and a positive approach to evaluation seems difficult to draw, the Institute should not engage in this function. It should be seen in positive, support terms by enterprise managers.

While it would be highly desirable for the government to support the development of a major institution concerned exclusively with public enterprises, other organizational possibilities exist for the performance of these services. The National Institute of Administration has been established; and it is recommended that a research, training, consulting institution be established to meet the more immediate, direct needs of the public administration sector.

If some consolidation of these interests is deemed necessary institutionally, the separation of the public enterprise sector responsibility within the organization is absolutely critical. Too frequently, the universal management processes involved in all cooperative systems are considered controlling; and the situational imperatives that dominate managerial behavior in the various sectors are ignored. The sector perspective should be the dominant orienting factor, whatever the sector involved.

An institution of the type proposed should be able to make contributions in the short, medium, and long terms. Very clearly, the consulting services could have an impact; the effects of managerial training and development are likely to be seen in the medium range; and research and policy analysis as well as evaluation must be considered as making their contributions over the long run.

2. A chair or program on the policy and management of public enterprises should be created within a major university.

The public enterprise sector should certainly be the object of attention within the university system. Intellectual interest in, and commitment to, the exploration of the economic, political, and social problems of a highly significant government involvement in the productive activities of the society seems most imperative. The fact that half the enterprise investments in Portugal are made by units of the government suggests the importance of directing intellectual resources to such questions.

The problem of public enterprises is not an issue alone in Portugal. Irrespective of the dominant political philosophy,

governments are engaging in a great variety of promotive activities, many of which take the structural form of enterprises. There is much to be learned comparatively in this field, in which the United Nations has had a longstanding interest and in which such widely separated countries as Great Britain, India, and Ghana have sponsored considerable research and publication. Both France and Brazil have well established training programs on the management of public enterprises. Thus there is much to be gained from continuing international contact; and such interchange will undoubtedly be facilitated by Portugal's entrance into the Common Market.

There is no recommendation on where such a program should be established. This would depend significantly on the interests, the resources, and the commitment of the individual universities.

3. The Auditing Service, foreseen in Decree-Law No. 260, should be established.

The establishment of an auditing service for public enterprises is mentioned in two places in the Decree-Law. In paragraph 3 of article 7 is the statement, "The government will promote the creation of a public service of auditing, which gradually will assume the functions assigned presently to the enterprise boards of control." Also, in the introduction to the Decree-Law, it is noted that "... the creation of a public service for auditing continues to be in the plans of the government."

Such an institution for auditing the public enterprise sector is very much needed. Not only ought it to impose a greater

Improvements of this nature should provide short-term benefits, contributing to the kind of informed debate which Secretary Almeida suggests may have a high priority for the National Assembly in June or July.

financial discipline on the enterprises because of such post-hoc reviews, but it should also give greater emphasis to the development of systems of enterprise accountability. A somewhat broader concept of auditing should produce the same kinds of results as a more intensive evaluation system.

It should be noted that the accounts of the public enterprises are not currently audited by the Court of Accounts. In effect there is no post-audit of enterprise financial operations; and therefore the creation of such a service should not in any way be seen as constraining or limiting the roles of the Boards of Control of the individual enterprise.

Since the establishment of such a service was provided in a 1976 Decree-Law, it appears that this is an institution which could be created speedily. The effects of its work ought to be felt in the short and medium time frames.

4. As the unit in the Ministry of Finance and Plans responsible for the public enterprise sector, the Treasury should initiate a process for rationalizing and improving the business budgeting and information systems of the enterprises.

Some elements of the budget and financial information systems ought to be uniform for easy access and processing of data; the systems ought to embrace data classifications that will be fully representative of the condition and needs of the organization; information ought to be provided for the entire sector in a more timely fashion than was available to Secretary of State Almeida; and the budgeting process ought to be one that allocates and controls resources in terms of changing market conditions.