"Is it all about culture?"
How to run a Finance Ministry

Case Finland and possible lessons for other countries

Markus Sovala, Director General // March 26, 2015
Stylized facts: Finland

- 5.5 million inhabitants, located between Sweden and Russia.
- Independent since 1917, EU Member State since 1995.
- GDP per capita 36,700 USD (PPP, ref: UK 36,000).
- Manufacturing: Metals and machinery 37%, chemicals 26%, wood processing 19%.
- After Financial Crisis in 2008, exports of electronics has declined by 70%.
Parliamentary control

7 year terms (previously permanent positions)
LEADERSHIP SKILLS

Politics

Economics

Management, ICT, functioning of municipalities, media

Ms Terhi Järvikare
STAFF EDUCATION

- 1/3 law, 1/3 economics, 1/3 management
- 95% economics
- 3/4 law, 1/4 economics
- 50% law, 50% economics
- Management, ICT, political science, media
Stylized facts: Finnish Economic Policy

- Economic argumentation has not had as important role in intellectual tradition as in Anglo-Saxon countries.
- Historically strong preference for balanced budgets – Keynesian thinking never really rooted. However, Government had an important role in industrial policies and education – more recently in R&D&I.
- Current challenge is aging population and consequently weak public finances.

**Change in age-related expenditure**
from year 2012, % of GDP

**General government debt**
EUR bn (left scale)  % of GDP (right scale)

Sources: Statistics Finland, MoF
Stylized facts: Finnish Ministry of Finance

- Traditionally a powerhouse of Decision making – Prime Minister’s Office has gained more weight only quite recently.
  - Budget Department acts as a secretariat for Cabinet Fiscal Committee (CFC) and Cabinet Committee on Economic Policy (CCEP).
- Civil service enjoys traditionally great degree of independence. Independence dates back to 19th Century when Finland was autonomous Grand Duchy of Finland, under Russian emperors (A.K.A. Grand Duke of Finland). Independence created to protect Finland from Russian influences.
  - Independence is still the main cultural characteristic in the Core of MoF.
- EU Fiscal Rules changed the Finnish decision making structure less than in many other countries. New features: Economics Department is legally independent forecaster, binding deficit target for local government etc.
Stylized facts: Decision Making in Finland

- Budget Process is well organized. Government takes almost all decisions of great importance in the context of Budget Process.
- Although Medium Term Expenditure Ceilings are not legally binding, they are honored in practice. Covers some 80% Central Gov. Budget. 100% correspondence between top-down and bottom-up approaches (decision defines expenditure levels for all budget item included in the Ceilings).
- The CFC and thus MoF has strong say in budget execution and other weekly decisions by the Ministries.
- Strategic decisions concerning State Enterprises and Ownership Policy in General is done in the CCEP. However, it is not an official decision making body as legally binding decisions are taken by Ministries, CFC or the Plenary. Committee expresses – often conditional – support for a proposal and thus gives an individual minister assurance that the Gov. supports him/her.
CORE OF THE FINANCE MINISTRY

Minister of Finance
Mr Antti Rinne

Minister, Issues related to the Budget Council of the EU
Ms Lenita Toivakka

Minister, Issues related to the Customs
Ms Päivi Räsänen

Permanent Secretary
Mr Martti Hetemäki

Economic Policy Coordinator, Director General
Mr Jukka Pekkanen

Permanent Under-Secretary
Mr Timo Vihkerenttä

Permanent Under-Secretary
Mr Tuomas Saarenheimo

Director of Administrative Governance and Development
Ms Helena Tarkka

Budget Department
Mr Hannu Mäkinen, Director General

Economics Department
Mr Markus Sovala, Director General

Tax Department
Mr Panu Pykönen, Director General

Financial Markets Department
Mr Pentti Pikkarainen, Director General

Euro Area Crisis Management Team
Mr Pekka Morén, Senior Adviser

Secretariat for International Affairs
Mr Martti Salmi, Director General

Personnel and Governance Policy Department / Office for the Government as Employer
Mr Juha Sarkio, Director General

Public Sector ICT
Ms Anna-Maija Karjalainen, Director General

Department for Local Government and Regional Administration
Ms Päivi Laajala, Director General

Administrative Governance and Development

Media and Communications Unit
Ms Linnu Lehto, Director
CORE OF THE CORE?
Culture of Ministry of Finance

- Independence - the Minister should get frank advise.
- Make always a proposal – don’t ask what Government or an individual Minister want to hear.
- Think always strategically – what will be the next steps?
- Design institutions strategically – rules of the game determines outcome of the game.
- Understand that there is no defense line behind you – if you let it go, it’s gone.
- Avoid theoretical argumentation – practical problems call for practical solutions.
- Avoid conflict of interests at any costs – you can loose your reputation only once.
Success stories

- Central Government Expenditure Ceilings in general
- Annual Central Government budgets
- Various saving packages

Less successful stories

- Local government expenditure control
- Particularly decisions to reduce obligations of municipalities (which produce services like education and healthcare.)
- Structural measures regarding labor market.
Strategic choices

- Scope of ministry – the Budget is core but what else we need?
  - Very likely Economics and Tax Departments, but one should be very selective.
- Small is beautiful – large staff is often ineffective.
- How much you should rely on economists?
  - Economist are not always the best people in practical decision making.
- How much implementation is needed in the Ministry?
  - What can be delegated to the Government Agencies?
- Can you rely on recent theoretical models of budgeting?
  - Resource control may be more efficient than result budgeting.
- Find allies – keep reasonable people well informed.
  - Almost everything important is decided before a new Government convenes the first time.
- Which kind of MoF culture suits your country and your challenges?
Supporting material
Time line for Government Program, Central Government Spending limits and Annual Budgets


Government Programme of April 19, 2007 (especially Appendix)

Spending Limits for 2008-2011 of May 25, 2007

Budget 2008  1st Supplementary Budget 2008  2nd Supplementary Budget 2008  3rd ...

Spending Limits for 2009-2012

Budget 2009  1st Supplementary Budget 2009  2nd Supplementary Budget 2009  3rd ...

Spending Limits for 2010-2013

Budget 2010  1st Supplementary Budget 2010  2nd Supplementary Budget 2010  3rd ...
Generic flow chart of fiscal decisions

1. A letter from the MoF
2. Proposals of the line ministries
3. Internal evaluation in the MoF
4. A proposal by the Minister of Finance
5. (Negotiation between MoF and line ministry)
6. Cabinet negotiations and decision
7. Proposal (or providing information) to the Parliament
Flow chart for a Spending Limit Decision

1. A letter from the MoF
2. Proposals of the line ministries
3. Internal evaluation in the MoF
4. A proposal by the Minister of Finance
5. (Negotiation between MoF and line ministry)
6. Cabinet negotiations and decision
7. Proposal (or providing information) to the Parliament
8. A letter based on Gov. Program and Decision at (t-1), incl. price corrections, mentions economic challenges
9. Proposals of the line ministries
10. Internal evaluation in the MoF
11. A proposal by the Minister of Finance
12. (Negotiation between MoF and line ministry)
13. Cabinet negotiations and decision of Spending limits for (t+1), …, (t+4) & forecasts for off-ceilings expenditures
14. Formal informing of Parliament
Flow chart for Central Government Budget

A letter from the MoF → Proposals of the line ministries → Internal evaluation in the MoF → A proposal by the Minister of Finance → (Negotiation between MoF and line ministry) → Cabinet negotiations and decision → Proposal (or providing information) to the Parliament

A letter based on Spending Limit Decision and off-ceiling forecasts at (t) → Proposals of the line ministries → Internal evaluation in the MoF → A proposal by the Minister of Finance → (Negotiation between MoF and line ministry) → Cabinet negotiates and decides Budget for (t+1) → The proposal submitted to the Parliament
Guidance and control of weekly decision making of Ministries by CFC

- Cabinet Finance Committee (CFC) convenes every week, Budget Dept. is a secretariat.
- All matters going to Plenary Session of the Government and having an economic aspect need to be cleared by CFC.
- The Ministries needs to ask an approval of the CFC in certain matters (budget implementation after a threshold, multiannual agreements, programs etc.)
- Gives MoF a strong say as problematic matters can be monitored/stopped/delayed. A credible deterrent (a “nuclear bomb effect”).
Interplay between MoF and Line Ministries in the context of Cabinet Fiscal Committee (CFC) – a credible deterrents (“nuclear bomb effect”)

A proposal from a line ministry

Internal evaluation in the MoF (mainly Budget or Tax Dept)

Negotiations between MoF and a line ministry; changes or withdrawal of the proposal may be requested

New proposal from a line ministry

In CFC MoF may request changes or withdrawal of the proposal

CFC endorses, makes amendments or rejects proposal; if rejected the proposal does not go to Plenary

Plenary session of the Cabinet decides the matter

A proposal from a line ministry

Internal evaluation in the MoF, if unproblematic MoF endorses the proposal

CFC endorses the proposal

Plenary session of the Cabinet decides the matter

40 % of cases
35 % of cases
10 % of cases
60 % of cases

In 5 % of cases changes, in 2 % of cases proposal is rejected

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Strategic decisions concerning State Enterprises and Ownership Policy in General

- Cabinet Committee on Economic Policy (CCEP) convenes 2-3 times a month. Budget Department acts as a secretariat. Documents and meetings often highly classified.

- Not an official decision making body as legally binding decisions are taken by Ministries, CFC or the Plenary. Expresses – often conditional – support for a proposal and thus gives an individual minister assurance that the Gov. supports him/her.

- In fact, the Government ownership policy is decided here.
Procedures for Cabinet Committee on Economic Policy (CCEP)

A proposal from a line ministry, consists of a short proposal ("CCEP endorses proposal for further considerations")

Internal evaluation in the MoF (often by the Budget Dept.)

MoF may propose changes or conditions or rejection ("CCEF endorses proposal assuming that the Ministry of X will …")

Final decision is made by the line ministry (if it has a right to do so) or the line ministry brings the matter to the Plenary (probably via CFC), often to the Parliament too.

(Conditions set by CCEP are honored in 99% cases and thus CCEP effectively decides the matter.)
About the Presenter
CV

- Director General, Head of the Economics Department in the Ministry of Finance, Finland.
- PhD in Economics from the University of Helsinki.
- Studies also in the University of Cambridge, UK.
- Previously worked in the World Bank and European Commission.
- In the Finnish administration served Prime Minister Lipponen as an Economic Advisor and worked as Deputy Budget Head of the Finnish Government.
- Born 1960.

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