

## Chapter 2.41

# Identifying Effective Funding Models for E-Government\*

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### ABSTRACT

Historically, and some would argue quite properly, most major information technology investments have been considered and allocated in the context of the particular programs that those investments would support. As some OECD countries have made electronic enabling government processes (e-government) a visible priority, alternative, more horizontal, approaches to securing and managing the required investments have emerged.

### INTRODUCTION

This chapter, part of an overall OECD project on the impact of e-government, examines the central budgetary rules and processes and how they are being or could be adapted to finance investments in e-government. In particular, the chapter looks at three countries (New Zealand, the United Kingdom and the United States) and

examines the techniques and models that they are using to secure and manage funding for high priority e-government projects. In each country, we examined: (1) strategies and policy initiatives for e-government; (2) structures and processes for financing capital investments and, in particular, investments in information and communications technology (ICT); and (3) how those processes are being modified or adapted to address the imperatives of each government's e-government initiatives.

Beyond describing those processes, this chapter seeks to identify public management issues, including the tension between central management and control and decentralized funding. This is not a comparative analysis. These countries were chosen because they, as well as other OECD countries, have made a strong, high-level commitment to implementing e-government.

Drawing on some illustrative examples, this chapter presents a range of approaches to managing and creating incentives for e-government and

identifies public management issues that arise in that process. The ultimate purpose of this chapter is to provide conceptual and definitional guidelines for complementary research which may include case studies and other types of data collection.

In the countries that we examined, we found a continuum of budgeting practices ranging from traditional vertical approaches, where financing is evaluated only in the context of a particular organization or program, to more horizontal approaches where financing is drawn for a number of agency budgets to central funding of cross-agency or government-wide initiatives. Each approach has its advocates and advantages. *Vertical* funding requires ICT investments to compete against other claims for investments within the same program (e.g., should we buy a piece of surgical equipment or a computer for a hospital) and sharpens the discussion of the business case for a proposal in terms of how it will contribute to the program or organizational objective (e.g., improving public health) but makes it difficult to finance ICT investments that benefit more than one agency or program, whether for commonly used infrastructure or even applications that might be used by multiple agencies (e.g., loan portfolio management). *Horizontal* funding addresses this deficiency in vertical funding by encouraging pooling of resources. It retains the advantage of having investments compete against other priorities within a program. We found limited use of a third option, *central funding*, where a central unit of government allocates a pool of resources to high priority or innovative e-government initiatives that are not likely to obtain initial financing using other approaches.

Among the innovative approaches to financing e-government investment that were found were the use of central innovation funds, to finance projects that were highly innovative or cross-cutting and not likely to gain funding using conventional means. The portion of ICT investment funds allocated through this mechanism is still quite small. Notwithstanding all the rhetoric

that might suggest otherwise, traditional vertical funding remains the primary means of financing e-government projects. Private-sector financing remains an important source of funding but not in the way one might imagine. While there is much discussion of concepts like joint-ventures, co-branding, and gain-sharing, private financing manifests itself most importantly through leasing and other similar arrangements and in the government's growing reliance on private investment in the basic ICT infrastructure on which e-government projects increasingly rely.

## **WHY A CHAPTER ON FINANCING E-GOVERNMENT?**

Arguably, the issues around financing investments in information and communications technologies (ICT) or e-government projects should be no different from those involved in financing any capital project. And to a significant degree, that is the case. But it is also the case that the process of obtaining financing is a critical element in whether or not a project will succeed or even get off the ground at all. As this chapter will presumably demonstrate, however, the process and politics of budgeting for ICT are materially different in a number of important respects and, therefore, are worth examining as a separate subject.

Financing ICT projects differs from other capital projects in several important respects:

- (1) Existing structures and budget decision-making processes often do not readily accommodate these initiatives because the current wave ICT projects often cross traditional programmatic and organizational lines.
- (2) These projects are seldom self-contained, in the sense that constructing a building or dam often is, because they usually rely on the existence of other ICT infrastructure.
- (3) Risk management is inherently different

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