Leading the way
Arab leader Muna AbuSulayman on helping women into the workforce

Gateways of India
Creating new employment opportunities

Bringing Brazil together
Harnessing the strengths of public and private sectors

Letters from America
Uncovering the financial state of the union
Welcome back to Citizen Today, EY’s magazine for our government clients around the world.

It’s a new year and an opportunity for a fresh start. More jobs and stronger growth hopefully lie ahead but, unfortunately, there are few signs that the global economy is poised for a much-needed era of expansion. With forecasts being downgraded, it seems that the systemic problems that cast a long shadow over much of 2012 are here to stay. Chief among this is employment, and in this, our 13th issue, we take an in-depth look at how different countries are responding.

The turbulence that began in 2011 continues to sweep across parts of the Middle East and North Africa region. We speak to Muna AbuSulayman, a prominent Arab leader and commentator, about implementing top-down and bottom-up change. Our coverage also includes a global overview from Angeles Bermudez-Svankvist, head of Sweden’s National Employment Agency and the worldwide organization of labor market agencies.

But unemployment is not the only subject of this edition. The US “fiscal cliff” continues to make headlines around the world, underlining how the impact of the economic performance of the US spreads far beyond its 50 states. We speak to a number of financial leaders from federal, state and local government about public financial management and US economic prospects. We also hear from Erik Camarano, President of the Movimento Brasil Competitivo, about how a new approach to public-private collaboration is helping Brazil become ever more competitive.

I hope you enjoy this edition, which compatible mobile device users can now access by downloading our app. You might also want to check out a video of Peter Ong, the head of the Singapore civil service, which is part of our Global Public Leaders series. Visit www.ey.com/government for the links to access the app and video. I would love to hear your feedback and ideas. Please contact me at uschi.schreiber@hk.ey.com.

I look forward to hearing from you.

Uschi Schreiber
Global Government & Public Sector Leader
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About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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In the field is a feature that reports on examples of EY’s collaboration with government teams around the world. Here, Rohan Malik reports on an innovative program that seeks to transform the livelihoods of millions of people in the Indian state of Orissa.

Orissa, 2009. The ninth-largest state in India is enduring another tough year. Some 47% of its 42 million population is living below the poverty line. Terrorism, extremism and social unrest are all up. Employment, prosperity and private sector activity are all down. With the bulk of the population reliant on a nonproductive agricultural industry, the chances of Orissa’s citizens breaking free of poverty and building new, prosperous lives seem ever more remote. It was in this grim backdrop that EY began work.

The Orissa Modernizing Economy, Governance & Administrative (OMEGA) Program has the sole objective of poverty elimination. Using funding from the UK’s Department for International Development, our teams have been working alongside the Government of Orissa to address the severe poverty rampant in the state and help build new sustainable livelihoods for its citizens. We did not lack for priorities.

Despite abundant natural resources such as mineral-rich reserves and large coastlines, Orissa had, for some years, been failing to move forward. As other Indian states experienced rapid economic growth, Orissa, by contrast,
was falling further and further behind. As poverty bit ever deeper, the state’s economy struggled with out-of-date infrastructure and a private sector that was beset by challenges such as skills shortages, a lack of finance and poor productivity, among many others. So what did we do?

Our first task was to identify three key areas of focus for the program, which was scheduled to last five years. First, it was clear we had to strengthen the private sector in order to create jobs and more employment opportunities. With agriculture so dominant, our task was to create an industrial policy that would lead to a better investment climate and new growth sectors such as IT, health, manufacturing and automotive. We wanted businesses — both domestic and international — to come and set up shop in Orissa. Other tasks we set ourselves included delivering better productivity and employment in the core sector of agriculture, as well as setting up the right enablers of infrastructure and skills so we would be able to create employment and sustainable livelihoods.

The second part of the program is about modernizing government. In today’s fast-shifting global economy, policy-makers around the world need to fully understand HR, IT, procurement, commercial tax, finance and administration, just for their countries and regions to stay competitive. So we needed to move the Government of Orissa forward, looking at the capacity and capability and really ensuring that people, processes and technologies are available for it to be a modern government. With this in mind, we are strengthening the capability and capacity of the government to undertake reforms on areas of governance, administration and operations, combining process, people and technology to design and deliver tailored services.

“Despite abundant natural resources such as mineral-rich reserves, Orissa had, for some years, been failing to move forward”
The third element is a ruthless focus on implementation. This is a program focused on outcomes and results, such as help ensuring minimum employment of 100 days for every below-poverty-line family. In sum, the challenge of OMEGA was to transform the lives of millions of poverty-stricken people – vitally important work and not for the fainthearted.

Our approach has always been defined by a constant and laser-like focus on results. OMEGA is a program in which we have challenged ourselves and our clients – the governments of Orissa and the UK – to deliver a program that is different. A program that doesn’t rely only on desktop reports and diagnosing the problem from afar, but instead a program in which we all get ownership of fixing the problem and ownership of the outcomes. So we put our money where our mouth is and agreed that 50% of EY’s fees should come from delivering outcomes on the ground. Every 90 days we challenge ourselves to demonstrate changes – internally to government and externally to stakeholders and beneficiaries – so they can see momentum is building up for this transformation program. Poverty alleviation cannot be solved overnight. It is a long journey, but we are keen to break it up into 90-day chunks and demonstrate progress.

Multi-disciplinary teams, too, are important. We have between 20 and 25 people on the ground at any one time, and they come from across our global organization. But they must talk with one voice around the challenges and issues. Before they start work we arrange for them to receive a two-day induction so they understand the context, the ways of working with government, and our internal methodologies and frameworks. We have ensured that all our people, whether they would be working in finance, tax, rural development or industries, have been able to go and see the potential beneficiaries so they could all see that they would be making a difference in these people’s lives. This helps hammer home the message that this is not about a report but about real people and real lives.

With so many people living below the poverty line, we have had beneficiaries as part of our advisory panel at every stage of policy-making. Not only do they tell us about the real, practical and pragmatic issues they face on a daily basis, but they also guide us at every step so our recommendations are based on facts and not hearsay. This, for me, makes our program unique.

Our approach has always been defined by a constant and laser-like focus on results.

And it’s working. For example, as part of the program we are training more than 100,000 rural youths every year, giving them new skills that will help them into employment. We have also established sustainable business markets for key agricultural products such as onions, mangoes and others, and in doing so creating livelihoods for 150,000 beneficiaries.

With globalization significantly impacting governments, creating greater interconnection of problems but also of ideas and solutions, governments increasingly want to apply what works internationally, learn from things that haven’t worked and then tailor the solutions to local circumstances. It is pertinent, then, to consider whether the success of this program can be replicated in other parts of the world.

As a state, Orissa has much in common with countries in Sub-Saharan Africa and other parts of the world, but OMEGA is not something that can be simply duplicated. I have total confidence, however, that what we have learned in Orissa can be replicated and customized to other local contexts – especially in the emerging markets. After all, Orissa’s challenges of inequality, social unrest, a reliance on agriculture and youth unemployment can sadly be found in many other parts of the world.

The teams that have been delivering OMEGA will be helping their colleagues in EY understand and customize these approaches for different local circumstances. These ideas and activities can then be deployed to other regions and countries where such a program is needed.

It was clear we had to strengthen the private sector in order to create jobs and more employment opportunities.

“"It was clear we had to strengthen the private sector in order to create jobs and more employment opportunities.””

Rohan Malik is a partner with EY Pvt. Ltd. in India. rohan.malik@in.ey.com
A region of many challenges and strengths, the Middle East and North Africa is slowly adjusting to the need for greater gender equality across its borders. Here, Muna AbuSulayman, a leading media and social commentator in the Arab world, tells us what needs to be done to achieve lasting progress.
Rich natural resources, solid infrastructure and an expanding middle class – just some of the factors that sheltered the Middle East and North Africa (MENA) from the very worst of the global financial crisis. But that’s not to say the region is without its challenges. The political and social instability that ricocheted across borders in 2011 will not only be long remembered, but also exposed the long-term and systemic problems that have existed, often below the surface, for a considerable period of time.

Chief among these is addressing the region’s unemployment problem. Of course, no country has proved immune to surging joblessness in recent years, but in MENA the problem is particularly acute. Over the next 10 years, the labor force in the region is expected to grow at around 2% per year, whereas in the Eurozone and Japan, for instance, it is set to decline. Given the already-high unemployment there, creating jobs for the next generation will be one of the most important economic challenges for the region’s leaders.

With many countries in MENA looking at economic development, economic diversification and job creation, tapping into all the talent that is available in society is crucial. And this means helping more women into the workforce. Muna AbuSulayman, an influential Arab leader across many fields, has no doubt that empowering women to become a first-class, rather than second-class, citizen of society will represent a major step forward.

“We live in a hyper-connected and hyper-complex world with different information coming at us from everywhere,” she says. “Trying to figure out what is the right direction to take and what is the right information to use is extremely complicated. There are differences in society between what the base wants and what the top wants, and a lot of complications and difficulties occur because of this split. This means there is a challenge to raise awareness – changing society to share a common vision of what women empowerment means.”

The rich diversity of AbuSulayman's life and career means she is well placed to comment on the fluid and evolving situation across MENA. Many people in the region know her from her role as founding co-host of Kalam Nawaem (Softly Speaking), a popular television show in Saudi Arabia that is rated number one among social programs on all Arab channels and focuses on cultural, social and gender issues.

She first stepped into the spotlight after being named as a Young Leader by the World Economic Forum in 2004,
and in the same year becoming the first
Saudi woman to be appointed by the
United Nations Development Program
as a Goodwill Ambassador. She has
also served as Secretary General and
Executive Director of the Alwaleed Bin
tal Foundation, the philanthropic arm
of Saudi Prince Alwaleed Bin Talal's
Kingdom Holding Company. And in addition to
overseeing her recently launched fashion
range, she also lectures in gender equality
at Yale University in the United States.

It’s quite a CV, and she puts it down
to her love of challenges and doing new
things. “Every time an opportunity comes
up, I take it,” she says. “In the media there
was an idea to create an international
show, and I would be the first Saudi
woman to present it. I jumped at it even
though I had no media training because
I thought it would be a great way to put
across my point of view, which I didn’t see
enough of on television. Every time I see
issues I think I could contribute to I find
myself taking it. Learning how to say ‘no’
is something I’ve had to work on.”

When it comes to helping more women
gain prominence in the MENA region,
AbuSulayman believes that identifying
what a “good life” means for different
people in societies is the foundation for
sustainable change. “Oil-producing and
non-oil-producing countries have different
problems and huge variants,” she points
out. “For example, 63% of women are
in education in Qatar but only 10% in Yemen.
Once we know what each society means
when it wants a ‘good life’ then this vision
can inform policies and government
decisions, and it can have support from
the base. We also need to look at areas
other than education. In Saudi Arabia,
for instance, only 2% of women who
applied received a mortgage, despite a
law to the contrary. We need to reconcile
two conflicting visions – one that has
independent, strong women participating
fully in society which for some reason
clashes with the idea of womanhood,
which involves mothering and acting as
support for the family.”

In MENA, another common problem
is that the array of challenges facing
governments and policy-makers – political
and social instability, water and food
scarcity, and unemployment, particularly
among the young – prevents the issue
of women empowerment from achieving
greater prominence. “The issue comes
up when a woman is appointed to a
key ministerial position as a symbolic
move, which is important, but the
fundamental problem doesn’t change,”
says AbuSulayman.

“The opportunities for most women
who are not from the upper middle
classes remain the same. For me, what is
important is helping these less-advantaged
women in society. Even in countries that
have great opportunities, access is very
difficult. The positive side is that for those
women who do make it to the top, these
are women who really are exceptional
because they have overcome so much.
But we don’t want that. We just want lots
of normal women in the top positions
who haven’t had to be exceptional to get
there. So what we need are two types
of changes – top-down and bottom-up.
It has to be both so that changes can be
systemic, systematic and sustainable.”

Unfortunately, such changes are not
easy to implement, not only because in
MENA, education does not necessarily
translate into employment. This is despite
the fact that research shows that if you
have more women in positions of power,
it leads to higher ethical standards and
lowered corruption. Greater flexibility
and a more progressive attitude from
employers are the solutions, suggests
AbuSulayman. “We need to change the
system to help the women who want to
work at the time they want to work,” she
says. “Why don’t we look to hire women
after the age of 32, who by then are
more likely to have had their kids? More
corporations need to look at hiring women
from this particular group. We need to
help them work at the ages that they want
to work at.”

But she is keen to stress that she
remains positive. “I think people will move
forward with change, but there is no doubt
that the political and social instability in
the region is the number one issue. Not
being sure whether you will have a job or
a country run by the same government
in a few months creates a lot of tension
and nervousness. But it’s important to be
optimistic. Even small change has to be
celebrated so that it encourages other
people to do the same.”

The Middle East and North Africa — did you know?

- In the MENA region, only 33% of working-
age women join the labor force – far below
the 56% of women in low- and middle-
income countries and 61% of women in
OECD member states who are part of the
workforce.
- The MENA-OECD Investment Program
estimates that, in order to remain at
current unemployment levels, 25 million
jobs will need to be created over the next
decade, requiring an average annual growth
rate of 5.5%, one point above the average
growth of the last decade.
- In all countries of the MENA region (with
the exception of the Palestinian Authority),
women who join the labor force have
consistently higher unemployment rates
than their male counterparts.
- The gender gap in unemployment is the
largest in the United Arab Emirates, Saudi
Arabia, Kuwait, Yemen and Egypt, where
the female unemployment rate is nearly
four times the male unemployment rate.
- The average median age is 25 years, below
the average of other emerging regions,
and well below the average of developed
countries in Europe and North America.
These young populations represent a
tremendous opportunity, both as a market
and as a labor force.

Source: World Economic Forum, Arab World Competitiveness
Few people understand the challenges of unemployment as well as Angeles Bermudez-Svankvist. As head of Sweden’s National Employment Agency and the worldwide organization of labor market agencies, she has global oversight of a problem that leaves no country untouched. Here, she tells Susanne Tillqvist about her dual roles and what’s needed to get the world working again.

Addressing the world’s labor pains

A few minutes with Angeles Bermudez-Svankvist is just what’s needed to brighten up a gray, wintry day in Stockholm. She’s running a little late for her interview — a testament, perhaps, to the juggling of roles as Director-General of Sweden’s National Employment Agency (Arbetsförmedlingen) and President of the worldwide organization of labor market agencies, WAPES. Her zeal for the corresponding mission of both these organizations — to help reduce unemployment — is instantly evident.

“This is my passion,” she says. “It’s not easy, and can be frustrating at times, but what a privilege to be at the center of this debate — especially now, at this time in global economic history.” Indeed, few can doubt the importance of her work. Of the many and varied repercussions of the 2008–09 financial crisis, one that has rippled across borders to impact both developed and developing economies, has been surging unemployment. Over the last few years, the number of people estimated to be out of work has grown to total more than 200 million, which is an increase of 27 million since the beginning of the crisis. And even rapid-growth economies have not proved immune; although some regions have enjoyed robust economic expansion, this hasn’t led to a greater increase in employment.

Take the Middle East and North Africa, for example. Although the region enjoys many strengths — natural resources and substantial budget surpluses among oil exporters, for example — high unemployment, particularly youth unemployment, remains a key problem. The primary reason for this is a skills mismatch. Most foreign companies setting up base in the region prefer to employ immigrant labor due to a shortage of a skilled workforce. Reducing this skills mismatch between nationals and non-nationals is, therefore, a top priority for Middle Eastern countries.

Bermudez-Svankvist, who describes the global unemployment situation as “troubling,” is particularly concerned by key aspects of the unemployment crisis — such as the increasing numbers of long-term jobless and young people who remain out of work. Her presidency of WAPES, which she took on in June 2012, gives her a truly global perspective on what different governments are doing to boost employment. The size of a
country’s economy is crucial, she believes, in shaping what policy-makers can do to stabilize and improve the jobs market. “So much depends on a country’s GDP,” she says. “It really controls what a government is able or not able to do. But what’s clear is the need to focus on those people who are not in the jobs market, who perhaps have never been employed and feel cut off from society as a result. We can see this type of structural unemployment in many countries, with large groups excluded from the workforce for a number of different reasons, such as access to adequate education or training.”
Time to get active

WAPES was established in 1989 by the employment service authorities of Canada, France, Germany, the Netherlands, the United States and Sweden, together with the United Nations’ labor organization ILO. With a secretariat in Brussels, the organization now has about 90 member nations and works to increase knowledge about labor market issues and to spread lessons and best practices among its members.

“People need and deserve to be able to support themselves,” she says. “Employment is so important, both for individuals’ well-being and society as a whole. It is a basic part of human life, or the ‘social contract’ that exists in all countries. In recent years, though, this has broken down too often. This means we need more active labor market policies – to provide support and help to both employers and job seekers.”

“The role of public employment services

Given the diverse and challenging issues facing governments, the unemployed and employers around the world, it is clear that the task facing public employment services is increasingly important. And providing employers and job seekers with the best possible support is not easy when resources are being withdrawn due to government budget cuts. “The demands are bigger than ever,” admits Bermudez-Svankvist. Potential tasks include creating meetings between employers and job seekers, reflecting the need to increase the cooperation between different groups in society in order to address the unemployment gap.

“Employment is so important, both for individuals’ well-being and society as a whole. It is a basic part of human life”

Asking to specify what this would mean in practical terms, Bermudez-Svankvist says a more active labor market policy involves measures to deliver more effective matching between the supply of and the demand for labor, as well as focused support activities and training for vulnerable groups in order to bring excluded groups into labor markets.

“We also need to facilitate the mobility necessary to meet current labor markets needs,” she adds.

Bermudez-Svankvist is herself proof of such increased mobility. Born in Mallorca, she has a Swedish mother and has lived in Sweden since she was a teenager and is, like so many Nordic people, multilingual. Having trained as a dentist, she has held several management positions with the Stockholm County Council and the National Dental Service in England. She has also held directorships including the Red Cross Central Board and the Federation of Private Enterprises, specializing in helping organizations through periods of change and reform.

Evidence of the high profile she enjoys as a result of these labors is confirmed by a glance around her office; photos of herself with Sweden’s Prime Minister and Finance Minister take pride of place alongside her own paintings and drawings.

Now, though, her time is very much focused on helping get people into the workforce. She has made addressing youth unemployment a key priority of her presidency of WAPES, and it is clear that this is a group particularly hard hit by the financial crisis. “In 2011, about 75 million people aged 15 to 24 years were unemployed, an increase of over 4 million from 2007,” she says. But while she agrees that this is a significant issue, she is quick to reject the suggestion that the world is now facing a “lost generation.”

“What we need to do is get ahead of that and prevent it from happening,” she says firmly. “There are a number of reasons why young people have been particularly badly affected. They don’t have as many contacts as older professionals and not a huge amount of experience that can help them when an economy slows. They are also more likely to work to fixed-term contracts. On the other hand, young people are often highly mobile and flexible, which means that we can use our collaboration to create tools and meeting places that can help them get into the workforce.”

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The haunting specter of high unemployment continues to cast its shadow over the global economy. According to the International Labor Organization, the world faces the “urgent challenge” of creating 600 million productive jobs over the next decade in order to generate sustainable growth and maintain social cohesion. Yet many governments are still struggling to find and implement the winning blend of policy and strategy that will enable them to create jobs and growth, transitioning their economies to recovery and a return to prosperity.

But there have been a few notable exceptions. For example, Germany’s rate of unemployment recently fell to 5.4%, its lowest number in 20 years. According to Eurostat, Germany had one of the lowest unemployment rates in not only the Eurozone and the EU-27 member countries, but also one of the lowest rates compared against some of the larger European and global economies, in October 2012 (see figure 1).

As well as falling numbers of jobless since 2005 (see figure 2), another dividend has been the reduced cost of unemployment insurance paid out of the federal budget, which according to one estimate was almost €32b in 2011. However, it’s not all good news. The German economy is not immune to the wider global environment, and unemployment levels may yet rise as the country feels the full effects of the Eurozone crisis through weakened exports. With this in mind, the Bundesagentur fur Arbeit (BA), the federal agency has not stood still and is undergoing a transformation enabled by the innovative use of IT.

The BA is the largest service provider in the German labor market. In addition to helping customers find training positions and employment, the BA provides services to safeguard and create jobs, as well as assistance such as unemployment benefits. With more than 115,000 employees at over 600 offices, the BA offers a nationwide network for the delivery of comprehensive, targeted services.

Figure 1. Unemployment in selected economies, the Eurozone and the EU-27 member states in October 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment Rate</th>
</tr>
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<tbody>
<tr>
<td>Japan</td>
<td>4.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>5.4%</td>
</tr>
<tr>
<td>UK</td>
<td>7.8%</td>
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<tr>
<td>US</td>
<td>7.9%</td>
</tr>
<tr>
<td>France</td>
<td>10.7%</td>
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<tr>
<td>Eurozone-17</td>
<td>11.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>11.1%</td>
</tr>
<tr>
<td>EU-27</td>
<td>11.7%</td>
</tr>
<tr>
<td>Spain</td>
<td>20.2%</td>
</tr>
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</table>

The applicable business processes to carry out the tasks within the respective offices are going to be supported by an innovative use of IT. As business processes have to be constantly adapted and take into account legal requirements and social and economical trends (for example, the Eurozone crisis), IT solutions have to be constantly modified and new applications developed. Moreover, in response to customer demand, BA’s online platform and e-government offerings are being gradually expanded, with plans to integrate options for digital interaction into the agency’s service portfolio.

In the area of unemployment insurance, simply updating the functionality and securing the legal requirements of existing applications requires annual investment in the double-digit millions. To this end, a professional coordination center, Fachliche Koordinierungsstelle (FKS), identifies, analyzes and prioritizes a large number of functional requirements for IT solutions. FKS also aims to create innovative and sustainable solutions that will align all activities with the BA’s strategic goals. In view of the vast number of applications and projects, this calls for a high level of coordination. Numerous ambitious plans and projects have been initiated for the agency’s employees and customers, and EY provides a wide variety of support for these measures.

On the basis of the agency’s statutory obligations, FKS has developed a business process map that includes more than 1,600 process models on a total of four levels of aggregation. This process database ensures that employees have access to a comprehensive reference covering all workflows at the BA’s offices.

In order to further optimize business processes, they will be deployed in standardized, role-based graphical user interfaces. The processes for the entire work flow, right through to final processing of customers’ requests, are supported by Rollenbasierter Oberfläche (ROBASO), a workflow management system for administering operational tasks. As employees no longer have to be familiar with a large number of applications, they can focus on the most important thing – serving their customers. This increases the quality of the data processed and reduces training effort.

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““In response to customer demand, BA’s online platform and e-government offerings are being gradually expanded””

The tasks and data handled in ROBASO are analyzed, yielding information on process quality and duration. This forms the basis for operative control by team leads and managers and is also used to identify potential for optimization. Processes become more efficient as the processes’ soft spots revealed in this way are corrected. In the future, this information will be displayed in the operating data analysis system.

And in addition to these significant improvements for employees, it is also planned to involve customers more closely and enable them to play a more important role in the process. For example, in the future they will be able to manage their appointments, submit requests and call up notifications online. At present, the use of XING (a German-based networking platform) is tested as an additional database for accelerating the process of filling vacant positions. The measures presented above give a clear indication of FKS’ priority aim to serve all user groups efficiently and effectively. This objective is best met by optimized business processes and targeted deployment of matching IT solutions.

Alexander Seibel and Cornelia Gottbehüt are both Partners in Advisory Services with EY GmbH Wirtschaftsprüfungsgesellschaft in Germany.
The institute for development of workers’ professional training (ISFOL) is a national research authority that works with the Italian Ministry of Labor and Social Policies. Its work has rarely been more important. The country’s unemployment rate is at its highest level in 13 years, with little hope of improvement in the short term. Beset by budget cuts and a contracting economy, Italians are facing up to challenging times, both now and into the future.

ISFOL aims to contribute to employment growth by conducting research, producing studies and evaluating the performance of programs on behalf of central, regional and local governments. With 17 years of experience in the employment sector, Elisabetta Perulli, psychologist and researcher at ISFOL, says recent reforms of the Italian labor market have aimed to inject greater flexibility, as well as a better harmonization of workers’ protection rights. She is keen to reiterate, however, the importance of lifelong learning.

"I think it is crucial to invest in knowledge, to retrain schools, universities and research," she says. "It is also really important to begin with the recognition of what can be learned in all contexts and in every moment of your life. From an economic and social perspective, recognizing the learning that occurs outside of the traditional places designed to provide education can really help sustain the flexibility of someone’s career options. It can also facilitate geographical and professional mobility, and it can dismantle the boundaries to the entry or re-entry into the labor market. To make this a fundamental right of everyone, it needs public action from Government and educational institutions, but it also requires a massive cultural and practical shift in all the systems involving education, training and work. It needs a kind of a drastic change of mentality, otherwise this perspective remains just a theory."

Like many Eurozone countries, Italy is facing an array of economic challenges, not least its rising unemployment. Here, EY’s Veronica Messori talks to Elisabetta Perulli from Italy’s top labor institute about getting more Italians back to work:

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 Asked to identify any weaknesses in Italy’s labor market or vocational, education and training system, Perulli says that in both there is an unequal distribution of opportunities and protections among different groups of workers. “There is also a lack of high-quality services that can sustain employment and employability,” she adds. “On the one hand, it is a matter of cultural problems that are difficult to deal with. The only solution might be using a bottom-up approach to drive fundamental reforms, as well as implementing current good practices. On the other hand, this weakness is also due to organizational issues where an improvement on the effectiveness of all educational and training programs will certainly make a big difference.”

ISFOL is working closely with the Italian Ministry of Labor to enhance the employability and qualifications of the country’s citizens. “ISFOL, as a national research institute, has focused, for many years, on improving students’ and workers’ employability,” she says. “This is mainly through our recurring work to provide research, technical assistance and technical-scientific advisory services to institutions in Italy. The latest and more innovative issues include flexicurity, active aging and statistics on the presence or absence of young people in education or work and social inclusion.”

Much work then, and much work still to do. Addressing Italy’s economic challenges is no easy fix, but there is little doubt that Perulli and her colleagues are fully focused on the important task ahead of them.

For further information, visit ISFOL’s website: www.isfol.it

Veronica Messori is a Director with EY in Italy, veronica.messori@it.ey.com
A new approach to cross-sector collaboration is sweeping across Brazilian cities and states. Here, Erik Camarano from Movimento Brasil Competitivo, tells us how Brazilian government, and society, is benefiting

Brazil is in many ways a nation of contrasts. From the huge, bustling cities of São Paulo and Rio de Janeiro, to the unexplored wildernesses of the Amazon, it enjoys a diversity and mix of races, religions and cultures that few countries can match. But that’s not to say that Brazilians do not share common aims and values.

Sports, particularly football, are a national passion. And more importantly, the country’s recent economic surge has enabled its citizens to share the proceeds of growth and prosperity. Rising domestic consumption of goods and services, driven by a fast-expanding middle class, together with macroeconomic stability and deep industrial and natural resources are the building blocks of the Brazilian economy. These strengths have delivered both rising foreign investment and an economic growth rate that is the envy of many countries – both developed and developing – around the world. Throw in the role as hosts of the 2014 World Cup and 2016 Olympic Games, and it is clear Brazil is a country on the move. So where’s the problem?
In conversation / The Brazilian key to competitiveness

Notwithstanding the need for greater investment in infrastructure and education to safeguard projected growth, the country’s public sector is facing its own set of challenges. Across its 26 states and one federal district, government at all levels is struggling with issues of capacity, reform and professionalization. And this is where Movimento Brasil Competitivo (MBC) comes in, an organization that is pioneering a truly innovative approach to collaboration across the public and private sectors.

“It works in many ways,” says the MBC’s President, Erik Camarano. “An economy that is poised to grow requires not only highly competitive companies, but also a modern, efficient public sector. A more productive, capable and competitive public sector will make both the country more productive, capable and competitive, and make companies more productive, capable and competitive. And this will lead to a better quality of life for Brazilian people. In other words, it’s not just in the interests of government to get its departments right, it’s in the interest of Brazilian society as a whole.”
With this in mind, MBC is overseeing a groundbreaking program whereby the performance and productivity of government departments and projects are overseen and reviewed by private sector organizations. This model means that government is no longer responsible for everything as the private sector is accountable too. “Government and business need to work together and learn together,” says Camarano. “When a project or initiative is successful in one place, it can be implemented throughout the country. For example, most people in the world now live in cities, and we have more than 5,500 in Brazil. They are dealing with similar challenges and issues – it is logical that they can learn from each other, and from what business organizations have accomplished in areas such as change management, efficiency and IT modernization. Together, these partnerships will improve the country.”

With the costs of these reviews were met by MBC and its business partners and not by government, the underlying mission is to increase the capacity of the public sector by introducing new methods of project management, strategic planning and tighter public financial control. The result should be increased revenues, reduced costs and improved outcomes in areas such as health care, education and public safety.

“Everyone wins when the country wins. Dialogue between public and private leaders always has this objective in mind,” he says. “Dialogue between public and private leaders always has this objective in mind. We all want the country to be more competitive and more successful.”

Camarano can point to a series of successes since the organization was founded in 2001 to illustrate his point. First tested in the Brazilian state of Minas Gerais, it has since spread across the country with review projects having been implemented in 13 state governments, 11 counties, 2 state Courts of Justice and 4 agencies of the Federal Executive. In addition to the 24 projects already completed, another 16 cases are under way. The results have so far totaled US$7 billion in increased revenues and efficiency savings, and improved results in crime reduction, child mortality and educational performance.

“We have a long-term vision for Brazil. But our work also demonstrates that citizenship is alive and well in our country.” To take a couple of examples, MBC recently signed an agreement to implement a long-term strategic planning project for the state of São Paulo. This particular state, which has a population of more than 40 million and is widely seen as the powerhouse of both Brazil and Latin America as a whole, is not short of financial resources but needs to modernize its system of government in order to be able to effectively manage and oversee its surging economy. MBC will instead be seeking to develop the state’s economy and transform its public services by supporting the State Government in producing a strategic vision called “SP 2030.” Camarano’s teams are also hard at work at the Ministry of Transport. Addressing the country’s low-quality yet high-cost transport system is of prime importance – particularly before the impending World Cup and Olympic Games – and it is perhaps of little surprise that the Ministry wants to be ready for these truly global events.

Asked how Brazilian citizens have reacted to this approach and results, Camarano says that they themselves have been a key factor in driving change. “People are demanding more transparency and improved services,” he says. “As a result, governments are having to move faster and to look to learn from other governments and private sector organizations.” And there certainly seems to be little doubt that the role of MBC in bringing different groups and individuals together to pursue a common, patriotic goal has proved crucial. “We have a long-term vision for Brazil,” says Camarano. “But our work also demonstrates that citizenship is alive and well in our country.”

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Erik Camarano
The fiscal challenges facing the US Government have been well documented. Thrust center-stage, government finance professionals now need to help their bosses prepare for delivering more with less, as well as to upgrade the financial information available to citizens and other decision-makers, says Daniel J. Murrin.

Fresh from the campaign trail, US policy-makers may yearn for a rest from the 24/7 media cycle and relentless quest for votes, not to mention the incessant pressure of fundraising. But it’s fundraising of a different sort that is now occupying the minds of today’s generation of best and brightest. Of all the insidious consequences of the financial crash and economic downturn, one of the most notable – and alarming – is the resulting lack of revenue for the US Government.

With the pursuit of US$4t of deficit reduction over the next decade taking priority on both ends of Pennsylvania Avenue, government financial professionals at all levels – federal, state and local – are confronted by a multitude of problems. With their own organizations facing up to budget cuts and staff shortages, they also have to decipher the morass of paper that is pumped out as a result of annual estimated spending of US$3.7t – a sum that, somewhat surprisingly, lacks consistency in how it is reported and in areas such as transparency.

This lack of standardization, together with the sheer volume of data that is available, makes it harder to deliver clear, concise information on the extent of the fiscal crisis to citizens and elected officials. Without such information the chances
of being able to understand how to meet the needs of citizens with reduced or flat resources, or establishing whether government can do the same or more with fewer resources, remains remote. What’s clear, though, is that further delays in taking action will leave future generations facing the prospect of paying higher taxes, having less income and health care security in retirement, and less access to education resources. So what can be done?

Firstly, government finance leaders must set the right example. Doing more, the same or less with a smaller budget is unavoidable and will in fact help foster innovation and change. One option would be to consolidate operations through reorganizations and development of shared services to achieve cost savings. This should occur within the financial operations first, and then by looking at opportunities across other government agencies. In addition to deploying techniques such as benchmarking and value stream analysis, it is also important for financial managers not to operate in isolation. Stakeholders within organizations and across government agencies must form part of the reform process.

Another problem is that despite the recent wall-to-wall coverage of the recent elections, the American public is not aware enough of the overall budget problems facing policy-makers. Understanding the factors that are driving the need for change and the effects of not dealing with the issues will spur a necessary sense of urgency to deal with the problems. With government shifting from the business of oversight to the business of insight, financial managers must put the long-term consequences of decisions into perspective. This means that despite the fewer resources available, they must still manage to preserve and improve the quality of the information they provide.

When it comes to looking for new ways to provide better financial data for decision-making, improving the communication of information is a prerequisite. While the effective use of social media channels such as Twitter will help disseminate the message to a wider audience, it is clear that improving the way that financial information is presented is a key priority. Traditionally, such data has been published in forms accessible only to trained accountants – despite the fact that, as taxpayers, citizens have a right to this information.

The Citizen Centric Report, an initiative of the Association of Government Accountants in the US, aims to counter this trend by providing citizens with financial information in a form that is clear and understandable, updated regularly and available to all. These four-page documents include community information such as population figures, regional characteristics and government goals, as well as a performance report on key services, cost and revenue information, and the plan for the year ahead. These reports help make governments more accountable to their citizens and help Americans become better educated and better able to participate in government activities.

The need for better information is by no means confined to citizens, however. Policy-makers, too, in both the legislative and executive branches, require enhanced data produced in the timeframes necessary for effective decision-making. The continued development of e-Reporting will help in this regard by accelerating the deployment of information, as well as addressing issues of understandability. The spread of e-Reporting is a good example of how the legacy of the financial crisis is forcing government agencies at all levels to examine new ways to do business. The US Treasury, for example, has switched from paper to electronic payments, as well as consolidating functions and offering shared service arrangements.

However, government operations form only a small portion of the solution to the challenges facing the US. Achieving efficiencies while maintaining the effectiveness of government agencies and addressing issues of waste, fraud and abuse will not close the budget gap. Governments will be forced to look at the effectiveness of programs as well as make trade-offs in deciding which programs to fund and what to cut. This will require unbiased and consistent financial information effectively communicated to policy-makers and the general public.

Delivering this at a time of budget cuts will not be easy, but it can be done. The government financial community needs not only to explore new ways to provide timely information but also improve the quality and types of data that is available for decision-makers. These two factors, together with ensuring that citizens become better informed on key fiscal issues, are the first necessary steps toward restoring US finances to a sustainable and balanced level.
Balancing the books has been a problem for many governments around the world. Here we speak to a selection of financial leaders from the US and Canada about the challenges they are facing today – and tomorrow
Warning: danger ahead

Few know the workings of Washington, DC, as well as Paul Posner. The former Director of Federal Budget and Intergovernmental Relations at the Government Accountability Office says that the fiscal day of reckoning is fast approaching.

Paul Posner has some experience in fiscal catastrophes. Not his own, of course, but he worked for New York City when it neared bankruptcy in the mid-1970s – a fate it only narrowly avoided.

“No one would buy our bonds,” he recalls. “Even the state wouldn’t bail us out, and we threatened to drag them down with us. Well, that’s not going to happen with the Federal Government, thankfully, but there’s no doubt we’re facing serious problems.” He’s got a point. US debt – at the federal and local level – is spiraling ever upwards with little sign of resolution.

Posner is professor and director of the Master’s in Public Administration program at George Mason University, a role he took up after some 30 years at the U.S. Government Accountability Office (GAO), where he rose to Director of Federal Budget and Intergovernmental Relations. The GAO is an independent, nonpartisan agency that works for Congress. Often described as the “congressional watchdog,” GAO investigates how the Federal Government spends taxpayer dollars.

Posner says that by 2040 the federal government will essentially have deficits of 20% of GDP, compared with the current deficits of 8% of GDP – which is the largest in US peacetime history. The main cause of the jump, he says, is the fact that the “baby-boom” generation is poised to retire.

“There are too many people leaving the workforce who will live for a good 30 years and on the federal dollar, with Social Security, Medicare and, most importantly, Medicaid for long-term care,” he says.

“Things would have been great if we had all had three kids. We’d have left people behind who could finance our old age and these long-term entitlements, but we didn’t. Instead we have less than two children per family these days in the US – not enough to sustain an economy to finance for 30 or 40 years.”

And another major cause is health care, he says, the surging costs of which have left the US and very many countries around the world facing systemic difficulties. “We don’t know what to do about it,” he says. “No nation, regardless of how they have organized it, has figured out how to tame the growth of costs because these same costs represent access to doctors, the best technology and new medicine. What we don’t realize is every time we cure a disease our collective life expectancy increases. The good news personally is bad news economically. It means we have a revenue problem and a spending problem. It’s not one or the other – but both.”

So what will happen? Will there be a reasonably soft landing, or will there be a crash landing akin to 1970s New York? Posner believes that American history shows that real, concerted action can occur before a crisis, like it did in the 1990s when the administration tackled the deficit and brought about four years of budget surpluses. “While many feel that only a crisis will bring about necessary fiscal turnabout, let’s hope we don’t experience what we did in New York City or what Greece is currently experiencing,” he says.

Time, he continues, is running out. “Unlike much of Europe, a window is still open to make some of these changes without precipitously bringing down changes on an unsuspecting population and do it in phases. What we lack is the wolf in the door. We have the information, but we lack the incentives. The challenge for us as a nation is to look beyond the next year, look at the long term and make some intelligent decisions.”

Things can only get better

Government accountants have a key role to play in addressing the financial problems facing the US, says Mark Reger. He sets out how they can help and why it’s not all bad news

Mark Reger, Deputy Assistant Secretary for Accounting Policy at the U.S. Department of the Treasury, is one of life’s optimists. Faced with the torrent of alarming fiscal projections, he says we should stay positive.

“Don’t doubt we are in one of the world’s largest fiscal crises of our lifetimes,” he says. “And we are at historic debt levels. However, the debt burdens on our citizens still remain much smaller than that of other countries. That’s not to say that we don’t need to do something to resolve this. It is never too late to do something about it.”

US Government accountants, he continues, can do two important things. “First, we can start making sure the policy people we all talk to and report to see the numbers,” he says. “We can show them the data. Historically, accountants like to talk about the past – we don’t like to go into the future. Finance professionals need to tell people what those numbers are, project what is going to happen, and be forthright and honest with our bosses when they see budget reduction numbers. We have to be vocal and accurate and bring clarity to the discussion. And second, accountants have an obligation to help figure out how to make it better. Maybe not at a world-scale level, but at their own individual organization’s level.”

Clearly, there is a huge amount of pressure on government accountants. They, like other public servants at federal, state and local levels, are facing reduced budgets at the very time that the demand for their services is increasing. Reger agrees this is a challenge.

“We’re going to have to reduce our budgets,” he says. “A lot of people are trying to figure out ways of doing that. There is a tremendous electronic revolution going on – there are many ways of making finance functions cheaper, and we have an obligation to do all of that. Accountants need to be telling their leaders about what is going to happen to their organization.

They need to be helping them, and the rest of us, figure out how to reduce the costs. They need to stay focused.”

The Treasury Department is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States. Responsible for a wide range of activities such as advising the President on economic and financial issues, it also provides central services to all the agencies around the US Government.

“Even within the U.S. Treasury we are consolidating operations to gain efficiencies and reduce costs,” he says. “Some 84% of all payments are now electronic – that’s over one billion payments a year. And 96% of the dollars are collected electronically. In 2009, the last year we measured this, the federal government spent US$8.1b a year and had 32,000 full-time employees generating financial information. We ought to be able to reduce that by 20% while we increase the value and volume of financial information.”

He goes on to assert that it is incumbent on both financial managers and accountants to ensure that the business of government is as streamlined as possible.

“It’s going to be difficult to deal with these really large numbers – Medicare, Social Security – if we’re not being as efficient as we can be.”

And, above all else, he remains optimistic. “The deficits may be at historic proportions, but sticking your head in the sand isn’t going to solve anything. If we work together we can improve things and can get back to the right place. It’s not going to be easy, but the sun will continue to shine tomorrow, and we will get through this.”

In conversation | Spending solutions
Raising Arizona’s revenue

Arizona has experienced intense financial volatility in recent years. Here, State Comptroller Clark Partridge tells us about fighting financial fires with a mix of extra revenue and internal reforms.

When both US political parties come together to advocate a statewide tax increase, you suspect there are some serious financial problems to address. And when voters back the proposal by a sweeping margin, you know there are serious financial problems to address.

That’s where the state of Arizona found itself in 2010. Desperately short of cash and facing sweeping budget cuts that left virtually no service unscathed, voters approved a temporary sales tax increase — a move that generated $US1b a year in additional revenue. Clark Partridge, Arizona’s State Comptroller, is clear that without the extra revenue, the state’s general fund (GF) — through which it funds most of its services — would have soon run dry.

“You have to understand the makeup of the Arizona budget,” he says. “Over 50% of total GF expenditures relate to education, 30% to health care and 10% to public safety and corrections. With a 35% budget deficit, we could have cut all the rest of state government and still had to take devastating additional cuts in education and health care. We couldn’t close the gap with cuts alone, and the Governor realized bold steps were needed.”

It certainly was a far cry from previous years when — underpinned by sustained economic growth across the US — Arizona built up a US$2b cash cushion. “Coming out of the last recession, revenue growth was very strong, exceeding 20% in one year. While no one believed that level of growth was sustainable, large expansions in expenditures and revenue reductions were made to accommodate the growth.” Arizona tried to prepare for the eventual downturn, notes Partridge, but “the rainy day fund was full and we were carrying large cash balances, but no one anticipated how deep the recession would go.”

Unfortunately the US housing collapse hit the state particularly hard, dramatically reducing the state’s budget and leaving a revenue shortfall of more than US$3b. “We had no choice,” continues Partridge. “Considering the size of the shortfall we knew the state had to take both temporary steps to shore up the current crisis and long-term steps to right-size our budget in the long term.” Those temporary steps included issuing over US$1.5b in operating debt and passing a US$1b three-year temporary tax increase.

Partridge and his team have both played a significant role in addressing the crisis and have also been hugely impacted by its repercussions. “We worked very closely with the state budget office in the executive branch to provide them with the necessary information,” he says. “And in less than six months we sold certificates of participation using state buildings as collateral and sold lottery revenue funds, raising approximately US$1.5b. This was just to keep the doors open and pay the bills while the legislature and the governor’s office could figure out some long-term solutions.”

Long term, the state reduced its budget from US$10.4b to US$8.5b, with reductions impacting every part. “The idea was to preserve the essential elements of state government, public safety, our core education programs and the basic safety net. Programs outside of those three areas and even support programs in those areas were cut.”

Looking ahead, Partridge is determined to maximize efficiencies in the state’s internal systems and processes. “If you change the back-office processes then you’re touching virtually every state agency and every state program,” he says. “Then you can leverage this to drive further efficiencies. You need to be proactive.”

But it’s not going to be easy. “We’re not out of the woods yet. We have some possible budget pressure coming up with potential federal funding cuts, rising health care costs, and our temporary sales tax is finishing. But we do have a long-term plan, revenues are slowly growing, and we have made the difficult decisions. We are now seeing the results from those decisions.”
Citizens first and always

Nested deep in the American West, the city of Scottsdale, Arizona, is producing its third citizen-centric annual report. The city’s Strategic Initiatives Director, Brent Stockwell, tells us why accessibility and transparency are at the heart of its agenda

Few communities in the United States have clocked up as many livability awards as Scottsdale, Arizona. Obviously its climate is a factor. So, too, is its location in the Sonoran Desert, with proximity to Phoenix to the west and the McDowell Mountains to the east. Throw in an abundance of Frank Lloyd Wright architecture and a huge number of new hotels, spas and retreats, and it’s clear that this is a city very much on the upswing.

Brent Stockwell certainly harbors no regrets about moving there from his hometown in Kansas. The city’s Strategic Initiatives Director is one of approximately 2,000 public servants tasked with running the city smoothly, delivering a myriad of services to more than 200,000 residents from an annual budget of approximately US$1.2b. Among his many duties is the annual compilation of Scottsdale’s citizen-centric annual report, a four-page document summarizing and outlining the key financial and performance information for its citizens. There was no shortage of material to work with.

“Our operating budget is 470 pages long, our capital budget is 138 pages, and we provide monthly financial reports which average about 35 pages,” he says. “Adding up all the various reports means we have more than 1,000 pages of financial documents every year. That’s a lot of paper – and a lot of data.” Unfortunately, the sheer amount of information is hardly ideal for disseminating to citizens – where are they expected to start? It became clear to city managers that they needed a new way to communicate key information.

“We didn’t want to create another huge report that nobody would read,” says Stockwell. “Instead, we committed to summarize the highlights in a snapshot report to give citizens a better understanding of what their government is doing and what it spends their money on. We want it to serve as a resource to begin a conversation about our city and to provide easy access to key information without having to sort through pages and pages of documents. We want it to be short, understandable, easy to read and informative.”

He is keen to stress that objectivity is paramount. “It’s really important,” he says. “We decided in advance what we would include – and then populate the numbers and then to use that to tell a story. If you over-politicize it you could really lose some of the audience.”

Approximately 25 cities in the US currently release a citizen-centric report. Asked why such a comparatively small number have so far committed to this initiative, Stockwell draws on his own experiences. “People aren’t automatically required to do these reports, and when I speak to folks about doing this they point out that they already have too much to do.”

Fortunately for the citizens of Scottsdale, their own city managers have no such doubts. “We really had a focus on trying to get the information that citizens need to know,” says Stockwell. “We’re trying to get them engaged. We’re trying to get them the information and trying to ensure they have trust and confidence in their government – this is the ultimate goal for us and will continue to be so.”

Download Scottsdale’s latest citizen-centric report at: www.scottsdaleaz.gov/finance

Learn more about the citizen-centric reporting initiative at: www.agacgfm.org/citizen
Under a Canadian microscope

Governments around the world are focusing on financial management, and Canada’s is no exception. Doug Lloyd, from the Office of the Comptroller General, is a man on a mission.

Doug Lloyd’s day job sounds far from straightforward. “I run an organization that looks at the way the financial system of the government of Canada works, the business processes we use, and how we manage our finances,” he says. But that’s not all. He’s also studying for a PhD and undertakes a wide range of voluntary activities in what’s left of his spare time.

His “day job in the Office of the Comptroller General (OCG) in Ottawa, Canada, sounds demanding enough for most. “Someone has to be the ‘requirements-owner,’ and the Office of the Comptroller General is that,” he explains. “The Comptroller General is the head of the financial management community for the entire government, and he has three basic areas to focus on. Area one is financial management, another area is internal audit and the third is acquired assets.”

Within the financial management area is the Financial System Authority, which Lloyd leads. “What we try and do is look at how financial managers manage,” he explains. “We’re in the process of modernizing our business systems and creating a new information structure. You can only spend so much time on data that unless you codify your structure, all the money and intelligence in the world is not going to get you what you need — you need to have it start at the bottom and work the fundamentals. And accountants learned that a long time ago. If you don’t master the fundamentals, the information you’re going to get isn’t going to get you what you want.”

Lloyd believes that the strength of an organization’s ability to manage resources is directly linked to the strength of its financial management systems. In order to enable more accurate, reliable, accessible and timely financial information, the government introduced a new policy in January 2010 on financial management systems, including a strong focus on standardization, common business processes and common enterprise data requirements.

“One of the things the OCG thinks about is how we’re going to ensure the Canadian Government’s financial managers use as lean and elegant set of financial management tools as possible,” says Lloyd. The focus on standardization is aimed at reducing the excess of different systems, business processes and data requirements currently in use across the Federal Government, thereby improving the quality and efficiency of collecting and producing financial information.

“The problem is that if you have 15 different ministries and they all run 15 different financial management systems, and they all have disparate structures, how do you roll that up?” asks Lloyd. “What happens if the Prime Minister asks how much we spent on ‘X’ last year? It would be nice to get the answer ‘X’ from everywhere and say this is how much we spent enterprise-wide. You can’t make a strategic decision for an enterprise — in the public or private sector — unless you have a strong level of convergence.”

Prior to entering government service, Lloyd experienced life in the private sector — primarily in management consultancy and international finance. Lloyd believes that you can learn much from experiencing life in both government and business — but there are challenges involved. “One of the attributes of leadership is being able to understand the culture of where you work,” he says. “The move from one to another requires you to understand the new culture — and that doesn’t always happen. I had a sponsor who has now retired. I have no one out there plowing the path for me, the way there would be if I had grown up in the public sector. So I think that’s part of the hesitancy — you need some care and support to help the new person understand the culture they find themselves in, otherwise it can be a lonely place.”
Juggling finances, juggling roles

Martha Rubenstein is living proof that the CFO’s role covers far more than just finance. Here, she tells us about life at the National Science Foundation

To say that Martha Rubenstein, Chief Financial Officer at the National Science Foundation (NSF), wears many hats would be an understatement. “In addition to financial management and budget I have a number of other responsibilities,” she points out. “These include acquisition, compliance and oversight for grants management, policy, operation of science facilities, and many more.”

Rubenstein, who has spent her career in the Federal Government, has been in the post since January 2010. Her first job was at the Bureau of Labor Statistics, Department of Labor, where she was responsible for budget analysis and management information systems development. She then served at the Office of Management and Budget (OMB), Executive Office of the President.

At the NSF, however, it is clear that hers is far more than a financial role. “The NSF is in a sense a bank as we give away 95% of the appropriated funds we receive to grantees in the academic community,” she says. “What I have control over, in an operational sense, is about 6% of a US$7b budget.”

The NSF fulfills its mission chiefly by issuing limited-term grants — currently about 10,000 new awards per year, with an average duration of three years — to fund specific research proposals. It is the funding source for approximately 20% of all federally supported basic research conducted by America’s colleges and universities. In many fields such as mathematics, computer science and the social sciences, NSF is the major source of federal backing. “We’re not an operational agency – we don’t have thousands of people around the country running something,” continues Rubenstein. “For us, performance is about evaluating the outcomes of our science projects and our investments. So I don’t want to measure operational issues around 6% of our budget; instead, I want to get a handle on all US$7b.”

Being an independent agency brings its own challenges – some positive, others less so. “We’re small and we don’t have a multitude of bureaus and offices across the country,” she says. “So if the OMB tells us we have to coordinate better it’s not a big deal as we’re all in two co-located buildings. The flip side is that in a small agency like ours we all have numerous things we are accountable for.”

A key priority is to empower her staff. Keeping them positive reduces turnover. “What I try and do is succession planning with my managers and push them and myself to reach down through the staff. Succession planning should be seen by leadership as opportunities for staff – and we need to be clear with staff that there are opportunities for them,” she says.

As part of the effort to focus on retention, Rubenstein always seeks to bring the science into the office. “Our people know what the mission is and are pretty much aligned with it,” she says. “Sometimes we have speakers and program managers come in to explain what they’re doing, try and get our people to see what’s happening on the ground with the money we are administrating. You have to find other rewards and tap into people about having more say about what they are doing to keep them focused and motivated.”

Rubenstein has also sought to turn the Obama Administration’s “Campaign to Cut Waste” into a positive experience. “I think the emphasis should be on how to be more effective with the resources we have and how we can be more focused on our priorities,” she says. “I look across the NSF and I don’t see that there is a whole lot of ‘waste.’ But some of the explicit targets for things like travel, conferences and contracting are useful. I think it will help us understand more where our distributed administrative funds are going.”
We look at the latest EY thought leadership and upcoming webcasts

EY Rapid-Growth Markets Forecast webcast
Date: 31 January 2013
Time: 15:00 GMT
www.ey.com/rapidgrowth

EY’s Rapid-Growth Markets Forecast delivers quarterly economic insights on macroeconomic trends across 25 rapid-growth markets, which have been selected based on the size of the economy and population, strategic importance for business, and proven strong growth and future potential.

The next edition, which will be published on 31 January, examines the lessons learned from countries that have progressed up the development path. For example, what lessons can we learn from Korea’s 30-year ascent to high-income status? And what policies have helped countries such as Botswana and Ghana outperform other economies in Sub-Saharan Africa?

The international backdrop to rapid-growth markets is improving, with the imminent risk of a Eurozone break-up having receded, and were it not for the threat of the fiscal cliff the US would be growing at 3%. Policy-easing continued in Q4 2012 with Korea, Thailand, the Philippines, Turkey and Poland all lowering interest rates, which will help boost growth momentum during 2013. By contrast, the central bank in India is unable to ease monetary policy at present as inflation remains stubbornly high. Economic activity is expected to be relatively subdued in the short term.

Retail sales, exports and industrial production data all suggest that mainland China’s slowdown may be bottoming out, and we have revised up our 2012 growth forecast from 7.2% to 7.5%. Korea and Taiwan have both seen trade flows begin to pick up recently though, the recovery path is likely to be bumpy.

Latin America also looks to be at a turning point. We remain confident that a cyclical recovery in economic activity is unfolding in Brazil. But the upturn may be characterized by a dichotomy between expanding domestic demand and subdued production activity. The overvalued exchange rate is depressing margins in the industrial sector, and we have become more cautious about the outlook for investment next year. In Mexico and Chile, Q3 national accounts showed domestic activity continues to be reasonably strong.

To launch this edition, a panel of macroeconomic specialists will discuss recent developments and the implications for business across these areas. You are welcome to contribute to the discussion by posting your questions or comments directly via the link above.

Middle East Attractiveness Survey

Despite the events of the Arab Spring, the number of foreign direct investment (FDI) projects in the Middle East rose by 7.8% in 2011 and their value increased by 2.2% from 2010, according to EY’s Middle East Attractiveness Survey. Clearly there is still confidence in the Middle East’s attractiveness as an investment destination.

The report analyzes how FDI into the region has evolved in the last decade and includes a survey of 355 global and regional executives on their views about how and where investment across the Middle East will take place in the next decade. The region has seen the number of annual FDI projects increase from 362 in 2003 to a peak of 1,070 in 2008. Project numbers fell in 2009 and 2010 as the global and regional economies took a step backwards but recovered again in 2011 with an increase of 8% to 928. Project numbers fell in 2009 and 2010 as the global and regional economies took a step backwards but recovered again in 2011.

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Beyond Asia: New patterns of trade

Rapid-growth markets (RGMs) in Asia-Pacific are expected to dominate world trade over the next 10 years and will account for a quarter of global consumption by 2020, according to EY’s new report Beyond Asia: new patterns of trade. These RGMs, which refer to the nine rapid-growth markets in East and Southeast Asia, are mainland China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam.

“Asia has become the world’s workshop over the last decade,” says Lou Pagnutti, EY’s Asia-Pacific Area Leader. “Over the next 10 years, Asia will also become the world’s fastest-growing consumer market. Rising incomes will propel millions of Asians into the middle class, affecting not only intraregional trade between RGMs, but global trade as well.

“From 2010 to 2020, trade flows from Asia to North America, the Middle East, Latin America and Africa are estimated to grow 10% annually. In addition, RGMs in Asia-Pacific are well positioned to benefit from expected trade growth within the region. This could be a result of vertical specialization, where contributions of these economies are increasingly complementary, thus enabling every country in the region to thrive. We estimate that there will be continued stronger uptick for consumer spending in Asia’s RGMs than in advanced economies.”

This rapid increase in wealth could trigger a circle of self-sustaining growth, reflecting a combination of favorable demographic trends and a strong contrast with productivity in high-income countries. Unlike many developed countries, RGMs can expand unhampered by high levels of public debt and large budget deficits.

The report also reveals the impact that changes to purchasing power within Asia’s middle class have on regional and global trade flows. The rise of this consumer segment, with its increasing incomes and purchasing power, ultimately results in a growing demand for Asia-tailored products. “The increase in purchasing power will affect the way cross-border business is done. In targeting the needs of Asian consumers, companies wishing to introduce or increase recognition of their brand will need to further innovate and differentiate their offerings to remain competitive,” says Gerard Dalbosco, EY’s Markets Leader for Asia-Pacific.

The expanding middle class also creates demand for a wide variety of sophisticated financial services such as investment advice, pensions and personal insurance. This significantly impacts the financial sector, given that the industry remains underdeveloped in many of Asia-Pacific’s RGMs. In this regard, the demand for financial services in the region is likely to rise faster than in high-income countries.

South Africa (SA) is Africa’s largest and most developed economy. Enjoying a sizable domestic market with growing levels of disposable income, a comparatively well-educated labor force, and an institutional environment that is conducive toward business, the country has long been seen as the key engine of Africa.

In part, this is due to SA’s geographic position as the continent’s gateway, as well as its supply of rich natural resources, both of which have meant that the country has been a popular destination for foreign direct investment (FDI) for a number of decades. Indeed, despite a growing perception in recent years that SA has been losing ground to rapidly growing African neighbors, the facts tell a different story.

Focusing solely on FDI data, our analysis as part of our Africa Attractiveness Survey reveals that there has, in fact, been robust growth in levels of FDI into SA. Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA), FDI into SA has grown (i.e., through the worst global economic crisis levels of FDI into SA). Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA). Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA). Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA). Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA). Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA). Over the period 2007–11 (i.e., through the worst global economic crisis levels of FDI into SA).

The SA private sector, too, has had a huge impact since the end of isolation in 1994, and it has done so in a range of sectors. Banking, telecommunications, mining, construction, farming and agribusiness, the retail sector, business services, pay TV, hotels and tourism are just some of the sectors in which SA has invested and raised productivity levels. The country’s economy continued to grow steadily in 2012, and EY’s Rapid-Growth Markets Forecast predicts this will increase to around 3% in 2013. In the medium term, growth will pick up to around 5% in 2014 and 2015. However, SA has not proved totally immune to the repercussions of the global financial crisis. New business density has been declining and remains lower than the G20 average for rapid-growth countries. Furthermore, in addition to skills shortages in several sectors, the country is also struggling to break a cycle of low savings and investment rates, low employment and slow productivity growth.

An ongoing challenge for SA and the African continent as a whole is infrastructure. SA’s roads, railways, airports and harbors offer many services to African markets, but there remains significant scope for improvement. In last year’s budget speech, South African Minister of Finance Pravin Gordhan announced a list of 43 major infrastructure projects with a combined value of R3.2t (US$400b). Some R845b (US$100b) of these projects has been budgeted for energy, transport and logistics projects over the next three years.

The South African Government is focused on accelerated public sector reform and is conscious of the need to improve the lives of citizens, boost investor confidence and become

**Country overview**

**Economy**
- **GDP per capita**: US$7,279 (2010)
- **GDP growth (annual %)**: 2.8% (2010)
- **Natural resources**: gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, rare earth elements, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas
- **Types of industry**: mining (world’s largest producer of platinum, gold, chromium), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs, commercial ship repair
- **Major trading partners**: China (10.3%), US (9.2%), Japan (7.6%), Germany (7%), UK (5.5%) and Switzerland (4.7%)

**Geography**
- **Population**: 50 million (2010)
- **Youth**: 20.2% of total population (2006)
- **Area**: 1,219,090km²
- **Major cities**: Pretoria, Cape Town, Johannesburg, Bloemfontein, Durban, Port Elizabeth
- **Independence**: 31 May 1910 (Union of South Africa formed from four British colonies: Cape Colony, Natal, Transvaal and Orange Free State); 31 May 1961 (republic declared); 27 April 1994 (majority rule)
- **Type**: Republic
- **Major political parties**: African National Congress (ANC), Democratic Alliance (DA), Congress of the People (COPE), Inkatha Freedom Party (IFP), Freedom Front Plus (FF+) and Independent Democrats (ID)

**People**
- **Official languages**: English, Afrikaans, Zulu, Xhosa, Sesotho, Sepedi, Setswana, Xitsonga, Swati, Tshivenda, Ndebele
- **Religion**: Protestant (36.6%), Zionist Christian (11.1%), Pentecostal/Charismatic (8.2%), Catholic (7.1%), Methodist (6.8%), Dutch Reformed (6.7%), Anglican (3.8%), Muslim (1.5%), other Christian (36%), other (2.3%), unspecified (1.4%) and none (15.1%)
- **Ethnic diversity**: African (79%), White (9.6%), Colored (8.9%), Indian/Asian (2.5%)
- **Education public expenditure**: 5.2% of GDP
- **Pupil-teacher ratio** (primary schools): 31:1 (2009)
- **Literacy (adults)**: 89% (2007)
- **Life expectancy**: 52 years (2010)
We meet ...

In this regular feature we catch up with senior EY government leaders about the issues they are seeing in their respective market. Here, we talk to EY’s Global Health Care Leader, Gary Howe, about how governments are responding to shifting health care challenges around the world.

Can you tell us about the headline trends of the global health sector? I think a key point to make is that few sectors can rival health care for rapid pace of growth. The demand for access to health services for prevention and cure shows no signs of abating, and this is the principal cause for the huge growth of the sector we have seen in recent years.

It comes down to basic rules of supply and demand. The more that health care systems increase their supply to cope with the unrelenting surge in demand, the more we stimulate demand. The more that government and the private sector invest and innovate to develop new models of health care provision, the more we stimulate demand. Increasing chronic disease, a growing and aging population, and technology continue to accelerate the perfect storm that will either drive or threaten the economic development and sustainability of entire nations.

The repercussions of the global financial crisis continue to impact governments. What has been the effect on funding levels for health care? Despite the austerity policies in place in many countries, and subdued growth elsewhere, governments remain responsible for funding the vast majority of the world’s health care. There are some differences, however. For example, there are levels of investment in mature markets of up to 19% of GDP compared with less than 2% in emerging health care economies. But although the level of funding varies, all health care systems are dealing with the same global challenges: access, quality and return on investment.

Is it possible to keep expanding access to health care, or are we approaching a limit to what can be delivered? Unfortunately, continuing to expand capacity to meet the increasing demand for care is not a viable option. In some developed countries, governments have sought to implement system reform and create provider markets to stimulate plurality of supply, but more supply continues to drive greater demand. In these markets, the access challenges continue to be the control of demand and the consistency of access for all the population. By contrast, developing countries are facing challenges such as shortages of basic infrastructure, trained professionals and affordable technology. But whether you’re in a developed or developing country, striking a balance between prevention and cure is clearly the preferred route to take.

How can governments go about improving quality and appropriateness? There is no doubt that policy-makers are facing huge pressure to contain costs. But the need to drive improvements in the quality of health care provision is just as significant. Mechanisms of economic and clinical regulation are increasingly being used to drive up standards and bring greater consistency in the provision of care.

Technology, too, is important. Together with evidence-based intervention, it offers the opportunity to treat patients in the correct setting with dignity and compassion. We’re not there yet, but information technologies will, one day, lead to the informed consumer model that will drive the provider market to improve care. In the meantime, however, governments struggle to recruit and reward the best practitioners.

Given the ongoing funding squeeze, how can governments maximize their return on investment? From a global perspective, it is increasingly evident that there are some major disparities at work. Some health care systems appear increasingly unaffordable and unsustainable, while other governments are looking to invest with double- and triple-digit growth for many years to come.

Given that evidence suggests that where governments have dramatically increased investment, we have seen reductions in productivity and little improvement in outcome, there are other options to consider. For example, strong delivery-based solutions for payers and providers across the public and private sectors in cost reduction and performance optimization have an central role to play. And going forward, public-private partnerships and integrated models of health care delivery across health and social care systems are also important.
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