

Japan's Recent Budget System Reforms

28th Annual Meeting of Senior Budget Officials
Istanbul, Turkey, 31 May -1 June 2007

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Japan's Recent Budget System Reforms

- For more transparent, efficient and effective budget.
- More focus on performance and results, to be inputted into the process of budget examination through improved analytical instruments.

I. More performance information

1. Annual Inspections of Budget Execution

2. Reform of the Settlement Book

3. Self Policy Evaluation

1. Annual Inspections of Budget Execution

- introduced in 2002
- annually more than 60 budget items (e.g. infrastructure projects and subsidies) are inspected on-site by :
 - Budget Examiners of Budget Bureau of the Ministry of Finance
 - Officials of Local Finance Bureaus (11 LFBs nationwide)
- start inspections in April, and publish their inspection reports mostly in July before budget requests from line ministries.

Note :Japan's fiscal year runs from April to March

- Budget Examiners are expected to reflect their findings in the budget examination in autumn, and publish how their findings have been actually taken into account in the budget .

- In case they find the projects are not implemented as effectively and efficiently as previously expected, they take necessary actions :
 - ① scrap or reduce the budget for the items ; or
 - ② review the implementation, check bottlenecks and urge the implementing ministries to take corrective actions for more results.

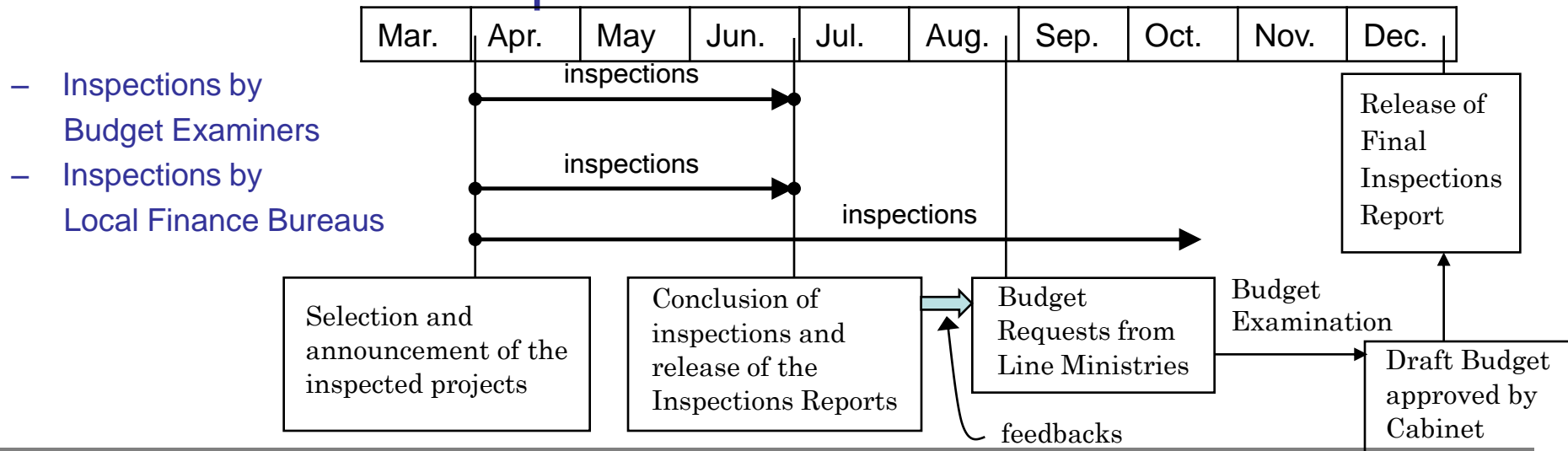
Notes: • Budget Examiners and LFBs discuss candidate inspection items and select what will have substantial implications for improving effectiveness and efficiency of budget.

- LFBs focus on 1) the items they have found locally and 2) those to be inspected nationwide in many places for extensive data.

• Achievements of the Inspections

FY	2002	2003	2004	2005	2006	2007
Number of inspected projects (by Local Finance Bureaus)	46 (3)	53 (2)	59 (6)	57 (4)	68 (11)	62+ α (12+ α)
Budgetary savings resulting from the inspections (\ 100 million)	189	492	275	260	288	—

• Schedule of the Inspections



2. Reform of the Settlement Book

- for more data on actual budget disbursement, to be comparable with the budget items in the Budget Book.

- Current :
 - there are no actual disbursement data by Line Items in the Settlement Book (by Budget Accounts only).
 - Note : There are 603 Budget Accounts and 1,290 Line Items in the General Account. Budget Accounts need to be approved by the Diet.

- Future(FY2008 budget and afterwards):
 - the Settlement Book will include data by Line Items so as to make sure that the budgeted amounts and the actually appropriated/disbursed amounts are comparable on the basis of Line Items.

3. Self Policy Evaluation

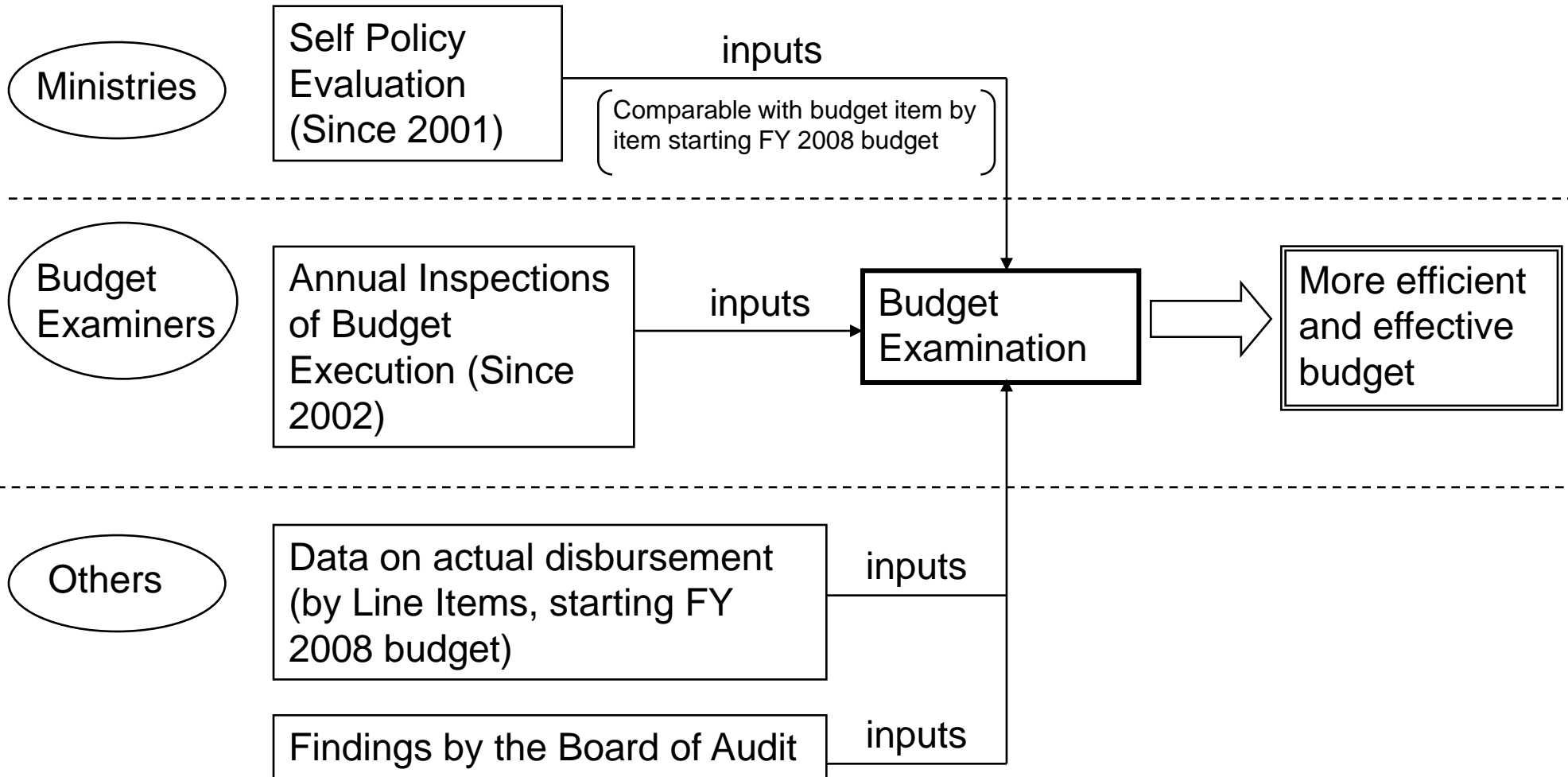
- All the ministries started to perform self evaluation in 2001, and each ministry has published “Policy Evaluation Reports” annually.
 - Over 550 policy items were evaluated in 2006.
 - Each policy item listed in the Reports refers to intended results and policy targets , more than 50% of which are quantitative, as well as its achievements (and indicators).
- Budget Examiners are expected to make use of the inputs from the Self Evaluation Reports, but have faced some operational difficulties, in particular comparing policy items with budget items.
 - ⇒ Need to have better analytical instruments.

II. Improving the analytical instruments

- Reform of the Budget Book

- for easier and clearer reference to “results,” and for quick corrective budgetary action
- Current:
 - Budget Accounts and Line Items are not aligned or tied with the Policy Items (PIs) in the Policy Evaluation Report of each ministry. As a result, mutual feedbacks between budget and policy evaluation are difficult.
- Future (FY 2008 budget and afterwards):
 - Both of the items in the Budget Book and the PIs will be reorganized and substantially revised so as to make sure that the scopes and order of the Budget Accounts are aligned with those of PIs and that each Budget Account can be compared with the corresponding PI (See Attachment).
- It would be possible ① for the taxpayers to compare budgeted amount and its performance (evaluation and indicators) item by item ; and ② to make “cost-benefit” analysis on the PIs.

Overview of the Japan's Budget System Reforms



**Revised

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(preliminary)
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Current

| PE Items | Budget Accounts | Line Items | Budget Accounts | Line Items |
|--|---|---|---------------------------------------|-----------------------------------|
| 1. Global Environment Conservation | Expenditures for Global Environment Conservation ① | Prevention of Global Warming

Ensuring International Partnerships

..... | Ministry of the Environment (Central) | Global Environment Conservation ① |
| | Expenditures for R&D Activities For Global Environment Conservation ③ | R&D Activities for Global Environment Conservation | | Prevention of Air Pollution ② |
| | Expenditures for Reduction of Carbon dioxide ④ | Transfer to Special Account for Reduction of Carbon dioxide | | Prevention of Water Pollution ③ |
| 2. Conservation of Air, Water and Soil Environments | Expenditures for Conservation of Air, Water and Soil Environments ② | Conservation of Air Environments

Conservation of Water Environments

Conservation of Soil Environments

..... | | Prevention of Soil Pollution ④ |
| | Expenditures for Promotion of Waste Management and Recycling ⑤ | | | Disposal of wastes ⑤ |
| | | | | International Conferences ⑥ |
| 3. Promotion of Waste Management and Recycling | Expenditures for Conservation of Biodiversity

Expenditures for Nature Parks ⑤ | | | Advisory Councils ⑦ |
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| 4. Conservation of Biodiversity and Coexistence of People and Nature | | | | |
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Note: ① Budget Accounts are submitted to the Diet for approval.
② Each ministry is not allowed to appropriate resources across Budget Accounts.