

PUBLIC MANAGEMENT REFORMS IN CENTRAL AND EASTERN EUROPE

Edited by

Geert Bouckaert

Juraj Nemec

Vitalis Nakrošis

György Hajnal

Kristiina Tõnnisson



NISPAcee

THE NETWORK OF INSTITUTES AND
SCHOOLS OF PUBLIC ADMINISTRATION
IN CENTRAL AND EASTERN EUROPE

Public Management Reforms in Central and Eastern Europe

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Preface

International comparative country wide research is demanding from several points of view. You must have the right ingredients (analytical frameworks, data, a shared view on the issue), good coordination (places to meet, calendars, disciplined submissions of drafts), but above all, one requires good people who are motivated and convinced of an intellectual project.

For this book we had all of this. There were meetings during the *NISPAcee* conferences in Ljubljana (2006), and in Kiev (2007). We had a group of disciplined researchers from a broad range of places. There was a young and motivated editorial team. Even if time and resources were not easy, this book became a reality because there was a real need for it.

In all countries in Central and Eastern Europe, and even beyond, there is increasingly a critical mass of expertise in the field of public administration and public management in universities, academies or think tanks. Increasingly, there are very good researchers who take public sector reform as their own research agenda, and put it in an international and comparative perspective. *NISPAcee* has been crucial in creating these circumstances. Scientific research makes progress when researchers talk, compare, discuss, learn, apply, disagree, debate, argue, and ultimately publish.

This book is in line with the premise that research should be accumulative, that the next step is relying (confirming or rejecting) on the previous steps. This book attempted to apply an analytical scheme that was applied successfully by Christopher Pollitt and myself to 12 OECD countries and the European Commission. This book is important for at least three reasons. First, it provides an overview of countries in transition – some are part of the EU, others are not (yet). Even if starting positions, sizes, economic capacities and political directions are quite different, there is some geographical and historical commonality. To compare these according to a relatively comparative format is a useful description of what is going on. Facts of reform are not always easy to detect. But in this book, a serious effort was made by those that know the countries and speak the languages. Also, the concluding chapter summarises and demonstrates the converging and the diverging evolutions of countries that have made significant efforts to transform themselves.

A second reason is that the more countries are analysed using the standard format, the more it becomes scientifically interesting not only for clustering trends and trajectories, but also methodologically to refine variables and descriptions. This may lead to more knowledge about the transfer of methods and techniques, and models. It makes us ask what the most similar and the most different really are.

A third reason is that this book raises more questions. How should we organise irreversible reform? What makes a success or a failure of reform? Why is it that some ‘solutions’ do not fit? How does culture come in? When is path dependency determining, and when is it not? What difference does leadership make? How is

resistance for change tackled? It is a scientific issue with practical consequences. Could Central and Eastern Europe learn from Portugal and Spain?

If there is one indicator to consider this book as ‘successful’, it is that people will read it to know what goes on beyond the broader lines, and that this exercise will be replicated in another, let’s say, ten years. Then this study will be part of a collective scientific memory – a European memory for the future.

Geert Bouckaert

Public Sector Reform in CEE Countries: An Introduction

Geert Bouckaert

In an OECD report 'Government of the Future' (2000) the question of 'Why public management reform?' is answered in three ways. First, governments need to keep up with society in terms of responsiveness and better, faster and more services. Second, there has to be a re-establishment of trust in government. A third reason is that government's role is changing under new pressures, including the loss of government monopoly, greater competition and the opening up of societies and international structures.

However, for CEE countries, the starting positions, the challenges, the capacity to change, and the initial objectives were quite different from most of the Western European countries, except, for example, Portugal, or Spain (OECD, 2005).

In the first part, this chapter will cover spans of public sector reform which may be narrow or broad. In the second part, trajectories of reform, which are not linear but progressing in a corrective way, are discussed. In the third and final part, remaining issues of reform practice and study are discussed.

1. Spans of public sector reform

In Western Europe there was a relatively common problem analysis. Two main problems coincided, i.e. first a **macro-economical problem** of too big a proportion of government in GDP, of significant deficits, and of a perceived lack of public sector performance contributing to GDP. A second problem was a **drop in trust and legitimacy in public institutions**, including politicians.

The macro-economic shifts (from 'problem' to 'solution') could be operationalised as follows from the 'economic' point of view:

- the proportion of the public sector in GDP decreases; there are countries with stable patterns of decrease, others have more fluctuating decreases;
- government net lending is an indicator of the yearly deficit; of course the Maastricht norms of a maximum of 3% deficit had a significant impact on reform policies within the European Union. In general, there was a downward trend. In some countries this deficit turned into a surplus; the recent (financial) crises are reversing this pattern again;
- government employment as a proportion of total employment should, in general, be decreasing. However, some countries have stable or even increasing numbers of government employment;
- the division of the budget shows, in general, that direct consumption by governments is decreasing. This may prove that direct service delivery by the public sector is decreasing. This also shows that transfers are increasing. These

increasing transfers also should guarantee outsourcing or privatising of service delivery.

From a societal point of view, there was a general feeling of decreasing satisfaction with government performance, and a related level of trust which was, in general, decreasing.

To solve these problems in countries such as the UK (Thatcher) and the USA (Reagan), politicians initially started to blame the civil service and distanced themselves from the public sector. The public sector was the cause of all problems and in reducing it the two problems would be solved. This strategy of bureau bashing could not last forever since trust in civil servants is higher than in politicians. Pushing for lower civil servant trust by politicians resulted in lower trust levels in politicians themselves. This negative project was not sustainable in the long run. Therefore, other strategies had to be developed.

In analysing these strategies, three main **objectives** occur:

- the need to adjust the proportion of government in GDP and the related need to reduce the deficits (**savings**), or to re-allocate resources;
- the need to solve the problem of a low level of **performance** (real and/or perceived as such); and
- the need to redefine **responsibilities** between actors (legislative versus executive; public sector versus market; politics versus administration; ministers versus ministries versus autonomous bodies; central level versus decentralised levels of government); this triggers the need to redefine mechanisms of **accountability**.

In solving these needs, 'performance' became a common conceptual denominator.

The exercise of moving activities to the marketplace and of reducing budgets implies a certain mapping of inputs, activities, outputs and outcomes, their links, now and in the future.

Taking measures to improve real and/or perceived levels of performance requires the implementation and use of instruments that describe and push towards performance.

Adjusting systems of responsibility sharing and mechanisms of accountability implies that performance will be used as a key operational term to guarantee substantial, valid and auditable performance agreements.

In observing trends which occur in realising a modernised public sector, performance (measurement and management) appears to be a pivotal element.

In general, there are three hypothetical basic mechanisms which could be presumed in the dynamics of increasing performance: First, increasing pressure improves performance (pressure assumption); second, increasing specialisation improves performance (re-structuring assumption); and third, increasing citizen

involvement improves performance (citizen-as-customer assumption) (Bouckaert and Halligan, 2008).

The general idea that government and the public sector are not changing by themselves is reflected in the idea that **pressure for performance** should be organised to guarantee change and improvement. As a result, internal and external pressure is institutionalised in the public sector. Increasing internal pressure implies that the whole range of internal management instruments is activated. Strategic plans and business plans, personnel evaluations, organisational relationships and financial mechanisms are adjusted to enhance pressure. Also, external pressure, through market type mechanisms, is present.

Next to pressure, the idea of **specialisation for performance** is involved to enhance improvement. Creating autonomous organisations with smaller fields of competencies, up to single purpose or task homogeneous bodies is, according to managerial philosophy, that specialisation is pushing results. This is also applied to the policy cycle where policy design seems to happen in a better way in e.g. ministries, the implementation in another independent entity (market or public sector) and the evaluation in still another one. Of course, the whole problem of co-ordination, and the choice of an optimal level of specialisation are crucial. Most countries wrestle with the agenda of adequate mechanisms of coordination.

A third crucial issue is the 'customer' role of citizens, including their active involvement in co-designing, co-deciding, co-implementing, and co-evaluating public services. **Participation for performance** becomes a key element in reform policies to increase satisfaction, and ultimately, trust and legitimacy of public services.

In CEE countries there also was a relatively shared problem analysis. However, starting positions were quite different, and the objectives were heavily influenced by the perspective of becoming a possible member of the EU, or not. Building democracies, organising transitions, and preparing pre-accession were shared objectives.

In some cases, systems change drastically. Political systems change, e.g. from dictatorships to democracies, and their elites are removed. Democratic checks and balances are established. State structures are reshuffled, e.g. towards more decentralisation. The economic system changes its nature, e.g. from state monopolies to market systems with private firms. Societal and social systems with NGOs, not-for-profit organisations, and citizen action groups are established and are designed to participate actively in a public debate and to become stakeholders of their society and their communities (Peters, 1996).

Within the public sphere, the decision-making processes are redesigned to select political and administrative personnel, to create a legal framework with authority and legitimacy, to have a new budget cycle, to have sustainable policies which are supporting the system, and to establish a public sector infrastructure which is efficient, effective, reliable, transparent, and legitimate.

Within the CEE countries it seems that changes have been drastic, including in public systems. Politics, policies, and administrations were to change accordingly. In focusing on the administration and the management of public systems, five scopes of reform are possible, from a very narrow and limited, to a very stretched and broad span of reform (Pollitt and Bouckaert, 2004).

These five positions could be linked to definitions of public sector reform. Choosing one of these five positions is not just an academic choice with theoretical implications. Choosing one of these models has tremendous practical implications for the content of a reform programme, for the choice of the reform projects and for the sequence and timing of the reform portfolio. It also requires different tactical choices to be made. One of the issues is how many degrees of freedom there are to reform the public sector.

A first model has a span of reform which is limited to single organisations within the public sector. In this sense “public management is a merger of the normative orientation of traditional public administration and the instrumental orientation of general management” (Perry and Kraemer 1983, p.x). In practice, it means that private sector management techniques are imported into the public sector. Private sector-based methods and techniques of command and control, internal control systems, personnel and financial management tools, etc. are transferred to the public sector. The focus here is on single organisations. The assumption is that if these entities function properly, then the public sector is much better off. Obviously this requires a solid support system since this should be applied to all organisations in the public sector, from local to central.

A second model has a broader span of reform which looks beyond single organisations to clusters of public sector organisations. “The critical area of public management is the management of organisational interdependence, for example, in the delivery of services or in the management of the budgetary process. Public management is concerned with the effective functioning of the whole system of organisations. (...) What distinguishes public management is the explicit acknowledgement of the responsibility for dealing with structural problems at the level of the system as a whole” (Metcalf and Richards 1987, pp.73–5). This is about reforming networks, or chains of organisations. Here we reform organisations and their interfaces, interdependencies, interactions, and coherent clustering. Value added is defined at the level of sets of organisations, not just at the single level. Here we can ask the question of where particular organisations should be, central, or rather at a de-central, level. The location of an organisation in a set becomes important. There is the question of relationships, e.g. hierarchies of organisations, in order to have good service delivery and policy implementation. This requires a vision on the architecture and the mapping of the public sector.

A third model goes beyond this architecture. “We conceive public administration as the key output linkage of the state towards civil society. However, the interface between public administration and civil society is a two-way street, including public policy implementation as well as policy demands from private actors towards

policy-makers” (Pierre 1995, p.ix). This span of reform includes the interface of the public sector and civil society. This interface needs to be reformed too, which in some cases requires civil society to be (re)built. This requires recognition of civil society as a partner in reform. Therefore platforms for exchange, transparent discussions, and contradictory debates are necessary to reform the public sector in a sustainable, legitimate, and transparent way. Stakeholders become part of the reform process. Outsourcing, co-production, and public private partnerships (PPPs) become key tools in the whole production of services. Policy cycles consist of co-design, co-decision, co-implementation, and co-evaluation (Pollitt, Bouckaert, Löffler 2006).

A fourth model goes beyond the infrastructural level and includes the suprastructure of reform. “We talk about the *managerial* state because we want to locate managerialism as a cultural formation and a distinctive set of ideologies and practices which forms one of the underpinnings of an emergent political settlement” (Clarke and Newman 1997, p.ix). This reform scope includes the realm of ideas and ideologies, culture, and values. Reforming the public sector includes not just its infrastructure (organisations and their interactions within the public sector and its civil society), but also its suprastructure. Although this does not mean that identities of communities or nations need to change, it does mean that practices are based on belief systems with norms and values, cultures and ideas (Bouckaert, 2007). Removing a tradition of corruption, supporting a culture of public entrepreneurship with responsibility and accountability, pushing the value of citizen trust and customer satisfaction are part of this fourth span of reform. A crucial debate here is the old discussion of whether infrastructure determines its suprastructure, or the other way round, ideas change practice. This is a crucial element in a sustainable reform programme. It requires projects on civic education, transparency and communication, customer, citizen, and civil servant surveys on perceptions, expectations, beliefs and convictions, satisfaction, and trust.

The fifth model is going beyond the fourth one, and includes all elements of the system. “Public administration may be interpreted as a social system existing and functioning in accordance with its own order but, on the other hand, it also depends on environmental conditions in a complex and changing society. (...) In the light of modern society’s functional differentiation, state and market are notable for their own characteristic strategies to control the supply of goods. The type, scope, and distribution of private goods are decided on by harmonising the individual preferences within the market mechanisms; decisions on the production of public goods, on the other hand, result from a collective, i.e. politico-administrative, development of objectives” (König 1996, p. 4, 59). This requires a reform strategy which includes the major steering mechanisms in society, depending on the state structure itself. Market mechanisms are obvious within the private sector. Budget mechanisms are clear within the public sector. In a mixed economy, you also may have consensual allocation of resources amongst not-for-profit organisations. Public sector reform affects the proportions and regulates the allocation mechanisms of public, private, and not-for-profit. It also affects the allocation mechanisms within

the public sector using hierarchies (budgetary top-down distribution with e.g. envelopes), markets (market type mechanisms such as vouchers or competitive tendering), or networks (consensual distribution).

As with many other countries, public sector reform in CEE countries has opted for mixed strategies, and these choices have changed over time. However, it seems that the span of reform has been rather broader than narrow. It also seems that tactics could have been more visible than strategy because of electoral cycles.

This brings us to the question of the trajectories to move ahead. Are reforms linear, or dialectic, or cyclical? Are they continuous or discontinued? Are reforms cumulative or not? Have models been made explicit or not?

2. Trajectories of reform

It is clear that these adjustments in the public sector have been based on an action-reaction pattern where the solution of a problem turns into a problem itself which needs to be solved, as in figure 1. A solution becomes dysfunctional because it is not really or really not answering the question, or because the solution is becoming so extreme that it lost its answering capability, or because the implementation was so deteriorated and deteriorating. Sometimes the 'cure' was worse than the disease. Many OECD countries, even the most rational and 'pure' NPM countries, such as New Zealand, had a series of reforms which could be framed into a sequence of a (problem)-(solution)=(problem)-(solution) etc. chain, (Boston e.a., 1996; Chapman and Duncan, 2007; Commonwealth Secretariat, 2003; Norman, 2003; Scott, 2001; Schick, 1996). This zigzag action-reaction chain was not designed beforehand but became a pattern of change in many countries. In some cases there was an ideological exaggeration of a solution which then was ideologically corrected in the next government.

This trajectory is described in figure 1. An initial situation is perceived as a problem. Since the 1980s reactions of countries have been to maintain, modernise, market or minimise their public sectors (Pollitt and Bouckaert 2004). This resulted in a range of acceptable 'solutions' for the perceived problems. However, as described above, these solutions became too extreme, or unacceptable, because of some dysfunctions. Dysfunctional pressure and specialisation caused loss of control. In general, the set of solutions that has been developed to solve the second generation of problems can be based on mechanisms (and their related instruments) of hierarchy, markets and networks. Specifically, Market-Type Mechanisms (MTM) and Network-Type Mechanisms (NTM) were supposed to be useful because of their higher level of compatibility with organisational autonomy (Christensen and Laegreid, 2006; Halligan, 2006).

There were perceived problems of guaranteeing performance, taking and allocating responsibility, substantiating accountability, keeping, or even enhancing transparency, making functional control, and keeping a sufficient policy capacity. As a 'solution', agencies were created, autonomy was granted, specialisation was increased, single policy capacity was developed, and performance measurement

systems (PMS) were installed for guiding, control, and evaluation. This would solve the initial problem.

However, these reforms resulted in dysfunctional levels of autonomy. Autonomy became an objective in itself and central government lost control over centrifugal families of organisations. Because of the contracting mechanisms with these agencies, there was a focus on measurable outputs which also influenced a bonus system. This resulted in a sub-optimal focus on agency outputs rather than on policy outcomes. It was unclear if and how certain outputs were contributing to certain outcomes. Ultimately, outputs became an objective in themselves. There also were considerable transaction costs between the components of the policy cycle and between agencies. Autonomy resulted in disconnecting the normal chain of design, implementation and evaluation. Even worse, the nature of the connection was altered from a hierarchical link to a market type mechanism. Policy advice and design was supplied to departments or agencies. There was a quasi market interface between supply and demand of policy advice, or any other interaction between entities in the public sector. In separating supply and demand there was a disconnected policy capacity which was too specialised, and which lacked critical mass. The linkage between stages of the policy cycle, but also within the implementation stages were disrupted for the sake of autonomy and responsibility. A logical policy chain became a sequence of supplies and demands. Dysfunctions as a consequence of performance based control systems started to result in "gaming". The guiding principle was not the reality of administrative or societal value added but its derivative of better numbers on particular indicators.

This problem triggered new 'solutions' which were based on re-establishing co-ordination between departments and agencies, or between agencies, by using renewed Hierarchy-type-mechanisms (HTM), as well as new Market-type-mechanisms (MTM) and Network-type-mechanisms (NTM). Also, efforts to look beyond single organisations and take a policy field perspective (in focusing on outcome drivers for outputs, cross organisational boarder 'landscape reviews', or joined-up government, or straight forward evaluations) were put in place, increasing policy capacity at a higher (meso) level. Audit became the (re)new(ed) solution. Internal audit became a separate part of the internal control system. External audit was expanded and further developed, auditing all aspects of 'performance', including the quality of indicators and data. A key question was whether these 'solutions' would generate new problems.

They did. It seems that HTM was not always very functional, especially in cases of pure recentralisation. Also, MTM sometimes resulted in shifting from a public to a private monopoly, without competition, or market regulation and modernisation. NTM, in many cases, became a soft and symbolic mechanism. Obviously, there are good examples of renewed versions of hierarchies (holding structures, consolidated budgets, etc.), or regulated markets (telecom, postal services, electricity), or networks which did function ('open methods of co-ordination' in the EU). However, it also seemed that when a problem occurred, the solution was

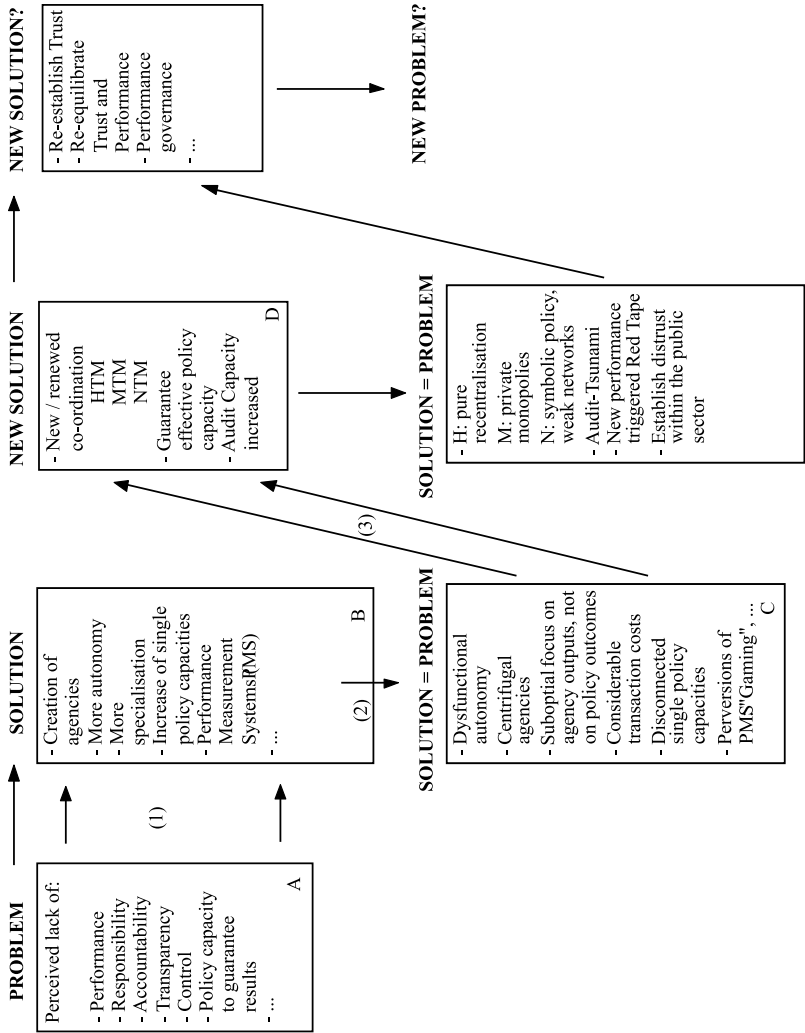
to have more of the same. A perceived problem of indicators, or objectives, or audits resulted in more indicators, more objectives, and more audits. One could sometimes consider a mushrooming of indicators and objectives, and an audit tsunami. Especially, internal audit has exploded. Above all, performance as a principle to organise a control system replaces trust, internal trust, as a basic principle. Distrust within the public sector became the standard: between the central and the local governments, between the ministries and the agencies, between the line departments and the horizontal departments, between politics and administration. The assumption that agents and professionals within the public sector are in line with general interest became an obsolete principle and needed to be replaced by a major principle of economic neo-institutionalists, i.e. principles should not trust agents. Therefore, if trust was good, it is not good enough anymore. Distrust, control and audit should replace it.

This extreme solution, turning into a problem, needed a new solution. In some countries there was a tendency to consider the 'less is more' principle. In The Netherlands, indicators need to be 'useful' and the 'provide or explain' principle says that one should provide indicators unless one can explain why these are not provided. Rebuilding trust *within* the public sector, not just citizens trusting their government and administration, becomes a 'solution'. Also, the focus on performance needs to take a governance approach into account, beyond the public sector in its strict sense, resulting in performance governance as a model (6, e.a., 2002). Obviously, this again may result in new problems and an *ex ante* evaluation of these new solutions is required.

These zigzag action-reaction trajectories are an empirical description which seems to apply to many OECD countries, even if some have followed this sequence in a more explicit way than others. To the extent that some countries have followed, or even imitated, 'advanced' solutions, which were advanced because they were providing solutions to a previous problem and therefore were further in the sequence, they probably were not providing the right 'solutions' to their own (sequence of) 'problems'. A famous case is Mongolia which imported the New Zealand financial model, which was financed by an Asian Development Bank loan. It makes certain observers proclaim that we need not imitate New Zealand, especially not developing countries (Schick, 1998).

Many of the shared problem definitions were also generated by traditional and Weberian bureaucracies. For many continental European countries, the state of law (*Rechtsstaat, Etat de Droit*) and its related Weberian bureaucracies were the starting position. Indeed, there was a need to have a more developed incentive for performance responsibility and accountability, for citizen as a customer orientation, for open and transparent decision-making, perhaps even for participation. Upgrading a European Weberian model with elements of performance and participation could result in a Neo-Weberian model (Pollitt and Bouckaert, 2004; Pollitt e.a., 2009). Anglo-Saxon countries have followed a trajectory of upgrading public management models by applying principles of New Public Management.

Figure 1
Refined Problem-Solution Chain regarding public sector reform



CEE countries inherited bureaucracies which were dominated by a single party. Even more important than defining the ultimate model which is necessary for a particular country, it is important to try to define, or to anticipate the zigzag trajectory of action and reaction to reach the desired model. Obviously, especially for countries that wanted to join, and ultimately joined the EU, there was a clear list of 'to do', and a series of 'acquis' to realise. There was an economic and political pressure to prove progress, to speed up change, perhaps to take shortcuts or to jump to 'final' positions. Reforming the public sector sometimes was indispensable and impossible at the same time, and therefore highly problematic. Importing NPM techniques that needed to improve Weberian bureaucracies when these were not present, and simultaneously building classical checks and balances was a tough reality. Reforming in such a case was sometimes organising dysfunctions. This leads us to the last section.

3. Further issues to explore

Applying a standard model of analysis to a range of countries makes sense. The ultimate purpose is to compare. The purpose of comparing is to detect patterns or clusters, and to learn from these patterns or clusters of countries. However, differences remain crucial.

Many questions remain for the practice of change, but also for empirical research. Most of this research happened *ex post* and followed a classical pattern of describing, modelling, and in some cases, explaining reform. In some cases, it was possible to even predict the consequences of certain reform initiatives because the solutions did not match the problems, or because the contingencies or conditions for an effective solution were not present, or the culture of competition was not part of the culture of the country.

It is clear that public sector reform is a never ending story. Therefore initial questions remain relevant, such as, Are short cuts possible? How do we make irreversible reform? How well, and under what conditions are models travelling? How generic and how contingent are models? What can we learn from others? Is it useful to replicate research models in a different context? Should we start with finance, or personnel, or organisational reforms within organisations? etc.

It is important for CEE countries to continue to compare and to learn from one another. It is necessary to develop trajectories and to detect problems, possible solutions for these problems, and possible new problems because of these solutions.

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Chapter 1

Public Management Reforms: Armenia

Vache Gabrielyan, Gayane Selimyan

1. Socio-economic forces: general

Armenia is a small, landlocked mountainous country in Eurasia between the Black Sea and the Caspian Sea, located in the Southern Caucasus. A former republic of the Soviet Union, Armenia is a unitary, multi-party, democratic nation-state and one of the oldest and most historic civilisations in the world with a rich cultural heritage, as well as being the first nation to adopt Christianity as its official religion.

Armenia experienced a deep economic crisis after gaining independence, which was conditioned by the collapse of the core economic relationships within the Soviet bloc and exacerbated by the blockade imposed by two immediate neighbours—Azerbaijan and Turkey. According to a UNDP (1995) report, the country's gross domestic product (GDP) in 1990–1993 contracted to 46.9 per cent of its 1990 level, the largest decline in the Commonwealth of Independent States (CIS) and one of the sharpest ever recorded (AHDR 1995). Recovery began in 1994, following the earlier adoption of a comprehensive reform program aimed at establishing a liberal market economy and democratic regime, and establishing a truce in the Nagorno-Karabakh conflict.

Although beginning from an exceptionally low base, Armenia's turnaround has been remarkable. Economic growth has averaged eight per cent per year during the past ten years, reaching 13.9 per cent in 2003 when GDP per capita finally exceeded pre-transition levels and Armenia moved from being a low to low-middle income country. Demonstrating double-digit growth rates for the last five years, Armenia has become the star performer among the IDA (International Development Association) countries, consistently ranked by several organisations as the most advanced economic reformer among CIS countries. According to Fitch Ratings (2006, p. 1), Armenia exhibits a track record of prudent fiscal policy, a modest and declining public and external debt burden, progress towards entrenching macroeconomic stability and structural reforms that have enhanced the capacity of the economy to absorb adverse shocks and sustain rapid economic growth. The macroeconomic policy framework is robust and the authorities are committed to further structural reforms, supported by the active engagement of the international financial community.

While the deficit-spending minimising macro-stability framework is appropriate for the recent era of rapid economic growth, low levels of tax collection severely limit the Government's ability to address social issues through redistribution of wealth. Table 1 below summarises the growth and poverty dynamics in Armenia since 2001.

Table 1
Armenia: Selected Economic and Social Indicators, 2001–2006

	2001	2002	2003	2004	2005	2006
						Projected
Real Gross Domestic Product growth	9.6	13.2	14.0	10.5	14.0	11.0
Gross Domestic Product (millions USD)	2.120	2.373	2.807	3.580	4.911	6.114
Gross Domestic Product per capita (in USD)	650	739	874	1.174	1.528	1.892
Consumer Price Index (period average)	3.1	1.1	4.7	7.0	0.6	2.8
Unemployment rate (in per cent)*	10.4	9.4	10.1	9.6	8.1	...
Poverty rate (in per cent)	50.9	...	42.9	34.6

Source: IMF 2006b.

* The unemployment rate of the officially registered as unemployed. The National Statistical Service also estimates an unemployment rate of about 30% based on surveys. According to experts, the truth is somewhere in between.

2. Global economic forces

As a small open economy, Armenia is quite sensitive to world economic developments—but since it is a poor country with only nascent financial markets, world economic developments do not have an immediate impact on the Armenian economy. Shocks from the external environment are transmitted either through export or import prices or remittance flows. The latter have significant impact on the economy (IMF 2006b). Growth is concentrated in only a few industries, whilst the private sector, which accounts for 85 per cent of GDP, is negatively affected by a series of distortions, including inconsistent regulatory frameworks, selective taxation and high real lending rates. Among the principal weaknesses of the macroeconomic situation are the high degree of dollarisation of the economy, and the low level of revenue collection at around 18 per cent of GDP.

3. Socio-demographic changes

Despite this impressive progress, the wounds inflicted by the collapse of the Soviet Union are too deep to heal quickly. The combined and interlinked effects of mass impoverishment, declining access to public services, inadequate governance, uneven economic development and environmental degradation have polarised Armenian society. The on-going blockade of the country due to the frozen Nagorno-Karabakh conflict, high rates of emigration and widespread corruption, continue to threaten social stability and undermine sustainable economic development.

With some variations, Armenia generally repeats the low-income CIS trends with regard to population demographics, migrating workforce and levels of social expenditures defining human capital formation, etc. (IMF and World Bank, 2002). Socio-demographic changes in Armenia, since the collapse of the Soviet Union, are characterised by three dominant trends: a) impoverishment and income polarisa-

tion; b) high level of emigration and c) very uneven regional development and a large increase in rural employment.

The rapid growth of the country's GDP is just starting to cause a noticeable improvement in the lives of most Armenians. Fifteen years after the introduction of market reform, about 40 per cent of Armenia's population is still poor. An estimated 25 per cent of the active workforce is either un- or under-employed and around 35–40 per cent are engaged in agriculture, one of the economy's least productive sectors. Income inequality, as measured by the Gini coefficient, was one of the highest in the world until recently, having been one of the lowest only 15 years earlier. Despite the fact that growth in Armenia can hardly be classified as pro-poor, (Gelbard et al, 2005), economic growth is starting to have some impact on poverty reduction. Overall poverty has declined from around 50 per cent in 2000–01 to 39 per cent in 2004, including a notable reduction in rural poverty; extreme poverty fell from 16 per cent in 2001 to 7.2 per cent in 2004. Income inequality also fell during this period, as measured by a reduction in the Gini coefficient from 0.535 in 2001 to 0.387 in 2004 (IMF 2006a, p. 2).

According to various estimates, since 1991, about 1 million people (a quarter of the country's population) have left Armenia. This was due to many factors: the "wholesale" collapse of industry in the early 1990s, fuelled by blockade-imposed electricity shortages, disintegration of a tightly interwoven Soviet economy that suddenly rendered many enterprises in the periphery obsolete and plummeting living standards etc. Still, the effective numbers of emigration, in terms of workforce, may be much larger. Given the principally free access of Armenian citizens to the Russian labour market, there is a very large body of migrant workers. Whilst the net emigration in the last two years has practically been close to zero, an oil-induced booming Russian economy is still very attractive for Armenian migrant (mostly seasonal) workers. Given the extraordinary large number of the workforce nominally employed in agriculture (around 35–40%), this should decline rapidly with any improvement in farming productivity, and with Armenian and Russian wage differentials, the trend for work migration is here to stay.

After the collapse of the industry in the 1990s, non-farming rural employment became virtually extinct. Since Armenia was the first country in the CIS to privatise land in 1991, many people moved into subsistence farming, which helped them to weather the economic hardships of the 1990s. It was a temporary solution, though, that addressed survival in the short-term only. Regional disparities are even further fuelled by uneven economic growth. Despite the halving of poverty levels in the country's capital, Yerevan, the rates have a different behavioural pattern in rural places and in small towns, especially those that have been built around now defunct local subsidiaries of gigantic Soviet conglomerates.

As mentioned above, despite the rapid growth and significant drop in poverty levels, poverty is still an issue of the foremost importance for the country. It still looms at 40 per cent; women live under the poverty line more frequently than men and children are more likely to be exposed to extreme poverty than any other social

group. Old age pensions, family benefits and even low wages are insufficient to cover the minimum subsistence basket for the hardest-hit social groups including pensioners, single-parent households and rural residents. Such a situation makes the need for effective socio-economic policies more than urgent.

4. Socio-economic policies

Although the Government has made considerable progress in setting up basic democratic and market institutions, governing structures are still hampered by corruption and inefficient administration. The lack of state capacity contributes to the inefficient delivery of public services. The factors underlying poor governance include the limited capacity of public officials to formulate appropriate laws and policies, inconsistent law enforcement and inadequate mechanisms to address violations of citizens' rights. In addition, the general public only rarely participates in policy debates or demands quality services. The impact of inadequate services and corruption is hardest on the poorest and most socially disadvantaged. Since the late 1990s, Armenia has created a more or less effective system of targeting these vulnerable groups of the population and has a well-structured system of allowances. As mentioned above, the problem, though, is that the benefits are often so meagre, that they only slightly alleviate, but not meaningfully, eradicate poverty. Similarly, due to low tax collection and a heavy defence burden, social expenditures for education and health services that often predetermine poverty are also quite low.

Recognising the need to address the issue in a more systematic manner, and under the significant funding and extensive tutelage of the World Bank, the Government (with World Bank-prescribed, active, but often disorganised, participation of civil society) adopted a Poverty Reduction Strategy Paper (PRSP) in August of 2003. It aims at generating high rates of economic growth and redistributing this growth to social programmes for the poorest and most socially disadvantaged and for improving the living standards by 2015 in accordance with the Millennium Development Goals (MDG). To ensure the implementation of the strategy, again with significant aid from donors, the Government has adopted a Medium-Term Public Expenditure Framework (MTEF) for the first period of the PRSP from 2004 to 2006 and relevant ministries and state agencies have developed comprehensive action plans based on PRSP strategies and goals. The Government is using the PRSP as a framework for coordinating the contributions and activities of bi-lateral and multi-lateral donors. In 2004, in an effort to directly link the PRSP with the broader goal of reaching the MDGs, the Government established a joint monitoring system for the PRSP and MDGs, which includes country specific MDG indicators. Both the Government and civil society formally review the PRSP every two years and depending on the results of the joint monitoring system, make interim adjustments as necessary.

The most recent Progress Report (summarised below in Table 2), indicates that on many dimensions, progress has been much faster than anticipated due to much

higher economic growth rates. For example, the absolute value of social sector expenditures increased significantly by about 30 per cent in real terms between 2002 and 2004. Still, it has only risen slightly from 7.8 to 8.3 as a percentage of GDP and is still below the PRSP target of 9.3 per cent of GDP (IMF 2006a, p. 5).

5. The political system

Armenia was in the forefront of the democratisation process during the agony of the Soviet Union, when the opposition challenged the Communist Party on accounts of both democracy and nationalism. When the Soviet Union disintegrated, Armenia found itself in a most unstable situation, even compared to other post-Soviet states. Problems common to all the newly independent states, caused by the collapse of the centralised economy, were exacerbated in Armenia by the consequences of the 1988 earthquake, the conflict with a neighbouring country and consequent influx of large numbers of refugees and an economic blockade.

One unintended consequence of Gorbachev's policy of *glasnost* (literally, the policy of *openness* that really meant limited freedom of speech to secure the support for his reforms) was the transformation of the long-suppressed ethnic and nationalistic feelings into political demands. Armenians were the first to raise the issue of Nagorno-Karabakh, an Armenian-populated enclave in Azerbaijan, which, for various geopolitical reasons, the Bolsheviks had ceded to Azerbaijan. The demands grew into a bloody armed conflict that was brought to a standstill only by a truce signed in 1994, whereby Nagorno-Karabakh started to function as a non-recognised state (a variety quite common nowadays in CIS) under Armenia's protection. A shuttle diplomacy effort led by the US, Russia and France under the aegis of OSCE has since tried to secure a peace agreement but without much material progress. Since this issue refers to the physical survival of the nation and exacts a high toll on the economy (Armenia is under a territorial blockade from Azerbaijan on the east and Turkey on the west), the Nagorno-Karabakh issue is an omnipresent factor in Armenian politics, and often overrides many ideological and other concerns. Usually, such a situation breeds the popular need for a strong executive leadership that in most CIS countries is eventually expressed though a preference for some kind of semi-presidentialism.

Armenia also has a semi-presidentialist regime. The President is the Head of State, while the Parliamentary majority forms the Government. As in most of the CIS countries, the Presidency is quiet strong. Though the 2005 amendments to the Constitution, on balance, reduced the power of the Presidency, it is still the dominant political institution in the country. Given that the fragmented party system is often unable to produce a clear parliamentary majority, ruling coalitions are often moulded by active intervention on behalf of the President.

While international observers have consistently recorded the improved organisation of elections, they still have serious reservations about both parliamentary and presidential elections and constitutional referenda since 1995. Even although Armenia is always ranked by international organisations as one of the most demo-

Table 2
Selected Poverty Indicators and Millennium Development Goals, 1990–2015

	1990	1998 /99	2000	2003	2004	2015 Target
1. Eradicate extreme poverty and hunger						
Overall poverty rate		56.3	50.9	42.9	39.0	19.7
Extreme Poverty		26.1	16.2	7.4	7.2	4.1
2. Achieve universal primary education						
Net primary enrolment ratio (in per cent of relevant age group)			84.5	94.4	97	100
3. Promote gender equality						
Ratio of young literate females to males (in per cent group ages 15–24)	99.7	99.8	100.1		100.1	
4. Reduce child mortality						
Under 5 mortality rate (per 1000)	60.0	47.0	37.0	35.0	32.0	20
Infant mortality rate (per 1000 live births)	26.0		33.0	30.0	29.0	8.7
5. Improve maternal health						
Maternal mortality ratio (modelled estimate, per 100.000 live births)	40.1	32.9	21.8	18.6	...	10
6. Combat HIV/AIDS, malaria and other diseases						
Incidence of tuberculosis (per 100.000 people)	26.3	39.2	63.5	70.1	78.3	Stabilize and reduce
7. Ensure environmental sustainability						
Access to an improved water source (percentage of population)				92		
Access to improved sanitation (percentage of population)				84		
8. Develop a Global Partnership for Development						
Fixed line and mobile telephones (per 1000 people)	157.0	145.2	144.9	178.4	259.7	
Personal computers (per 1000 people)		5.3	9.2	15.8	66.1	
General indicators						
Population (in millions)	3.5	3.1	3.1	3.1	3.0	
Adult literacy rate	97.5	98.3	98.5	98.6	99.4	
Total fertility rate (births per women)	2.6	1.2	1.2	1.1	1.3	
Gini index of inequality (consumption)			34.4	27.1	31	
Gini index of inequality (total income)		57.0	52.8	44.0	41.0	

Source: IMF 2006b.

cratic in the region and CIS (at worst as semi-democratic or a hybrid regime) this is not an autocracy (Freedom House, 2006; The Economist 2006) and sometimes the criticism mounted is quite harsh:

Although Armenia has been independent for almost fifteen years, autocratic mentalities and practices remain embedded. The government is dominated by the executive branch and is without meaningful checks and balances. The judiciary is not independent, and rulings are politically biased. A symbiotic relationship between political and business elites has bred endemic corruption and severely hampers the ability of opposition parties to raise funds or access the electronic media. Political parties are fractured and personality-based. Individuals use the parties as tools to gain power and do little with them to aggregate public interest. Parties arrange themselves along an ideological spectrum but, with the exception of a few mainly historical parties, their ideologies do not coherently relate to substantive distinctions or serve as a rationale for party loyalty. Party structures are hierarchical, and national party leadership is disconnected from the average citizen (ARD 2005, p. v).

On the other hand, even such a harsh reading of the impediments to the development of the country, it does not mean that they are binding to an extent which will stop progress. In its country analysis, for example, the Moody's Investor Services (2006), while distinguishing the emerged corruption-encouraging "incestuous relationship between the business elite and the political class" as a defining feature of Armenian politics, argues that Armenia is also characterised by "a strong presidential system prone to crisis but having shown robustness and a capacity to push through reforms" (p. 2). A testimony to this ability of driving towards tangible ends is the rapidly growing economy and Armenia's distinct leadership in the region in terms of economic regulations and freedom (Heritage Foundation, 2006).

6. New management ideas

Compared to other reforms, especially in the sphere of economics, civil service reform in Armenia was delayed. This was partly due to the peculiarities of Armenian transition—by 1990, when the Communists were defeated in the Parliamentary elections, all the state apparatus was already either anti-communist or supported the incoming opposition on nationalistic grounds. Combined with a lack of a strong dissident tradition in Armenia, this made the idea of a lustration-driven civil service reform less than appealing. The collapsing economy and the nascent bloody conflict with Azerbaijan effectively put civil service reform on the backburner.

The reform effort was characterised by long interruptions and their sporadic nature. While the first attempts of a legal framework for the civil service were articulated in 1994, with the establishment of the School of Public Administration modelled on ENA (Ecole National Administration) in Lyon, which was giving extensive technical assistance within TACIS (Technical Assistance to CIS)

programme, the school, though, was not connected to government employment, as the French system would imply, and was a purely educational institution that would substantially change its orientation and style with each new rector. In 1997, a concept of the Civil Service was developed by the Government, the implementation of which was again delayed in the light of the 1998 change in power. The drafting of the Civil Service Law in 1999, however, did not follow to any extent the logic of the 1997 concept. The final version of the Civil Service Law was enacted only in December, 2001, and the concurrent Law on the Remuneration of Civil Servants in 2002. The ideology of these backbone laws reflected neither the traditions of the French system exemplified by the School of Public Administration, nor the principles of the previous concept. To sum up, each of the civil service reform attempts reflected the political realities of the day and were substantially altered after recurrent elections.

The reform effort was steered by the Public Sector Reform Commission (PSRC) established in September of 1999 under the aegis of the Prime Minister, according to the decree “Primary activities of Public Administration System Reforms of RA.” It is chaired by the Minister in Charge of the Government apparatus and mainly consists of the deputy ministers representing key ministries. PSRC spearheaded the reform efforts in structural and functional reforms and the establishment of the civil service, whilst the Ministry of Finance and Economy leads financial management reforms.

As in all initial civil service reform efforts, the initial emphasis of politicians and the public was fighting corruption and political constraint on the spoils of the party in power, rather than improving managerial effectiveness and efficiency, which to a certain extent, requires more managerial discretion. Interestingly, in Armenia the two laws that constitute the backbone of reform efforts—the Civil Service Law and the Law on Remuneration of Civil Servants have different approaches: the first is a legalistic constraint on the power, whilst the latter combines the traditional civil service salary structure with more managerialist attempts of enabling performance appraisal and pay-for-performance.

Unlike the US, there is no drive to learn from the private sector, which is not large and institutionalised sufficiently to offer viable models of imitation. Instead, there is the foreign experience (both public and private) which has an impact on thinking—both through sporadic encounters and occasional exposure to the literature and sustained technical assistance. In the latter effort, particularly the long-term UK assistance through DFID programs (employing many consultants with extensive Thatcher-Major era government experience) was important. It is not surprising that the NPM-inspired separation of Soviet-era all-in-one ministries into policy-engaged ministries, service-engaged agencies and supervision-engaged inspectorates was seen as a logical and natural choice that did not merit too much of a debate.

7. National political agenda

As mentioned above, the reform effort had its highs and lows, reflecting the priorities of different electoral cycles. Quite unexpectedly, the major breakthrough happened in 2000–2002, when Armenia was going through its most difficult internal political strife since independence. In 1999, a group of terrorists assassinated most of the leadership of the country (including the charismatic Prime Minister and the Speaker of Parliament). It is on the background of the ensuing power contest that the two laws have been brought to life.

Interestingly enough, the main opposition to the Civil Service Law came from the opposition. Generally, Armenian politics are described by a lack of loyal opposition. Opposition always claims being robbed of electoral victory, calls for third-parties to ascertain their just victory and threatens to restore justice, at least by the next elections, unless the Government somehow starts to believe the opposition's claims that it cannot govern and early elections are called. While this does not happen, claims of robbed victory and the desire to replenish their dwindling ranks through electoral spoils still remain the hallmarks of Armenian political parties.¹ As the USAID-sponsored analysis put it:

Despite the proliferation of parties, no party fulfils the fundamental roles of aggregating the public's interest, offering policy alternatives, or organising meaningful debate over public concerns. The absence of functioning checks and balances has enabled the executive branch to continue its domination of political and economic life. In addition, the mutually supportive relationship between oligarchs and government has contributed to the zero-sum political game. The government's primary interest is in remaining in power, and the opposition's primary interest is in replacing the government and seizing power (ARD, p. vi).

In the post-1999 fragmented Parliament, the winning parties had already gone through transformation and realignment, and were looking forward to the 2003 Presidential and Parliamentary elections. The opposition (some of whom were previously in the winning coalition in 1993) bitterly complained that the envisaged creation of an independent Civil Service Council was giving too much power to the President (since the members of the CSC were to be appointed by the President on a yearly rotating basis) as opposed to Parliament. Although constitutionally

¹ The trade-off for political parties between delivering results and building membership through the spoils system is characteristic of many transition countries (see Beblavy, 2002).

this was the only solution,² the opposition claimed that this was a step that would turn the whole state apparatus into a machine supporting the incumbents, as well as complaining in narrower circles that it would inhibit their latitude when the opposition came to power. Since the opposition's arguments were weak, even in the fragmented Parliament, the President and the ruling party(ies) garnered the necessary vote to pass the law.

As the law envisaged automatically considering civil servants to be everyone in government employment by 2002 (before the 2003 elections), the main ruling party (that did not have a large electoral base and was carried into Parliament mostly on the coattails of the assassinated Prime Minister who joined the party just before the elections) was interested in solidifying the already established positions within the Government service. The President, on the other hand, was striving to have a civil service in place since he saw neutrality and the protection of government service, indispensable for the future development of the country³. As a non-partisan, the President also had a dislike of large and spoils-strong political parties claiming more power. The ruling party passed the President-driven Civil Service Law in Parliament with some minor adjustments⁴ and somewhat excessive constraints over the executive⁵. A few months later, the companion Law on Civil Servants' Remuneration passed without much political debate—all the power-related issues had been essentially solved. Within a year, there were some easily adopted amendments to the Civil Service law that, whilst clarifying some issues, essentially strengthened the presidential oversight over the Civil Service. Since then it has been reform as usual—simmering efforts to fight corruption, increase efficiency, etc., but not something with a political appeal that laypersons would care for.

2 The Armenian Constitution does not allow Parliament to grant itself more powers than explicitly spelled out in the Constitution. In this case, the Constitution did not contain any clause on CSC or any other independent commission. Parliament passed a law claiming powers over the appointment of Public TV and Radio Board members, which was later deemed unconstitutional by the Constitutional Court. The other remaining option—making the CSC a mere department within the Government (as many countries opt to do when the Civil Service is mature and efficient rather than the political constraint over the executive being the main ideology), would completely support the opposition's complaint about a politically-controlled Civil Service.

3 Incidentally, in the 2003 Presidential debates on TV, when the challenger claimed a witch hunt for his supporters in Government service, the President challenged him to name at least one civil servant who was harassed because of his or her political convictions. The challenger promised to present a list, but no-one was named.

4 For example, the candidates for vacant civil service positions were not appointed automatically upon winning the written multiple-choice contests, but had to compete with other top scorers who passed certain points. This second round of the competition is basically an interview with the Minister (for higher positions) or with the Chief of Staff (for lower positions). Since the exams are not standardised for groups of positions, as in many other countries, but separate for each position, it is more than the latitude that many US jurisdictions use to overcome the possible mismatches due to an awkward recruitment effort.

5 For example, the Law specifies the number of questions at examination, the quantitative threshold, etc.—i.e. things that most countries choose to address through secondary legislation, such as Government or regulatory agency decisions.

8. International organisations

As with other transition countries, Armenia did not escape the not very coherent, if not outright contradictory policies, driven by different donors, either. As Hovsepyan and Khudaverdyan (2006, p. 28) mention, “the piecemeal nature of this assistance, probably as a response to the extraordinary complexities of the public administration structures and associated political environment, and the need to disaggregate the field into manageable domains, has resulted so far in a fragmented approach to the reforms and the potential loss of a strategic perspective.”

Of many international organisations, the most instrumental in Armenia during the period of major reforms, have been, of course, the IMF and the World Bank. The IMF was engaged in shaping and financially supporting the macroeconomic framework of the authorities through policy and technical missions. For non finance-related public sector reforms, the international organisations have not been very instrumental or defining in the formulation of Armenian Civil Service legislation.

The World Bank had more focus on development and extended loans under particular projects, and had essentially driven the effort for establishing a Poverty Reduction Strategic Programme. It has also provided ample technical assistance on government financial management, in particular, helping to develop the MTEF (Medium-Term Expenditure Framework) (Andrews, 2005). In 2003, the PSRC received assistance in the framework of the Public Sector Internal / External Control and Audit Project, and in 2004 the Public Sector Modernisation Programme was authorised by the International Development Association (World Bank, 2006) It aims to “improve the efficiency in selected public sector bodies, develop and introduce innovations, such as a more robust governance system of civil service, introduction of an inter-ministerial management information system, ... improving the efficiency and transparency of the private sector management procedures” (Hovsepyan and Kudaverdyan 2006, p. 28).

The other large donor in the country is the US Agency for International Development (USAID) which, besides the tax and financial management assistance efforts, also concentrated heavily on issues such as energy and education, etc. Their involvement in public sector reforms, similar to that of UNDP, “has been directed at establishing favourable conditions for the initiation of administrative reforms rather than being directly linked to the launch of the reforms” (Hovsepyan and Khudaverdyan, 2006, p. 28).

9. European Union and other European organisations

As mentioned above, the most important donor impact on the Civil Service has been displayed by the long-term technical assistance from DFID that provided both in-house and out of house expertise. Still in 1999, the Armenian Government and DFID launched the Armenia Public Sector Reform Project (APSREP), which worked closely with the Armenian Public Sector Reform Commission and other stakeholders. With the adoption of the civil service law and the structural and

functional reforms in the ministries, the first phase of the reforms in Armenia's public sector were accomplished by 2003 (APSREP, 2006).

Phase II of the project aims at fostering "improved efficiency at all levels of public governance; to introduce and develop mechanisms ensuring responsibility, transparency and accountability in the civil service, ... engage representatives of civil society in the public policy-making processes" Hovsepian and Khudaverdyan (2006, p. 29). The DFID has also provided assistance to the Armenian Government for the reforms in Public Financial Management, specifically, in planning and projecting the medium-term expenditures (MTEF) and introducing programme budgeting systems.

Through TACIS funding, the EU has provided technical assistance to the PSRC in introducing the civil service in territorial administration and local self-governance structures and consolidating a training system for public servants. The CSC (Civil Service Council) has been receiving technical advice from the Council of Europe on its regulations (CSC, 2006).

10. National political culture

Different readings on the Armenian political culture do not vary a great deal. Labels range from authoritarian (ARD, 2005) to clan- and community-based (Sahakyan and Atanesyan, 2006), sometimes equating both (Bremmer and Welt, 1997). It is usually mentioned that the observed phenomenon is wider than government. The USAID commissioned report, for example, mentions that "autocratic systems and mentalities are firmly entrenched within the parties as well as within the government," with no party fulfilling "the fundamental roles of aggregating the public's interest, offering policy alternatives, or organizing meaningful debate over public concerns" (ARD, 2005, p. vi).

The dominance of this type of political culture is explained by Armenian elites discovering "the considerable benefits which centralized rule can bring to those building a state from scratch" (Bremmer and Welt, 1997, p. 1), and by the fact that "each member of society has the potential ability to feel and behave as a part of the same political culture where family and community are still the natural players" (Sahakyan and Atanesyan, 2006). The situation is exacerbated by poverty, which makes rational vote to pursue short-term, rather than longer-term goals. As a result, "the Armenian electorate is mostly ready to accept bribes, leaders are ready to offer bribes to be elected, and such a horrific harmony determines electoral campaigns" (Sahakyan and Atanesyan, 2006).

A more balanced analysis, though acknowledging that "political activity in Armenia can be defined as "subject" political culture," where "the population is orientated to a political institution without feelings of personal responsibility; feelings in evaluation of political phenomena dominate, mythological thinking ...prevails, the distinct ideologisation and politicisation of social life," still maintains that

Anyway, one can state that Armenia has successfully passed through regime consolidation, which is a necessary condition for democracy because if a regime cannot provide basic guarantees of personal security for its citizens and establish a bureaucracy which operates according to consistent rules there can be no question of democratic elections. This has proved to be a success in maintaining a clear policy of democratization (Karakhanyan, 2003, p. 11).

In civil service reforms, exactly this type of prospect was the guiding perspective. Of course, the swift introduction of civil service protection was an opportunity for the newly realigned party(ies) in power in 2001 to have a firmer footstep in Armenian politics with its constantly alternating landscape of political parties. But it was more a matter of fortunate timing than deliberate setting of the direction, since the main drive for the reform was coming from the non-partisan President's office who saw it both as a foundation for future development of the country and constraint on spoils-growing political parties.

11. Elite decision-making

As in most transition countries, government decision-making in Armenia is not heavy-handedly autocratic, but heavily elite-dominated. Often, the elite's "actual behaviour differs significantly from programmatic truths. The result of such political activity is that during that stage, people are removed from decision-making" (Karakhanyan, 2003, p. 11). This does not refer only to government, but political life in general, since even the "parties tend to be heavily dependent on the personality of the party leader... For most parties, the selection of candidates for party lists and single constituency seats is largely an internal leadership exercise and lacks transparency or internal debate" (ARD, 2005, p. vi).

12. What is desirable/feasible

Political feasibility of the reforms in terms of delineating the Civil Service and depoliticizing the government employment was not debated extensively—by 2000, it was an idea whose time has come. There was a clear sense of being late—all the "progressive" transition countries (i.e. Eastern Europe and the Baltics) that the country leadership was keen to align country developments, have already addressed the issue. Whether establishing a separate council or addressing it through government departments was also not debated much—since the issue was by and large framed as the protection of employees from political pressures, as in almost all nascent civil service cases, independent council seemed a better choice.

Feasibility played out at the administrative level. The assessment of what is feasible and what is not, once the issue was politically set, was left to top administrators-cum-policy makers. As a result, the existence of independent Civil Service Council while did not hinder also did not facilitate proper sequencing and harmonization of the reforms. For example, although pay for performance was envisaged by legislation as a possibility, it can work out only when the planning

and performance appraisal in the ministries is carried out in a proper fashion. Since the Civil Service Council had only resources and primary mandate of protection from excesses, rather than efficient management, it could not properly take the lead over an issue that begs for improvement. Likewise, the difficulty of the effort of engaging a larger group of people from the Ministries into day-to-day management of the Civil Service has substituted such an essential undertaking as position classification through bottom-up job evaluation process for top-down generalist assessment of designed jobs.

13. Central/local elite dynamics

Armenia is a small, centralized state, with local elites having a say only on very limited topics. In terms of civil service reform the central-local elite dynamics did not have any noticeable impact. The Civil Service Law did not regulate the local self-government: besides the constitutional separation of local self-government and central government at a time of adoption it was not clear how complex and burdensome the envisaged system of fair recruitment and selection will be in action and how it may be adapted to local governments with populations ranging from 15 to 150,000 people. Later a Law on Local Self-Government was adopted, but it did not generate central/local elite dynamic issues that could not be easily addressed with the quite well functioning centralized power relations in Armenia.

14. Corruption

Being in the neighborhood and having strong relationships with countries that have not the best record in terms of fighting corruption, as a recently rapidly impoverished country in the 1990s Armenia did not overcome, but exacerbated the late Soviet legacy of corruption bred in an atmosphere of constant shortages and impotent ideology. While not having the “luxury to afford” corruption levels comparable with resource-rich countries, corruption in Armenia is still a serious problem. According to the 2005 Corruption Perception Index of Transparency International among 159 countries across the world, Armenia received the mark of 2.9 on a scale from 10 (the most uncorrupted) to the 0 (the most corrupted). Compared with indices of 2003 (3.1) and 2004 (3.0), it is evident one cannot talk about significant progress.

It is difficult to assess the impact of public sector reform on corruption. Certainly, the introduction of procurement legislation and better financial and expenditure controls have played positive role in reducing corruption. As a result of such policies, Armenia has high rankings in the economic freedom and ease of business indices regularly compiled by different organizations (e.g. Heritage Foundation, 2006). On the other hand, when it comes to government (especially local) services that citizens encounter daily, limited budgetary resources do not allow much improvement in terms of service quality and “impartial” delivery. As a result, while scoring relatively high on creating a proper business environment,

Armenia constantly battles with negative perceptions and assessments of widespread corruption.

15. Chance events

As mentioned earlier, there were no events that polarized the public support or significantly fostered the reform effort. Perhaps, with a stretch one can identify the desire of the realigned and, essentially renewed parties in power in 2001 to seal the already institutionalized spoils as a factor for passing the key Civil Service legislation before the 2003 elections. For other aspects of reform, such as financial or structural, it is even more difficult to identify any that could have triggered a “window of opportunity.”

16. The administrative system

The administrative system can be best described as post-Soviet: it is not the Soviet omnipotent and omnipresent, intertwined Communist party-state command structure anymore, but it still is not an efficient system of administration that can effectively and timely recognize, diagnose and remedy problems. Before 2001, there was no general Civil Service or other specialized services (except for military and some other law-enforcement-related services). Though patronage was not the only norm in practice, public perception was that of rampant patronage as the only model at work.

The ministries have shed only part of their Soviet-era heritage: the functions of policymaking, property management, supervision and service delivery were distributed by a very uneven mix among different ministries. Together with ministries, some different state-supported associations (e.g. the Writers’ Union), policy-making entities (e.g. some committees that were “attached to” or “under the auspices” of the Government—effectively “ministrets” with functions ranging from taxation to running science), or technically very specific monopolistic, but somehow privatized and not very well regulated service providers (e.g. companies certifying technical parameters of telecommunications devices or distributing energy) also existed. This was an evolutionary mix: in various spheres events have shaped different approaches.

The 1999–2003 reforms significantly addressed the problems of structure, government employment and financial controls, but they should be seen as the first stepping stones of a long road: though impressive, they still fall short of establishing results-oriented administrative culture.

17. Content of the reform package

As mentioned above, PSRC concentrated on structural and functional reforms and establishment of the civil service (including remuneration system), while the Ministry of Finance and Economy took the lead over financial management reforms, with sometimes overlapping efforts when the issues were larger than the planning and execution of the budget (e.g. on the matters of establishing

internal audit and accountability schemes within a wide range of institutions). The reform agenda was formulated in relevant concept papers and other documents⁶ (Government of Armenia, 2006; Khudaverdyan and Ivanyan, 2004; IMF 2006a; Hovsepyan and Khudaverdyan, 2006) and included:

- Standardization and elimination of redundancies in all ministries and agencies;
 - Demarcating Soviet-era government structures between ministries (policy formulation), agencies (service provision) and inspectorates (service inspection); while transforming almost everything else (formerly referred to as budgetary institutions—such as universities, hospitals, etc.) into state non-commercial organizations (NCOs).
 - Substituting “collegiate” governing entities in the ministries with various non-executive consultative bodies created by the ministers;
 - Standardizing the management structure of the ministries by prescribing some generic functions and setting a minimum level of staffing for various-level units;
 - Finalization of ministry by-laws to reflect the strategic tasks and functions vested in them by RA laws and legal acts.
- Establishment of civil service in all ministries (except for the Ministry of Foreign Affairs and the Ministry of Defense), local administrative units (prefectures) and local self-government bodies;
 - Distinction of political, discretionary⁷ and technical⁸ positions from civil service positions;
 - Identifying Chiefs of Staff of ministries as the highest Civil Service position holders managing Civil Service under the indirect guidance by the Civil Service Council;
 - Setting up a system for civil servants’ remuneration and training;
- Improving public expenditure management,
 - Developing budget management systems; and
 - Advancing transparency in public resource management;
 - Establishing a fair and efficient public procurement system;
 - Development of transparent internal and external audits systems.

6 Financial reform matters were mainly addressed not through PSRC concept notes, but through Memoranda of policies that the Government would proclaim within the framework of different programs enacted with IFIs (International Financial Institutions) and with the USAID.

7 Fred Riggs (1996) calls holders of these positions “in-and-outer” (transient) appointees—i.e. people occupying these positions usually come and go with changing administrations, though may not be necessarily changed with every incoming administration. For example, district attorneys in the US fall into this category.

8 The term technical here refers to blue-collar workers employed in the government ministries.

18. The implementation process

The reforms may be broken down into two stages. In the *first stage* (1999–2003) basic systems for managing the core government apparatus were established, while in the second one (2003–2008) the effort is on improving broader public services' (healthcare and education) management, ensuring the transition to a more efficient system of management (Government of Armenia, 2006; Khudaverdyan and Ivanyan, 2004).

Structural Changes. Since in Armenia the Government structure and exact functions are not regulated by law, most of the functional and structural issues were addressed through Presidential decrees on the Government structure; Government functions; and regional administration and governance of the capital (which, according to Armenian legislation, was not considered as separate local government). The Government has approved model statutes on organizational structures of RA ministries, agencies and inspectorates and regional administrations (including the capital); the requirements to organizational and service units of ministry staffs; decided on the establishment of RA Government Staff public administration institution, and adopted the administrative procedure for the Government. The Prime Minister, in his turn, issued decrees ordering the control mechanisms of government performance, fixing the number of employees in different agencies, setting timetables for different reorganization and restructuring measures, etc.

Introduction of Civil Service. In the first stage the National Assembly adopted the laws on diplomatic service; civil service; the remuneration of civil servants; customs service; military service; police service; tax service, and state non-commercial organizations. Except for the laws for diplomatic and military service, the other laws regulating specific services essentially repeated the civil service law and the civil servants' remuneration law with minor changes, mostly to reflect the possibility of higher pay and specialized recruiting. The diplomatic and military services differed on many issues, most notably, with most importance attached to ranks as opposed to civil service law's obvious marginalization of civil service ranks for the benefit of position classification as the bedrock of the system.

The civil service law envisaged a civil service system that covers only blue collar government workers working in the ministries, agencies, inspectorates, and prefectures, clearly distinguishing between political appointees, "transients," and civil servants. The system envisages no internal promotion, but open competition for all positions (though with qualifications for experience and KSAs for middle and senior-level positions), with separate examinations (and later interviews) being held for each position. There is mandatory training (with centralized curriculum set through the School of Public Administration) and mandatory attestation of civil servants every 3 years. Performance appraisal is very formalistic and is written in a way as to limit the possible subjectivity of the immediate manager. There is a system of ranks that is of limited use (one receives a salary according to the position, with any higher rank offering the same very small increment). To ensure the structural problems of the newly established systems do not have an impact

on the stability of the service, a reserve list of civil service cadres is maintained for the employees after six months of their dismissal due to structural reasons. They are offered temporary positions in the service and keep certain privileges so to enhance their participation in the competitions for vacancies. Politically, the civil servants are asked to be “reserved,” and the law has specific clauses for their protection and clear causes for their dismissal. The system is managed by an independent Civil Service Council the members of which are appointed by the President for overlapping terms.

The 14 regulations passed by the CSC since relate to the structure and organization of CSC itself, rules and regulations covering competitions, attestations, rosters, registration, right to training, ethics commissions, etc. (CSC 2006). They are mostly legalistic in their nature, and set the appropriate framework for ensuring fair entry and protection. The regulations do not cover more “managerial” processes and procedures. There are no regulations on performance appraisals or the process of job evaluations. In reality, the latter is done through top-down decision on what the grade of the new (or the redesigned) job is going to be, and then the job descriptions (which the law calls “position passports”) are written to reflect the grade. The exams are still very generic, and regardless of the profession, mainly cover generic (e.g., the Constitution) and civil service legislation. The Public Administration School has developed curricula for training, and through different universities organizes the training of civil servants.

The remuneration of the civil servants is based on a classic schedule with eleven 3 percent increments (that slow down as one moves up to the higher steps) for 11 overlapping grades, with a 5.8 compression ratio. The law clearly distinguishes between and unmistakably identifies the sources for base pay, pay for specific conditions of a job (e.g. work in the highlands—a rather theoretical possibility that existed since the Soviet times when government jobs covered everything), and bonus pay for extra and excellent work, as well as the possibility of specific schedules for regions and certain professions, if the request is backed by strong statistical evidence. Since the law was passed, the Ministry of Finance was ultra-cautious not to make impossible pledges with a new and unknown before schedule,⁹ the law does not contain any exact salary levels—rather everything is given in a scheme, where all the steps in each grade are defined by a coefficient to the lowest pay grade that is set every year in the budget law. The law also envisages rules for removing the increment or reducing the pay. According to a World Bank report,

The Law on Remuneration of Civil Servants adopted in Armenia in 2002 is the best functioning example of such legislation among CIS states....

The Law on Remuneration was a centerpiece of the civil service reform process in Armenia, as it expressed a clear break with the past tradition of fragmented rules and regulations on pay, which left significant loopholes for subjective interpretation (World Bank 2005, p. 36).

9 It was the first year of yet to come sustainable high growth rates, and the Government was yet experiencing prolonged cash deficits.

The system works in practice, though, with some problems. The main reason for this is the low level of salaries. In 2002 the base pay started from about USD 25 level for a monthly salary, and though has since at least tripled for 2007, still, many think that it is still too low a base, so often new entrants start the jobs at higher steps within each grade than they are entitled to by the law. There are increasing costs, but the issue is not seen as too worrisome neither by the Ministry of Finance (the rank and file of which are also poorly paid civil servants), since the numbers are not too high, nor for the Ministry of Labor and Social Protection that does not have resources to spend on the issue.

Financial management reform. The major reforms in public financial management included adoption of the legislation on procurement and the creation of a special agency for centralized government procurements, institutionalizing proper budgetary planning through MTEF (within the framework of PRSP) and introducing elements of program budgeting in selected ministries and structuring the budget of pilot ministries. The Government also made progress in increasing the transparency of the budgetary process, such as, for example, making available to the general public the scope of Public Investment Programs in MTEF documents. The relevant legal framework has been put in place to ensure a robust system of external and internal government audits.

Still, when it comes to actual working of all of these mechanisms, there are a lot of problems yet to be addressed. Performance-based budgeting has yet to be institutionalized and fully implemented, public procurement procedures have to be further standardized to include things like e-procurement, etc. (IMF 2006a). A proper system for duly monitoring the activities and financial situation of noncommercial entities (NCEs) still has to be established (as opposed to natural monopolies, there are no more or less clear-cut recipes of monitoring that would easily fit all types of NCEs that can be schools, hospitals, specific service providers, etc.). On the other hand, some audit units within the Government still have not developed a statute-prescribed risk prevention approach, but hold on to a Soviet-era remnant control-and-punish perspective.

Second stage of reforms (2003–2008) envisages improvements in public services (generally understood as education, health and similar services), concentrating on mechanisms and management models of delivery, with special emphasis on decentralization and local and regional capacity building. The reforms foresee also the introduction of pay-for-performance for civil servants, better public expenditure management through budgetary planning that is better linked to respective sectoral developments and has better accountability mechanisms, as well as enhanced citizens' access to information and participation in the design, implementation and evaluation of government policy. Most of the reforms are already under way, and there is a noticeable advance in budgetary matters (Andrews, 2005), but generally the progress is not as obvious, both because it is less conspicuous and slower moving.

19. Reforms actually achieved

In one of the most comprehensive and thoughtful comparative evaluations of post-communist public sector performance, the World Bank (2003) researchers identify four key dimensions of public administration: personnel management, administrative procedures, performance management, and financial management, adding that, perhaps, for a fuller picture, a policy formulation system should be added as well. The Armenian Government has concentrated its reform efforts laying the framework for proper personnel and financial management and administrative procedures. Performance management and policy formulation have been addressed to the extent they have been implied by the former three. To a certain extent, they are more politicized and thus are harder to tackle, and since everywhere the leading force of the initial stage of public sector reform is couched in terms of neutrality (Holzer, Gabrielyan and Yang, 2006; Roberts 1994). Performance management is being cautiously addressed now, but again, not directly because of its relevance, but as a necessary component for introducing a pay-for-performance system.

Interestingly, the aforementioned World Bank paper came up with a similar conclusion that “performance management systems demonstrated remarkably little influence on anything,” while emphasizing that “building a meritocratic civil service is of universal importance to performance,” and that “a well-functioning system of administrative procedures lays the foundation for meritocracy” (p. ix). This is explained by a score of intertwined factors: sequencing of reforms, strength of formal institutions, historical administrative legacy and leadership. In Kyrgyz Republic, for example, “with [its] newly enacted civil service regime, variations in implementation rely heavily on the idiosyncrasies of managers... This does not imply that formal institutions do not matter in the Kyrgyz Republic; rather, it suggests that leadership and culture bear the lion’s share of the burden for establishing meritocratic and performance-oriented organizational behavior when formal institutions are nascent” (World Bank, 2003, pp.35–36). Though formal institutions play a more significant role in Armenia, to a certain extent, this is true for Armenia as well.

The turn-of-the-century public sector reform has been successful to establish the necessary framework for effective and efficient public administration. The Civil Service system, while not automatically selecting the “best and brightest” for the job, effectively filters out the “worst and dumbest”; although government institutions are not delivering ideally measured and calibrated performance, they do not confuse with overlaps and have basic systems of accountability; although the budget is not tied to the policy objectives in a manner that can be easily understood, it is planned and executed in a long-term, comprehensive and consistent framework. The necessary framework is in place. Is it sufficient enough to deliver efficient public services? Given the slowed pace of reform, one would say a definite no.

Armenia needs to more actively pursue “second-generation” public sector reforms.¹⁰ To paraphrase the famous dictum from the famous essay by Wilson (1887), “It is getting harder to run an *institution* than to frame one.”

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¹⁰ The term “second-generation reform” has been widely used by the IFIs to denote the effort to make the reduced public sector work properly. Here the term is used for the specific context of the discussion.

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Abbreviations

CSC – Civil Service Council

DFID – Department for International Development

NCE – Non-Commercial Enterprises

MTEF – Medium Term Expenditure Framework

PRSP – Poverty Reduction Strategy Paper

PSRC – Public Sector Reforms Commission

UNDP – United Nations Development Project

IDA – International Development Association

IMF – International Monetary Fund

TACIS – Technical Assistance to the Commonwealth of Independent States

APSREP – Armenia Public Sector Reform Project

USAID – United States Agency for International Development

IFI – International Financial Institution

Country public management reform landscape: Armenia

Dates	General	Organisation	Personnel	Finance
September 1991	<ul style="list-style-type: none"> September 1991 independence referendum, followed by a presidential election in October 1991 that gave 83% of the vote to Levon Ter-Petrosian. 			
1991 – 1995		<ul style="list-style-type: none"> Structural and Functional changes of the Public Sector. 		
1995	<ul style="list-style-type: none"> The new constitution of 1995 greatly expanded the powers of the executive branch and gave it much more influence over the judiciary. 			
1995 – 1998	<ul style="list-style-type: none"> Ter-Petrosian was re-elected in 1996. Following public demonstrations against Ter-Petrosian's policies on Nagorno-Karabakh, the President resigned in January 1998 and was replaced by Prime Minister Robert Kocharyan, who was elected President in March 1998. 	<ul style="list-style-type: none"> Elections since 1998 have represented a gradual improvement in terms of both fairness and efficiency, although they are still considered to have fallen short of international standards. 		
1999	<ul style="list-style-type: none"> After 1999 elections Vazgen Sargsyan became the Prime Minister. Following the assassination in the Parliament of Prime Minister Vazgen Sargsyan and Parliament Speaker Karen Demirchyan and six other officials, on October 27, 1999, a period of political instability ensued during which an opposition attempted unsuccessfully to force Kocharyan to resign. 	<ul style="list-style-type: none"> 1999 – Establishment of the Public Sector reform Committee. 		
2000	<ul style="list-style-type: none"> In May 2000, Andranik Margaryan replaced Aram Sargsyan as Prime Minister. 			

<p style="text-align: center;">2001 – 2005</p>	<ul style="list-style-type: none"> • In elections of 2003, a fragile coalition came to power, with Andranik Margaryan continuing to be the Prime Minister. 	<ul style="list-style-type: none"> • Functional analysis completed for ministries and governmental agencies, upon which some uniformity was imposed. • President's decree on Government (as there is no law) of 2001 distinguished between Ministries (policy); Agencies (implementation); and Inspectorates (Inspection). • Draft laws: <ul style="list-style-type: none"> - 2004 On Public and Government Service. - 2005 Regional Governance. • First stage of reforms at all governmental levels. 	<ul style="list-style-type: none"> • Law on Civil Service adopted in 2001; • Law on Civil Service Remuneration was adopted in 2002. • Civil Service Commission was established. • Management and training program for civil servants were developed. • In 2001–2002 the existing ministerial and prefecture's white-collar staff was transformed into the civil service; introduced at the President's, Government's and Ministries' Staff offices; and regional Government bodies, a special service for Parliament was introduced. • During the following 3 years, "special" services were introduced: tax service; customs service; diplomatic service; police; prosecutorial service; national security service. • Civil servants salaries were increased in 2005 by 1.5–2 times compared to 2001. 	
<p style="text-align: center;">2006 -</p>	<ul style="list-style-type: none"> • The coalition collapsed in 2006, though, due to party realignments, there was no need for earlier elections. 	<ul style="list-style-type: none"> • 2006 Law On Remuneration for Public and Government Service. • 2007 Law On municipal Service. 	<ul style="list-style-type: none"> • Second Stage of reforms Public Sector reforms for civil service introduction. 	

Chapter 2

Public Management Reforms: Czech Republic

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1. Socio-Economic Forces

Historically, the Czech Republic consists of three parts – Bohemia, Moravia, and Silesia. The country belonged to the Austrian-Hungarian Empire until 1918. The establishment of Czechoslovakia – a new sovereign state of Czechs and Slovaks in 1918 – began a new chapter in Czechoslovakian history. With a short break during the Second World War, Czechoslovakia continued until a friendly separation in 1992. Since January 1, 1993 there are two sovereign countries – the Czech Republic and the Slovak Republic.

The political system in the Czech Republic (Czechoslovakia) has changed several times during the 20th century. A democratic republic, established in 1918, was replaced by a fascistic Protectorate. The democratic system, renewed in 1945, lasted until 1948 when the Communist party won the elections and created a totalitarian Soviet-type socialism. Czechoslovakia became a satellite of the USSR for more than 40 years but since November 1989, the Czech Republic has had a parliamentary democracy.

Similar to other post-socialistic countries, there were two main economic directions after 1989: the opening of the market and privatisation of state-owned companies. Compared to other CEE countries, there was practically no private sector in Czechoslovakia prior to 1989, not even at the level of small private entrepreneurs. In 1989, the state sector accounted for 97% of GDP, compared to 20% in 2002. Since the “Velvet Revolution” most of the state-owned companies have been privatised. This privatisation has been carried out in two ways: the direct sale of companies to investors (so-called small privatisation) and spreading shares of companies among inhabitants in two waves of coupon privatisation (so-called large privatisation). The total number of companies to be privatised was 1,720 with a total book value of 705 billion CZK. Some strategic companies remained in the ownership of the state, to be privatised at a later date. In 2008, 32 companies still remain to be privatised. Such a change in ownership has obviously been followed by the emergence of losers and winners, and by many disturbances in the coordination of different interests. The imbalance of these interests has been, and still is, causing (since the privatisation process is not yet complete) serious political and economic losses.

Although privatisation can be regarded as successful in the long run, in most cases it led to the high indebtedness of privatised companies, which had to be rescued by the state, thereby increasing public debt. Today, the World Bank ranks the Czech Republic amongst the most endangered OECD countries due to its hidden debts. Almost one-third of credits are considered as risky. Low interest rates caused a high household indebtedness apart from that of business in recent years.

Bad credits resulted in the bankruptcy of several small banks in the mid-1990s. All bad credits have been, for political reasons, taken over by the state, leaving a false message to citizens that the state is responsible for their wrong investment decisions. This moral hazard led to a generally spread opinion that consequences of bad private investment decisions can be financed from public sources if it is politically interesting concerning votes (the same problem appears in agriculture, mining and small banks). It created an atmosphere of moral hazard where the private responsibility of individuals has again been taken over by the state (increasing the state paternalism). On the other hand, a less-developed financial market, together with only several large banks and financial institutions with conservative behaviour, can be seen as a positive indicator in the upcoming worldwide financial crisis.

The opening of the market began in the early 1990s in most industries. However, key industries such as the energy sector or telecommunications remained monopolised until a recent slowing down of the economy with rigidity and high prices. The regulation of several monopolies is improving very slowly. In many cases, the state even strengthens the monopolies – for example, to reach the highest possible price in privatisation, which, however, harms consumers.

The opening of the country resulted in relatively high inflation rates in the early 1990s. After the central National Bank set the targeting of inflation as its main goal in the mid-1990s, inflation has begun to decrease to deflation levels in 2003. However, the inflation rate increase since then has remained at the lowest levels in the EU at the end of 2007, resulting in low interest rates. Changes in regulated prices, exchange-rate appreciation and large domestic harvests largely accounted for this. Since the beginning of 2008, the inflation rate (CPI) began to grow and reached 6.1% in August.

In the late 1990s and beginning of the 2000s, the main socio-economic policies and activities have been focused on meeting EU criteria required for the Czech Republic to join the EU. At the time of the deregulation of the energy sector, telecommunications and a reform of the administrative division were predominant. Impetuous interference by the Social Democratic government in the market in some cases resulted in many legal proceedings against the Czech Republic and in most cases, costing the taxpayers billions of CZK. To meet the Maastricht criteria a more modern medium-term national budget system was established, but the levels of deficit and debts limited the chance for an early entry into the Euro zone (Table 1).

From 2002 to 2007, annual growth in GDP per capita has increased from less than 2% to 6%, and shifted above the average for other East European countries. Indeed, the trade balance has become positive. This positive trend is mainly due to strong exports, thanks to FDI mainly in the automotive and machinery industries. Nevertheless, catch-up with more advanced economies is some way off and maintaining this performance will require continued reform.

Table 1
Czech Republic – main economic indicators

INDICATOR	SCALE	1999	2000	2001	2002	2003	2004	2005	2006	2007
POPULATION	Min. of persons	10.283	10.272	10.224	10.201	10.202	10.207	10.234	10.267	10.323
GDP (current prices)	Billions US dollars	60.14	56.73	61.84	75.28	91.30	109.52	124.60	142.23	173.83
GROSS NATIONAL INCOME	Billions US dollars	59.35	55.78	60.13	72.25	87.43	103.44	118.47	134.16	162.45
IMPORTS OF GOODS AND SERVICES	Billions US dollars	28.15	32.26	36.59	40.63	51.23	68.21	76.74	93.41	118.23
EXPORTS OF GOODS AND SERVICES	Billions US dollars	26.09	29.09	33.40	38.49	48.50	66.69	77.70	94.79	122.46
EXPENDITURE	Billions US dollars	17.25	16.38	18.24	22.93	28.65	33.57	38.54	45.14	53.79
REVENUE	Billions US dollars	16.40	15.19	16.46	21.54	24.79	29.93	36.18	40.84	50.52
DEFICIT (-) OR SURPLUS	Billions US dollars	-0.86	-1.19	-1.78	-1.40	-3.87	-3.65	-2.35	-4.32	-3.27
CORRUPTION PERCEPTIONS INDEX	TI methodology	4.6	4.3	3.9	3.7	3.9	4.2	4.3	4.8	5.2
COUNTRY CORRUPTION RANK	1 st = least corrupt	39 th (out of 99)	42 nd (out of 90)	47 th (out of 91)	52 nd (out of 102)	54 th (out of 133)	51 st (out of 145)	47 th (out of 158)	46 th (out of 163)	41 st (out of 179)
National Currency/USD (official rate)		34.600	38.590	38.038	32.736	28.227	25.701	23.947	22.609	20.308

Sources: Czech Statistical Office, Transparency International

The recent growth of the economy is mainly due to foreign direct investments coming to the country. In 2004, FDI accounted for almost 70 % of GDP. The Czech Republic is considered the world's 7th and Europe's 4th most attractive country for FDI in 2006, according to Ernst & Young research. Poland is the only CEE country with a higher ranking. In 2005, net exports became positive for the first time in the new Czech history. A high increase in exports is evident in 2004 after the Czech Republic fully joined the common European market. In 2005 and 2006, the trade balance reached 1.3 %, resp. 1.2 % of GDP.

1.1 Socio Demographic Issues

The number of inhabitants has been decreasing continuously from the initial number of 10,334,000 in 1993 to 10,203,000 in 2002 (Czech Statistical Office, 2008). The main reason was a decline in the birth rate. Since 2003, the number of inhabitants has begun to rise again to 10,425,000 in 2008.

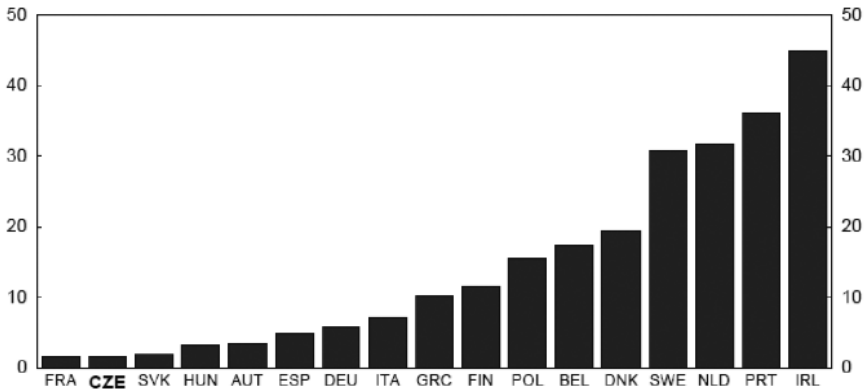
The dominant nationality is Czech with 90.4 % share of the total number of inhabitants. Other nationalities are: Slovaks (1.89 %), Poles (0.51 %), Germans (0.38 %), Gypsies (0.15 %). The Moravian nationality, which officially did not exist prior to 1990, accounts for 3.72 %. Another important minority are the Vietnamese who moved to the Czech Republic during the socialistic era as part of a socialistic co-operation programme. Today, they represent 0.17 % of the official Czech population. Growth in GDP, caused by FDI, together with a generous social system allowing people to stay home from work, resulted in a new wave in the import of labour force from third countries. 48.7 % of the Czech population are men and 51.3 % are women.

There is only one city with more than 1 million inhabitants (Prague) and 4 cities with over 100,000 people. Most people (18.4 %) live in 2,850 municipalities with from 301 to 1,500 inhabitants. The Czech Republic belongs to the countries with the lowest average of inhabitants per municipality (Figure 1). Well over half of the Czech municipalities' populations are below 500. In small municipalities, the management often works only half-time and recruits from local people with a limited knowledge of municipality management. It results in the poor economy of the municipalities and a low efficiency in providing public services. In an effort to improve the living environment, many municipalities invested a lot, for example in infrastructure, using bank loans. It led to a relatively high indebtedness of municipalities and even to the bankruptcy of several of them. Today, about 30 municipalities experience serious problems due to high debts.

Although the economy is growing, the Czech living standards are still far below average of the developed countries. The latest Eurostat figures (2008) put Czech GDP per capita at about 82,5 % of the EU average on the purchasing power parity basis. This figure, however, includes the city of Prague, with more than one-tenth of inhabitants and GDP per capita of 157 % of the EU average (2004 figure). The average monthly nominal income increased from 5,904 CZK in 1993 to roughly 4 times that of 23,182 CZK in 2008. Although it represents an increase in real

prices of about 53%, general dissatisfaction with income can be traced cross the country. After the introduction of a market economy with all the pros and cons, there arose a need to establish a network of social measures and aid.

Figure 1
International comparison of the average number of inhabitants
per municipality (thousands)



Source: Dexia Bank in OECD (2006)

One of the most actual demographic problems of the Czech Republic is the ageing population, calling for a reform of the pension system. Looking further ahead, the Czech Republic faces one of the most powerful demographic challenges. The old-age dependency ratio is already rising and the rate of growth will accelerate between 2010 to 2020 and even more so from around 2035. By 2050, the ratio is projected to be one of the highest in the OECD area. This underscores the importance of ensuring health care and pension systems are in good shape. In 2005, five proposals for pension reform were developed by experts from the main political parties in a special working group. The proposals differ radically, covering all the main types of pension systems and reforms seen in OECD countries. No mutual solution has been reached yet and the reform of the Czech pension system remains one of the priorities for the future. In tackling ageing-related spending pressures, some broadly-agreed principles from the five pensions proposals made in 2005 provide a good basis for a final decision on reform. Even after 2 years of the new government (since 2006) there are only very few “cosmetic” changes, although this ought to be high on the agenda of the government, together with the long-awaited reform of the health care system.

A relatively generous social system encouraging people not to work resulted in a rapid increase of the unemployment rate in 1998 and 1999. The unemployment rate was relatively stable from 1993 to 1996 at a level of about 3%. Despite a lack of labour force in the private sector, the Czech unemployment rate has persisted

at about 9% since 1999 as it is worth it to use social benefits. About half of the unemployed have been out of work for at least a year and they are strongly concentrated in certain regions of the country. Since then, the unemployment rate decreased to 4.3% in the middle of 2008. Employment creation – in particular for groups with a low labour market attachment – is hampered by the high tax wedge¹ and strict employment protection legislation on regular employment. Policy has not always been well-designed towards reducing unemployment and some aspects of it impede the overall efficiency of the labour market. Reduction in the large tax wedge on labour needs to remain a broad policy priority as this is dampening employment throughout the labour market. Personal income tax plus, most importantly, employer and employee contributions are equivalent to at least 40% of wages. The new government reformed the tax system in 2007; however, the overall tax wedge has not, in fact, been reduced. The so-called “day of tax freedom” was June 7, 2008 which is only slightly better than in 2006 when it was June 14.

The Czech government has also been carrying out a reform of public finance since 2004. Its goal is to decrease the public finance deficit, enhancing economic growth at the same time. The 2004 and 2005 deficits in public finance were much lower than targeted in the Convergence programme; on the other hand, the economic growth was higher than expected. The planned deficit in 2004 was 5.2% of GDP; the final figure was only 2.9%. The final deficit in 2005 was 2.6% of GDP instead of the projected 4.8%, and in 2006, the final deficit was 2.9%. The target set originally for 2008 – to decrease the deficit below 3% of GDP – was thus reached already in 2004 and 2005. Between 2003 and 2006, the government debt share of GDP stayed at the same level at about 30%. However, a transformation of the public finance system from supply- to demand-driven still remains the key issue.

The state fails to provide some public services, for example justice. Enforcement of laws and rights is at a very low level. According to the statistics of the Ministry of Justice (2008) the average time for a legal process has increased about two times since 1995. The average time of a business legal process was 1,420 days (3.9 years) in 2003! Although the average time for business legal processes shortened to 1,302 days in 2007, it still remains relatively long. The quality of laws is also disputable, taking into account that the basic laws have been amended on average, 34 times during the last 15 years. Compared to the EU 15 and 13 candidate countries (Eurobarometer, 2004) the trust in courts is very low. During 2001 to 2004, trust continued to decrease. Lower trust in courts can be observed only in Poland and Slovakia. According to research carried out in 2001 (Kaufman, 2001), the Czech state failed significantly in the protection of property rights (in comparison with 7 other CEEC countries, including Russia; the Czech Republic ranked as last but one).

1 High wedge of tax and payments into the state budget in the form of income tax, social and health insurance belongs to the highest in the world; however, we see a positive trend in decreasing this tax wedge after the right wing party took over government in 2006.

Although many areas of public life improved during the last 15 years, e.g. a functioning parliamentary democracy, a stabilised system of political parties or new territorial lay-out, there are still many imperfections such as the poor legal system and slow justice, incompetent political parties and a high level of corruption in public administration. The Corruption Perception Index was 5.2 in the Czech Republic in 2006 (Transparency International, 2006) ranking the country in 18th place amongst European countries.

2. The Political System and Reform Implementation

The Czech Republic is, according to its Constitution adopted in 1993, a parliamentary democracy. The Chamber of Deputies and the Senate, which together create a bi-cameral Parliament, perform legislative power. The Chamber of Deputies has 200 Deputies who are elected for a period of four years. The Senate has 81 Senators who are elected for a term of 6 years, whilst one-third of Senators are elected every two years. The Senate was established in 1996 to ensure greater political stability, despite the disagreement of most citizens.

The Head of the State is pursuant to the Constitution the President. The President is elected by both Chambers of the Parliament at their joint meeting, for a term of 5 years. Václav Klaus has been the official Head of State from 2003, when he replaced the first Czech President, Václav Havel.

The supreme body of the executive power of the Czech Republic is the government that stands in the lead of the state administration system. The Ministries and other central administrative authorities exercise their competencies in individual areas of state administration.

The right-wing coalition ruled from 1993 to 1998 when it was replaced by a so-called “government of specialists” until the next regular elections. In 1998, the coalition, headed by Social Democrats, began an 8-year period of left wing government. The last years of the Social Democratic government were characterised by political scandals, resulting in the change of Prime Ministers (3 Prime Ministers in 1 electoral term).

The last elections in June 2006 led to a stalemate situation when both left-wing (Social democrats and Communists) and centre-right parties (Civic Democrats, Green Party and Christian Democrats) reached 100 members. It caused a higher demand compromise and resolving disputes in a conciliatory way, counterweighed by delays and blockades in the legislative processes. Since the October 2006 elections, the Civic Democrats have the majority of seats in the Senate. Together with the result of the June 2006 elections for the Chamber of Deputies, this indicated an increase in the powers of the right-wing after 8 years of Social Democratic government. This chance was not effectively used by the new coalition and in 2008, local and regional elections were totally won by social democrats, using this as an opportunity for stronger attacks on all the newly proposed changes.

2.1 Political parties

In the Czech Republic, the political scene has developed since the establishment of the country in 1993, to a situation where there are two dominant political parties – right-wing Civic Democrats (ODS) and left-wing Social Democrats (CSSD). Apart from them there are a few small parties – the relatively stable Communist Party and Christian Democrats. These parties formed relatively stable players on the political scene over the 18 years compared to a number of other relatively small parties which appeared on and disappeared from the political scene. The last parliamentary party after the elections in June 2006 was the Green Party. Some of the previous small parties, such as the Civic Democratic Alliance or Freedom Union, lost and do not have any representatives in Parliament.

Prime Ministers and most of the government come from the two dominant parties in the new Czech history. However, they have never had enough strength to form a majority government (there were some cases of one-party minority cabinets) to be able to push through their ideas. All governments have thus been dependent on other political parties and coalition partners. As a result, all attempts to reform the economy, society or public administration have more or less been a kind of compromise to other parties' ideas and proposals. This situation is unlikely to change in the near future.

Every new minister invites his political allies into office, which means that the highest officials change with every government and usually with every minister. Therefore we can hardly observe any continuity or conception in the resorts. Although the political parties themselves (at least the leading two) are stabilised and relatively well-organised, their political programmes and ideas are more popular than realistic and ingenious.

Individual parties of the Czech political scene primarily observe their partial interests. When talking about a reform of public administration, they primarily mean organisational changes (abolishment of ministries, positions and their replacement with other functions and positions).

Generally, the Czech political parties also fail as elites. This issue was investigated, for example by (Fric et al. 2005), where elites were asked to provide their opinions (and did not assess themselves as real elites). The representative sample of questioned political elites was formed by members of Parliament, senators, members of government, deputies of ministers, chairmen and vice chairmen of political parties, ombudsman and his deputy, heads of regions (hejtman) and their deputies, members of regional assemblies and regional councils, chief magistrates of statutory cities and chairmen and leaders of regional organisations of political parties.

Only 0.6% of respondents were very satisfied and 35.6% rather satisfied with the political situation in the CR. More than half of respondents (52.5%) were rather dissatisfied and 11.3% were very dissatisfied with it. Lack of real interest of the political parties and political elites in public administration reform is indicated

by the answers to the question “Should the Czech government invest more in public administration?” : 8% definitely yes, 24% rather yes, 47% rather no, and 21% definitely no (ibid.).

The main support the elites expressed was for self-government units (43%). Generally, most of the respondents (besides political, also from economic, medial and self governing elites) agreed that it is important to strengthen local influence (84%) and regional self-governments (71%). Most of the respondents were satisfied with the work of municipal assemblies (64%) but 53% thought that it only had a very low influence on the municipality decision-making. Indirectly, this confirms that self-government does not produce the activities it should produce. The highest satisfaction with the municipality assemblies’ work was expressed by self-governing elites (they are satisfied with themselves). The most dissatisfied with the municipal assembly work were especially those respondents not sympathising with any political party. It also confirms the above mentioned hypothesis regarding the failure of political elites.

Horizontal, vertical and participative coordination and harmonisation of policies, a strategic approach to long-term questions, and balanced incorporation of economic, social and environmental pillars do not have broad support in the Czech Republic (Potucek, 2006). Because of this, in spite of the verbal inflation of strategy, action plans, governmental programmes, and strategic governance in public policy documents, the actual impact of strategic thinking and decision-making in the life of the Czech Republic and its politicians and administrators is considerably low.

Political parties have not yet developed their competence for strategic governance. They are of little attraction for citizens and their financing is not transparent. A system of political education is missing. There are also significant reserves in personnel activities of political parties and in co-operation with sympathisers.

Based on all the above mentioned facts we may conclude that in the Czech Republic, similarly to some other CEE countries, the political culture and the form of governing do not allow the seeking and finding of a commonly shared idea of the hoped for future of the country. Political parties focus on politics – short term maximisation of voters’ support and do not deliver long-term sustainable policies. This leads to a hazard with the potential of its faster development and limits the possibilities for its modernisation. Under these conditions, most of the reform ideas in the central state administration are top-down driven when the idea is introduced by the actual government. The system of implementation of ideas and reforms is slowed down by a natural resistance of officials and bureaucrats, who are opposed to most of the changes.

2.2 Political parties and New Public Management

New Public Management, as a public administration reform strategy, is not an explicit part of the programme of any political party. Some implicit support to introducing market mechanisms into the public sector is included in the reform proposals

prepared by Civic Democrats (ODS) – for example introducing co-payments in health care. Social democrats almost fully oppose such changes.

2.3 Civic sector and citizens' role

The region's typical public administration/management reform implementation barrier is the disunion of citizens and politics and very weak NGOs. This means that pressure from citizens in the Czech Republic is still very weak, if there is any at all, and is used only in critical moments in the country. Despite widely-spread negative opinion on the development of the country, there is no active resistance or pressure.

77% of people in the Czech Republic still consider democracy as the best form of government (CVVM, 2003). The trust of citizens in the political parties stagnates at a very low level of about 10% (Eurobarometer, 2004). It results in a decrease of members of political parties over time. Many people find political parties useful but think that their working is insufficient. 79% of inhabitants think that the political parties are not interested in citizens more often than once every 4 years, before elections and the majority of people also believe that there is high corruption amongst the political parties and that they only create barriers between politics and people. Most citizens understand that the current political system enables them to express their opinions on problems and imperfections in society; however, they are not able to influence their solution, not even at a municipal level. 85.4% people think that they cannot influence the decision-making in their municipality (CESES, 2002). This attitude leads to the above mentioned passive resistance of the majority of inhabitants. It is also reflected in the very low participation in the elections (97% participation in 1990 national elections dropped to 64.5% in 2006).

Involvement of citizens in public affairs is generally lower than in "old" democratic countries. It has its roots in education in schools and the relatively low room for non-profit organisations in the creation of legislature and administrative decision-making. The dialogue between citizens, politicians and officers on public issues is developing slowly and is still rather exceptional. There prevails an opinion (CVVM, 2003) that the political parties are only interested in people's opinions at the time of elections and for the remainder of the time they ignore them and concern themselves with the various privileges and interests of their members and their main activity is to criticise other political parties. Citizens doubt their chance to influence the political scene (they think that they have an opportunity to express their opinion but do not think they have a chance to influence solutions, even at the lowest municipal level. Trust in constitutional institution is fluctuant. An important factor of the incorporation of citizens in public life is path dependency.

Low interest and pressure from citizens can be demonstrated by several corruption and other scandals, which appeared over the last years and with the exception of the "voluntary" vacation of Prime Minister Gross from office, most of the actors in other scandals remain.

On the other hand, the interest of citizens in the improvement of public services is increasing over time. The results of a recent Focus Group study (not yet published) indicate that citizens begin to be more actively involved in the co-production of public services, especially in the areas of environment and public safety.

In the Czech Republic there are many active NGOs focusing on problems connected with public administration reform, however effective formal rules for involving them as governments' reform partners are missing. Because of this, the NGOs appear to be petitioners rather than equal partners.

NGOs often express the interests of citizens better than the political parties but they very seldom have an opportunity to participate in the preparation of new legislation. As for the number of NGOs, the Czech non-profit sector is one of the most developed in CEEC (more than 86,000 NGOs in 2004, which is higher than in other Visegrad countries) but their share of GDP and employment is low compared to other EU member states (see Salamon, Anheier, 1999). Moreover, the state does not accept NGOs as equal partners. Instead of creating favourable institutional conditions for the independent operation of NGOs, the state tends to support the activities of its own organisations (according to Goulli et al, 2003 there were 83,450 paid employees and 48,487 volunteers in the non-government non-profit sector in 2000, whereas in the government non-profit sector there were 579,468 paid employees).

The NGOs also suffer from low experience, weak financing (the amount of money for financing NGOs from the state budget increases by approximately 15 % every year, however, it is still very centralised – the money is redistributed in most cases by central ministries; private sponsoring and donations from companies develop slowly and is usually very selective), imperfections of the legal framework, which does not correspond to requirements and development of NGOs, and poor mutual co-operation. Also, the NGOs often have to fight against a lack of interest and misunderstanding of their role from citizens. It may be due to the fact that many private commercial activities shift into NGOs because of better taxation and the possibility of non-transparent transfers of profits for personal use.

On the other hand, in 2004, 75 % of people trust NGOs more than political parties (22 %). At the same time, more than half of the people (58 %) think that there would be no need for NGOs if the government performed well (CVVM, 2004).

The role of "think tanks" is moderate in the Czech Republic. There are several associations that are active in the field of strategic governance in general: The Czech Association for the Club of Rome, the Civic Futurological Association, the Czech Scientific and the Technology Society's branch for strategic management – the Association for Sustainable Development. At a more specific level, there is a whole spectrum of associations dealing with particular strategic issues. This potential has been partially utilised in drafting various strategic documents; nevertheless, it

has been in the position of the weaker partner: the core decisions and rules have always been firmly in the hands of public executives. (Potucek, 2006).

There are two bodies that have been professionally involved in future studies in the Czech Republic: The Technological Centre of the Czech Academy of Sciences, and the Centre for Social and Economic Strategies (CESES). The Technological Centre specialises in the development and application of foresight methodology in research and development issues. CESES focuses on social and economic visions and strategies, with its last two outcomes dealing with strategic moves and alternative strategies (Potucek et al, 2003), and the country's strategic audit (Potucek et al., 2005).

An important platform for the coordination of the interests of state, companies and employees between 1990 and 1995 was the Council of Economic and Social Agreement, the so-called Tripartite. It dealt with questions of pensions, employment, regulation of wages, collective bargaining, Labour Code, etc. The importance of this platform decreased rapidly from 1994 to 1996, mainly due to the attempt of the government to minimise its influence. In time of economic problems (beginning in 1997) and with the start of a minority and later coalition government, the importance of this platform increased again. The strong trade unions in some industries are a historical relic from the socialist era. Currently they are perceived as relatively useful; however, the Czech public's opinion is that they are not necessary. The number of members of trade unions has been continuously decreasing up until 2004 when it stabilised. The unions of employers began to form only after 1990 and their share in tripartite in time has been very variable (data 1990 – 2004, Association of Industry and Transport, 2004).

In spite of important progress, we still have to mention that new forms of mutual interaction between the state, companies and citizens rise on the grounds of a 40-year authoritative system where the state has been a dominant subject of the managing of society, taking over responsibility for virtually all aspects of people's life (law, employment, healthcare and educational system, etc.). The strong state paternalism of that time has not been eliminated and in some areas, not even affected. As an example, we can state the healthcare system where predominant opinion is still that the state is responsible for the health of its citizens, although the health system is to some extent privatised, as well as the pension system, social services or waste management. In short, although the state has given place to the private and civic sector over the last 17 years, a change in its authority, control of efficiency of public administration and reformation of its functional failures still remain a subject of intense political and civic discussion.

2.4 External forces

The implementation of some reforms and the introduction of tools has been forced by external circumstances and supported by external advice. In the early stages, the main donor programme was EU-PHARE, locally coordinated by the Office for Legislation and Public Administration. The outcomes from this programme

were appreciated and in the summer of 1997, on the basis of Agenda 2000, an EU Delegation initiated in Prague roundtable sessions regarding the possibility of the revival of the PHARE Program for Public administration and the Project task was established at the Ministry of Finance, based on the co-operation of employees from several central bodies and the Centre for Foreign Aid.

The pre-accession process provided very many needs for the Czech public administration reform, in spite of the fact that the administrative area was not directly included in the “Acquis Communautaire” contents. A good example is the introduction of programming, programme financing and the development of strategic documents has been a necessary prerequisite for drawing aid from structural funds of the EU. When creating this strategic document at the level of ministries, regions and municipalities, new managerial methods such as SWOT analysis, balanced scorecard, benchmarking, brainstorming and others are commonly used.

The implementation of new managerial methods and improvement in the quality of public administration was and is supported from EU funds. In the current period, the source is the integrated operational programme (IOP) and partially the Operational programme Human resources and employment (OP LZZ) in the EU programming period 2007 – 2013.

2.5 Chance Events

The Czech Republic has been stricken by 2 large destructive floods in the past 10 years. The first wave of floods destroyed a large part of the north-eastern part of the country in 1997 hitting more than 1/3rd of the country and killing 49 people. Other floods hit most of Bohemia in 2002, including Prague. Despite the relatively high material damages, positive aspects of a huge wave of solidarity took place.

There have been several economic and political crises and scandals in the Czech Republic during the last 15 years. None of them have had, in fact, any significant impact on changing or improving procedures in public administration. This is even more surprising, since almost all of them have had significant financial impact on tax payers. Although much discussed in their time, most of the scandals disappeared over time.

One of the first political crises began with the bankruptcy of several small banks, carrying out risky financial operations. As mentioned above, the government began an intervention aimed at the protection of small savers by taking over all bad credits, although the savings were insured up to 70% by insurance companies. With this decision, the government began a moral hazard by taking responsibility for decisions of private investors. Billions of Euros have been paid by the state. This trend culminated in 1999 when the former Prime Minister Zeman and Minister of Finance Mertlik suspected one of the biggest banks – IPB owned by the Nomura Group – to be in an unhealthy state and ordered an armed foray of the bank to take over its management. The ‘spaghetti western’ scene resulted in billions of Euros paid by tax payers for bad credits followed by 2 billions of Euros requested by the Nomura group at an international arbitration court. The process

is still ongoing; however, the contemporary Czech government is trying to reach an agreement out of court. The billions of Euros of cost paid by the state have never been, and very likely never will be, followed by any change in legislature, the system or accusations of diversion of public funds.

Similar state intervention in a dispute with the biggest privately-owned TV broadcasting company in the Czech Republic resulted in another 10 billion CZK (300 million Euro) paid by the state in an arbitrary court. Again, no political or criminal consequences followed.

During the last years of Social Democratic government, there have arisen several corruption scandals. Former Prime Minister Gross resigned because of one such scandal, connected with the privatisation of a state-owned company to Polish investors. The case is being investigated by the Polish police.

There have recently been corruption scandals over the misuse of European Structural Funds, involving the highest politicians and state officials from (at that time) ruling CSSD.

Part of a secret report, prepared by the Department for Organised Crime of the Czech criminal police – the so-called ‘Kubice’s report’ was ‘accidentally’ published. This report describes close connections and activities between high officials of state public administration and politicians (mainly from CSSD) with the Russian mafia.

The above described cases left a strong feeling in Czech society that the highest politicians are non-punishable regardless of what they do. This is reflected in the fearful and fatalistic attitude of the Czech public.

3. The Administrative System

In the Czech Republic, there is the central government and the two-tier system of territorial administration. The central government is represented by ministries and other central administrative bodies. They are formed with departments, which are further sub-divided into sections, or independent sections. Some ministries have so-called ministry offices, which comprise units securing the economic, operating and personal needs of the ministry. Excessive sub-dividing of an organisational structure causes problems in horizontal co-ordination, especially in the case of large ministries².

There are four management levels in smaller ministries (minister – deputy of ministry – head of department – head of section) and five in the larger ministries (minister – deputy of ministry-section/senior managing director – department manager – head of section). The basic problem is the division of decision-making powers among the management of the ministry. Available statistics show that 90% of the decision-making powers were concentrated in around 6% of employees of

² The organizational rules of ministries, governing their structure and responsibilities of their units, differ considerably in their content and extent and they need to be rationalised.

Table 2
Central State Administration – Number of Staff
and Number of Employees per Manager

Central government	Staff numbers	Number of employees per manager
Ministry of Foreign Affairs	753	5.0
Ministry of Defence	958	2.8
Ministry of Finance	1258	6.1
Ministry of Labour and Social Affairs	552	5.5
Ministry of Interior	2020	4.3
Ministry of Environment	474	4.8
Ministry of Regional Development	341	4.1
Ministry of Industry and Trade	674	3.9
Ministry of Transportation and Communication	752	6.3
Ministry of Agriculture	912	5.6
Ministry of Education, Youth and Sport	415	6.0
Ministry of Culture	219	5.3
Ministry of Health	267	4.8
Ministry of Justice	130	3.9
Office of President	147	3.4
Office of the Government	347	5.6
Office for State Information System	130	3.9
Industrial Property Office	266	6.7
Czech Statistical Office	2012	6.6
Czech Office for Surveying, Mapping and Cadastre	67	3.9
Czech Mining Office	211	5.1
Office for Protection of Competition	97	4.6
Constitutional Court of the Czech Republic	80	16.0
Administration of the State Material Reserves	467	8.5
State Office for Nuclear Safety	149	4.5
TOTAL	13 864	5.0

Source: National Training Fund, 1998

the organisation³ in 1998. Before any decision is made in its final form, it must go through several levels of management.

Territorially, the country is divided into lower and higher self-governing units. Municipalities are the lower self-governing units, while the regions are the higher self-governing units. A so-called joint model of public administration is applied in the country which means that municipalities and regions also exercise, in addition to their own competencies, the state administration in delegated competence. Today, there exist 14 administrative regions (*kraje*) established in 2000 and 6,243 municipalities.

Municipal self-governments were established in the early 1990s with boundaries typically following those of the previous local administrative units. In 2000, there was further decentralisation of government with the establishment of 14 regional governments and the termination of a network of 76 administrative districts (NUTS IV – “*okres*”), which had no directly-elected representatives.

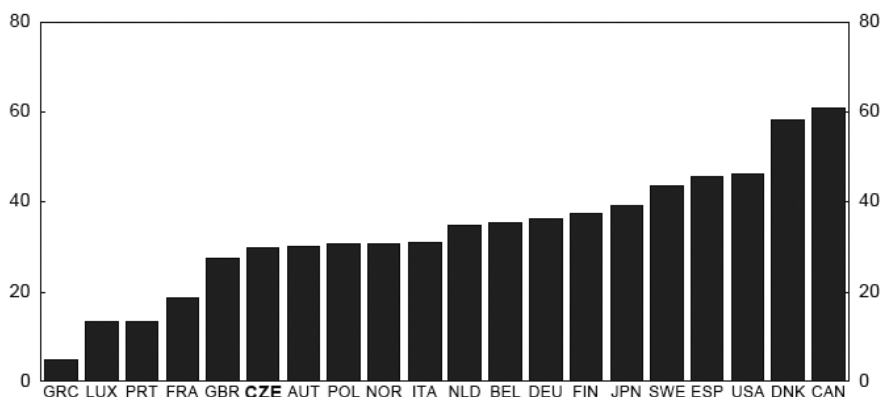
In terms of the share of total public spending, the Czech sub-national government is not exceptional. The regions and municipalities together account for about 30% of general government spending, a similar level to Austria, Poland, Norway and Italy (Figure 2). However, the system is exceptional in terms of the number of sub-national governments. As already indicated, there are 6,243 municipalities (NUTS V – “*obce*”) and their populations vary in size enormously, raising questions as to whether economies-of-scale are fully exploited. The regions (NUTS III – “*kraje*”) range in population from 300,000 to 1.3 million. This level of government is also relatively small-scale in the sense that most of the regions are not large enough to qualify as “NUTS II” regions for EU-regional funding purposes.

Atomisation of municipalities into so many small individual and independent units establishes a problem in that the small budgets do not allow for employing competent personnel and making necessary investments. Many small municipalities also have problems to reach for grants.

There are therefore trends that the municipalities join with voluntary associations to create larger units with more chances to achieve their goals. These associations are strictly voluntary and based on voluntary principles. The reason for the creation of these associations is very often to reach for a grant from the state budget or structural funds rather than join agendas and realise the economy of scale. Also, sometimes, the associations are artificial and there is only one winning municipality in the association.

3 See National Training Fund, 1998, p. 2.

Figure 2
Sub-national governments' shares in general government expenditure
(per cent)



Source: OECD, 2006

4. Contents of the Reform Package

The reform of the Czech public administration began in the early 1990's with the replacement of administrative units at the level of municipalities (part of the state administration) with self-governing municipalities as independent legal bodies. This action was spontaneous, with very little coordination, if any. It resulted in the establishment of about 6,200 independent self-governing municipalities. This has, however, been followed by uncontrolled follow-ups such as wild privatisation of municipality property or its transformation into business companies owned by the municipalities. Whilst at the beginning of 1990, most of the public services were provided by municipalities directly, a comprehensive research in all Czech municipalities shows that in 2005, a substantial part of public services (researched on waste collection, public green, public lighting, public roads, cemetery, water cleaning) was outsourced in more than 55% of total expenditures (Ochrana et al, 2007).

After this start-up phase, some marginal system changes were made; however, they had a lack of non-systematic, non-conception procedures without approved strategy (from case to case). Improvisation was often used. The solution of the problems of the reform of public administration was postponed. Work on strategy of the reform began only 8 years after the fall of communism in the Czech Republic.

In December 1997, the National Training Fund was appointed to manage the reform formulation process – this project lasted 1 year (till the end of 1998). An Advisory Board was established. The two main project tasks were to complete an Analysis of the Czech public administration and create a reform strategy in a

global view. Based on the analysis, a Proposal for the strategic plan of the reform was worked out, which served as a framework for materials submitted to the Government by the Ministry of Interior in January 1999.

The complex reform package of the Czech public administration, introduced in 1999, focused on the reconstruction of public administration, consisting of the reform of municipal and regional public administrations, as well as a reform of central and territorial public administrations, regulatory reform, a legal adjustment of the civil service, a system of education in the public administration, and finalisation of the civil judicial system. Its contents can be divided in two parts – (1) reform of regional public administration and (2) modernisation of the central state administration.

4.1 Reform of regional public administration

The document “Conception of public administration reform” from 1999 began the two stages of the regional public administration reform. During the first stage, in practice, the regional level of public administration should have been created. Three possible models of PA were discussed: dual, mixed and Anglo-Saxon of which the mixed model (regional self-governing units perform both self-governing and state administration) was used. During the realisation process, 2,644 positions and 2,641 organisations were transferred from the central state administration to regions, together with connected property. At the same time, the state delegated the related finance. In 2002, the regions became recipients of tax incomes. 2005 was an important milestone in this regard.

The Act 243/2000 Coll. on Budgetary Allocation of Revenues from Certain Taxes to Territorial Self-Governing Units and Certain State Funds was amended at the end of 2004 and became effective from January, 2005. By the amendment of the Act, the share of regions on the shared taxes increased from 3.1% to 8.92%. Since 2005, the regions newly financed the following expenditures from their own sources:

- Transportation – repair and maintenance of roads of II and III class (investments and basic transportation services in both buses and railways);
- Education, healthcare, social care – investments;
- Culture – operational expenses of cultural facilities, care of historical monuments, regional libraries;
- Other areas – e.g. rural development, foresting, water management, ecology.

However, there are still some categories of expenses financed, to a large extent, from the state budget via transfers. These are mainly expenses in social care (operational expenses of social care facilities) and education (wages of both pedagogical and non-pedagogical employees).

The following table shows a structure of revenues and expenses of regions (NUTS III – kraje):

Table 3
Structure of regions' (NUTS III) revenues and expenses

Indicator	2004		2005		2007	
	Bill CZK	%	Bill CZK	%	Bill CZK	%
Tax revenues	12.6	12.5	39.6	34.9	46.1	36.7
Non-tax revenues	3.2	3.2	2.8	2.5	3.5	2.8
Capital incomes	0.3	0.3	0.4	0.4	0.8	0.7
<i>Own revenues total</i>	<i>16.1</i>	<i>16.0</i>	<i>42.8</i>	<i>37.7</i>	<i>50.4</i>	<i>40.2</i>
Non investment subventions	76.2	75.7	68.6	60.4	70.2	56.0
Investment subventions	8.4	8.3	2.1	1.9	4.8	3.8
<i>Subventions total</i>	<i>84.6</i>	<i>84.0</i>	<i>70.7</i>	<i>62.3</i>	<i>75.0</i>	<i>59.8</i>
Total revenues	100.7	100.0	113.5	100.0	125.4	100.0
Current expenditures	88.4	88.5	100.6	89.3	107.7	86.6
Capital expenditures	11.5	11.5	12.0	10.7	16.6	13.4
Total expenditures	99.9	100.0	112.6	100.0	124.3	100.0
Balance	0.8		0.9		1.1	

Source: Ministry of Finance

Simultaneously with the creation of regions, the government decided to abolish the district level (in practice the second level) of the state administration, although some experts considered them to be the most stable subjects with eleven years' experience. Most of the competencies were transferred to 205 newly established municipalities with extended powers⁴ (12,984 positions), a lesser part to regions (2,076 positions) and to other administrative offices (3,990 positions). 551 organisations out of 659 established by District Offices were transferred to regions, 31 to municipalities, and 77 to central administration. In the case of the regions, it is, in principle, a situation where no direct personal contact in providing public services is required. Together with the competencies, additional property and financial sources have been transferred from the abolished District Offices to the municipalities with extended powers, regional offices or central state administration.

Financial sources for performance of the transferred competencies have been provided at the same level as the state used for the District Offices. In 2003, the competencies transferred to regions and municipalities were financed, not from a higher share on tax incomes, but rather by state subvention. In 2002 and 2003, the municipalities received a grant for the reconstruction of buildings needed for providing transferred competencies. If the municipalities chose the appropriate

4 The government stated the criteria for the establishment of them (the minimum extent of the administrative unit was designated to 15000 inhabitants and the complex geographical criteria was set – especially the accessibility of the proposed administrative centre, the density, the commuting to work and for services, traditional administrative centre).

buildings then the grant could cover up to 100% of costs. In cases when the municipalities did not manage to finish their own premises, they could use the offices of the abolished district offices (a form of free-of-charge use). This option is used by municipalities where the former district offices were seated. Most of the municipalities have succeeded in performing the state transferred agenda since the beginning of 2003. If any problems or difficulties arose, they were mainly of a technical character, e.g. failure of data transfer or a weak local telecommunications network.

Following this, in the Czech Republic, more kinds of municipalities have been established since 1st January 2003 – they differ by the extent of state administration they exercise and are divided into the following three categories:

- municipalities with ordinary municipality bodies (a municipality body is one of the bodies of a municipality that should exercise the state administration deconcentrated from the central level of state administration);
- municipalities with “commissioned” municipal bodies (they also serve citizens as a registry office, construction administration offices etc.);
- municipalities with an enlarged sphere of activity (this category of municipalities has been founded in relation to the abolishment of the above mentioned district authorities and the transfer of their competencies to the municipal level – e.g. primary education etc.).

As of 1st January 2003, Act No. 312/2002 Coll. on Officials of Territorial Self Governing Units, which regulates the employment of officials of territorial self-governing units and their education, also came into force. Within the legal order of the Czech Republic the Act there is a completely new legal regulation on the status of employees of territorial self-governing units. The Act on Officials is in relation to a specialty of the Labour Code, which means that labour-law relations of the territorial self-government officials are governed by the Labour Code, except where otherwise provided for in the Act on Officials. The Act on Officials also determines the necessity to educate officials. It introduced an obligation to pass a test on special professional competences, which is a prerequisite for the performance of the prescribed administrative activities.

4.2 Modernisation of central state administration

The important change for the modernisation of the central public administration was made in 2001 when the government accepted resolution no. 619 which dealt with the conception of central state administration modernisation with special emphasis on the systematisation and organisational structures of administrative authorities. The resolution included the following priorities:

- consolidation of the central state administration system,
- strengthening of conceptual, coordinating and control functions of ministries,

- improving the management of ministries and other central administrative authorities.

The PHARE projects (twinning etc.) were utilised to fulfil the mentioned tasks, supporting the improvement of communications between the public administration and citizens, the creation of the public administration educational system, and the preparation of some conceptual documents. The ultimate goal was also to contribute to the creation of conditions for implementing and enforcing the “Acquis Communautaire”.

The Civil Service Act has been adopted after long hold-outs, regulating employment and carrier conditions for civil servants.

Resolution of Government from March 3rd, 2004, approved a procedure and main directions of reform and modernisation of central state administration (CSA). The following main directions have been chosen:

- i) rationalisation of processes in CSA,
- ii) improvement of management in CSA,
- iii) improvement of quality of CSA,
- iv) implementation and improvement of state service in CSA, and
- v) rationalisation of financing CSA.

A project form of realisation has been chosen – each of the goals was expected to be reached via the realisation of different projects, realised by both public administration offices and other subjects (e.g. expert studies, etc.). However, implementation was very slow and partial, also because most officials of CSA preferred passive resistance and expected that the reform activities would disappear before their real implementation.

4.3 Real achievements and remaining problems

The main remaining problem is the fact that the central state administration (ministries, central institutions, etc.) have not passed the necessary reforms. This is confirmed by interviews with the top management of several ministries and central state administrations carried out by the authors of this study in autumn, 2006 (not yet published).

The aim of the reform is reduced to reorganisation itself. One of the answers to the question ‘What is the goal of the reorganisation?’ was: ‘The goal of the reorganisation is to make reorganisation’. The existing situation also negatively influences the functioning of self-governing units because the administrative system does not produce the required activities.

The current structure of the central public administration is still characterised by a high level of centralisation. Analysis of the Competence Law and analysis of the contents concerning the real activity of individual ministries enable us to conclude that the activities of central bodies have, above all, an operational and

not a conceptual character. There is also a low level of horizontal coordination between individual sections of the existing ministries.

The unsubstantiated structure of individual ministries causes difficulties in communications between individual ministries. Possibilities of standardisation of operations and management and performance of public administration of individual ministries are not used.

Information systems exist in individual ministries, but they are not sufficiently interconnected to be able to take immediate advantage of information. Informatics in public administration is mainly focused on data mining. Consequently, systems of informatics are not (with some exceptions) used as tools supporting the decisions of management which allocate public sources, and decide on conceptual and programming activities etc. The system of informatics at the level of central administration has such an architecture that (in better cases) enables decisions on the feedback structure. It lowers the quality of management's decisions, as relevant corrections (in better cases) are not made in time, but with delay. The function of information systems is understood in a limited form. It exists in the form of a so-called obligatory information system (duty to keep and provide information). Such a system, however, does not produce sufficient information sources for public control and management.

Reform drafting and implementation was also negatively influenced by the following important factors:

- Mechanical transfers of experience from public administration in other countries into the culture of the Czech Republic, regardless of national specifics.
- Prevailing opinion at the central level that the reform of public administration is a matter which belongs in the competence of the Ministry of Interior (!). This is known as 'narrow departmentalism', which means that individual central bodies approach the reforms as something that does not belong to their activities. For them, the reform means 'more work'. This argument covers an aversion to perform reforms arising from:
 - a fear of losing jobs due to reorganisation of central bodies,
 - fear of shifting parts of competences to regional levels.

The outcomes are informal activities of individual central bodies, targeted to the postponement of real reforms (because of an alleged unpreparedness, fear of reduction of staff, fear connected with more market mechanisms in PA, etc.).

- Bureaucratic – legal approach to the reform practised by some top officials and politicians. This approach is based on the opinion that a reform of public administration can be carried out only by changing the law and regulations.
- There was and is no consensus at the highest political level concerning the contents and the time span of the reforms. The opposition "as a rule" disagrees

with the individual steps of the contents carried out by public administration. This causes the delay of reforms in public administration.

- The reform fails because, among other reasons, it pays little attention to professional development, payment and training of personnel. It is necessary to work out educational programs for employees of public administration at all levels and a long-term system of permanent education of public administration.
- Central government authorities are not equipped sufficiently for a high-quality preparation of conception; drafting bills and statutory instruments. Often, the low quality of drafts prepared by ministries suggests that it is necessary to enhance substantially the legislative activities of ministries, which requires the strengthening of their legal departments. The responsibility for the legislation could concentrate on one of the deputy ministers, who would also be responsible for contact with the Parliament.
- As already indicated, the Czech public administration does not possess specific organisational structures that would have the necessary capacity to deal with strategic issues in an effective way. In addition, Czech civil servants are not trained and experienced in dealing with strategic issues in their professional life.
- We may also conclude that the quality of governance in the Czech Republic is weak in many ways. Compared to western countries, the Czech Republic shows lower quality in the following areas (Potucek, 2004): analytical base for decision-making, communication in the public sector, strategic thinking and governance, democratic defending of interests, transparency of political parties, responsibility of government, mutual fading of politics, market and media, approach to social exclusion, education in public administration, global context of policy making, coordination between individual resorts, evaluation of policies and the evident unwillingness to accept an ethics code for politicians. Compared to other accession countries, the Czech Republic was slightly above average in opinion on the responsibility of government, legitimacy, political stability, and quality of regulatory framework and control of corruption (World Bank, 2002).
- The introduction of programme financing is going slowly, the system of public finance still works on a basis of incremental budgeting without any quality evaluation of efficiency and legitimacy of expenses, programmes, budgets and resorts (resorts and departments receive money simply because they exist, without any requirement to show the need for their existence corresponding to the needs of society. Public finance uses a supply system of allocation rather than a demand system, which reflects the needs of society instead of the needs of ministries and civil servants). Transparency of public finance is also at a very low level. Large sums of public expenditures are allocated outside targeted programming, the 3E (efficiency, effectiveness, and efficacy) evaluation is either not performed or only performed at a formal level by checking the accounting.

Although a new Public Procurement Act made room for better transparency of public procurement, there are still significant failures in this system (e.g. highway construction, purchase of weapons for the Czech army, etc.).

In spite of the above mentioned barriers and problems, we have to admit that, many positive outcomes have been achieved in the improvement of the quality of public administration. For example, the National Centre for Support of Quality was established, which, together with the Ministry of Interior, provides information support and recommendations to public administration institutions in the implementation of new management methods in the creation of community plans, development conceptions, etc..

Many quality management methods are widely used by the state administration and self-governments, such as CAF, benchmarking, ISO standards, balanced scorecard, SWOT analysis and other new managerial methods. Benchmarking is, for example, used by regional self-governing units for assessing the cost of transport or the cost of the education of civil servants. Mainly, regions and large municipalities started to use new managerial methods, especially in the human resources agenda (personal records, personal audits, employee self-assessment, CAF). (Krbova et al, 2007). With this, some public management approaches were implemented, but not as a result of implementing NPM ideology, only as part of incremental reforms (Coombes and Verheien, 1997).

Although several major reforms still need to be carried out (health care, pension system, public finance), many necessary reforms in public administration have been realised in the past 18 years. Moreover, after relatively wild and spontaneous changes at the beginning of the 1990's, the public administration reform became more conceptual and better organised mainly in connection with the accession of the Czech Republic to the EU. We can state that the situation in public administration is generally improving over time.

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Country public management reform landscape: Czech Republic

Dates	General	Organisation	Personnel	Finance
<p>February 1948 – November 1989</p>	<ul style="list-style-type: none"> Czechoslovakia and its public administration had been developing in the spirit of communism and socialism. 	<ul style="list-style-type: none"> In 1968, the unitary state was replaced by the federation of Czechoslovak Socialist Republic with the central public administration on the federal and republic level. The lower level of the state administration was institutionally ensured by the regional, district and local "national committees"; This system of public administration was characterised by centralisation and was governed by the influence of the communist party. The separation of the civil service and the political structures did not exist. Self-government authorities did not exist in practice either. 	<ul style="list-style-type: none"> The education of civil servants had been managed ad hoc by many central and local public administration institutions without any coordination. No central authority for the coordination of education of public administration employees had been established. Generally speaking, in the Czech Republic, there had been no coordinated systematic "human resources" management within public administration. 	
<p>After 1990</p>	<ul style="list-style-type: none"> The change of regime came about. Transformation of society had to be accompanied by a reform of public administration or even better, a reform of the state administration (because of the above mentioned facts). Inspiration in experienced countries. Enhance the prestige of public administration in the eyes of public, elimination of corruption, creation of public administration that should serve citizens, the establishment of an effective administrative control mechanism. Renaissance and enhancement of self-government, as well as decentralisation and deconcentration of accountabilities, financial flows etc. from the central level became major goals. Insufficient systematic attention had been paid to the reform of central authorities for a long time, since the 1990s. This fact had been criticised many times by the European Commission, OECD, and the Council of Europe etc. Reforms of the territorial and central public administration were understood to be separated. Some theorists claim that they should be considered to be interlinked: "the continuation only in the territorial public administration reform was a fundamental system mistake... as if the central administration had not required a cardinal reform and as if the public administration reform had not been the complex issue." 	<ul style="list-style-type: none"> The realisation of the principle of subsidiarity in the meaning of the European Charter of Local Self-Government: 'Public responsibilities shall generally be exercised, by preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and the economy.' 		

Dates	General	Organisation	Personnel	Finance
<p>1990 – 1992</p>	<ul style="list-style-type: none"> During 1990, the system of the "national committees" was abolished. Their activity was supposed to be exercised by other subjects that should have been established on the fundamentals of modern constitutional democratic principles that were provided by individual constitutional and other acts (new Czechoslovak constitution in the form of a single constitutional document was not passed). New legislation did not solve the question on the second level of self-government (former 8 regions). 	<ul style="list-style-type: none"> Since the elections of November 1990, self-government had institutionally existed only at the lowest (municipal) level. The second level of the self-government and its form had been a matter of discussion for a long time. At the time of the Czechoslovak federation, four alternatives were proposed – territorial, regional, combined and federal. The government at that time accepted the territorial alternative and proposed steps for its realisation. However, they had not been discussed by Parliament because of the solving of the upcoming separation of the federation in 1992. State administration was exercised at the municipal level as well (the so-called connected model of public administration) and also at the level of district authorities. Besides these state administration authorities, other offices and state authorities (the so-called "de-concentrates") had existed in place of the abolished regional level as well as in districts. These institutions were established by subjects of the state administration (ministries, other central authorities etc.) in order to fulfil their tasks at the lower levels. In some cases these "de-concentrated" authorities rounded their own offices. Their creation had often no strategy and caused a chaotic situation in the system of public administration (or say, the state administration) of Czechoslovakia and increased the number of public administration employees. 		

Dates	General	Organisation	Personnel	Finance
<p>1992 – 1996</p>	<ul style="list-style-type: none"> The political programme of the new government from June 1992 announced attempts to realise decentralisation, “deconcentration” and the principle of subsidiarity. There was only political agreement on the importance and the need to reform the regional self-government. The disputed questions on the number of higher self-government units should also have been solved. 	<ul style="list-style-type: none"> However, the practice had not changed much, in spite of the fact that in its article 99, the new constitution of the Czech Republic from 1993 (Act No. 1/1993) pre-supposed the administrative system consisted of municipalities as basic local self-governmental units and also of “regions or lands” as higher self-governmental units. This provision did not solve the aforementioned discussion on the form of the second self-governmental level. It has simply constitutionally established the second self-governmental level. Its form depended on politicians and their consensus. 		
<p>1998 (till present)</p>	<ul style="list-style-type: none"> The submission of new legislation (mentioned for the reasons above) that would fulfil the constitutional provisions and would enable the realisation of the constitutionally pre-supposed public administration reform was the main initial task of this government. The document “Conception of public administration reform” from 1999 became a political way-out of the solution – two stages of the regional public administration reform: <ul style="list-style-type: none"> during the first stage, the regional level of public administration should have been created in practice; during the second stage, the activity of the second level of the state administration – the districts – should have been completed by 31. 12. 2002 (although the intentions of the government of 1994 were different). Their tasks should have been transferred both to the regions and municipalities, while securing the criteria of the accessibility to public administration and the effectiveness of the public administration activities etc. 	<ul style="list-style-type: none"> The government decided to abolish the district level (in practice, the second level) of the state administration, although some experts considered them to be the most stable subjects with eleven years’ experience. The 76 district authorities should have been replaced by 180–200 of the so-called “municipalities with enlarged spheres of activity”. The government also stated the criteria that led to such a decision: <ul style="list-style-type: none"> the statements of the municipal self-governmental assemblies, the minimum extent of the administrative unit was designated to 15000 inhabitants, the complex geographical criteria – especially the accessibility of the proposed administrative centre, the density, the commuting to work and services, traditional administrative centre etc. 	<ul style="list-style-type: none"> The Czech Republic had been, at least since 1997, annually criticised for the absence of legislation on civil servants’ status and for the non-existence of a civil service educational system. 	

Dates	General	Organisation	Personnel	Finance
<p>2000</p>	<ul style="list-style-type: none"> In the Council of Europe's report on the local democracy in the Czech Republic, the following was mentioned as problems of local democracy: "Insufficient local autonomy, the existence of districts and the lack of a real intermediate level of local self-government." and "The simultaneous existence of districts, outlying components of central administration and a large number of municipalities (6 244), most of them small, highlights undoubted centralisation in the Czech administrative system. The insufficiency of municipal autonomy is not offset by the existence of any local or regional authority that might have developed an intermediate role. All there is is the district assembly, but that body is of only minor importance and in addition, it has limited budget powers. The existence of district-like cities with their own statutes must be seen as a centralising device rather than a decentralisation measure, since the district-cities have the status of de-concentrated state organs." Act No. 227/2000 Coll. on electronic signature came into force in October 2000. It began an electrification of selected agendas (tax reports, state social benefits, customs, and selected agendas of the Ministry of Interior, (e.g. administrative procedures, penal proceedings), land register and healthcare agendas (ZPZP). Problems with mass use of electronic signatures are caused by the relatively high price compared to the frequency of use, and accessibility (monopoly of certificate agency). Act No. 106/1999 Coll. on free access to information (in force from January 2000) is a base for e-government in the Czech Republic. It led to a significant change (for the better) in providing information about the functioning of PA and consequently to the better treatment of public services' clients. 	<ul style="list-style-type: none"> In order to realise the above mentioned concept, a huge amount of legislation on the organisation of public administration and its competence, property, financial sources etc. was passed in 2000. The following acts are the most important: <ul style="list-style-type: none"> Act No. 128/2000 Coll. on Municipalities, Act No. 129/2000 Coll. on Regions – this act has established the practice of regions in the Czech republic; it has been enacted so that it should come into force – with exceptions related to the exercise of state administration (that have come into force on 1.1.2001) – on the date of the elections to regional assemblies – 12.11.2000),, Act No. 131/2000 Coll. on the Capital City of Prague (our capital is simultaneously a municipality and a region),, Act No. 147/2000 Coll. on District Offices and Act No. 130/2000 Coll. on Elections to the Regional Councils and on Amendments of Some Other Law. Act No. 218/2000 Coll. on Budgetary Rules. 		<ul style="list-style-type: none"> A new Act on Budgetary Allocation of Tax Revenues (No. 243/2000 Coll.) was approved in 2000, but until now, individual cases of transfers of municipalities between the territorial self-governing units are being solved, which calls for an amendment to the Act (e.g. No. 1/2005 Coll.). Act No. 250/2000 Coll. on Budgetary Rules of Regional Budgets was adopted (and changed in 2004 by Act No. 557/2004 Coll.)

Dates	General	Organisation	Personnel	Finance
<p>2001</p>	<ul style="list-style-type: none"> • An important change for the modernisation of the central public administration was made in 2001 when the government accepted resolution no. 619 that dealt with the conception of central state administration modernisation with special emphasis on the systematisation and organisational structures of administrative authorities. PRIORITIES: <ul style="list-style-type: none"> - consolidation of the central state administration system, - strengthening of conceptual, coordinating and control functions of ministries, - improving the management of ministries and other central administrative authorities. • PHARE projects (with twinning etc.) are utilised to fulfil the above mentioned tasks. These projects try to support: <ul style="list-style-type: none"> - the improvement of communications between the public administration and citizens, - the creation of the public administration educational system and - the preparation of some conceptual documents. • The main goal of these projects is to contribute to the creation of conditions for implementing and enforcing the <i>acquis communautaire</i>. 		<ul style="list-style-type: none"> • In 2001, the Czech Republic was still being criticised by the European Commission for the mentioned deficiencies. The rights and duties of civil servants had been enacted in the general labour law, especially in the Labour law code. 	

Dates	General	Organisation	Personnel	Finance
<p>2002, 2003</p>	<ul style="list-style-type: none"> Many of the bill's proposals have been passed by Parliament and came into force at the beginning of 2003, or earlier, during 2002. This new legislation should solve the problems of: <ul style="list-style-type: none"> - the regional public administration system, - the transfer of competences from the district authorities, - the transfer of the property of district authorities, - the transfer of employees of the district authorities, - the logistic activities related to the abolition of the district authorities etc. These acts have also created a legal framework for the activity of 206 "municipalities with the enlarged sphere of activity" (especially Act No. 314/2002 Coll. and only in relation to the amount of state administration exercised by certain municipalities) that should bring the public administration in the Czech Republic closer to its citizens. New government of June 2002 has set, amongst its priorities, the beginning of the central state administration's modernisation that would make public administration activities more efficient and effective and improve the horizontal coordination of public administration activities with a larger utilisation of modern technologies (e-public administration) and modern managerial methods (inspiration in the NPM). An official central internet portal of the public administration (portal.gov.cz) was put into operation in September 2003 as an attempt to consolidate uncontrolled development of e-government portals which substituted non-existent official portals in the 90's. The portal contains interconnected databases of Acts, contacts on public administration offices, catalogues, etc. The interest of citizens and businesses in these services is increasing every year. Election of president. Vaclav Havel who was replaced by Vaclav Klaus. 	<ul style="list-style-type: none"> In reality, in the Czech Republic, more kinds of municipalities have been established since 1.1.2003 - they differ by the extent of state administration they exercise and are divided into the following three categories: <ul style="list-style-type: none"> a) municipalities with ordinary municipality bodies (a municipality body is one of the bodies of a municipality that should exercise the state administration concentrated from the central level of state administration); b) municipalities with "commissioned" municipal bodies (they also serve citizens as a registry office, construction administration offices etc.); c) municipalities with an enlarged sphere of activity (this category of municipalities has been founded in relation to the abolition of the mentioned district authorities and the transfer of their competences to the municipal level - e.g. primary education etc.). [categories b) and c) are specified in Act No. 314/2002 Coll., which came into force on 1. 1.2003] (today we have 6274 municipalities). The Act on municipalities also distinguishes three categories of municipalities: "statutory" towns, municipalities, towns and "statutory" towns. The mentioned steps of public administration reform have also determined the tasks for the government of June 2002. According to its political programme, the new Czech government has bound itself to complete the public administration reform. It also understands public administration as being a service for citizens. Act No. 290/2002 Coll. on some Assets, Rights and Obligations Transfer from the Czech Republic to the Ownership of the Regions was adopted. 	<ul style="list-style-type: none"> The passing of complex legislation has a long history and was more or less accomplished in 2002 by the Act No. 218/2002 Coll. on a civil service of state authorities' employees and about rewarding these employees and other employees of administrative authorities and Act No. 312/2002 Coll. on officials of self-government and amendments of other acts. <ul style="list-style-type: none"> These acts emphasise the political independence of the officials of the state administration and self-government and the professionalism of these civil servants and try to define their legal status. The Act No. 218/2002 Coll. also established the Institute of State administration. This institution becomes a central authority for the education of state administration employees as well as of employees of other administrative authorities. The new government of 2002 has bound itself to implement this new legislation. In the autumn of 2002 (when it published the annual regular report on the Czech Republic) the European Commission recommended the Czech Republic to implement the mentioned civil service legislation as soon as possible in order to facilitate the entry of our country in the European Union. This report of 2002 also recommended increasing efforts in fighting corruption. Act No. 218/2002 Coll. on Civil Service, (Civil Service Act) was adopted, but its full enactment was postponed to 2004. Act No. 312/2002 Coll. on Territorial Self-government Officials was adopted. 	<ul style="list-style-type: none"> An electronic marketplace of public orders has been operational since 1st September, 2002. Turnover increases by 200 - 400 % every year. The Czech Republic is the first European country where central state administration is obliged to use a transparent electronic marketplace for orders under limits stated by law.

Dates	General	Organisation	Personnel	Finance
<p>2004</p>	<ul style="list-style-type: none"> On May 1, the Czech Republic became a member of the European Union, together with 9 other countries. The process of reforming the public administration continued in 2 ways: A) Modernisation of territorial self-governing administration units, and B) Reform of central state administration. After the weak results of the Social Democrats (CSSD) in the elections for the European Parliament, Prime Minister Vladimír Špidla resigned and was replaced by Stanislav Gross who became both Prime Minister and Chairman of CSSD. The final state accounts ended up with a deficit of 93.5 billion CZK – 21.5 billion less than budgeted. The main reason for the lower deficit is a higher income tax. November regional and senate elections ended up with a victory for the Civic Democrats (ODS) with 36.35% followed by the Communists (KSCM) with 19.68%. Ruling Social Democrats reached only 14.03%. A total 29.62% of the electorate voted. In the Senate elections, ODS acquired 17 seats from the 26 available. On the contrary, the ruling CSSD had no new senators. The Czech government decided that political prisoners from the communist years 1948 – 1968 would receive an additional 50 CZK (approx. 2 EUR) pension for every month of imprisonment. President Klaus criticised the verdict of the Highest Administrative Court, which cancelled the results of the senate elections in part of Prague due to an irregularity in the campaign. Klaus called it "the first interference in political freedom in our country". A think-tank for lean and effective public administration eStat.cz was founded. Since 2004, the Czech army is fully professional. 	<ul style="list-style-type: none"> After a reform of territorial public administration there still remains the unified and transparent administrative organisation of public administration to be solved. There remain differences in the territorial scope of powers of the offices executing the state administration on individual levels of public administration (regions – districts – municipalities). In some areas, (sectoral and territorial) the problems of competencies, powers and territorial sphere of authority between state administration and territorial self-governing units are not yet solved. This has resulted in a decline in quality of the public services provided for citizens. Resolution of Government from March 3, 2004 approved a procedure and main directions of reform and modernisation of central state administration (CSA). The following directions have been chosen: <ul style="list-style-type: none"> rationalisation of processes in CSA, improvement of management in CSA, improvement of quality of CSA, implementation and improvement of state service in CSA, and rationalisation of financing CSA. A project form of realisation has been chosen – each of the goals should be reached via the realisation of different projects. The projects can be realised by both public administration offices and other subjects (e.g. expert studies, etc.). The resolution is being fulfilled very slowly. Most officers of CSA prefer passive resistance and expect that the reform activities will disappear before they are concerned. 	<ul style="list-style-type: none"> An Act No. 312/2002 Coll. obliged the territorial self-governing units to provide an entry and continuous training for their employees. The realisation of such training has been problematic since the very beginning. From the point of view of the territorial units there is an insufficient supply of certified capacities offering quality and specialised courses reflecting the latest changes in legislature and meeting the needs of public administration. Initially, monopolised training (under the Institute for Local Administration established by the Ministry of Interior) became a competitive market where the training institutions needed the accreditation of the Ministry of Interior. So far, the self-governing units evaluate the training as expensive with very little benefits. 	<ul style="list-style-type: none"> Transfer of agenda from the district offices (former lowest units of state administration) to municipalities negatively influenced the municipal budgets with higher costs. Only part of these costs has been covered by the state budget, the remainder had to be covered by the municipalities from their own resources. Public expenditure programmes financed from the European funds (SC, CF) began to be implemented. The programming phase itself has been very demanding due to the lack of practical experience, strong resortism, lack of information (even from the EU), problematic coordination, unclear competencies and responsibilities, etc. Some delays have been caused not only on the Czech implementation side but also on the European Commission side. Some difficulties with drawing on EU money have appeared. One of the obstacles in the implementation of the EU funds is Act No. 40/2004 Coll. on Public Procurement, which is in conflict with the European law in some articles. There is also insufficient legislature, for example, in the field of public/private partnership. Due to the lack of experience and complexity, some questions are solved "ad hoc" which leads to continuous changes in the rules during the realisation of projects.

Dates	General	Organisation	Personnel	Finance
<p>2005</p>	<ul style="list-style-type: none"> Internet portal ePUSA was officially declared a primary source of contacts and information on territorial public administration. This portal should serve as part of the official central Portal of public administration (portal.gov.cz), but there are still difficulties with data sharing between these two portals. Corruption scandal concerning Prime Minister Gross (Social Democrats) began a series of corruption scandals in the highest policy, mainly within the ruling Social democratic party (CSSD), which remains today. The affairs are connected mainly with fraud and the misuse of public money and privatisation of the Czech state enterprises. Attempts to express distrust in the government were not successful; however, Prime Minister Gross resigned in April after 3 months following a governmental crisis caused by a scandal regarding his finances. In September he left high policy. In July, the Czech police intervened against participants of the techno party. The legality of the party and the brutal actions of the police have been widely discussed. 	<ul style="list-style-type: none"> A proposal of a new law aimed at a definitive solution of the remaining problems in the territorial administrative division of the country, mainly in the fields of the police, justice and residence of foreigners, has been blocked and postponed, mainly due to the inability of the Ministry of Justice to reorganise its resorts in time and without significant extra costs. 	<ul style="list-style-type: none"> By the Act No. 626/2004 Coll., the full enactment of the Civil Service Act on 1st January, 2007 was postponed. The quality of the execution of territorial public administration has been significantly influenced by proceeding on the equality of education (ordinance 511/2002) because many officials are still not sure if they would have to pass relatively demanding exams on Special proficiency or if a university degree (or equivalent) would be satisfactory to keep their positions. Personnel audits are ongoing in the territorial public administration offices with the aim to rationalise the number of officials. There are some cases where the audit is carried out as a "political order" and results in firing incommodious people. After some time, the audit results appear to be wrong and a number of officials return to the previous level. 	<ul style="list-style-type: none"> The adoption of amendment (the Act No. 444/2005 Coll.) of the Act No. 531/1990 Coll., on Territorial Financial Coll., on Territorial Financial Organs was a significant step towards the gradual unification of administrative perimeters of organs in the territorial public administration with administrative perimeters of municipalities with extended powers. Current financial offices in the municipalities with authorised municipal offices are conserved until their transformation on affiliates of financial offices in the municipalities with extended powers by 1st January, 2007. Community Support Framework evaluation projects stated some achievements, but also a number of problems, inter alia in monitoring, evaluation and financial management of programmes and projects. It becomes evident that some measures of operational programmes do not reflect the needs of the target groups and/or interfere with other state expenditure programmes, which take part in the EU projects in the state programmes (the state programmes have easier rules and administration) and therefore the programmed financial sources might not be used.

Dates	General	Organisation	Personnel	Finance
<p>2006</p> <ul style="list-style-type: none"> The regulatory reforms were launched. The main goals set within the Regulatory Reform were focused on the implementation of the systematic impact assessment into the regulation-making process, administrative simplification, including reducing the administrative burden and also the preparation of the Better Regulation Strategy. A possibility to use the CAF method (transferred from EIPA) has been tested in selected offices of the territorial self-government since 2003. The project has been realised by the "Czech Association for Quality" and the experiences have been discussed at international conferences "Q1", in 2004 and "Q2" in 2005. The Czech Republic has co-operated with Austria, Hungary and Slovakia on the realisation of this project since 2005. Although there are higher and more sophisticated methods (e.g. EFQM), the public administration focused on CAF and benchmarking in 2004-6 and on bench learning in 2005-6. A new Administrative code (Act No. 500/2004 Coll.) came into force on January 1, 2006. Since the parliamentary elections in June 2006 there has been a stalemate situation in the highest policy whereby the parties cannot agree on a new government. This problem still exists at the beginning of November. New preliminary elections are discussed more often. New municipal and senate elections took place in October 2006. As a result, the Senate and most town halls are dominated by Civic Democrats (ODS). An international bench learning project has been completed with a decision to spread the results and methods to other EU countries. Use of the internet in the public administration slowed down significantly due to the lack of financial sources, mainly at the regional level. June parliamentary elections ended up with a victory for the Civic Democrats (ODS); however, a unique situation occurred when the right-wing parties (ODS, Christian Democrats, and Green Party) and left-wing parties (CSSD and Communists) reached 100 mandates in Parliament. It resulted in a difficult political situation in setting up a ruling coalition. The right-wing coalition project failed. For the first time in the new Czech history, the government did not gain confidence. A highway D5 connecting Prague with Germany was completed. Governmental "Corruption Fighting Strategy" for period 2006 – 2011 adopted. 	<ul style="list-style-type: none"> The Ministry of Interior, in co-operation with experts from the SIGMA programme launched a pilot project of the implementation of Citizens Charters with the participation of a number of agencies working in different sectors, in order to initiate their performance improvement and to manage the expectations of their clients. The process of the introduction of Citizens' Charters methodology into organisations of public administration began in March 2006. Nine units or departments of different organisations (social, e-government, audit, environment, public library etc.) participated in the project. Strong resortism and emulation between the Ministries again becomes (as well as in the 2004-6 programming period) an obstacle in the creation of programmes for the implementation of EU funds in 2007 – 13. Act No. 234/2006 Coll. on Changes and Abolition of Acts related to the Act on Regions, the Act on Municipalities, the Act on District Offices and the Act on the Capital City of Prague came into force on July 1, 2006. In relation to municipalities, the duplicity of supervision authorities has been removed, as well as the inequality between the levels of territorial self-governing units within the framework of execution of their own, independent competencies. 	<ul style="list-style-type: none"> A new Act on Conflicts of Interests, on Control of Property Acquired in the Course of Holding an Office, on Incompatibility of Certain Office-Holding and on Amendments to Some Other Acts (the Act on Conflict of Interests)", which would replace the existing Act No. 238/1992 Coll. was approved by the Senate in January 2006. Transparency International took an active part in the preparation of this Act. Restrictive financial measures in the state budget for 2007 causes another postponement of the legal force of the Civil Service Act to 1st January, 2009. A stalemate situation in the highest policy (since 6/2006) is reflected inter alia in slowing down or stopping all reform and modernisation activities in public administration and deterioration of interpersonal relations, especially in the central state administration, due to the political uncertainty of keeping certain positions. 	<ul style="list-style-type: none"> The new Act on public procurement (137/2006 Coll.) meeting the European legislature came into force in June 2006 and abolished the problematic Act No. 40/2004 Coll. First scandals of corruption connected to the implementation of European funds begin to appear. Even the highest state officials and politicians are involved. There appeared to be some signs of links to the mafia. Approval of a new directive obliging the evaluation of the impacts of all new Act proposals was prepared by the Ministries and other central state administration from 2007 (RIA method). This question is being solved in other member states, too. Future enlargement of this method to other lower legislative and non-legislative materials is assumed. It mainly concerns the measurement of the administrative burden for the addressees of regulation and public administration. The goal is to decrease the administrative burden for businesses. A joint evaluation of interaction of individual Acts of different Ministries on addressees is still missing (e.g. interaction of the tax system and a system of social allowances on employment, businesses, etc.) 	

Dates	General	Organisation	Personnel	Finance
<p>2007 – 2008</p>	<ul style="list-style-type: none"> • RIA – Regulatory Impact Assessment introduced into the law adoption process. • 2008 senate elections in 13 regions ended with a victory for the social democrats (contrary to the civic democrats' victory in 2006) mainly due to the introduction of unpopular fees in hospitals. 	<ul style="list-style-type: none"> • Ministry of Informatics abolished in mid 2007. • Adopted a strategic document 'Effective Public Administration – realization of Smart Administration – a strategy of modernization of public administration carried out by individual projects financed from the EU structural funds. • Several projects on decreasing of administrative costs, e.g. pilot testing of methodology on public commenting new legislation, initiative 'Dedicate 10 minutes for improvement of legislative environment in the CR', etc. • Law on e-government adopted (valid from 2009). 		<ul style="list-style-type: none"> • A new system of income tax – flat rate of 15 %. • Introduction of fees in hospitals and health care facilities. • Preparation works on the so-called 'State Treasury' – a future information and economic system covering all financial flows in state administration. • Accounting of state – change in bookkeeping law (valid from 2010) changing the accounting of the public bodies and bringing it much closer to the accounting of business companies.

Chapter 3

Public Management Reforms: Estonia¹

Kristiina Tõnnisson and Tiina Randma-Liiv

1. Socio-economic forces: general

The Republic of Estonia has 1.341 million inhabitants (January 2008), dispersed over 45,227 square kilometres. Since regaining its independence in 1991, Estonia has, in comparison with the other CEE countries, pursued a unique and radical reform strategy for establishing a functioning democratic state (Aslund 2002). The reforms have had a strong market-oriented focus. The absolute size of GDP per capita is relatively modest: 17 600 EUR in 2007. Estonia has enjoyed constant economic growth until 2007 when it reached 7.1 % per cent. In 1996, the Estonian GDP per capita amounted to approximately 34.8 % of the average in the EU25 countries and, when joining the EU in 2004, Estonian per capita GDP reached 51.2 % of the EU25 average of 6 266.6 EUR in the current exchange rate (Staehr 2004: 55; Eurostat 2006; Estonian Statistical Office 2006). In 2007, Estonian per capita GDP in Purchasing Power Standards constituted around 70.8 % of the EU27 average (Eurostat 2008).

1.1 Global economic forces

One of the first steps after regaining independence was the opening up of Estonia's economy to international economic influences with the aim of attracting foreign direct investments for restructuring the economy and diminishing interdependence from Russia. The most important reforms included the introduction of a legal framework, opening up for FDI in 1991, allowing foreign interests to partake in the privatisation of large-scale businesses (since 1992), and the introduction of a simple tax system that was expected to give incentives for investing in the Estonian economy (Staehr 2004). Openness to international influences has meant that Estonia has had a substantial current account deficit since 1994, reaching over 23.7 % of GDP in 2007, mainly due to the negative foreign trade balance (Ministry of Finance of Republic of Estonia 2008). Throughout the transition period, Estonian foreign trade has been oriented towards the EU member states.

1.2 Socio-demographic changes

From 1990 to 2000, the population of Estonia decreased by 13 %, because of the emigration of Russian families and due to the decline in the birth rate (Estonian National Development Plan 2004–2006: 96). As of 2007, ethnic Estonians accounted for 69 % of the population, with Russians being the second largest ethnic group, constituting approximately 26 % of the population (Estonian Statistical Office 2008). The heterogeneity of the Estonian population and the increasing social differentiation have been the main challenges in developing Estonian social poli-

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cies (Lauristin 1997). The increasing social inclusion has been claimed to be one of the major social issues since the second half of the 1990s (Estonia's National Action Plan for Social Inclusion). Estonia's Gini coefficient has been set at 33.5 (2006), and 19.5% of the population lived below the poverty line in 2006. Another concern in social policy has been unemployment, which increased rapidly at the beginning of the transition and again after the Russian economic crisis (peaking at 14.2% in 2000), but which has been constantly falling since then as a consequence of economic restructuring and constant economic growth (Staeher 2004: 56–57). In 2007, the unemployment rate was 4.9% (Estonian Statistical Office 2008). As a response to rising inequalities among the population and the declining birth rate, governments have pursued substantial institutional and social reforms, for instance, transformation of the pension system into a three-pillar system in 1998–2002, and the introduction of the Parental Benefit Act in 2004.

1.3 Socio-economic policies

Estonia was the first country to break out of the rouble zone in June 1992 and to establish its independent currency to distance the country from the Soviet Union. Estonia committed itself to a balanced state budget, disavowing both monetary policy and public borrowing – a commitment that has been followed, except for the period 1998–2000. The currency board system, together with completely free trade and minimal government interference in foreign trade, has contributed to making Estonia the freest trader and one of the least corrupt post-communist countries (Aslund 2002: 209–210).

The main innovation in Estonian tax policy has been the introduction of flat income tax in 1994. Estonia has abstained from all foreign trade taxes. VAT of 18 per cent has been Estonia's main tax. Estonian governments have opted to reduce the tax burden of both companies and individuals, as in 2000, corporate income tax on reinvested profits was abolished and in 2004 a gradual reduction of individual income tax was introduced (EBRD 2002: 142; Staeher 2004: 50). Total government revenues as a percentage of GDP has been around 40% since the mid-1990s.

2. The political system

In Estonia, it is not possible to talk about deep historical state traditions and the gradual emergence of modern forms of government. Although the foundations had been laid for the development of a professional and stable public administration during the first period of independence (1918–1940), not much of it survived Soviet occupation (1940–1991).

According to the Constitution (1992), Estonia is a parliamentary democracy, with a unicameral parliament, the Riigikogu. The 101 members of the Riigikogu are elected for four-year terms in free elections, by secret ballot, on the principle of proportionality. The formal Head of State, the President, has mainly a representative and ceremonial role. Since 1991, there have been five parliamentary elections and four elections to the office of the President of the Republic. From 1991 to 2008,

twelve changes of government have taken place. None of the coalitions has been able to stay in power for the entire parliamentary term; the most resilient holding the record of 2 years and 10 months. Estonia has been governed by minimal winning coalitions consisting of at least two and more parties.

Estonia is a unitary state with decentralised central government and one-tier local government. The country is divided into 15 counties and into 227 local government units (towns, municipalities). County governments are representations of the central government with the task of implementing government decisions at the regional level.

2.1 New management ideas

One of the main challenges in Estonia has been posed by the desire to jump straight into having modern management systems without previously establishing a solid base – the classical hierarchically-structured public administration. The central aim in Estonian public administration has not been to build a solid ground for democracy but to improve the efficiency of public institutions. Each government of independent Estonia has, with greater or lesser success, dabbled in public management reform as “public management is always a part of the broader agenda of public governance” (Pollitt and Bouckaert, 2004: 2). However, every change of government has also brought new views. Yet, as a consequence of the policies adopted by successive neo-liberal governments, the underlying theme behind government reform initiatives has been decreasing the role of the state.

Everything associated with the state had a bad reputation during the Soviet era. Drechsler (1995) argues that “Estonia’s most serious problem is probably that there is no prevailing state identification on the part of her citizens. There is no *étatisme* at all, not even a concept of state. While this might actually sound attractive to the opponents of ‘state’, it leads to serious problems that Estonia cannot afford. These include the lack of automatic citizens’ loyalty, co-operation within the government, or true respect for legal or administrative decisions.” (Drechsler 1995: 112)

Such an anti-state attitude has contributed to the development of ideas based on the minimal state. Moreover, the early years of transition coincided with the *New Public Management* (NPM) fashion in the West. The NPM ideology sat well with countries that were abolishing their one-sector economies and carrying out large-scale privatisations. NPM ideas have prevailed in various public administration reform concepts and strategies originating in the second half of the 1990s. Currently “Estonia is one of the CEE countries closest to NPM reforms” (Drechsler 2003: 36). NPM principles are also corresponding to general cultural attitudes (suspect of central authority) and the mood of the main actors – politicians, emerging businesses, the people at large (Temmes *et al* 2005: 73). A certain over-idealisation of the private sector (and free market) is still prevailing today. Massive privatisations have led to the selling off of strategic enterprises, such as the railways (in 2001 until its re-nationalisation in 2007) or crucial services such as emergency medical aid without much public discourse or market-testing.

Several authors have questioned the suitability of NPM principles and tools to the transition countries. "In Central and Eastern European (CEE) transition countries...public administration has had to face a special challenge because both the creation of a political democracy and the implementation of the principles of efficiency and effectiveness have become crucial tasks of modernisation at the same time" (Jenei and Szalai 2002: 368). Without having basic public management frameworks in place, there has already been pressure to reform the not-yet-existing management practices. "NPM is particularly bad if pushed upon transition and development countries because if it can make any sense, then it is only in an environment of a well-functioning democratic administrative tradition" (Drechsler 2005: 101). As argued by Schick (1998: 124), "the greater the shortcomings in a country's established management practices, the less suitable the [NPM] reforms". Other authors even point out the need to decrease the level of NPM activities in order to establish support and trust. "The extent to which the public organisation succeeds in restoring or enlarging societal and/or political support may result in a decrease of NPM-like or political pressure, or in an increase or at least a preservation of resources, tasks and autonomy." (Verhoest *et al* 2007: 486). Peters (2001: 176) concludes that "once a so-called Weberian administrative system is institutionalised, then it may make sense to consider how best to move from that system towards a more 'modern' system of PA."

Despite the above-mentioned concerns, various NPM-related ideas have been promoted by Estonian public organisations since the second half of the 1990s, including for instance, decentralisation, privatisation, contracting out, customer orientation, performance management, quality management and performance budgeting. As the Estonian state apparatus is decentralised to a high degree, most tangible reform ideas have been developed by individual public organisations.

2.2 National political agenda

Development of democratic institutions has formally taken place in Estonia. However, the political parties are, as yet, unable to carry out adequate policy analysis. This has led to a situation where politicians are unable to set strategic goals, which, in turn, has given more power to the executive. Although both politicians and civil servants have had more than a decade of experience in elaborating many new policy proposals, there is still no general culture unconditionally requiring serious analysis to precede the adoption of a new regulation or policy (Randma-Liiv 2005). In addition, as the whole society has been undergoing a number of rapid and radical changes, it has been relatively easy for all social groups (including the political parties, civil service and civil society organisations) to accept new initiatives without any major criticism. Such a speedy approach, which was accelerated by the pressures of EU accession, left fewer resources for the analysis of new policies.

It is unlikely that a newly democratic country with a multi-party system, unstable political coalitions and developing political system reaches easily a broad political consensus over the content of administrative reforms. Nevertheless, analysis of the

programmes of the main Estonian parties and the coalition agreements enables to distinguish between the two periods in regard to administrative reforms.

First, in the first half of the 1990s, political parties in Estonia concentrated on broader administrative issues that a transition country must resolve. The most important priority was to secure democratic decision-making processes through broader structural and administrative reforms:

- in the early 1990s, the utmost goal of all political parties was to build up necessary institutions for an independent state. This included the introduction of new functions and the development of entire policies and institutions literally from scratch (e.g. armed forces, border guard, diplomatic service, central bank, foreign and security policies);
- parties emphasised the importance of finding a suitable balance between the private and public sector by optimising the functions of the public sector (through privatisation, regulating and abolishing monopolies etc.);
- attention was paid to the need to clarify the division of functions between the state and local authorities through granting more autonomy and financial independence to local governments;
- introduction of a modern legal and administrative framework for the civil service by the replacement of the Soviet patronage by merit principles.

Second, party programmes and coalition agreements enforced, from 1999 onwards, indicate a shift in the context and substance of administrative reforms prescribed. Still, the relationships between central and local governments and the autonomy of the latter have been important issues but the reform proposals and programmes have become more specific and thorough:

- more emphasis is placed on the quality and accessibility of public services (through introducing standards for public services, instituting one-stop-shops, engagement of customers and third-sector partners in the decision-making processes etc.);
- also, the issues of accountability (both political and administrative) and control in the public sector have gained importance, resulting in proposals for increased openness in administrative decision-making (through fighting corruption, regulating the politicisation of administrative corps, adopting the Government Information Act etc.);
- in addition, there have been a number of proposals for cutting costs in the administrative system (through emphasising the productivity of the administrative actions, the quality and number of civil servants, freezing administrative costs etc.).

The most influential political party in proposing extensive administrative reforms has been the Pro Patria Union that was a leading member of the coalition government (Pro Patria Union, the Estonian Reform Party and People's Party Mõõdukad)

from 1999 to 2002. Under the title “Country for its Citizens” the coalition parties agreed to strive towards cutting red tape, enhanced use of ICT applications in public administration, and reducing corruption within the civil service.

More recently, the most active political party in proposing extensive administrative reforms was Res Publica, which was established prior to the 2003 parliamentary elections. As a result of their promises to radically change the political and administrative decision-making culture in Estonia, Res Publica took the leading position in the government after the elections. In the party programme adopted in 2001, Res Publica’s underlying values in public administration included the aim to make the use of state money more goal-oriented and efficient (through performance-based budgeting, as well as measuring and controlling the achievement of goals), creating openness and control over quality in the provision of public services (through the adoption of citizen charters, granting citizens the right to turn to an independent ombudsman in case of unsatisfactory service provision etc.). The same ideas were carried over to the coalition agreement in 2003 sealed between Res Publica, the Estonian Reform Party and the Estonian People’s Party prioritising the adoption of service charters and creating one-stop-shops, freezing administrative costs and reducing the number of civil servants.

However, after the political turmoil in 2005, Res Publica lost its position in government without achieving any of the stated goals in public management. The succeeding coalition placed less emphasis on administrative reform as their coalition agreement (sealed between the Estonian Reform Party, the Estonian Centre Party and the Estonian People’s Party) included only very limited ideas about public management, mainly related to guaranteeing universal accessibility of public services. The coalition in power after the 2007 general elections (Reform Party, Pro Patria and Res Publica Union, and Social Democrats) has not paid systematic attention to public management reforms.

In conclusion, it can be said that the ideas of public management reform presented by the political parties have changed over the years from more general and vague statements to more systematic and comprehensive reform proposals that have been undermined by political instabilities and the coalition-seeking nature of the political system.

2.3 International organisations

After regaining independence, the question for Estonia was not so much about reforming, restructuring or downsizing public institutions, but rather of building the state in the first place. “The internalisation of transition countries has followed a specific model in which foreign aid, in the form of imported expert knowledge, has had an important role in transition analysis” (Temmes *et al* 2005: 69). In transition countries, the shortage of human and financial resources, as well as the urgency to find solutions, have made the use of foreign expertise very important (Randma-Liiv, 2005b). Estonian public management reform practices have been influenced by relevant solutions in Germany (legal framework, in particular), the

UK and the Nordic countries (individual management tools) as well as by a few international organisations (the World Bank and IMF, in particular). However, “although certain influences from various model countries are acknowledged, the major decisions about the design and operation of Estonian public administration have remained “home-grown”” (Randma-Liiv, 2005b: 484–5). Whereas policy transfer was an important policy tool in the 1990s, this has been gradually replaced by a more knowledgeable process of policy-learning in more recent years.

2.4 European Union

It is hard to underestimate the impact of the EU on Estonian political and public administration developments. Joining the EU was seen as a symbolic return to Europe, based on the concepts of ‘catching up’, adaptation, and harmonisation (Lauristin and Vihalemm 1997). Hope and desire to gain EU membership was one of the major incentives to foster process in various policy fields, including public management reforms.

Systematic EU-related activities began in Estonia in December 1993, leading to accession on 1st May, 2004. While the main issue in the previous EU enlargements revolved around the willingness of candidate countries, the ‘Eastern enlargement’ was centred on candidates’ ability – the capacity to cope with the obligations of membership. Before the actual accession, candidates were expected to demonstrate that the EU could rely on them to implement its decisions and policies, and effectively apply the *acquis communautaire*. There had been no assessment of existing administrative systems of candidate countries during the preparation of the previous accessions (Grabbe, 2001). The European Commission evaluated candidates’ progress towards accession from 1997 to 2003. For instance, the EC progress report of 2000 concluded that Estonia’s progress in modernising its public administration was limited (European Commission, 2000)—the need to strengthen administrative capacity was found in almost every chapter of the *acquis*. Although the EU paid considerable attention to the administrative capacities of the candidate countries, it did not provide a specific model for the organisation and functioning of public management. In keeping with the principle of subsidiarity, public administrations are within the competence of national governments. However, as also argued in an OECD report, there has been a “strong indirect link” between the processes of European integration and administrative modernisation in CEE candidate countries (OECD, 1998).

In Estonia, Europeanisation has influenced both the institutions and functions of central government. Some institutions have been founded to administer the structural funds (such as the Estonian Agricultural Registers and Information Board), whilst others have been substantially strengthened (the Environmental Investment Centre and the Ministry of Finance). Europeanisation has also affected several functions distributed across central government institutions. The preparation of the National Development Plans has influenced the general framework of strategic planning. In addition, the development of internal audit functions throughout

government institutions has been substantially shaped by the EU. Finally, there are institutions whose administrative capacity was systematically strengthened during the accession process, often as a result of critique provided in Commission reports. Such institutions include the Tax Board, the Data Protection Inspectorate and the Consumer Protection Board. Finally, the EU accession process in Estonia had a broader impact on the country's public management by improving a coordination culture (Viks and Randma-Liiv, 2005).

Despite certain positive examples, accession to the EU had a limited impact on the Estonian public management reforms. As internal motivation for administrative reform proved insufficient, external factors (mainly related to EU accession) also failed to provide any stronger motives for a consciously developed and systematically implemented public management reform. Thus, accession to the EU may only have speeded up certain developments in Estonian public administration, but not provided structurally innovative solutions.

2.5 National political culture

As of spring 2008, only 15% of the Estonian population trusted political parties and 36% of the population trusted Parliament (National Report for Eurobarometer, 2008). The most trusted institutions in Estonia are the Defence Forces, the Police, Television and Radio (Ibid). While in many other European countries, trust in the European Union tends to dominate over trust in the national government, this situation did not apply to Estonia during the first years of membership. This just started to apply in 2007/2008. Currently 69% of the population trusts the European Union and only 66% of the population trusts the Estonian Government (National Report for Eurobarometer, 2008). Freedom of press in Estonia is rather high, according to both international institutions measuring it annually – *Reporters Sans Frontières (RSF)* and Freedom House. In 2007, Estonia ranked as 3rd among 169 countries according to *RSF* and Estonia ranked as 16th among 195 countries according to Freedom House, captivatingly sharing the same place, amongst others, with the United States and Germany.

Although Estonia is doing rather well concerning corruption perception among post-communist countries (in 2007 Estonia was ranked 28th amongst more than 180 countries by Transparency International), there have been quite a few cases at the centre of public attention referring to possible corruption, both in central and local governments.

3. Elite decision-making

Glatter (2003: 248) demonstrates that there is plenty of evidence to claim that after democratic changes, Communist era elites were far more interested in grabbing assets and property than maintaining the old political status quo. Both political and administrative elites changed considerably in Estonia in the early 1990s, partly followed by the main slogan of the leading coalition member Pro Patria in 1992 “Clean up the Place”.

Higley and Burton (1989) have distinguished between three types of national elite structures: ideologically unified elites, consensually unified elites and consensually disunited elites. The authors claim that consensually unified elites sharing tacit consensus about the rules of the game and the rules of political conduct are a prerequisite for a stable democracy. The independence movement in the late 1990s, as well as accession to the EU, were able to unite Estonian elites to a remarkable extent. However, after the emotional events of the “singing revolution” in the late 1980s, various elite groups grew apart.

There was a stark contrast of opinion towards the EU amongst Estonian elites and mass public opinion before the enlargement – the former was unambiguously pro-European, and the latter considerably Euro-sceptical (Vetik, 2003: 257). An opinion poll revealed that 40% of respondents considered the application of EU standards the same as the elite pursuing their own private interests (Kirch 2000).

In most other political matters, the Estonian political elite are far from being consensually united. According to Lauristin (2003: 613), the reasons why Estonia does not have comprehensive and effective policies are not just a scarcity of economic resources or poor administrative capacities, but a lack of sufficient political support. Rivalry between political parties has led to constant changes in the administrative reform agenda as well as to the lack of consistency in the chosen strategies.

4. Pressure from the citizens

There has not been strong pressure for public management reforms from citizens in Estonia. Although the general formal framework for citizens’ involvement in policymaking is in place, citizens have not expressed much interest in shaping policies, particularly when the most important decisions for administrative structures and functions were taken in the 1990s. When a country is undergoing rapid social changes and the material base for one’s survival has become uncertain, hard work, money, technological development and material possessions are the things that matter most in people’s lives. According to Inglehart and Baker (2000), the value systems of rich countries differ systematically from those of poor countries, with wealthier countries tending to support the self-expressive values and poorer countries the survival values.

Pressure from citizens assumes a highly developed civil society. As Lagerspetz et al (2002: 85) state, “From the point of view of democratic participation, the task of the Estonian ... civil society is not to influence the existing channels of participation from “the outside”, but to create such channels in the first place. In our view, post-modern civic initiatives can only take root in an already fully functioning and open democratic constitutional system”. This is why the citizens of Estonia have not been overly active in expressing their views, even in the most “practical” social issues such as pensions or health care. According to another study, the main additional obstacles include the lack of time, apathy and lack of competence of the interest groups (Lepa et al 2004). Although the Estonian par-

liament adopted the Civil Society Development Concept in 2002, participation of civil society groups in the policymaking process has remained random and rare. A very limited number of more visible and stronger interest groups in Estonia are mainly representing business interests. The only non-governmental organisation which has regularly expressed ideas on public management is the Estonian Chamber of Commerce and Industry by constantly arguing for a decrease in the role of the state, privatisation, and diminishing of the (already low) tax burden.

5. Chance events

There have been several crises and scandals in Estonian public administration over the last years. However, they have not had any tangible effect on changes in public management. Scandals have raised public discussion for a while and perhaps also public awareness of the issues, but they have not resulted in a systematic self-evaluation or actual learning process. Scandals have been discussed and analysed as single cases or as specific problems of particular organisations, but not within the broader context of the Estonian public management system.

Some of the famous scandals have been the “environmental scandal” in 2006 and “EU sugar scandal” in 2005. At the beginning of 2006, two accidents took place with ships near the coast of Estonia, resulting in major pollution of the sea. Due to inefficient and slow co-ordination between a few public sector organisations, this deteriorated to even more pollution of the coastline affecting heavily wildlife on the coast and killing thousands of birds. The “EU sugar scandal” became a public tragedy when by the time of joining the European Union, Estonian businesses and individuals had 91 600 tons of sugar over the permitted limits. It has been argued that the Government was neither able to properly communicate the “sugar issue” to the public before accession, nor was it able to introduce policies that would have diminished the scale of the problem. As a result, the Government of Estonia has to pay a penalty of 51 million Euros. The cornerstone of both scandals has been inadequate coordination between decision-makers and public institutions. Both scandals have also raised questions about the capacity of the Estonian public sector to be responsible, accountable and effective in making long-term plans and considering the consequences of its (in)action. Neither of these cases has resulted in structural changes of administrative or managerial principles.

The only crisis that has had a more tangible effect on Estonian public management was the Russian economic crisis in 1997–1998, leading to the collapse of the Estonian Stock Exchange Market. This crisis affected personally many people’s lives and gave significant cause for the public to demand increasing the efficiency of the public sector (and cutting government costs).

6. The administrative system

According to the Constitution (1992), the executive power in Estonia rests with the government, which exercises that power directly through ministries and government agencies. A typical Estonian ministry consists of approximately six to

twelve departments and fewer than 150 of staff. The organisation of the central government is regulated by the Government of the Republic Act adopted in 1995. Government institutions include the ministries, the State Chancellery and county governments, as well as executive agencies and inspectorates with authority to exercise executive power. A ministry is a superior body ranking above executive agencies, inspectorates, and other state agencies. Government agencies are accountable to the respective minister, who directs and coordinates their activities. According to the Government of the Republic Act, there can be up to fifteen members in the Cabinet. A major reorganisation of ministries was carried out in 1993, when a number of ministries were merged and new ones created. Although there have not been any structural reforms of similar scale since then, the organisational structures of ministries have been far from stable. Most of the ministries have passed through several smaller or bigger structural reorganisations during the past decade. The everyday running of the current 11 ministries and their agencies is also decentralised to a high degree.

Tremendous changes have occurred, not only in the laws and structures governing the Estonian civil service, but also in its personnel. Contrary to the common belief that a significant number of public servants in post-communist countries carry the imprint of Soviet legacy, the overwhelming majority of Estonian civil servants entered the service during the years of independence and thus were not part of the Soviet administrative system. About 77% of civil servants employed in the Estonian ministries and agencies had held posts in the civil service for less than 15 years (2007). In December 2007, there were 24 331 civil servants working in Estonia (State Chancellery 2007) among approximately 600 000 employed persons.

The law regulating the civil service – the Public Service Act – came into force at the beginning of 1996. Under the Act, all employees holding positions in state and local government institutions, meeting the general requirements, were automatically accorded the official status of a public servant without any exams or probationary periods. The Public Service Act determined the abolition of the patronage system and the introduction of recruitment and promotion on merit, competitive examinations, salary scales, regular appraisal and common grading throughout the civil service. The Act laid down an open, position-based civil service system, where candidates are recruited for a particular post and it is possible to enter the civil service at any level of the hierarchy, including the senior civil service. It also followed the general decentralisation trend in the central government by leaving personnel management to individual ministries and agencies.

6.1 Contents of the reform package

In the first half of the 1990s, Estonian public administration reforms were mainly directed towards building up basic structures and systems of the state through restructuring and downsizing the public administration system. Since the second half

of the 1990s, it is possible to distinguish between a more holistic and complex view of the modernisation of the state structures (State Chancellery, 2004b: 9–13).

The Estonian Government has introduced two complex strategies for administrative reform over the past decade. Firstly, the Cabinet Committee on Public Administration Reform was established in June 1997, with the aim of working out a general strategy for administrative reform. The outcome of the Committee's work was entitled *A Concept for Public Administration Development*, adopted in 1999. The Concept states that the public administration reform is aimed at creating an efficient, citizen-oriented civil service. The main themes, proposed in the concept for the achievement of this goal are the following:

- decreasing the role of the state through privatisation and contracting-out;
- increasing the policy-making competence of central government;
- improving the quality of the civil service;
- improving efficiency and goal-orientation through better coordination, division of functions, transparency, internal control and human resource management.

However, the Concept did not have any noticeable impact on the development of the Estonian public administration. Despite the high priority of this Concept and the establishment of the Office of Public Administration within the State Chancellery, the programme was not implemented because of the parliamentary elections in 1999 and the following change in government (State Chancellery 2004b: 12–13). The Concept presented a rather simplified view of administrative reform and included neither a broad concept for its development nor an action plan for the reform.

Secondly, the *Public Administration Reform Programme* of the Government of Estonia was formulated in 2001. The Programme emphasised five strategic areas for public management reforms.

- developing local government and regional administration: merging of local governments, improving local government budgeting, reviewing division of labour between central and local governments, improving local government management, planning and accountability mechanisms;
- optimising the division of functions and co-operation of public institutions: increasing the transparency and openness of public administration, increasing the capacity of contracting out public services, enforcing the co-ordination and co-operation between government agencies, reviewing the division of functions among the ministries, distinguishing between political and administrative functions, optimising the functions between ministries and agencies, acknowledging the importance of public policymaking and strategic planning, increasing public policymaking capability of ministries;
- budgetary reform, strengthening financial management, internal control and internal audit: reviewing and analysing the functions of the public sector, integrating the budget with political priorities and programmes, improvement of

goal setting in public organisations, strengthening internal control and audit, “letting the managers manage” by further decentralisation and delegation of duties;

- developing citizen-oriented public administration: shifting attention from inputs to outputs, establishing service standards for the organisations providing public services, creating one-stop-shops;
- civil service development: determining the scope of the civil service by reducing the number of civil servants, delimiting the guarantees prescribed to the civil servants, reviewing the recruitment and selection system and increasing the application of public competitions, reviewing the development and training system, reorganising the pay system and motivation mechanisms, developing mechanisms to increase the mobility of civil servants within the civil service.

Development of an information society and e-government has been considered a central theme in several reform plans (e.g. Public Administration Reform Programme of the Government of Republic of Estonia, Framework Document for Public Service Development). In these reform plans, much hope has been placed on the “miracle of ICT” hoping it will resolve the existing problems. However, ICTs cannot solve the problems deriving from illogical set up, missing values, lacking commitment, etc, neither do they dissolve “the need to balance, choose and recognise limits” (Pollitt and Bouckaert, 2004: 161). Nevertheless, sometimes they are able to resolve the contradiction “which is no doubt one reason why they are such a universal favourite as an ingredient of the rhetoric of public management reform” (Pollitt and Bouckaert, 2004: 170).

Since the fall of government in 2002 (partly because of the disagreements over the administrative reform), the centrally coordinated reform activities were replaced by public administration modernisation as a task delegated to a number of individual organisations (Ministry of Finance, Ministry of Interior, Ministry of Justice, Ministry of Economic Affairs and Communications, State Chancellery) which all had the task of devising strategic plans and reform proposals in their particular fields of expertise (State Chancellery 2004b: 11). After the general elections in 2003, two different governments in power have not adopted any other comprehensive reform strategies.

Despite the presence of various reform packages, the changes have not been as thorough and widespread, due mainly to the political instability, frequent changes of government and also because of the missing political will and low administrative capacity to carry out the planned changes. Still, it is possible to compose a list of the most important public management reform initiatives and relevant institutional developments, e.g. adoption of the Estonian Civil Society Development Concept; adoption of the first Estonian National Development Plan for the Implementation of the EU Structural Funds, development of the Concept of State Financial Management System (for more information see “country landscape” in appendix). It must be noted, though, that a great number of these developments

have taken place not in the framework of strategic plans and concepts, but rather sporadically at the initiative of particular organisations or influential individuals (including politicians, civil servants and experts).

6.2 The implementation process

In general, the implementation process of public management reforms in Estonia has had the character of the “trial and error” method. Several authors (e.g. Verheijen, 1998) have observed that the implementation gap between formal acts and procedures on the one hand, and their actual implementation on the other, represents a far-reaching problem in most CEE countries. This, in turn, has made it difficult to introduce new management tools in the public sector. In addition, in post-communist societies, managers with poor experience are likely to have low self-respect, leading them to fear making mistakes, distrust towards professional development and expertise, and substituting self-justification for an open learning process.

Changes in Estonia have been fast and radical and many of them were carried out in the top-down manner by transition ‘macho-managers’ emerging in both the public and private sectors. This has often required fast decisions and robust action, sometimes at the price of ignoring voices that could have been heard. It has been relatively easy for politicians, public institutions and all social groups to accept new initiatives without any major criticism. Public discussion has been missing over most of the conceptual dilemmas provided by Pollitt and Bouckaert (2004, 159–181), with the exception of the modest discussion over cutting costs and improving quality at the same time.

Metcalf claims that although some CEE countries have been the targets of shock therapy and crash programmes intended to produce dramatic results very quickly, it is very doubtful whether this is, in reality, the best way to produce lasting reforms of public administration (Metcalf, 1998). The challenge for public administration in Estonia is to move from the practices of the early transition years, where new institutions and policies had to be adopted immediately, to more careful preparation and evaluation of new reform initiatives.

As central initiatives for public administration development have not produced any fundamental change, very diverse working methods and levels of development in government organisations have occurred. Although some public organisations are using rather modern management practices, these one-off developments can still best be viewed as ‘pocket developments’ which do not have a considerable effect on the civil service as a whole. Meanwhile, the Estonian civil service lacks the elements that bind the different parts of public administration together in Western countries. There is an insufficient formal or informal framework of professionalism, such as might provide an *esprit de corps* or any other kind of vertical or horizontal common identification and loyalty. Effective coordination – also dubbed the ‘administrative Holy Grail’ (Peters, 1998) – is all the more crucial in a decentralised administrative system. The experience of the coordination of the

Estonian public management reforms provides evidence of serious co-operation problems in the Estonian administration in general. This, in turn, has resulted in situations where individual ministries or even structural units of ministries come up with fragmented policy proposals that do not fit the larger framework. According to SIGMA (2006: 2), the context for development of the Estonian civil service has had consequences, which have resulted in a distorted and opaque salary system, a fragmented civil service management set-up and a weak institutionalisation of the merit system. According to the same report, the Estonian governments have not been able to reduce politicisation and patronage in the civil service, leading to increasing fragmentation of the civil service system.

6.3 Reforms actually achieved

The political and economic reforms of the transition period have left the public management reforms in the cold in Estonia. The development of the Estonian public administration has been neither rational nor consistent as the political will for structural administrative reforms has been deficient, and every change of government has also brought new views. The absence of a basic consensus over policy directions has made the activities of government organisations unstable: frequent sporadic attempts at reform have created quite a tense atmosphere in the administration and scepticism about further changes. Neither has there been any clear picture what public management reforms in Estonia should or would include.

If public management reform had to do with “deliberate changes to the structures and processes of public sector organisations with the objective of getting them (in some sense) to perform better” (Pollitt and Bouckaert, 2004: 16), the Estonian government has not experienced any systematic public management reforms. In many cases, reform ideas have just been announced, sometimes even started and partly implemented, but not finished. Ideas for public management reforms have been derived from very different visions and opinions but not from systematic knowledge and analysis. There are a number of particular changes that have been introduced, not because, but despite, various institutions and strategies of administrative reform.

When comparing four main visions of public management reform – the market model, the participatory state, flexible government and de-regulated government (Peters, 2001), reforms actually achieved in Estonia would clearly have the “flavour” of the market model (Tönnisson, 2006). Additional central ingredients of reform ideas have been “decreasing the costs”, “increasing the quality of services” and above all, EU-related developments. As joining the EU was one of the top priorities of all Estonian governments, it was much easier to find support and funding to everything that brought this goal closer. The EU integration process in general has been one of the most positive examples of cross-departmental co-operation and co-ordination in establishing common values and understanding all over the civil service (Viks and Randma-Liiv, 2005). Also, joining the Schengen area could be considered as an administrative technical success, especially in the fields of

ICT, data protection and police co-operation. However, the conditions that made both accession processes successful are not yet recognised in other policy areas, where there is also a strong necessity for horizontal co-operation and systematic exchange of information.

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Country public management reform landscape: Estonia

Dates	General	Organisation	Personnel	Finance
1990	<ul style="list-style-type: none"> Enforcement of the Local Government Bases Act 			
1991		<ul style="list-style-type: none"> Establishment of the Committee for Public Administration Reform 		
1992	<ul style="list-style-type: none"> Adoption of the Constitution of the Republic of Estonia Elections to Parliament Presidential elections 			
1993		<ul style="list-style-type: none"> Establishment of Estonian Privatisation Agency (Agency was closed in 2001) 		
1994	<ul style="list-style-type: none"> Introduction of one-tier local government system 			
1995	<ul style="list-style-type: none"> Elections to Parliament Submission of the application for EU membership Adoption of Estonian Administrative Division Act Adoption of the Public Service Act Adoption of Government of the Republic Act 	<ul style="list-style-type: none"> Establishment of the Ministerial Committee for Public Administration Development Establishment of the Department of Public Administration Development at the State Chancellery (never began its work) 	<ul style="list-style-type: none"> Reforms partially restructuring and downsizing the central administration (800 positions eliminated mainly in the Ministry of Highways and Communications and in the Ministry of Environment) Adoption of the Public Service Act 	
1996	<ul style="list-style-type: none"> Presidential elections 		<ul style="list-style-type: none"> Public Service Act in effect: establishment of public service based on merit 	
1997		<ul style="list-style-type: none"> Establishment of the Cabinet Committee on public administration development under the leadership of the Prime Minister 	<ul style="list-style-type: none"> Approving the Strategy of Training of Public Servants in EU issues 	

Dates	General	Organisation	Personnel	Finance
1998	<ul style="list-style-type: none"> • Start of the accession negotiations to join the EU • Adoption of the Principles of Estonian Information Policy – promotion of digital signature, co-operation among sectors 	<ul style="list-style-type: none"> • Establishment of the Public Administration Bureau in the State Chancellery (was restructured and renamed in 1999) • Launching PeaTee (Main Road) project as the backbone network for data communication infrastructure • Launching Estonian State Web Centre containing links to the websites of all governmental institutions and giving access to most of the official documents 		
1999	<ul style="list-style-type: none"> • Elections to Parliament • Adoption of Public Administration Development Concept 	<ul style="list-style-type: none"> • Establishment of the Office of Public Administration Reform within the State Chancellery (office was closed in 2003) • Privatisation of Eesti Telekom (providing telecommunication and IT services) 	<ul style="list-style-type: none"> • Adoption of the Public Sector Code of Ethics (as an annex to the Public Service Act) • Approving the Second Strategy of Training of Public Servants in EU issues 	<ul style="list-style-type: none"> • Adoption of the new State Budget Act providing procedure for drafting and implementation of state budget

Dates	General	Organisation	Personnel	Finance
<p>2000</p>	<ul style="list-style-type: none"> • Adoption of the Public Information Act stating new demands on the openness of the activities of civil servants • Adoption of the Law on Digital Signature by opening up ICT reforms in public administration (e-services for citizens, eDemocracy, internal management based on ICT) aimed at better services, lower costs, greater accessibility and openness etc. 	<ul style="list-style-type: none"> • Change of the regular Cabinet meetings to paperless sessions using a web-based document system • Establishment of Estonian Agricultural Registers and Information Board • Establishment of the electronic forum called "Today I Decide" (TOM) for the greater involvement of citizens in the decision-making process 	<ul style="list-style-type: none"> • Adoption of the guidelines for Establishing Public Service Standards • Adoption of the Strategy for Citizen-Oriented Public Administration Development emphasising the quality of public services and the decentralisation and integration of service provision • Development of the Public Service Development Strategy with the aim of optimising the civil service, enhancing qualifications and developing remuneration and motivation mechanisms 	
<p>2001</p>	<ul style="list-style-type: none"> • Adoption of the Public Administration Reform Program of the Government of the Republic of Estonia – start of the promotion of quality management in Estonia • Presidential Elections 	<ul style="list-style-type: none"> • Launching the competition "The best co-operation project of public organisations" aiming to recognise the projects that public organisations have been implementing, together with business and/or non-profit organisations. The last competition was held in 2004. • Relocation of Ministry of Education and Research) from Tallinn to Tartu • Privatisation of Estonian Railway 	<ul style="list-style-type: none"> • Adoption of the additional principles (deadlines, quantitative indicators, etc) for Public Service Standards 	<ul style="list-style-type: none"> • Introduction of a comprehensive internal audit system to the public sector • Introduction of the pay-for-performance to the public sector • Establishment of the State Property Management Company

Dates	General	Organisation	Personnel	Finance
2002	<ul style="list-style-type: none"> Adoption of the Estonian Civil Society Development Concept (EKAK) aimed at defining the mutually complementing roles of public authorities and civic initiative, principles of their co-operation and mechanisms and priorities for co-operation in shaping and implementing public policies 	<ul style="list-style-type: none"> First full CAF self-assessment in the Estonian public sector (Ministry of Finance) Establishing E-governance Academy with the aim to transfer knowledge to top policymakers in EU candidate and developing countries Since 2002 every public sector institution has to have a webpage. Merger of Ministry of Economic Affairs and Ministry of Transport and Communications into Ministry of Economic Affairs and Communications 		<ul style="list-style-type: none"> Introduction of the guidelines of the "Financial Control Systems" to the Estonian public sector
2003	<ul style="list-style-type: none"> General Elections 	<ul style="list-style-type: none"> Estonian Public Sector Quality Award Pilot Project carried out with ten agencies participating. All participating organisations received International Assessor Reports. It was the first and last Public Sector Quality Award competition. 		<ul style="list-style-type: none"> Introduction of the "Financial Cost Saving Program for the Public Sector" Introduction of the key framework for the annual budget, based on the principles of ministries describing their areas of governance as the Key Result Areas and identifying strategic objectives for each
2004	<ul style="list-style-type: none"> Joining European Union Adoption of the anti-corruption strategy "Honest State" aimed at enhancing the openness of the public sector, increasing consciousness over the issues of corruption and increasing the effectiveness of fighting corruption in public organisations 		<ul style="list-style-type: none"> Adoption of the Framework Document for Public Service Development mandating the formulation of the new Public Service Act based on the principles of flexibility, competence, performance-orientated and deregulation 	<ul style="list-style-type: none"> Introduction of the guidelines of "Risk Assessment Systems" to the Estonian public sector Adoption of accruals accounting for the public sector

Dates	General	Organisation	Personnel	Finance
2005	<ul style="list-style-type: none"> Adoption of the first Estonian National Development Plan for the Implementation of the EU Structural Funds – Single Programming Document 2004–2006 (RAK) submitted by Member States to the European Commission and containing a detailed description of priority areas needing support Adoption of the strategic development plan “Eesti edu 2014” (Estonian Success 2014) by the Government of Estonia combining scenarios for the future with the roles of public sector in policy development Introduction of Local Government Merger Act 	<ul style="list-style-type: none"> Launching the competition “The best innovative project in the Estonian civil service” 	<ul style="list-style-type: none"> Introduction of the Competence Framework of Estonian Senior Civil Service 	<ul style="list-style-type: none"> Development of the “State Strategic Planning System” First Report of the National Audit Office on the Whole of Government Accounts
2006	<ul style="list-style-type: none"> Presidential elections 	<ul style="list-style-type: none"> Establishment of a Strategy Office at the State Chancellery 		<ul style="list-style-type: none"> The State Audit Office obtained the right to audit local governments
2007	<ul style="list-style-type: none"> General elections and the first E-elections Estonia became a part of the Schengen area 	<ul style="list-style-type: none"> Re-nationalisation of Estonian Railway 		<ul style="list-style-type: none"> Development of the Concept of State Real Estate Management

Dates	General	Organisation	Personnel	Finance
2008		<ul style="list-style-type: none"> • Merger of inspectorates and boards in the area of government of Ministry of Economic Affairs And Communications (Estonian National Communications Board, Estonian Railway Inspectorate and Estonian Technical Inspectorate merged into the Estonian Technical Surveillance Authority; Estonian Energy Market Inspectorate and Estonian Competition Authority merged into the Estonian Competition Authority) • Launching the project to merge the Police Board, Border Guard Board and the Citizenship and Migration Board by January 2010 • Launching the project "Best public service 2008" • Launching the project to merge different agencies under the Ministry of Environment 	<ul style="list-style-type: none"> • Draft Civil Service Act prepared 	<ul style="list-style-type: none"> • Development of the Concept of State Financial Management System

Chapter 4

Public Management Reforms: Hungary

György Hajnal

1. General socio-economic forces

1.1 Global economic forces

In general, the sources, nature and magnitude of external economic effects are similar to those present in most CEE transition countries. These can be summarised as follows:

- The sudden and practically almost total collapse of the network of COMECON trade and production relationships. In the case of Hungary, this chiefly meant the loss of markets in broad economic sectors (agricultural and food products, certain segments of machine and electro-technical industry, etc.). Together with the shrinking domestic market size, this resulted in an absolute decline in economic activities and welfare (measured e.g. as the absolute loss in GDP) similar to the one experienced in World War 2.
- The economic and fiscal crisis reached its acme in 1995/96. International lenders (IMF, World Bank) played an instrumental role in fostering radical – and sometimes counter-productive – liberalisation/market type reforms in broad segments of economic and social policy.
- From the mid-nineties an increasing number of large multi-/transnational corporations initiated major investment projects in various – often “high-end” technology – economic sectors. The pre-transition level of domestic welfare in terms of per capita GDP was reached only around the end of the decade, while indicators reflecting also to equality income distribution, began to improve a few years later.

1.2 Socio-demographic issues

Hungary has a population of slightly over 10 million. The population growth rate became negative in the early 1980's. Since then – as in most EU countries – declining fertility and the ageing population poses serious socio-demographic problems. Migration has been relatively low throughout the past 15 years.

In the neighbouring countries (Mainly Romania, Serbia and Slovakia), there is a population of approximately 3 to 4 million ethnic Hungarians, many of whom are maintaining various cultural, family and economic etc. relationships with the motherland. There is a modest but potentially increasing tendency of ethnic Hungarians immigrating, either temporarily or permanently, to Hungary, thereby creating some additional supply of a (relatively) young and well-trained workforce.

A third issue is related to the largest ethnic minority of Hungary, the Roma. The share of the Roma population amounts to about 6 to 8 per cent of the country's

population, and – due to their significantly higher fertility rate – has an increasing tendency. Their cultural and economic integration into the majority society is, as in most neighbouring countries, a long-lasting and acute socio-demographic problem.

The table below presents data on Hungary's position relative to OECD countries with regard to some selected socio-economic indicators.

Table 1
Values of selected macro level indicators for Hungary (2006)

	Population (million)	GDP per capita (USD)	Unemployment (%)	Income inequality (Gini coeff.)	Public social spending, % of GDP	Life expectancy at birth, in years, men	Life expectancy at birth, in years, women	Current account balance, mill. USF
Hungary	10.066	16 851	7.4	29,3	20,1	68.6	76.9	6.8

Source: www.oecd.org

1.3 National socio-economic policies

The first half of the nineties was characterised by the simultaneous problems of (i) economic transformation (abrupt breakdown of huge state owned enterprises and large-scale privatisation of an often anarchistic character), (ii) constitutional/institutional transformation of the political system accompanied by a large extent of volatility, and (iii) acute fiscal crisis in all sub-systems of the public household.

These problems – especially the economic/financial ones – culminated in a radical shock therapy in 1996. This first period was characterised by extracting wealth from the population by means of high inflation, radical downsizing of the government's role in providing public services, and efforts to create the institutional and policy prerequisites of a functioning market economy.

From the late nineties, a process of slow but definite economic recovery started, first reaching mostly the middle and upper-middle strata but subsequently also some of the lower strata of society. This is to a significant extent attributable to successful development policies, both at the central level and at some regional centres, aiming at attracting foreign direct investment (Hungary was, for about ten years, the number one target country of foreign direct investment in the CEE region).

In the past two to three years, the achievement of the economic and monetary criteria of EMU membership has become a central socio-economic policy issue. This is partly because large-scale measures to improve the real income of households – such as a fifty-per cent across-the-table increase in public service salaries – has seriously exacerbated the fiscal burden on the public household, leading to

an exceptionally high deficit in the balance of current payments (as indicated in the above table).

2. The political system

Hungary is a parliamentary democracy. From the point of view of the territorial dimension of governance, it is a unitary state with a two-tier local government system (municipal and county level elected self-governments; hereinafter local governments). The constitutional-legal status, i.e. arrangement guaranteeing the broad autonomy of local governments is exceptionally strong, as are their functions in the provision of public services and in the administration/implementation of central government policies.

The electoral system is a mixed one, involving elements of both the majority and the proportional system; the mechanism, however, strongly favours large parties rather small ones. Representatives of the single-chamber Parliament are elected either in individual constituencies or on party lists. In 2008, there were four parties in the House of Representatives. During the five election periods having taken place since the transition, all governments were (either two- or three-party) coalition governments.

The President, elected indirectly by Parliament, has a formal, rather than substantive role; however, in times of political crises, the President has important functions as an arbitrator between political parties and as the supreme commander of the armed forces.

There is a Constitutional Court with broad and powerful competences including the review and cancellation of legal acts, including laws adopted by Parliament, as well as those adopted by the Cabinet, or elected local government councils. The court system has an unusually strong constitutional and institutional independency too; the judiciary enjoys an almost unlimited autonomy from the other two main branches of government, which have little means, if at all, to check/balance court decisions. This situation is peculiar since on the other hand, almost any decisions/acts can be brought to the court.

There is a final point, significant from the point of view of understanding the factors influencing public management reforms, which reaches back to the time of the first free parliamentary election. As a result of the so-called “MDF-SzDSz Pact”, concluded between the winner of the first election and the largest opposition party and having aimed at ensuring the governmentability of the country, a large number of vital laws in the status of so-called “two-thirds law” were left. This means that these laws can be modified only by a qualified, two-thirds majority. The spectrum of “two-thirds laws” ranges from the Law on Local Governments to the Law on Mass Media. The importance of this body of laws lies in the balanced nature of party politics: three out of the four government coalitions which have been in power since 1990 have had a majority of less than two-thirds. As a consequence of this and the minimal ability of parliamentary parties to coordinate their political ends and means and to build consensus/compromise, all institu-

tions and processes defined by the broad set of two-thirds laws became deeply entrenched – practically unchangeable.

In general, one can say that, from an institutionalist point of view, the system of “checks and balances” on the political executive creates a definite orientation towards the status quo. As a consequence of parliamentary deadlock as well as the inexorable, at the same time often harsh and unpredictable decisions on the part of the judiciary and the Constitutional Court, it is very difficult, if not impossible, to implement sweeping policy changes, irrespective of their nature or content.

2.1 New management ideas¹

The first half of the past fifteen years was largely characterised by a focus on the institutional foundations of liberal democratic governance, and on finding ways to strike a balance between political loyalty and acceptability for the new regime(s) on the one hand, and technocratic expertise (usually acquired in leading positions of the previous regime), on the other. It was only in the late nineties when process related issues – i.e. those dealing with how the government and its apparatuses should be run – emerged emphatically on the reform agenda.

Since 1992, a series of Government Resolutions on the Modernisation of Public Administration were adapted. Each resolution had the objective of specifying the main priorities of administrative modernisation/transformation (note that in Hungary the term ‘public administration’ embraces both the central and the local governmental sub-systems; cf. Section 11). These reforms were restricted to (i) shifting certain tasks/jurisdictions to one ministry (or other organisation) and to another one without significantly impacting the actual ways of operation and functioning and/or (ii) an endless and chaotically re-iterating process of (re-) drafting and (re-)adapting laws without significantly impacting the actual policy content that they are about to implement.

Focusing on the smaller, but more genuine set of administrative reforms, one can identify the following sources where these reform ideas come from:

1 There is no easy answer to the question of what exactly constitutes a “new management idea”. Observing both the ambitions of the current research and the administrative realities of transition countries, it seems that the concept of “new management ideas” can be given a useful and coherent meaning only if the following assumptions and definitional elements are applied. Firstly, there is a “traditional” paradigm of conducting public administration business; this is characterised by (i) a conception of governance which is based on the Weberian concept of bureaucracy primarily dealing with the implementation/enforcement of legal norms; (ii) a noteworthy disregard of social/external effects of administration (be they costs or benefits) as opposed to values of regularity and conformance to rules; and (iii) an overwhelmingly incremental, status quo oriented approach to policymaking. (It is noted that this arrangement implies a relative independence of administration from politics.) Secondly, there is another PA paradigm (i) emphasising external/social effects such as the 3E’s and quality/customer satisfaction and (ii) oriented towards the identification and solution of specific societal “problems”. The concept of “new management ideas” embraces all approaches – be they more general or value-related propositions or specific/highly formalised management techniques – that have the ambition or the effect of moving administrative practice further away from the former, and closer to the latter, mode of operation.

- (a) “International best practice” – chiefly referring to the administrative reform practice of Anglo-Saxon countries – has been primarily conveyed by two parallel mechanisms: (i) multilateral entities acting as promoters of political, economic and administrative transformation (such as the OECD, the IMF, and the World Bank), and (ii) consultants/consulting firms active in the implementation of technical assistance projects.
- (b) EU requirements – requirements posed, more or less directly, by entities having the auspices of the EU are actually a sub-set of the previous category. However, it is justified to identify them separately because administrative requirements having the “stamp of the EU” enjoyed, throughout the post-transition period, an authority not questioned by any significant political actor. Consequently, “EU requirements” had a much better chance to be achieved than any other type of requirement. It is noted in parentheses that the EU accession has, in some respects, increased the legalist approach to governance since much of the accession process was about ensuring conformity to EU legislation (the *acquis*);
- (c) Local consultants – The overall role of local expertise in administrative modernisation has been relatively low. The most frequent form of utilising this kind of expertise was/is “organisational screening”, the term referring to the overwhelmingly qualitative and intuitive overview and analysis of organisational functions, structure, and (personnel) resources. These exercises usually had the (informally) pre-defined objective of either identifying opportunities for, or legitimising already decided, downsizing measures.

In addition to these screening exercises, there appeared, from time to time, various management “sects”. These usually consisted of a relatively small number of highly committed proponents pursuing opportunities for introducing/extending the governmental use of “their” modernisation idea (such as the application of value analysis – an industrial engineering technique – to law/policy preparation and the like). These groupings usually disappeared from the scene within a relatively short period.

2.2 National political agenda

It is difficult to describe/classify political parties according to their position to PMR. Much of this difficulty stems from the (usually) large discrepancy between political rhetoric and government practice.

In general, there have been two major types of PMR issues inducing bold party political engagement:

- (a) privatisation² and decreasing the size of the government sector, and
- (b) the fundamental re-shuffling of the existing (re-)distribution arrangements – often referred to, somewhat euphemistically, as the “reform of the welfare state”.

Other PMR related issues rarely, if at all, reached the level of well-communicated public policies and underlying party positions. Rather, initiatives/decisions not reaching the “stimulus threshold” of national level party politics were influenced by personal and organisational/micro-political interests and values.

Ad (a):

Turning to the first key PMR issues one can say that, whether talking about rhetoric or policy practice, there are few clear and relatively permanent party positions. A general observation can be that these issues often serve as “catchwords” that can be used as a defamation to undermine the credibility of the political opponent: since both privatisation and the decreasing of the public sector’s overall size are highly unpopular in the view of the broader public.

With regards to “fighting bureaucracy” this slogan is, even in rhetoric, usually restricted to government ministries (employing only a few thousand civil servants). With regards to privatisation it is a general pattern that political parties try to argue that (i) they themselves are against these measures, and (ii) that it is their opponent(s) that seek to implement this agenda.

There are, however, some important – and mostly recent – exceptions to this general pattern, which include:

- The already-mentioned downsizing of ministerial apparatuses (employing vast numbers of political or quasi-political appointees), which is a promise made by all electoral competitors (this is usually implemented temporarily: appointees of the previous government are indeed fired but then even larger numbers of new political appointments are made);
- One of the smaller political parties, the Free Democrats’ Alliance, has been trying, with varying intensity and success, to pursue some version of a privatisation agenda more or less permanently. Another small parliamentary party, the Hungarian Democratic Forum (MDF) has, recently, shifted towards a more expressed privatisation agenda especially in the health sector.

2 Privatisation is used in a restricted sense, roughly equivalent to the increased involvement of private actors and/or market type mechanisms in the production of public services. This meaning excludes the large-scale selling of state-owned enterprises of the productive sector (for example, in the machine and processing industry) having taken place in the early nineties. This terminological decision is made because PMR – as one specific field of the broad set of government policies pursued by liberal democratic political regimes – should, in order to preserve the concept’s international transferability, be strictly separated from the historic, systemic change from socialism to capitalism.

- Finally, throughout the past four parliamentary cycles (1990–2006) there were some privatisation measures carried out by both the present government and the present opposition coalition. However, these measures were unanimously labelled by the political opponents as transferring valuable public property to the economic *Hinterland* of the political party in power.

Ad (b):

The second issue area of PMR has been put into the forefront of domestic politics quite recently, during the first months of the fifth parliamentary cycle beginning in Spring 2006. To put it simply, it can be defined as the Hungarian equivalent of what in the EU-15 is often termed the “reform” or the “rolling back” of the welfare state.

Previously, in 1995, a much-debated fiscal restriction package (“Bokros package”, named after the then finance minister Bokros) achieved the implementation of a series of major cut-backs of the public household. Problems of macro-economic imbalance remained, throughout the next decade, mostly out of the central issues of national politics. This was despite the fact that, from 2001 onwards, an increasingly unsustainable set of policies were launched by subsequent governments. This tendency was exacerbated by another, rather stable feature of Hungarian politics. Namely, for more than a decade inevitable in-depth reforms in a vast number of fields – ranging from public health provision through the higher education to taxation etc. – have not started or have been permanently stalled. The discussion of the reasons underlying this peculiar lack of political/strategic capacity of all subsequent governments lies definitely beyond the ambitions and the limits of this paper. Nevertheless, it seems justified to point out that such factors as (i) the effective opposition of powerful professional and economic interest groups, (ii) the fragmented nature of political leadership, (iii) the strong capacity limitations, the status quo orientation, and the capture of government apparatuses responsible for policy preparation, and (iv) a strong pursuance of short-term vote maximisation by government parties are among those responsible for this permanent failure.

However, as soon as the parliamentary elections were over, this wait-and-see policy bumped into hard and insurmountable external factors. These included the European Commission’s urge to submit a new, revised National Convergence Plan reflecting the Commission’s severe points of critique on the Plan’s previous version, as well as the declining confidence of the international financial community reflected by subsequent negative changes of various credit rating institutions.

Consequently, in the second half of 2006, the government put a number of major reform initiatives on the national political agenda, ranging from an across-the-table restructuring and downsizing of the public health and education systems to tax increases and the strengthening of the tax collection capacity etc. At the time of writing this paper, it is not clear to what extent these initiatives are intended to serve more than merely symbolic purposes, and to what extent it is going to

be possible to implement them given the strong legal-institutional and political constraints among which the government has to operate.

The involvement of the broader public in PMR debates has been, understandably, much more restricted, both in scope and in intensity; public management reforms, or improvements, are rarely headline issues attracting intense engagement of the broad public. This general attitude towards administrative reforms is strengthened by the fact that in Hungary, as is the case in most countries of the region, the overall level of citizen involvement in public affairs – in other words, the presence of civic culture – has been/is relatively low.

Consequently, most popular initiatives were related either to policy issues carrying significant welfare effects or having symbolic “loading”. However, throughout the period some exceptions to this general pattern appeared. A number of popular initiatives, often backed by mass media support, street demonstrations, and/or popular referenda (either local or national), were launched. These initiatives aimed at blocking or reversing governmental policies aiming at changing the existing framework of public service provision. Some examples of these policies include:

- In order to create economies of scale, transferring the provision of certain public services in localities having certain inefficient/ineffective service providers to regional and thereby closing local service facilities (e.g. primary schools and postal services in small villages, or of primary and secondary healthcare facilities in smaller localities);
- Some form of privatising the means of public service provision (typically, hospitals);
- Introduction of user fees for certain public services (university education, certain types of healthcare services).

On the other hand, public pressure to introduce – as opposed to block/reverse – NPM-style public management reforms has remained marginal throughout the period.

2.3 International organisations and the European Union

2.3.1 International financial institutions: the IMF and the World Bank

In the first years of transition, the IMF and the World Bank especially played a peculiarly emphatic role in inducing various types of management reforms (Barnes 2003).

In this first period of transition – lasting until the mid-nineties – this pressure was manifest, although to a varying extent, in all major fields of administrative reforms/policies; that is, in:

- (a) creating an administrative system compatible with the liberal democratic political system and with the challenges emanating from the radically new societal and economic context;

- (b) pursuing an agenda of a swift building up of a market economy (marked by such catchwords as “privatisation and deregulation”, or the “creation of an entrepreneur-friendly regulatory environment”); and
- (c) running a radical financial crisis management regime, the primary goal of which was the avoidance of the imminent fiscal breakdown in a time when economic collapse and sharply decreasing real GDP came together with hard-to-resist pressure to continue with the payment of the huge debt service to Western private and public borrowers.

While apparently being in line with the international mainstream of the time, many of these issues and policies stretch significantly beyond the conceptual scope of “public management reforms”. Wherever the exact line of demarcation between system change and PMR lies, the IMF and the World Bank played an instrumental role in enforcing a harsh regime in all the above three fields. The main vehicle of this influence was a series of conditional loans administered to a number of key segments of the public sector.

It is not possible here to draw a balance of the policy pursued by the IMF and the World Bank. Therefore, it is noted only briefly that, besides being undeniably effective in terms of its “main effects” – i.e. the significant compliance with the *modus operandi* of Western administrative and public service provision systems – it also created a number of seriously counter-productive side effects. Many of these effects are largely outside the realm of public management, such as the direct losses suffered due to huge capital/fund tunnelling or simply thefts having taken place in the course of the mass privatisation of SOEs, as well as the welfare losses brought about by the newly created (mostly foreign) monopolies.

However, from the point of view of PMR, it is more important to mention the counter-productive effects suffered by the government machinery. Communist government is often seen as an omnipotent actor unilaterally superimposing its will on practically all segments of society with reckless effectiveness. This view dominated exclusively, and to a significant extent still characterises, the way administrative transformation has been/is perceived by international actors. A logical consequence of this premise is that a strong rolling back of the state and the empowerment of individual (citizen and market) initiative is a primary element of the transformation (cf. Gajduschek and Hajnal 2003; see also e.g. Hirschmann 2003, Jacoby 2001).

While this view indisputably has some merit, it does not fit well with the reality of many post-communist countries of the seventies and the eighties, including that of Hungary. Pre-transition Hungarian government was not “large and strong”, but rather “large and weak” (Sotiropoulos 2002). Central policies were made and implemented, not by a remote and unquestionable authority but, rather, through complex and subtle bargaining and interest mediation processes involving many territorial, sectoral and organisational players (Kovryga and Nickel 2004). There-

fore, the governmental capacity – and especially the implementation/administrative capacity – was severely limited even before the transition.

Policies aiming at drastically downsizing and rolling back the state thus came in a situation where an already seriously incapacitated government machinery faced entirely new and historical challenges. In other words, instead of re-structuring the administration it was “de-structured”. In my view this is an important source of many long-lasting and destructive government deficiencies throughout the region, ranging from corruption to a striking inability of governments to act strategically and coherently and to an endemic paralysis of administrative (policy implementation and enforcement) apparatuses (Hajnal 2006).

2.3.2 *The European Union*

From the mid/late nineties onwards, important new elements have been increasingly emerging in the PMR landscape, the most important of them being the growing influence and visibility of the EU accession process on administrative arrangements. In an atmosphere of fierce and ideologically loaded political struggles, EU (and, to a lesser extent, NATO) accession was practically the only major issue, around which a relatively stable consensus of all parliamentary political forces could be created and maintained. (It was only in the last phase of the accession process that the centre-right opposition (FIDESZ) started to send ambiguous signals towards the EU accession’s dominance of the political agenda, coupled with the Commission’s constant and stringent monitoring, ensured that issues or requirements sealed by the name of the EU managed to get “muddled through” incomparably more effectively than almost any other type of policy.

However, much of these requirements belonged to the *Acquis* and thus lay outside the realm of PMR. After the creation of an EU conform local government system (1990) and civil service system (1992), the fundamental legal-institutional requirements of the EU in the field of public administration were more or less fulfilled. Therefore, EU pressure aiming at issues within the narrower domain of public administration showed a definitely decreasing tendency throughout the nineties.

2.3.3 *International donors*

There is little overarching and systematic descriptive evidence on the donors’ role in PMR, and this is especially the case with the analysis and evaluation of these activities (Gajduscsek and Hajnal 2003, Nunberg 1999). Nevertheless, on the basis of what is available, it definitely seems that in Hungary, international donor organisations – such as the EU’s PHARE, the USA’s USAID, the British DFID and a number of other donors – have been playing a significant role in PMR throughout the entire period. For example, in their work focusing only on (i) public administration related technical assistance (ii) with a major training component (iii) run by the four largest donors (iv) in the 1997–2000 period in four CEE/CIS countries, Gajduscsek and Hajnal (2003 p. 26) identified 90 such

technical assistance projects in Hungary, and 87 in Lithuania (the figures for the two non-accession countries covered by the research, Romania and Ukraine, were 13 and 10, respectively).

Western technical assistance has been, throughout the entire period, mostly oriented to transferring public management concepts and practices of the donor country to the recipient country. As a recent analysis of civil service training programmes found (Hajnal 2006), most donors' strategies (except PHARE) was built on the "fishery analogy": "If you give a hungry man a fish, he can feed himself for a day. If you teach him to fish, he can feed himself for life". However it is strongly questionable to what extent Western methods of "fishing" – often debated even in the international community and/or being inconsistent with other donor countries' practices – are transferable to an entirely different administrative, political and social context.

In sum, in terms of the effects of Western technical assistance, the picture seems to be rather mixed. Central elements of this picture include:

- (a) the uncoordinated/inconsistent nature of technical assistance which, coupled with donors' strong incentives to show a strong presence in the recipient countries, resulted in a "consultant crowding out" (Ahonen 2002);
- (b) the frequent irrelevance of Western "international/European best practice" accompanied by inadequate familiarity with the locality and an approach "oriented more to advocacy than to consultancy" (Buss-Vaughan 1995, de Vries-Sobis 2005 p. 136);
- (c) strikingly high operating and overhead costs paid for consultancies of the donor country, seriously decreasing programme efficiency and creating an image of donors "paying back money for themselves" (Hirschmann 2003, Prigozhin 2002).
- (d) Of course, it would be impossible to deny the range of problems on the side of aid recipients ranging from local corruption and even criminal networks, the general inability of the recipient governments to think and act strategically to the general opacity and unpredictability of the institutional and political context (Cooley 2000).

The resulting problem complex, being rooted largely in multiple principal-agent-problems on both the donor and the beneficiary side, often led to a situation that has been called "absurd" (Ahonen 2002) and to aid activity serving only symbolic purposes, yet where all actors were interested in continuing assistance activities producing costs far outweighing the benefits (Hirschmann 2003).

2.4 Cultural factors

2.4.1 *Rechtsstaat* versus public interest model

Although it is not easy to operationalise this concept of administrative culture, the core defining elements of a *Rechtsstaat* culture seem to include two central features (Pollitt and Bouckaert 2000 p. 53):

The first one is that in a *Rechtsstaat* culture the state is expected to fulfil a decisive integrating role in society. However, there are important, empirically rooted counter-arguments weakening this view. For example, Schröter (2000, pp. 211–216) provides, in the context of a two-country comparison, a convincing overview of empirical evidence supporting the view that the much of the difference between Germany and the UK – detected by Almond and Verba (1963) and coined as “subject culture” vs. “civic culture” – has, since the seventies, substantially diminished or even ceased to exist. In fact, nowadays, Germans seem to be less in favour of a strong state than are the British. Wherever the reality lies, it definitely seems that the question can and should primarily be analysed in a comparative empirical context, which stretches beyond the scope of the present paper.

The second defining feature of the *Rechtsstaat* culture is the presence of a large and distinct body of administrative law; and, in general, the dominant role of law and legalism played in the way the government thinks and acts. Indeed, legal thinking very much lies at the heart of government and public administration in Hungary. While this view would, probably, find relatively strong support among those having some comparative insight into the issue area, it is less easy to operationalise it in order to base it on empirical evidence. Three such empirical arguments seem worth being mentioned.

First, administrative law is, clearly, an insurmountable element of Hungarian governance.

Second, the way Law and Public Administration/Public Management relate to one another can be assessed on the basis of looking at how these subjects are studied and taught in academia. In this regard, Hungarian PA seems to be extremely legalist. A statistical analysis of PA-related academic programmes in 23 European countries identified three distinct clusters of countries: one characterised by a predominantly legalistic, one by a management oriented, and a third one characterised by an interdisciplinary approach to teaching PA. This analysis put Hungary, along with a number of Central/Eastern European and Mediterranean countries, into the group of countries characterised by an overwhelmingly (Public) Law-based approach to public administration (Hajnal 2003).

In analysing Hungarian administrative culture, examining the educational background of civil servants is also instructive. Empirical analysis of the subject³

3 Source: a questionnaire survey (based on personal interviews) of a nationally representative sample of civil servants (n=1000); the research was designed by György Gajduscek and György.

concludes that graduates of Law still play a pre-eminent role in the Hungarian public administration. This claim is supported by two arguments.

First, they are strongly (by about 100 % in 2005) over-represented in sub-sets of higher importance, such as (i) among civil servants in managerial positions and (ii) in ministries. It is particularly peculiar that in its days, in the Senior Civil Service consisting of the highest ranking civil servants, 57% of civil servants had a degree in Law (Gajduschek 2006 p. 605). Second, legal regulations make it clear that in practice, lawyers are definitely perceived as the most competent generalists of administration. Examples include the exemption rules on the so-called “specialised examination system” of civil servants compulsory for a large majority of administrators: only lawyers are exempted from the obligations of passing this – mostly legal type – exam. The situation is similar with the General Basic Public Administration Examination scheme (Gajduschek-Hajnal 2000).

In sum, on the basis of available evidence it can be concluded that Hungary lies much closer to the *Rechtsstaat* than to the public interest pole of the administrative tradition continuum. However, at the end of this brief analysis, a note of caution seems justified. A German, French or North European *Rechtsstaat*, naturally, differs from a Hungarian (or, for that matter, a Romanian or Greek) one in many respects. There is, however, a crucial difference possibly hampering the meaningful usage of the “*Rechtsstaat* vs. public interest” concept. Namely, deviations from the Weberian ideal of “law making – law enforcement” seem systematic and structural (as opposed to being chance errors or rare failures). In other words, the *Rechtsstaat* façade seems to cover a significantly different reality, whereby (i) legal norms are often trivially unable to serve any meaningful policy purpose as (ii) they were not intended to do so even by those having made them; but (iii) they serve latent purposes of small factions or of symbolic policy. Moreover, (iv) laws often are not implemented, as they were not even meant to be implemented – this would have often been clearly impossible anyway –, but the real content of the law is decided in the implementation phase, in which, factors such as state actors’ different interpretations of the law and conflicting micro-political interests, and selective/illegitimate law enforcement (or the lack thereof) play a central role.

2.4.2 Hofstede’s culture dimensions

The idea that national culture as conceptualised by Hofstede (1984, 2001) might play an important role in PMR is, compared to other concepts of administrative culture, relatively new (Schröter-Röber 1997, Hajnal 2005). Unfortunately however, up-to-date empirical data covering many European – among them most CEE and CIS – countries are less than adequate. With regard to Hungary, the country was not included in Hofstede’s original data collection. The original research was repeated in the eighties. This survey put Hungary, along with e.g. Germany and Austria, into the so-called “Well-oiled machine” cluster of countries, characterised by a strong avoidance of uncertainty and the relatively little power distance (Bakacsi

1998 p. 235; note that, for methodological reasons such as insufficient matching of the samples the comparability of these data is questionable).

3. Chance events

Throughout the past fifteen or so years, there were no major chance events (i) attracting intense media attention and (ii) exerting a serious influence on PMR. In 2006, however, several events occurred that might fall into the above category. This series of events is rooted in the leakage of the re-elected Prime Minister Gyurcsány's confidential speech held for Socialist MP's after his victory at the parliamentary election in Spring 2006. The speech contained a number of very clear references to the malpractices and culpable negligence of his government in the previous parliamentary cycle, most predominantly in the field of safeguarding fiscal balance and in reforming the way in which the central government's public administration and public services are managed.

This avowal came in the middle of heated political debates about the new government's reform initiatives in broad sectors of PMR affecting health services, public education, and central government HRM, to mention but a few. The leakage resulted in several weeks of fierce – and in some cases extremely violent – protestations by both the parliamentary and the extra-parliamentary opposition forces. As a result, the government's ability to act on political awkward issues in a strategically coherent manner has become even more restricted than it was before.

Another, possibly more significant event, is related to the reforms of the health care and the higher education system. In this field of PMR – playing a crucial role in Hungary both practically and symbolically – the first major decisions of the Gyurcsány government were reached at the end of 2006 and early 2007. However, a series of initiatives at popular referenda were launched with strong opposition party political support against these decisions. After the Constitutional Court decision – having declared these initiatives, to the surprise of many observers and experts, constitutional – the first referendum brought about a serious defeat for the government, so that the initial reform measures must have been withdrawn. This led to the breaking up of the governing coalition in Spring 2007 and to a Socialist-only minority government carrying forward the task of government.

4. Elite decision-making

4.1 What is desirable?

Regarding the central government level, one can make some general, impressionistic observations referring to the motivating factors of elites initiating administrative reforms.

Firstly, administrative reform measures aiming at, or (successfully) justified with, adapting to the requirements set by EU accession seem to have enjoyed, for most of the examined period, relatively unanimous and permanent political support by all segments of the political and administrative elite. Therefore, PMR initiatives

tied to EU accession in a recognisable manner usually enjoyed sufficient support to be realised without serious flaws or compromises.

A second, but possibly not less important driver of the elite's reform orientation has been fashion. This phenomenon is, of course, certainly not unique to Hungary. What might be more specific to Hungary (and possibly to other countries of the region as well) as opposed to other OECD countries' experience is the often totally symbolic nature of reform initiatives. In other words, while in many countries, fashion, or "international best practice", might have a serious influence on what means are selected to achieve specific objectives, in the Hungarian reform practice, the application of fancy means has become the objective itself, without anyone asking, even formally, what the expected result of the reform measure is or should be.

Another peculiar feature of Hungarian elites' orientation towards "international best practices" has been the very limited, selective and distorted or, in some cases, even fundamentally erroneous information and knowledge, on which their pursuit rested. While this observation rests largely on anecdotal evidence and the author's personal experience, some more tangible and documented examples include serious factual misunderstandings coded into legal texts about PMR (see the section on the content of reform packages).

The reasons underlying this phenomenon are manifold; they probably include the following:

- the very homogeneous – typically legal – educational background of (senior) civil servants (see Figure 1 above);
- their very limited – practically non-existent – work experience in the corporate world (among central government managers the mean proportion of lifetime employment in corporate or NGO organisations is as little as 8.5%, with a median value of 0.0%⁴);
- the fact that sources of policy advice on PMR have been, in most cases, limited to senior civil servants and a very small group of legal experts close to the administrative elite; and, finally
- the lack of familiarity with international trends and ways of thinking, linked to the low level of foreign language skills, puts many senior civil servants in an information enclave in terms of public management concepts and trends.

The third major driving force of the politico-administrative elite's reform pursuit can be characterised by such catchwords as downsizing, liberalisation, and maintaining macroeconomic balance. This strand of ideas is rooted in neo-classical economics and neo-liberal ideology best exemplified by the World Bank of the early nineties. This kind of thinking was represented not by civil servants but by prominent scholars and experts in certain executive political positions (mostly in

4 Source: the MKI (2005) data set, author's calculations.

the Ministry of Finance). This ideational trend was, most of the time, far from being dominant; however from time to time it yielded significant – in some cases decisive – influence in shaping PMR policies. One outgrowth of this factor is related to the more immediate and direct impact of business interests on administrative reform decisions. Albeit, it should be emphasised that this observation is, more than the previous ones, based on mostly anecdotal evidence only, it seems that especially the era of the second Gyurcsány cabinet (2006–2008) is characterised by the presence of certain PMR initiatives partly or possibly largely motivated by the lobbying activity of consultants and other corporate service providers (for example, in the field of civil service training, human resource management, and organisational development).

Finally, the fourth – and weakest – motivational element relates to the badly needed institutional reforms having been pending for many years, in some cases since the transition. However, proponents of these reforms – scholars, experts, and in some cases senior civil servants – remained, for most of the time, isolated and weak to exert a decisive effect.

4.2 What is feasible?

The feasibility of PMR initiatives – or, rather, the lack thereof – has clearly been a key issue throughout the entire period. There are some areas where there are clear and ostensibly insurmountable obstacles; but in other, similarly important areas, it is not easy to see why the success rate of PMR initiatives remained so small.

As for the first set of issues, the section on the political system has already given an insight into the reasons why the inertia of so many existing arrangements and policies remained so overwhelming. The liberal democratic Constitution adopted by the last communist government, as well as the political pact made by the leading political parties of the first Parliament, entrenched practically all major institutional arrangements by protecting them with qualified (2/3rds) majority voting procedure. These arrangements were intended to serve only on a provisional basis and clearly and desperately need(ed) some significant remodelling. However, the government very rarely managed to reach a political consensus strong enough to make the necessary changes. A few important exceptions include the change in the way local governments are elected (1994), the Law on Police (1994) and the constitutional modifications necessary for entering NATO and the EU (1998 and 2003).

Part of the institutional arrangements mentioned above – but standing out significantly in terms of its importance – is the role of the Constitutional Court in policymaking. The Constitution grants the Hungarian Constitutional Court very powerful rights, including (i) the right of *Actio Popularis* (that is, everyone has the right to turn to the Court), and (ii) the Court's right to give abstract interpretations of the Constitution. However, these rights were, in the course of the past 16 years, significantly broadened by the Court. As a result, the Court has become a very serious – and often unpredictable – factor in shaping government policies, whether they have a huge, lasting and tangible impact or are of a

more modest and symbolic nature. Examples include the nullification of some major elements of the Bokros package, aiming at the restriction of certain welfare services on the basis that these measures would have violated the acquired rights of welfare recipients.

An additional important obstacle of reforms was the lack of relevant expertise. For example, ex ante impact assessment of major pieces of legislation has been on the agenda since 1988. Such analyses are made compulsory by the Law on Legislative Procedure (1988) and have been promoted by a series of Government Resolutions on PMR since then. Still, both the supply (available expertise) and the demand (understanding and appreciation of analytical results) are so little that it is still quite exceptional that any sort of overarching impact assessment (let alone a classical cost-benefit analysis) is conducted. Problems of this type are sometimes exacerbated by the fact that the actual substance of the PMR measure pursued is not well understood, even by those executive politicians pursuing them.

4.3 Central/local elite dynamics

The dynamics of central and local elites has to be examined from two angles: political and administrative elites. This distinction is made because in Hungary the mobility between executive politicians and senior civil servants is quite limited.

With regard to the political elite, the general pattern is that there is a large and significant interplay and fluctuation between central and local elites. Parliamentary parties are very strongly based on, and influenced by, their own territorial units and, most prominently, by their leading local politicians (such as city mayors). The contrary is also true, although to a much lesser extent, but it is not rare that a leading figure of national level politics chooses to dip into local politics.

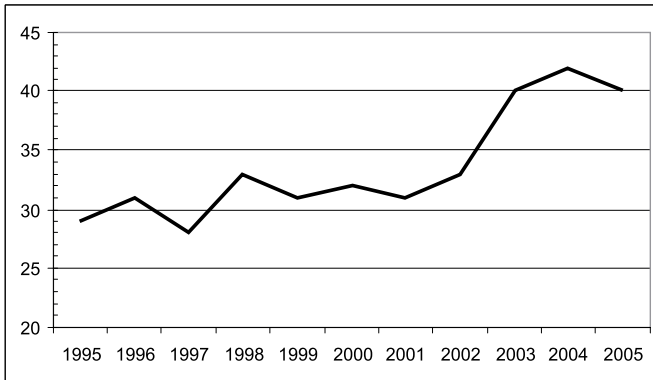
The situation may be somewhat different with regard to the administrative elite. Unfortunately, there are no empirical data shedding light on this question, and, understandably, the news coverage of the mass media does not help much either, since employment-related stories of senior civil servants rarely figure in newspaper headlines. However, on the basis of anecdotal evidence and expert judgement it seems probable that the central-local dynamics is limited.

This is especially so in the direction pointing from central to local administration: the salaries and the prestige offered by employment in local administration is significantly lower than those to be found in central government administration. Mobility might be more characteristic in the other direction. This might also be related to the fact that geographical mobility of the workforce from Budapest to other regions of the country is still extremely rare.

4.4 Corruption

Different forms of corruption have been a constant issue on the public agenda since the transition. The figure below charts Transparency International's country rankings given for Hungary in the past decade.

Figure 1
Corruption in Hungary



Unfortunately, there are very few encompassing and sound empirical results offering a descriptive insight into this field of phenomena. Therefore, it is not possible to say how different forms of corruption – maybe most interestingly, political versus street-level corruption – figured in the period at hand. However, on the basis of intuitive judgement, it seems that the former has been gaining constant and significant space at the “expense” of the latter. That is, while petty corruption is present in everyday life, to a decreasing extent wholesale corruption – usually with party financing in the background – is strongly, or even increasingly, present (see the decline in the country ranking from 2002).

5. The administrative system

The Hungarian administrative system has, from a formal-institutional aspect, all the features characteristic for Continental European administrative systems.

The central government sub-system is divided into ministries (currently, there are 15 of them). At the core of this sub-system one finds the Prime Minister’s Office, which is, contrary to its name, actually a large, chancellery-type organisation. Ministries are chiefly responsible for policymaking while most of the implementation tasks – especially those having a territorial dimension – are carried out by centrally supervised administrative organisations (so-called deconcentrated organs). However, there are important exceptions to the above role, such as centralised public procurement, which is located in the Prime Minister’s Office.

The local governmental system is a two-tier one. The territory of Hungary is sub-divided into nineteen counties, while the capital city Budapest has a special administrative status. Counties, as well as Budapest, have elected councils and self-governments having a broad task portfolio in public service provision. This upper tier of the self-government system is responsible, among others, for the middle level health and the secondary education services.

The lower tier of the local government system includes the municipalities (in Budapest, district local governments). They are governed by elected councils. Local governments are responsible for another broad set of public service provision tasks, including kindergarten, primary school, basic health, and local physical infrastructure services.

5.1 Contents of the reform package

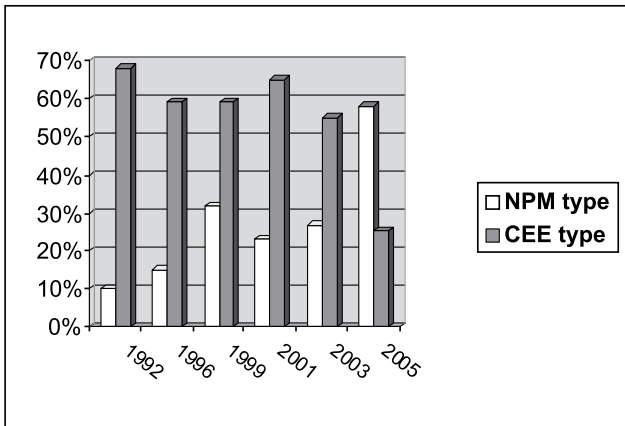
Much of what happened in the Hungarian public sector under the banner of PMR has been the result of dispersed, uncoordinated/"spontaneous" or decentralised ways, not packed neatly in any "reform packages". Since the primary focus of this report is the central government level, the difficulty is, to some extent, eased by the fact that a number of public management modernisation/reform initiatives of the government have been, throughout the entire period, announced in specific Government Resolutions on "Modernisation/Reform of Public Administration". In order to give a comprehensive and well-documented view of the reform packages adopted during the post-transition period, a computer aided qualitative analysis of these Government Resolutions was carried out. Some rough and tentative results of this analysis are briefly summarised below (for a more detailed analysis see Hajnal 2007).

In a temporal dimension, the overall level of "PMR activity", as measured by the number of reform measures, has been constant and high throughout the nineties. After 2001, this level decreased to less than 50% of previous levels. Within this general class of PMR measures, two broad classes can be identified.

- The first one has much in common with the well-known, major items of the NPM agenda, such as downsizing of the state, or introducing elements of agencification, quality management, performance measurement/management, or performance based compensation systems in the civil service.
- The second class of reform measures, coined "CEE specific", consists of items falling outside the scope of NPM reforms, but having some sort of relatively distinct "local flavour" as they reflect more the specific needs and/or determination of transition countries. This class includes such elements as – often *l'art pour l'art* – legal fine-tuning or legal-structural retrenchment of existing institutions, improving the bureaucratic workflow and control in administrative organisations, or measures to achieve EU conformity of certain institutions or policies.

When comparing the relative proportion of these two classes, one may conclude that the share of NPM-type measures within the overall set of reform measures, has constantly been significantly rising; this is plotted in the below figure.

Figure 2
CEE-specific codes



When looking beyond the main labels of NPM vs. CEE type reforms it seems that the composition of NPM-type measures has been changing throughout. In the nineties, the emphasis was on improving the quality of law-making and, more generally, of governmental decisions by employing various techniques of ex ante policy assessment. In the past few years, however, increasing emphasis has been put on issues of quality and citizen satisfaction and, more recently, to downsizing.

On the other hand, the composition of “CEE-specific” measures is relatively stable. It is interesting to note that only a very modest number of reform measures are justified by EU compatibility, although one should bear in mind that coding of the legal texts was based entirely on the explicit content, as opposed to the possible latent motifs of the policy makers.

The above analysis covered the government’s PMR agenda for the 1992–2005 period. From 2005/2006 on, however, the situation has sharply changed in several respects. Firstly, key decisions are no longer collated in Government Resolutions summarising the government’s PMR policy of the day. Rather, such decisions became the subject of numerous pieces of various types of legal measures as well as of semi-public and non-public documents such as strategy documents, operational programmes, and tender materials. Therefore, it became exceedingly more difficult to follow governmental decision-making in this field.

Secondly, there were significant changes in the actual PMR policy too. Namely, the post-2006 period saw unprecedented radical changes. In the absence of reliable empirical sources, it is difficult to give an exhaustive overview of these changes, but – on the basis of mostly anecdotal evidence – two elements seem to be central to them:

- Downsizing. There are no reliable consistent data on the extent of the downsizing that has taken place since 2006 in the central, territorial and local offices of central government administration. (It is emblematic that the very system of national HR data collection in the civil service – on which earlier figures on the civil service are based – having existed since 1994, has stopped operations since it was not able to follow the structural and procedural changes.) One may, however, take the risk in saying that the across-the-table decrease in civil service employment in the territorial and local levels was well into the two-digit range, in some cases possibly even achieving 30 to 50 per cent.
- Reforming the human resource management system. In 2006 a high level official, responsible for preparing and implementing new HRM practices, was appointed in the Prime Minister’s Office. Having arrived from the corporate world, his leading ideas were closely tied to radically breaking away from the “outmoded” career type civil service characteristic thus far, and introducing corporate practices coupled with a harsh deregulation of civil service practices, an elimination of legal protection of civil servants’ status, and a radical change in the ruling culture of the entire civil service. Although these and some other related measures managed to achieve a significant practical impact, at the end of 2007 he had to resign from his position, leaving much of the pending changes, as well as initiatives, already on track without political and professional leadership (some more details follow in the sub-section on implementation).

5.2 The implementation process

It is very difficult to evaluate, or even to simply describe, the implementation process of PMR policies as, apart from sporadic case studies of usually low quality and usually focusing on the local governmental sector, there is practically no empirical research on this topic. Moreover, the past 16 years encompassing four full parliamentary cycles with six different governments presents a very rich, complex and dynamic terrain for such empirical evaluations. Therefore in this sub-section only some small but peculiar parts of this “big picture” are briefly described as follows:

- (a) Transformation/creation of appropriate institutions;
- (b) Experimentation with NPM-style reforms at the central level;
- (c) Experimentation with NPM-style reforms at local governments.

Ad (a):

It is customary to divide the process of Hungarian administrative transformation into two epochs, the first one being characterised by the creation of the basic institutions compatible with a liberal democratic political system and a capitalist social and economic system, and the second one aiming at the improvement of the working methods and processes in order to develop their effectiveness and efficiency. Moreover, one can say that by the mid-nineties most of the first set of

administrative transformation tasks was completed: the structure of the central and its ministries, the legal and organisational preconditions of an impartial and professional civil service system, and the central and local level institutions enabling the operation of a democratically accountable local government system based on elected councils with broad responsibilities etc. were all in place. It is, therefore, the next, second phase of Hungary's administrative development that falls into the conceptual realm of administrative modernisation or reform.

Ad (b):

It seems that most central government level initiatives to introduce or expand the application of various NPM-style concepts or techniques have, so far, had only a marginal effect. Examples include the introduction/application of *ex ante* policy analysis in the drafting of significant legal acts, which has been, according to the Law on Law Making, an obligatory element of law drafting since 1988 and is an emphatic part of the modernisation programmes of 1999 and 2001 but, despite all these efforts, is still very rare.

Another typical example of implementation failures is the introduction of a compulsory performance appraisal and performance-related pay system in the entirety of the civil service amounting altogether to more than a hundred thousand civil servants. It is a telling detail of the story that this nationwide measure was "implemented" within a matter of three months, without any kind of previous familiarity with such corporate management techniques, and without any kind of *ex ante* analyses or methodological preparations on the part of the policy makers. It is not surprising, therefore, that performance assessment has become a totally formal exercise of mechanically producing large piles of papers not used or even read by anyone.

These, and other examples, seem to suggest that PMR initiatives' failure is structural in the sense that they are predictable and follow similar patterns. Moreover, these failures are, to a serious extent, already determined by the way these initiatives are decided and designed; that is, before actual implementation starts. Therefore, they are probably not explicable by the host of "implementation problems" (Wildawsky and Pressman 1984) but are rooted more deeply in the policymaking process.

As mentioned in the previous sub-section, PMR initiatives of the second Gyurcsány cabinet (2006–2008) took a route markedly different from previous reform initiatives. Gyurcsány brought in a set of newcomers to the public administration and the civil service. They were largely unfamiliar with "how the system works", either in theory or in practice. On the other hand, they had strong visions of how certain elements of the system could and should be changed following the leading ideals of (corporate) managerialism, and – both rhetorically and practically markedly characteristic – neo-conservative anti-statism and marketism. This type of PMR initiatives (mostly linked to downsizing and to managerialist civil service reforms; see previous section) enjoyed, contrary to almost all previous attempts

of reform, strong and enduring political support emanating personally from the Prime Minister.

It is not possible here to give even a rough and preliminary evaluation of this era and the series of PMR measures involved. Two tentative and conditional observations seem, however, possible to be formulated:

- PMR initiatives of the second Gyurcsány cabinet managed to be implemented – or, at least, to reach a practical effect – to an extent that had been unknown beforehand. This is true, irrespective of how one judges either the balance (benefits versus harm and damage brought about) of these changes or the extent, to which PMR practice conveyed what was promised or communicated by formal PMR measures and reform statements. One of these consequences seems to be that the “backbone” of the traditional Hungarian civil service carried by informal and personal networks and culture – irrespective, again, whether it is regarded as something noble or rather as something harmful – has been, possibly unrecoverably broken.
- Many of the initiatives tackled real problems. However, two general factors seem to have deteriorated the quality of implementation. First, key decision-makers’ expertise as well as the knowledge of the (legal, organisational, practical) context in which the measures were to be implemented was, in many cases, far too limited to allow for high quality decision-making (anticipating at least some of the – otherwise foreseeable – obstacles) and, most of all, effective implementation. Second, the intrusion of personal as well as of business interests and a low(ering) capacity of legal, administrative and political controls safeguarding against such factors might have diverted the actual implementation processes from the original intentions or stated objectives.

Lacking in systematic research or even basic empirical evidence, both of the above observations rest much more on impressionistic/journalistic accounts of, and anecdotal evidence on, PMR policies of the most recent period.

Ad (c):

Although the local government sub-system is not in the focus of the current investigation, it is worth to devote a brief paragraph to this topic since local government organisations offered the most fertile soil for experimenting with NPM-style reforms. From the end of the nineties an increasing number of local governments introduced ISO and, later, CAF systems. A much more modest number of them experimented with different performance budgeting and performance assessment/MBO-like systems. A major factor of this difference vis-à-vis central government PMR is likely to be local governments’ constitutionally protected right of deciding freely about their organisation and working processes, which is, of course, not the case for central government organisations.

5.3 Reforms actually achieved

Evaluating reforms from the point of view of their actual benefits is, of course, a difficult if not impossible task. Therefore the concept of “successful reform” is meant, in the context of this sub-section, as referring to a reform measure which seems to have achieved its immediate, formal objectives.

With regard to the first phase of administrative reforms – that is, institutional reforms aiming at the creation of the administrative preconditions of a liberal democratic political system operating in a capitalist socio-economic context – it has been more or less successful. This was especially the case during the first few years of the transition period when Hungary featured as the forerunner of administrative transformation in many respects; for example Hungary was the first to create a fully “European” local government system in 1990, or a similar civil service law in 1992.

The results of NPM-style reforms at the central government level were and are much more controversial. This controversy lies not in their effects. On the contrary, of the reform central government level initiatives having been implemented since the mid-nineties, it is difficult to find any one with a significant main effect (irrespective of the sign of the impact, i.e. whether it is positive or negative positive). It is only the side effects that are, on some occasions, significant. These include:

- the amount of resources spent on implementation (for example, the managerial working hours spent on administering individual performance assessments, or the amounts of training resources used for launching the system);
- the cumulative process of discrediting any sort of “reforms”, irrespective of their intentions or content.

Though there are, especially in the last four years, constant efforts to produce some kind of visible results in creating a customer-friendly administrative service. Concepts such as one-stop-shopping and e-government measures seem to come out best in this regard. However, on the other hand, it seems that while experimenting with fancy NPM techniques, often even the very basic classical bureaucratic virtues are missing from large segments of the central government machinery; e.g. basic coordination and information tasks are not carried out, structures and processes are often largely chaotic and anarchistic, reflecting the temporary interests and aspirations of different, conflicting (micro-)political and, more typically, personal power centres, and often even the most basic lines and mechanisms of bureaucratic accountability are missing on multiple levels of the system.

As to the latest set of PMR measures – rooted in the initial programme of the second Gyurcsány cabinet (2006) – it is too early even to attempt to identify the real effects and outcomes of reforms.

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Country public management reforms profile: Hungary

Dates	General	Organisation	Personnel	Finance
1989	<ul style="list-style-type: none"> Constitutional amendment establishing liberal democratic political institutions 			
1990	<ul style="list-style-type: none"> First parliamentary elections: Centre-Right coalition government Law on the Election of Mayors and Local Representatives First local government elections 	<ul style="list-style-type: none"> Law on Local Governments (LG structure and functions) Law on the Legal Status of Ministers and State Secretaries (depoliticised ministry structure) 	<ul style="list-style-type: none"> Law on the Civil Service applicable to those employed by any central or local government administrative office (establishing an impartial and professional civil service; the first one in CEECs) Law on Public Service (applicable to those publicly employed but not having a CS status – e.g. doctors, teachers) 	<ul style="list-style-type: none"> Law on the Public Household
1992				
1994	<ul style="list-style-type: none"> Parliamentary elections: Socialist-Liberal coalition government 			
1995	<ul style="list-style-type: none"> "Bokros-package": a series of radical – mostly downsizing – reforms affecting all government sub-systems 			
1996		<ul style="list-style-type: none"> Law on Regional Development (set up the institutions and procedures of regional development policies) 		

Dates	General	Organisation	Personnel	Finance
1998	<ul style="list-style-type: none"> Parliamentary elections: Centre-Right coalition government 	<ul style="list-style-type: none"> Strengthening the strategic role of the Prime Minister's Office within the central government. 		
2001			<ul style="list-style-type: none"> Modification of CS Law: introduction of performance assessment, creation of a Senior Civil Service 	
2002	<ul style="list-style-type: none"> Parliamentary elections: Socialist-Liberal coalition government 		<ul style="list-style-type: none"> Large (50%) salary raise of public servants (i.e. not civil servants) 	
2004	<ul style="list-style-type: none"> Law on Public Administrative Procedures 			
2006	<ul style="list-style-type: none"> Parliamentary elections: Socialist-Liberal coalition government re-elected 	<ul style="list-style-type: none"> New, unified legal regulation on central government organisation; strengthening the political leadership over ministries 		
2007		<ul style="list-style-type: none"> Radical downsizing of public administration personnel (the extent of which is not yet fully known) 	<ul style="list-style-type: none"> Strengthening the position-based (as opposed to career) system of the civil service; strengthening the performance related pay scheme 	
2007 – 2008	<ul style="list-style-type: none"> Attempt to introduce user fees in higher education and health care (the attempt finally failed as a consequence of popular referendum) 		<ul style="list-style-type: none"> Introduction of a competition type entry system and compulsory competitive calls for new positions and centralised HR selection functions (not yet completed) 	

Chapter 5

Public Management Reforms: Kazakhstan

Dinazat Kassymova, Colin Knox and Meirzhan Mashan

1. Socio-economic forces

Kazakhstan was formed as an autonomous republic within the Russian Federation in August 1920 and became the Kazakh Soviet Socialist Republic in December 1936. Kazakhstan declared its independence on 16th December, 1991 and joined the Commonwealth of Independent States (CIS). The years following independence have been marked by significant reforms to the Soviet command-economy and political monopoly on power.

Kazakhstan is the second largest (after Russia) of the former Soviet Republics with an area of 2.7 million square kilometres and a population of almost 15.3 million people living in a geographically diverse country bordered by Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan and the Caspian Sea (<http://www.un.kz/>).

About 53% of its people are Kazakh, 30% Russian, and the remainder multicultural. Although approximately 60% of the population is Muslim, religion isn't strictly practised and Islam is not a major political force.

The Soviet legacy left Kazakhstan in a significant economic and social crisis with hyperinflation and a drastic decline in its living standards. Allied to this, it was necessary to create circumstances which moved Kazakhstan from where it was, following the disintegration of the USSR, towards its stated goal of democracy. The fundamentals for a market economy did not exist, nor did political pluralism, a multi-party system, and an independent mass media or civil society.

Since independence, there has been a staged reform process: dismantling the previous Soviet control system; changes to the political system with its first Constitution; and a further evolution of the political structures through the 1995 referendum and new Constitution with the election of a bi-cameral Parliament (Kazakhstan Embassy, 2006). Kazakhstan is also working to modernise its legal/regulatory frameworks and standards with a view to joining the World Trade Organisation (WTO) in the near future. Many of Kazakhstan's laws which regulate external trade, for example, have been amended to meet WTO norms or are now under consideration by Parliament. Kazakhstan has been offered the chair of the OSCE in 2010. This amounts to international recognition of the achievements of the country's ongoing political and economic reforms. It is within this context which we now consider attempts to undertake public management reforms in Kazakhstan.

Kazakhstan can boast the leading economic position in Central Asia. It is the first CIS country to be assigned an investment grade rating. The economy of Kazakhstan is characterised by a high growth rate, an improvement in the living standards, and increasing welfare of its population against a stable socio-economic

Table 1
Kazakhstan – main economic indicators

INDICATOR	SCALE	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population	Millions of persons	14.90	14.87	14.58	14.87	14.95	15.08	15.09	15.40	15.57
GDP (current prices)	Billions US dollars	16.96	18.28	22.14	24.60	30.86	43.15	57.12	81.00	104.85
GDP (constant prices)	Billions US dollars	33.46	30.89	33.96	35.70	35.43	48.18	54.11	63.13	70.73
Gross National Income	Billions US dollars	16.35	17.15	21.01	23.51	29.09	40.38	50.94	59.18	78.28
Imports of goods and services	Billions US dollars	7.16	10.35	10.17	11.58	14.93	22.54	30.59	23.68	29.91
Exports of goods and services	Billions US dollars	6.77	8.98	10.40	11.59	13.27	18.77	25.49	38.76	48.35
Government expenditures	Billions US dollars	1.95	2.21	2.97	2.86	3.47	5.01	6.41	12.56	17.00
Budget Expenditures	Billions US dollars	3.29	4.13	5.00	5.27	6.72	9.46	15.89	17.90	25.32
Budget Revenues	Billions US dollars	3.74	4.05	4.95	5.23	6.87	9.47	15.48	18.54	23.56
Budget Deficit (-) or surplus (+)	Billions US dollars	0.46	-0.08	-0.05	-0.04	0.15	0.01	-0.40	0.65	-1.76
Corruption perceptions index	0 - 10 (10 = highly clean; 0 = highly corrupt)	2.30	3.00	2.70	2.30	2.40	2.20	2.60	2.60	2.10

Sources: <http://www.imf.org>, Agency of the Republic of Kazakhstan on Statistics, http://globalis.gvu.unu.edu/indicator_detail.cfm?IndicatorID=140&Country=KZ, www.transparency.org/surveys/index.html#cpu

situation (Table 1). The economy has been growing from 2000 at an average annual rate of almost 10%, one of the fastest in the world, and in 2006 GDP per capita is \$3440, more than 75% higher than in 2000 (Figure 1).

Kazakhstan's economic progress is closely linked to the rich oil and gas resources in the west of the country. Oil is, and will continue to be, the driving force of the economy and oil production is expected to more than double by the end of this decade (3m barrels per day estimated by 2015) with some 80% being exported. Oil recently began to flow through a long awaited pipeline from Kazakhstan to China. Kazakhstan is also about to become a significant producer of natural gas – there are plans for a trans-Caspian gas pipeline taking supplies to Europe.

The Government has created the conditions for attracting large amounts of foreign direct investment (over \$25b since independence) in its rich energy sector by restructuring its command-and-control economy to a more market-based system. The World Bank has listed Kazakhstan among the 20 most attractive countries for investment. Kazakhstan has developed a strong banking sector with 35 existing banks, 16 of which have foreign involvement. The banking system has earned a relatively high level of trust amongst the population and aspires to reach European standards.

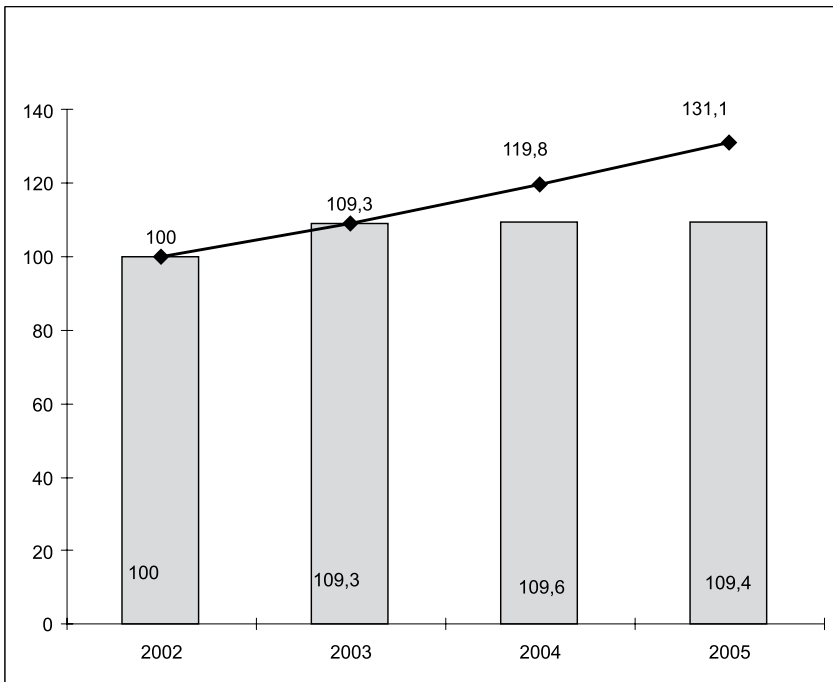
A European Union analysis cites several success factors in the transition to Kazakhstan's free-market economy:

- The creation of a sophisticated financial services sector (the most advanced in the former Soviet Union).
- Introduction of a private pension plan.
- Privatisation of the electricity industry.
- Civil service reforms (these will be considered in more detail).
- Decentralisation to give greater autonomy to local government in its 14 administrative regions¹.
- Creation of a national oil stabilisation fund which accumulated more than \$5 billion in oil revenue savings (European Union, 2005).

A World Bank (2006) assessment points out that the Government of Kazakhstan understands all the risks of its heavy dependence on oil and has developed a vision to achieve greater competitiveness and diversification of the economy with an emphasis on competition, investment climate, human capital and basic infrastructure.

¹ Kazakhstan 14 regions and two cities are: Akmola, Aktiubinsk, Almaty, Atyrau, East Kazakhstan, Zhambylskaya, West Kazakhstan, Karaganda, Kustanay, Kzylorda, Mangistau, Pavlodar, North Kazakhstan, South Kazakhstan, Astana City, Almaty City.

Figure 1
Index of GDP Growth



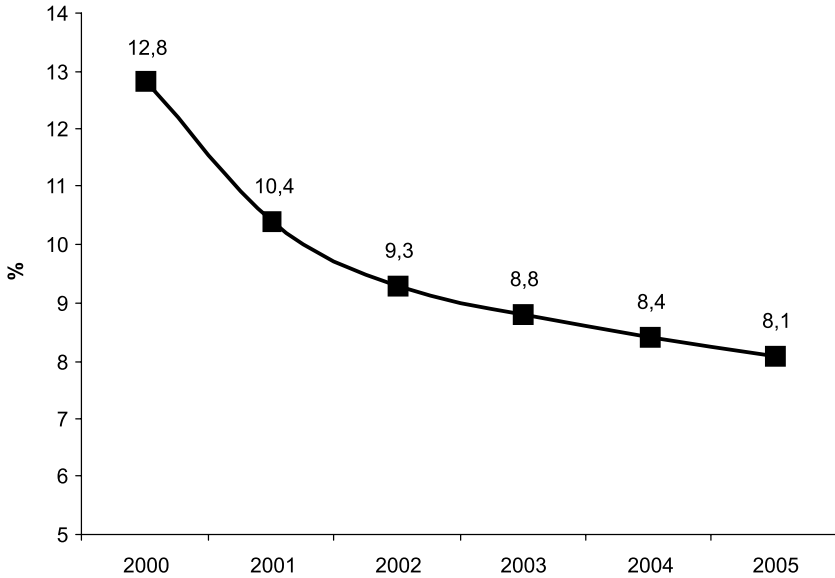
Legend: line – current prices, boxes standing prices 2002.

Source: Statistics Agency of the Republic of Kazakhstan.

Kazakhstan, as a small economy with a large fuel and mineral resource, is not really an attractive location for investments in manufacturing industries, which makes the country vulnerable to fluctuations in commodity prices. With large proceeds from extracting industries, the state and private entrepreneurs are less motivated to develop new sectors. The challenge for the Government of Kazakhstan is not so much the availability of resources but more using public and other funds efficiently and effectively to improve and expand infrastructure, enhance the quality of education, move to a modern market economy, particularly in rural areas, and dramatically improve its health indicators. Kazakhstan's response to these challenges takes the form of a long-term programme of diversification and modernisation – the Strategy for Industrial and Innovation Development 2003–2015, with a budget allocation of \$260m per year for its implementation. The aim of this strategy is to strengthen its research and technological innovation and production capacity, thus contributing to future competitive advantage. The strategy firmly recognises that mineral resources are exhaustible in the long run thus jeopardising sustainable development.

The labour market is characterised by a constant increase in employment levels and the reduction of unemployment rates. The number of unemployed people decreased from 690.7 thousand in 2002 to 639.3 thousand in 2005. The level of unemployment dropped from 12.8% in 2000 to 8.1% in 2005 (Figure 2).

Figure 2
Unemployment Trend



Source: Statistics Agency of the Republic of Kazakhstan.

In 2005, the average income of Kazakhstan's citizens increased threefold compared to 2003 (gross national income per capita is \$2,930). Minimum pension payments have reached \$70 per month and the average pension has exceeded \$95. Public expenditure on healthcare, science and education has increased significantly. These social improvements are happening within the context of an increasing population, a 9% increase since 2001, attributed to a baby boom and increase in immigration.

In the budget for 2006, the Senate and Majilis (the upper and lower houses of the bi-cameral legislature) increased funding for education by \$501 million, health care by \$286 million, social welfare by \$580 million and agriculture by \$92 million. The education system, in particular, has become a key priority.

The state's budget for education expenditure in 2005 was \$2000 million. This is intended to provide universal access to high-quality primary and secondary education, and skills training for all industries. To complement this investment, social

protection measures have been implemented for students to support them and their extended families during their studies. This is part of a wider reform programme entitled *Further Strengthening of Social Reform* aimed at improving social equity through a three-level social security system. Overall, in public expenditure terms, spending has doubled since 2002 for social welfare and social security programmes from \$1517 million to \$3180 million.

2. The political system

The key components of the political system of Kazakhstan are the state, political parties and civil society. The 1995 Constitution provided for ideological and political freedom and created a multi-party system. The most recent elections (September/October 2004) to the Majilis (the lower house of the bicameral legislature) resulted in an overall majority of 77 seats for the Otan Party which secured 42 seats (55 %) in Parliament. Aside from independents (who won 18 seats), the main opposition was the Civic and Agrarian Parties with 11 seats. Three other parties (Asar, Ak Zhol and Democratic Party of Kazakhstan) have limited representation (4, 1 and 1 seats respectively). Otan and Asar political parties merged in August 2006, exercising a much greater concentration of political power. The activities of the parties are regulated by the law entitled 'About Political Parties'.

Kazakhstan is a presidential republic. President Nursultan Nazarbayev, a hugely popular figure, was elected with 98 % of the vote on 1st December 1991, and a referendum in 1995 extended his term until December, 2000. In autumn 1998, he called presidential elections for January 1999 and was returned to office for a seven-year term. In December 2005, President Nazarbayev was re-elected for a third seven-year term receiving more than 90 % of the vote. Although the elections attracted negative commentary (Keesing, 2005) from the Organisation for Security and Co-operation (OSCE), the Caspian Information Centre Election Observation Mission, led by the UK's Lord Parkinson, concluded that 'at this election, Kazakhstan has taken a major step forward in becoming a full democracy' (Parkinson et al, 2005).

The first Kazakhstan Constitution (1993) promoted the separation of powers between the legislature, executive and judiciary with the President setting national policy priorities. The President is the Head of State and appoints the Prime Minister (currently Mr Karim Massimov, since January 2007) with the approval of Parliament. The bi-cameral parliament is the supreme representative legislative body and consists of the Senate (39 seats) and Majilis (77 seats). Seven senators are appointed by the President; other members are elected, two from each of the 14 oblasts, the capital of Astana, and the city of Almaty. Ten members of the Majilis are elected from the winning party lists. Elections to the lower House are conducted by universal suffrage. Elections to the Senate are conducted by indirect privy voting.

When President Nazarbayev convened his new Cabinet in January 2006, following his re-election in the presidential elections (December 2005), he set out the administration's priorities. He announced that the first of these was to modernise

the country's economy; the second to accelerate economic development; and the third to develop and implement social policies which would protect and assist the most vulnerable, whilst at the same time supporting economic development.

In addition, the President announced a process of democratic reforms. The *Commission on Democratic Reforms*, chaired by the President and comprising a wide range of civil and political representatives, was established with a reform agenda – the *National Programme of Democratic Reforms 2006 – 2011*. The programme is to be implemented in two stages. It will strengthen the system of checks and balances between the various levels of government; encourage decentralisation; provide transparency and openness in state bodies; increase the number of elective institutions; and improve electoral legislation. Already elections have taken place to regional akims and further reforms are planned for the redistribution of economic and executive functions. Administrative reforms continue on reallocating functions across a multi-level governance system. All of the changes resulting are being included in more than 130 legislative acts. Reforms focus on improving the legitimacy of the state and creating confidence in the authorities amongst ordinary citizens. At a general level, political modernisation is a key aspect of legitimising the state.

Beyond the agenda of internal political reforms, Kazakhstan is an active international player. Given its geopolitical position, Nazarbayev has said that the country should be oriented to both East and West. He promoted the concept of Eurasia², and Kazakhstan has joined the OSCE, United Nations, International Monetary Fund/World Bank and the European Bank for Reconstruction and Development. Kazakhstan is also an active member of the Shanghai Co-operation Organisation and the Central Asian Co-operation Organisation.

In his State-of-the-Nation address in 2005, President Nazarbayev emphasised Kazakhstan's continuing 'activist, multi-faceted and balanced' foreign policy, placing priority on relations with Russia, China, the United States and the European Union (Foreign and Commonwealth Office, 2005). In a later address (2006), President Nazarbayev set out seven priorities for Kazakhstan to enter the top 50 most competitive nations in the second decade of the 21st century. These included economic modernisation and diversification, improved education and social programmes, and a strong national security policy, in co-operation with world super powers.

Kazakhstan is working closely with international financial institutions such as the World Bank, International Monetary Fund, the European Bank for Reconstruction and Development, Asian Development Bank and the Islamic Development Bank in the implementation of market reforms and structural transformation. The European Union has been particularly influential in the reform of public administration within Kazakhstan. There have, for example, been several successful EU-supported programmes in areas of performance-based pay in the public sector, the introduction of budgetary reform, and the development of public service standards.

2 Eurasian Economic Community was established in 2000 to include Russia, Ukraine, Belarus, Kyrgyz Republic, Kazakhstan and Tajikistan.

3. Public administration/management reforms

In this part, we briefly explain the most important aspects of the reform agenda, the key measures involved, implementation process, and an interim evaluation of the results.

3.1 Reform preparation and implementation: key issues and actors

Top-down and elite driven reform

Kazakhstan, as a Presidential Republic, is an example of elite decision-making writ large. Political apathy by the people of Kazakhstan can, in part, be traced back to bad experiences in the late 1980/early '90s. The Kazakhstan economy suffered significantly from the distortion effects of the Soviet Union collapse. It was further hit in 1998/9 by the Russian financial crisis, low commodity prices and a poor harvest. Since 2000, the significant growth in the Kazakhstan economy is achieved through the President's leadership. With a reduction in grassroots political activity, political and economic initiatives came mostly from the top. As the economy strengthened, elite decision-making and the centralisation of power were consolidated.

The Kazakhstan Embassy (2006) contend that political reforms are underway which will transform the role of the political elite to include measures such as: an enhanced role for Parliament, cultivating political parties and civil society, building a free media sector, a more fair and transparent judiciary, and strengthening local governance arrangements. Hence, they claim, there is a determination to broaden the base of decision-making and the only real issue is the speed at which these reforms can be implemented.

Corruption

Kazakhstan was ranked 107th (out of 158 categories) in the Transparency International Corruption Perceptions Index (CPI, 2005) with a CPI score of 2.6 (10 = highly clean and 0 = highly corrupt). The index relates to perceptions of the degree of corruption as seen by business people and country analysts. Between 2004 and 2005 the corruption index shows an improving position (2.2 to 2.6), testament, according to officials policing corruption in Kazakhstan that things are improving as the outworkings of the law (*Struggle against Corruption*, 1998) take effect. In a similar positive vein, a UNDP report in 2004 acknowledged that Kazakhstan had made 'significant progress over the past decade in transforming its economic and political systems'. The report continued that 'establishing democratic government that is both equitable and effective has been one of the difficult and protracted components of Kazakhstan's transition to democracy and market economy' (UNDP, 2004: 28). Kazakhstan has created an anti-corruption legislative base and was the first country in the CIS to adopt a law *Struggle against Corruption*. Further amendments resulted in the ratification of a code of ethics for the country's civil servants and a government programme to fight corruption (2006–2010). In addition, a special government agency (financial police) was created to tackle economic

crime and corruption, working alongside disciplinary councils which monitor the activities of civil servants in all regions. Another step taken to fight corruption has been regular increases in the wage level of civil servants to obviate the need for malpractice. At a meeting (June 2006) of the high level Security Council, the President dismissed several senior officials for their involvement in corrupt practice and created an inter-departmental commission on anti-corruption. Significant steps have therefore been taken in the fight against corruption within the public sector including widely publicised disciplinary measures and official ‘punishments’.

Chance events: motivating citizens and civil society to act

The most obvious example of a chance or spontaneous event which has had a lasting impact on the decision-making process in Kazakhstan relates to the controversial issue of nuclear testing. Shortly after independence, a stark choice faced the people of Kazakhstan. On the one hand they could continue with the programme of nuclear testing which had inflicted significant environmental damage on the country and had long-term detrimental health consequences. There were key economic benefits to maintaining the status quo, not least at a time when the country was in recession. Importantly, retaining a nuclear capacity could well have placed Kazakhstan in an advantageous position relative to developed countries, some of which were in the market for such security options. On the other hand, Kazakhstan could opt to stop nuclear testing and ignore the economic advantages of continuing.

An unexpected development came in the form of the mass anti-nuclear movement Nevada-Semipalatinsk, which radically opposed continuance. This movement emerged spontaneously and, for the first time, exemplified a bottom-up mobilisation of civil society. Importantly for Kazakhstan, this impulsive outpouring of opposition against nuclear testing symbolised the strength of the country’s independence and the potential of civil society to influence a major policy decision affecting the whole country. Nuclear testing was stopped and more widely, this heralded the beginning of the NGO movement in Kazakhstan. Civil society has continued to influence the political decision-making process and bottom-up socio-economic reforms have grown, albeit slowly.

Even though Kazakhstan has witnessed a growing number of parties, political and civic movements, there is still a lack of political engagement. Citizens’ dissatisfaction with public services and growing levels of expectation are not the main source of public administration reforms in Kazakhstan. There are several strong interest groups such as the Council of Entrepreneurs and Council of Foreign Investors which act as a consultative body to the President and exert influence on national socio-economic policies and some key public management issues. In addition, the media sector has publicised cases of corruption and abuse or mismanagement in the public sector which have led to reforms.

New public management ideas

New public management (NPM) was never an explicit reform agenda in Kazakhstan. However, several NPM type ideas, mechanisms and tools (such as performance schemes, one-stop-shops, reducing the size of the state, privatisation, public private partnerships) were or will be incorporated into the national administrative system, as described in the following text. As the reforms are still in the early stage, the success of their implementation is impossible to assess at this point.

External forces

Kazakhstan, since independence, has shifted its market trading from the former Soviet Union towards partners in the EU, Switzerland, United States, Turkey, South Korea and China. Kazakhstan has more than 70 embassies, diplomatic and consular stations abroad and maintains good relations with its neighbours in Russia and China. It has also developed strategic partnerships with the United States and co-operation with many countries in Europe. As part of the President's goal to become one of the top 50 most competitive nations in the world within 10 years, Kazakhstan seeks to maintain sustainable economic development and gain access to the WTO on conditions beneficial to the country. Kazakhstan is also playing an active role in ensuring regional stability, promoting economic integration in Central Asia and creating a dynamic market around the Caspian and Black seas. The President has played a key role in strengthening regional structures such as the Eurasian Economic Community, the Conference on Interaction and Confidence Building Measures in Asia and the Shanghai Co-operation Organisation. President Nazarbayev has suggested that he would like ultimately to see his country join the European Union and the possibility of acting as a base state actively supporting EU-Central Asia relations and regional co-operation.

3.2 Public administration reform: contents

Modernising government has been a core element in the bid to reform the political process more generally. The aims of the public sector reform agenda, set within a long-term vision for Kazakhstan, are described in the official development strategy entitled *Kazakhstan 2030*³, and comprise the following main goals, further developed by specific documents:

- To increase the effectiveness of the government working collectively as a state organ and individually through the role of each minister.
- To implement modern information technology and eliminate bureaucracy in government bodies.
- To create an effective and optimal structure of state bodies.
- To restrict state interventions in the economy.

³ Presidential address on long-term strategy: *Kazakhstan 2030: Prosperity, Security and Improvement of Welfare of all Kazakhstan citizens* (1997). This provides the policy direction for economic development.

We consider each of these, accepting that these categories are not mutually exclusive, and the extent of reform implementation.

Improving effectiveness

Central to the improvement of effectiveness in the public sector in Kazakhstan is the role played by the civil service. Alongside the streamlining of ministries, civil servants will be required to improve the quality of public services and increase their professional skills, in return for which there will be a new system of job classification linked to rates of pay and greater social benefits for state employees. Productivity and effectiveness measures to capture the outputs of civil servants have been implemented from 2007. The uniform system of payments for state employees will be radically revised to reflect performance.

All of this requires a change of mindset amongst public sector officials and a customer-orientation. Moving from a paternalistic system of public services, where corruption and poor services are the norm, to a customer-focused public sector will not be easy but there are promising developments. For example, service standards have been developed (with the assistance of UNDP and the European Commission) alongside customer charters setting out what the public should expect in the delivery of public services, including feedback on their experiences as recipients.

Private sector quality standards are also being adapted for the public service (ISO 9000 – International Organization for Standardization). These standards will apply in areas which have attracted particular criticisms from citizens in the past and which have been prone to corruption such as licensing documents, registration of economic activities/businesses and the delivery of state programmes.

A new code of honour was introduced for civil servants in 2005, demanding certain standards of ethical behaviour and stricter penalties/disciplinary procedures imposed for officials found guilty of corruption. The government has also established the Agency for Fighting Economic and Corruption Crimes.

To assist in the transformation to better public services, civil servants will be given new training and retraining opportunities. A National Management School, attracting international partners and meeting quality standards, will be established within the existing Academy of Public Administration in Astana to train civil servants in contemporary public management reforms. A small but growing number of civil servants have also undertaken study trips and internships in European and American public sectors.

ICT and the elimination of bureaucracy

The government introduced an ‘E-Government Programme in the Republic of Kazakhstan 2005–07’ aimed at providing citizens and organisations with fast and reliable access to public services on-line. This has included the creation of a network of public electronic centres where people can be trained in accessing e-government services. This development is necessary because of the low number of people with

direct access to the internet in Kazakhstan (estimated at only 450,000 or 3% of the population).

Some \$400 million was allocated from the state budget to implement this programme. Most ministries now have an interactive web-site with information on their role/functions and offer a (limited) range of electronic services to the public. Examples of e-services include: filing tax returns and making payments, pension fund deductions, property registration, and setting up in business.

To complement these developments, four pilot 'one-stop-shop' centres are now operating in Almaty and Astana, offering citizens access to a range of public services information and services across several ministries and are proving to be both popular and effective in their role. These centres provide over 50 public services in one location including: the issue of identity cards, civil status statements, taxpayers' certificates, and land ownership/registration.

Not only has ICT been used to improve services to the public but it has also enhanced the internal operations of government. In January 2007, Astana became a pilot 'Electronic City' directly connecting to the administration, departments and services of the Akims. This will improve inter-agency working and ultimately make for a more coherent provision of public services at the various levels of government.

One of the reasons for the implementation of e-government is also to minimise and simplify the interaction between state bodies and the public. This, in turn, has the potential to address corruption and criminality amongst officials – reducing personal points of contact lessens opportunities for corrupt practices.

Effective and optimal administrative structures

In a parallel move, the administrative structures of government are being rationalised both at central and local government levels. There is now a strengthening in the role of local authorities (Akims) through a shift in functions from the centre. The authority of maslikhats, particularly in providing oversight of the activities of akims, will be expanded. All akims will have to report annually to their constituencies on the results of their work.

The devolution of power from the centre to local level demands the election of akims as a necessary step in strengthening the democratic foundations of the republic. A new legislative framework *Local Self Governing* is being developed which will enhance the status, competence and responsibilities of local government and define the relationship with state bodies. These changes envisage central government having more of a regulatory role and setting the policy framework with functions decentralised to executive bodies for delivery.

To this end, there is an ongoing process of rationalisation across ministries taking place to ensure a rational distribution of functions and elimination of duplication in central and local services. This is aimed at reducing bureaucracy and increasing

the quality of managerial decision-making. The number of political state employees will also be considerably reduced.

In the future, akimats and territorial departments of central executive bodies will play a greater role in public service delivery. Kazakhstan is accessing international experience of organisation design and strategic management in the public sector with a view to adopting or adapting the learning to its circumstances.

Restricting state intervention

The role played by the state in providing services is under constant review. Public-private partnerships are developing as an alternative mechanism to state provision and the potential for NGOs in directly, or in partnership, delivering hitherto public services is being realised incrementally. Moreover, a review is underway which is examining, with reference to international experience, both the role and management of state enterprises deemed to be of strategic importance to the economy of Kazakhstan.

The aim of this is to reduce the involvement of the state in functions/activities which could be provided within a competitive private sector environment. Current examples of privatising erstwhile state functions include medical help enterprises, centres for healthy living and medical transportation. Regional akims have been asked to open up over 800 non-core functions of local state-owned enterprises to competition. The emphasis is in the state divesting itself of functions which it believes could best be delivered by the private sector.

3.3 Preliminary reform outcomes

Whether the public management reform agenda which is now in place in Kazakhstan is able to deliver the changes necessary to modernise government remains to be seen, but there are encouraging signs of progress along the following lines:

- The state bureaucracy is being rationalised and attention focused on integrated service delivery (joined-up government).
- A review of pay and performance of civil servants which moves away from standardisation to outputs and quality of services provided is underway.
- Allied to the above development is the adaptation of private sector quality standards (ISO) to public service delivery.
- The performance of state bodies (a rating system) is being devised to improve public accountability.
- Corruption measures have been put in place to detect and punish public officials involved.

Kazakhstan has come a long way in a relatively short space of time. Economic reforms have been a priority and the quality of people's lives has improved as a consequence of significant macro-economic performances from 2000 onwards. The Kazakhstan people have placed an unwavering trust in their President. They

have been prepared, by and large, to put aside democratic reforms for stability and evidence of improvements in their standard of living, with the prospects of future administrative changes.

Public administration/management reform is one of the most significant elements of a wider agenda for political change. Public sector reforms are now seen as central to Kazakhstan 2030's long-term strategy which is endorsed by the President. Because the President symbolises elite decision-making and therefore acts as a driving force for reforms, then public sector reform will continue.

Larbi and Bangura (2006) have argued that the implementation of public management reforms is highly political because it redefines the power relationships between state and society, between politicians and bureaucrats, between service providers and users, and between different organisations. Public management reforms in Kazakhstan illustrate that there are moves towards broadening the base of elite decision-making with the introduction of new consultative bodies and a greater sense of bottom-up empowerment.

The decline in the number of political civil servants is evidence of greater professionalism in the public sector and long-term stability in the provision of independence advice to ministers. There is also an increasing customer orientation synonymous with new public management, and a changing attitude amongst providers with the introduction of customer charters and performance standards. At central and local government levels, public bodies are now charged with rationalising their functions to avoid duplication. In short, public sector reforms are catching up with economic advances. Quality public services are seen as an essential element in the improvement of people's lives.

The magnitude of the changes necessary will require a quantum leap in both the pace and substance of reforms. There is evidence that Kazakhstan has embraced a public sector reform agenda, which will require an increase in the pace of its implementation. Public management reforms in Kazakhstan can be summarised as a top-down reform agenda, underpinned by a stable economic base, and a compliance administrative system amenable to change.

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Country public management reforms landscape: Kazakhstan

Dates	General	Organisation	Personnel	Finance
<p>1991 – 1995</p>	<ul style="list-style-type: none"> • First general elections for President of the Republic of Kazakhstan. Nursultan Nazarbayev is elected President and Head of the State (1991). • <i>Declaration on State Independence of the Republic of Kazakhstan</i> - turning point in Kazakhstan's development - a legal, political and ideological document (1991). • Kazakhstan becomes a member of OSCE, United Nations (1992). • The first Constitution of sovereign Kazakhstan is adopted (1993). Constitution establishes Supreme Commission as legislative and representative body of the Republic. • Kazakhstan becomes participant in NATO (1994). • A new Constitution of the Republic of Kazakhstan is adopted (1995). This defines Parliament as the supreme representative body which carries out legislative functions. • Following Constitutional Laws adopted: <i>About the President of the Republic of Kazakhstan; About the Parliament of the Republic of Kazakhstan; About the Government of the Republic of Kazakhstan</i> (1995) • The first two chambers (the Senate and the Mazhilis) of Parliament of the Republic of Kazakhstan are elected (1995). 	<ul style="list-style-type: none"> • The Kazakh Soviet Socialist Republic (SSR) renamed <i>The Republic of Kazakhstan</i> (1991). • Constitutional Law <i>State Independence of the Republic of Kazakhstan</i> is passed by the Supreme Commission (1991) and separation of powers (executive legislative, and judicial) established. • The first stage of privatisation programme (1991 –1992). • The law on <i>Administrative and Territorial Organisation of the Republic of Kazakhstan</i> is adopted to ensure interaction between all branches and levels of state power. Administrative and territorial organisations also aligned with the Constitution of the country (1993). • The second stage of privatisation with participation of the World Bank (1993). The share of state ownership is reduced to 20%. • State Commission on Support for Business (1994) creates conditions for the development of private enterprise. 	<ul style="list-style-type: none"> • The President decrees that political activism and involvement in civil society organisations is prohibited within the offices of the Public Prosecutor, state security, internal affairs, justice, the state arbitration, courts and customs. (1991). • Committee of Supreme Commission guarantees political stability and democracy on inter-ethnic and religious questions (1992). • Committees on: State Financial Control; and Central Office to Fight Organised Crime and Corruption, are established (1992). • President's Decree establishes commission to tackle corruption, bribery and other criminal actions of officials in state bodies and government (1994). • New customs regulation code is authorised (1995). • The State Commission on National Policy set up to deal with issues such as culture, languages and multi-nationalism (1995). 	<ul style="list-style-type: none"> • The Law on <i>Banks and Bank Activities in Kazakh SSR</i> is adopted (1991). This led to reform of the banking system – private banks opened with foreign capital introduced. • State Committee on support for new economic structures and limitation of monopolistic activities is established by President's Decree (1991). • State Tax Service is established (1991). • National Agency on Foreign Investments established to attract large-scale assistance from international financial organisations (1992). • Introduction of national currency - tenge (1993). • Programme to maintain and further encourage macro-economic stability is published (1994).

Dates	General	Organisation	Personnel	Finance
<p>1996 - 2000</p>	<ul style="list-style-type: none"> • Presidential address on long-term strategy: <i>Kazakhstan 2030: Prosperity, Security and Improvement of Welfare of all Kazakhstan citizens</i> (1997). This provides the policy direction for economic development. • Capital of Kazakhstan changed from Almaty to Astana (1997). • State Programme on <i>Struggle against Corruption: 1999-2000</i> is approved (1998). • Nursultan Nazarbayev is elected the President for a second term (1999). • Decree on <i>Measures to Strengthen the Independence of Court System</i> adopted (1999). 	<ul style="list-style-type: none"> • The third stage of privatisation. • The law <i>About Privatisation</i> (1995-1999) sees 85% of industrial output in the private sector. • The law <i>About Political Parties</i> (1996) regulates activity of parties and creates a multi-party system. • The Law on <i>Political Parties</i> is adopted (1996). • National Council on Sustainable Development is formed (1997). • A new structure of the Government of the Republic of Kazakhstan is registered (1999). 	<ul style="list-style-type: none"> • The Law on <i>Struggle against Corruption</i> is adopted containing disciplinary measures and outlining the responsibility of officials before the law (1998). • The <i>Agency on State Service</i> is established to create a system which will ensure fair promotion of government employees on the basis of objective criteria (1998). • <i>Academy of Civil Service</i> established to train professional cadres (1998). • <i>Civil Service Law</i> adopted which establishes entry to administrative public service through a competitive procedure and strengthens the social - legal protection of the administrative civil servants. (1999). 	<ul style="list-style-type: none"> • Programme of actions to encourage further economic growth (1996-98) published (1996). • The law <i>About the Budgetary System</i> (1996) creates conditions for macroeconomic stability. • National Fund in support of needy citizens is established (1997). • Pension reforms introduced (1998). • Law on <i>Budget System</i> (1999, with amendments in 2003) introduces new mechanisms of inter-budgetary relations.

Dates	General	Organisation	Personnel	Finance
<p>2001 - 2005</p>	<ul style="list-style-type: none"> The Law on <i>Not-for-Profit Organisations</i> adopted. First step towards the recognition of the role and place of NGOs (2001). Registration of the non-governmental organisations greatly simplified. <i>Strategic Development Plan 2010</i> becomes development strategy for ministries, departments, oblasts and national companies (2002). Civic Forum - first congress discussing relationship between state and NGOs (2003). <i>Innovative Industrial Development Strategy 2003–2015</i> formulates state economic policy, and aims to support sustainable development through diversification of the economy (2003). Presidential address <i>Towards a Competitive Kazakhstan: Competitive Economy, Competitive Nation</i> (2004) Nursultan Nazarbayev is re-elected as President for a third term (2005). Key conference on implementation of democratic reforms. <i>National Commission on Democratization and Civic Society</i> to prepare the initial legislative framework and coordinate the final adoption and enactment of the political reforms package (2005). 	<ul style="list-style-type: none"> Law on <i>Local governance in the Republic of Kazakhstan</i> adopted (2001). Law on <i>Local State Government</i> to differentiate the powers of local representative and executive authorities adopted (2002). Law on <i>Local Self-Government</i> to strengthen institutions of civic society adopted (2002). Law <i>About Political Parties</i> adopted (2002). Programme of territorial development approved (2003). Decree on <i>Formation of Electronic Government Kazakhstan 2005–2007</i> to improve quality of, and access to, government services by citizens (2004). <i>National Programme of Democratic Reforms</i> approved (2005). Develops local self-governance, strengthens the political authority of the legislative branch of government, and introduces elections of local governors (2005). Elections of akims (local governors) introduced (2005). 	<ul style="list-style-type: none"> Centre for computer testing civil servants set up (2001). National education action plan approved <i>Education for All</i> (2003). The Code of Honour regulating professional standards for civil servants is adopted (2005). Changes to the Law <i>About Public Service</i> made in a bid to tackle corruption (2005). Creation of <i>One Stop Shops</i> (comprehensive public service centres) (2005). 	<ul style="list-style-type: none"> Tax reforms (2001–2004). Decrease in the rate of VAT to 15%. Major debate on developing the financial sector in Kazakhstan (2003). Programme on <i>Increasing the Effectiveness of State Property Management and Privatisation</i> for 2004–2008 approved (2003). <i>State Programme for Development and Support of Small Business 2004–2006</i> approved (2003). <i>Programme of Governmental Support for Non-governmental Organisations 2003–2005</i> approved (2003). <i>Programme for Poverty Reduction 2003–2005</i> approved (2003). <i>Programme of Further Intensification of Social Reforms 2005–2007</i> approved (2004). Formation of insurance funds involving state, employers and citizens. <i>State Programme of Household Development Business 2005–2007</i> approved (2004). <i>Programme of National Standardisation and Certification Systems 2004–2006</i> approved (2004). Transition of Kazakh enterprises to ISO international standards.

Dates	General	Organisation	Personnel	Finance
2006	<ul style="list-style-type: none"> • Presidential address <i>Strategy for Kazakhstan to become one of the top 50 most competitive countries</i> (2006). • State Commission on <i>Development and Implementation of the Programme of Democratic Reforms</i> (2006) to prepare legal framework for reforms as precursor to entry in WTO. 	<ul style="list-style-type: none"> • The Law on <i>Modification and Additions to some Acts of the Republic Kazakhstan</i> clarifies the differentiation of powers between levels of the government (2006). • Elections of akims of raions (heads of areas) (2006). In 30% of regions of the country (45 areas and 10 cities), elections of local akims are planned for a term of 4 years. 	<ul style="list-style-type: none"> • Programme of administrative reform begins: professionalising government; reduction in state machinery; increase in the salary of civil servants; statistical data improvements; transfer of functions to the competitive market (2006). • Decentralisation (2006) - the election of local governors (akim) in rural districts, villages, and settlements. 	<ul style="list-style-type: none"> • State programme (2005–07) extends range of social reforms with the introduction of 'a living wage' based on universal principles.

Chapter 6

Public Management Reforms: Kyrgyzstan

Nuripa Mukanova, Damir Bisembin

1. Socio-economic forces

Kyrgyzstan is one of the poorest, least developed countries and, according to the Transparency International Corruption Perception Index, it is among the group of countries with the highest corruption levels (166). Kyrgyzstan is a highly indebted country, the external debt of which has reached 62% of GDP in 2007. According to the 2007 data of the Ministry of Finance and the World Bank, GDP per capita is 718 USD, the nominal monthly rate is 114 USD and the average pension per month is 31.5 USD. Inflation has increased from 2.0 in 2002 to 10.3 in 2007.

Because of the lack of finance, the government had to shift priorities in education, health and the social protection of citizens. With regard to education, it had to reduce the duration of compulsory education from eleven years to nine years and shift much of the responsibility for financing public primary and secondary education to local governments, with the exception of teachers' salaries and maintenance cost (heat and electricity), which are covered by the state (republican) budget. Schools are allowed to raise money from parental contributions and from the rental of facilities and other income generating activities. Students are required to buy their textbooks. These changes, although they kept schools in operation, resulted in a lack of essential teaching and learning materials, lack of qualified and experienced teachers, unfilled teaching positions in many areas, dropping out of school (circa 20,000 children) and non-attendance for a significant part of the school year. These school-based impediments are reinforced by low household incomes, generating capability, and thus contributing greatly to lower school attendance, low support to schools on the part of the community, affordability of textbooks and learning materials by low income students, and generating child labour (as many as 23 000).

In the health sector, the focus has been shifted to primary care and public health services through community-based health promotion initiatives. In almost all cases, service delivery interventions are initiated and financed by donor agencies, therefore there is concern about institutional and financial sustainability. The case study on the operation of the Millennium Development Goals for Health (see later text) states that the country managed to maintain and improve primary care coverage levels. However, access to health service has decreased in 2000–2004 from 11.4% to 8.6%, due to the cost of the services and remoteness of health providers, especially in rural areas.

The quality of Safe Motherhood¹, newborn health programmes, Integrated Management of Childhood Illnesses (IMCI) nutrition and harm reduction programmes for the prevention of HIV/AIDS is relatively low. The child mortality indices (IMR) and under-five mortality (U5MR) rates have increased since 2004 (25.6 and 29.7 per 1000 live births respectively). However, there is a huge disparity across the regions. In some cities and regions (Osh city and Batken oblast), IMR and U5MR are higher than the national average (34 and 38.3 per 1000 live births respectively).

In 2003–2005, the country managed to improve immunisation coverage by 98.7% (99% for measles and 98% for DPT)². However, there is concern about the fiscal sustainability of immunisation since this is entirely funded by donors. The situation with outbreaks of such infections as brucellosis, typhoid, acute intestinal diseases, and acute viral hepatitis is severe and mainly connected with the poor economic situation in rural areas, in particular, the poor performance of the Ministry of Agriculture's functions, i.e. a lack of pure drinking water or its low quality.

The Structural weakness of the economy is anticipated to be tackled through persistent structural reforms and an improvement in the efficiency of public sector decision-making. This includes a further reduction of the state's interference in the economy and promoting private sector development, deregulation and expediting the process of enterprise restructuring. The civil service reforms - a further enhancement of the legal and regulatory framework - complements these efforts. The efforts being made are to accelerate the process of privatisation and restructuring of large state-owned enterprises and an improvement in external debt management.

The Government made major efforts to reach an agreement with the International Monetary Fund (IMF) and the World Bank (WB) on reviving the second annual arrangement with the Enhanced Structural Adjustment Facility (ESAF) programme, which went off track in 2004, due to the failure to meet the programme targets. Under the new programme, the Government will strengthen its efforts in macro-stabilisation and deepen structural reforms. Monetary policy will continue to be tight in order to restrain inflation and a further depreciation of the som. The restructuring of the banking sector is a key element for restoring public confidence in the som and the domestic financial system. Current expenditures will be kept in line with programme commitments and the Government intends to significantly reduce the size of public investment programmes to conform to Poverty Reduction Growth Facility (PRGF) requirements. Managing its external debt will pose considerable problems to the country in the coming years and the IMF has identified the need to reduce borrowing. The Kyrgyz Republic has established sound foreign relations with other countries and many international

1 The maternal mortality rate has reached 61 cases per 100 000 live births in 2005 in comparison with 2000 (48.2), 2002 (58.4), 2003 (53.1) and 2004 (46.4).

2 UNICEF data.

organisations and groups during the last decade. It has entered the Central Asian Custom Union with Kazakhstan, Tajikistan and Uzbekistan, so as to co-ordinate joint actions in economic reforms and foster economic integration. The Kyrgyz Republic also became a member of the recently-created Eurasian Economic Community, which also includes Russia, Belarus, Kazakhstan and Tajikistan. Most importantly, Kyrgyz Republic became the first WTO member in Central Asia in December 1998. Trade relations with 102 countries are built mainly within the framework of the World Trade Organisation. The main trade partners amongst CIS countries are Russia, Kazakhstan, Uzbekistan, Ukraine, Tajikistan; and with countries outside the CIS such as the United Arab Emirates, China, Switzerland, Germany, Canada, USA and others.

Table 1
Kyrgyzstan principal import destination, mln USD

	1998	1999	2000	2001	2002	2003	2004	2005
Russian	204.1	109.4	132.6	85.1	116.7	176.1	293.7	378.9
Kazakhstan	75.3	72.7	57.4	81.8	123.9	170.9	202.9	174.4
China	44.4	36.9	36.9	48.5	59.1	77.7	80.1	102.9
Uzbekistan	122.2	50.0	74.6	66.7	60.1	39.2	51.9	60.1

Source: Ministry of Finance.

The low competitiveness and poor quality of goods produced in the republic limits both local and export sales. The balance of trade deficit at the end of 2003 was 133.4 million US dollars; in 2004 – 171.2 million US dollars; within the first six months of 2005 – 151.6 million US dollars and in 2006 – 380.0 and 2007 – 734.0. The foreign trade turnover of the republic, after the financial crisis from 1998 to 2001, decreased. In 2001, the export-import indices were the lowest compared with the previous five years. However, from 2002, a growth in these indices has been observed. The trade turnover in 2002 increased by 13.7% and in 2003 growth was 19.2% (1,298.7 million US dollars). In 2005, the export relative weight with regard to GDP decreased to 28.1%, and the import relative weight increased to 45%.

Table 2
Kyrgyzstan principal export destinations, mln USD

	1998	1999	2000	2001	2002	2003	2004	2005
Russian	83.7	70.7	65.1	64.5	80.0	97.0	137.7	134.4
Kazakhstan	85.5	45.0	33.4	39.0	36.8	57.1	87.3	116.1
China	15.7	25.3	44.1	19.4	41.1	23.3	39.3	26.6
Uzbekistan	38.5	46.6	89.4	48.0	27.8	16.3	14.7	17.1

Source: Ministry of Finance.

One of the factors that favourably affected the macroeconomic situation in the republic was the ongoing growth of the world economy. The most crucial factor in world economy development from the point of Kyrgyzstan was the considerable growth of the Russian economy (on average by 7.1%), Kazakhstan (9.1%) and China (9.4%). This growth positively affected the external economic development of the Republic. But, in general, heterogeneous trade and monetary policies, the problems with trade co-operation between the countries, transportation connection problems and problems in the coordination of boundary and custom services did not lead to the sustainable development of trade relations with neighbouring countries.

Table 3
Main trade commodities (% of total), 2005

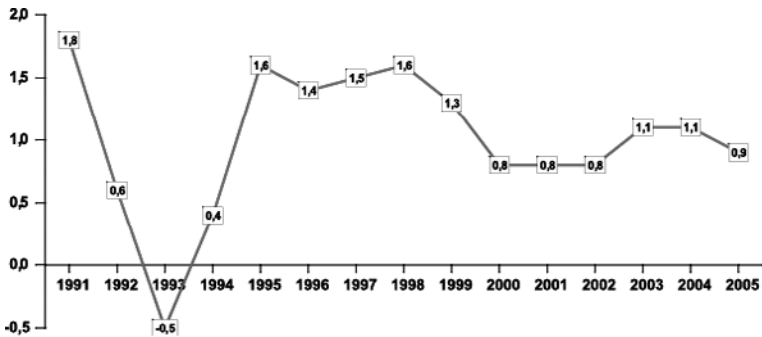
Export of goods (f.o.b)	100%	Imports of goods (s.i.f.)	100%
Dairy products, eggs	2.4	Grain crops and cereals	3.2
Fruit and vegetable	2.9	Sugar and sugar products	2.5
Metal ore and scrap metal	2.5	Petroleum and oil products	23.8
Petroleum and oil products	8.7	Car gasoline	9.5
Gasoline for planes	7.0	Gasoline for planes	9.5
Energy	3.0	Gas, natural and artificial	3.0
Glass	4.9	Natural gas in gasiform	2.8
Electric machinery, apparatus, devices and their spare parts	2.9	Medical and pharmaceutical products	5.1
Filament lamp	2.3	Drugs	3.9
Cars	2.6	Woven fabric and thread	2.1
Dresses and dress stuff	3.5	Special machinery for different economic sectors	5.8
Gold, non monetary (except gold ore and concentrated products)	34.3	Communication equipment and sound recording devices	2.4
		Electric machinery, instruments, devices and spare parts	3.0
		Cars	3.7

Source: Ministry of Finance.

1.1 Socio-demographic issues

As a result of positive changes within the demographic structure of the population, the average annual rate of growth in the population was 0.9% by 2005. The increase in the population is mainly the result of the birth rate increase and a reduction in external migration; however, the migration outflow from the republic was about 280 thousand in the last five years and this process is ongoing.

Figure 1
Population growth, 1991–2005

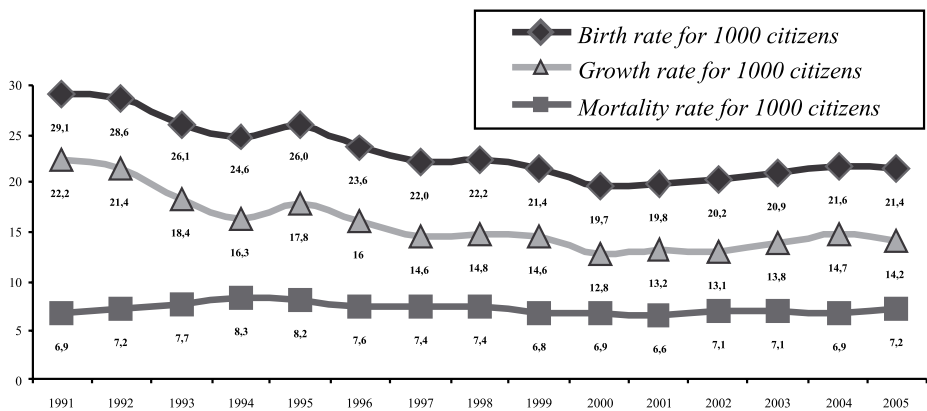


Source: Ministry of Health.

Consequently, the total number of the population of the Republic has increased from 4.5 million people (1996) to 5.1 million people (2006). The share of the female population has slightly decreased from 50.7% (1996) to 50.4% (2005). The share of the male population has increased from 49.3 to 49.6% (2005). Due to internal migration, the share of the urban population has increased from 34.9% (1996) to 35.09% (2005).

Sustainable birth rate is conditioned by an increase in the birth rate itself (21.4 in 2005, against 20.9 in 2003) and an increase in the number of females between the age of 20–29, and the death rate decrease.

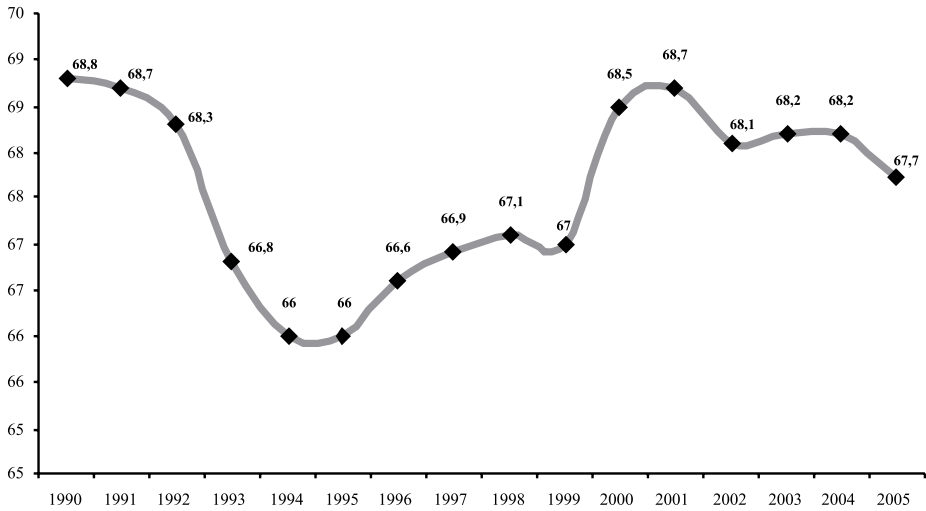
Figure 2
Overall Birth & Death Rates, 1991–2005



Source: Ministry of Health.

The mortality rate increase became the condition of life expectancy rate decrease. Life expectancy for men is less (63.8) compared with women (71.8). According to the World Bank Report, improving adult mortality from various causes including non-communicable diseases and trauma is likely to improve life-expectancy by 5.67 years.

Figure 3
Life Expectancy at birth, 1990–2005



Source: Ministry of Health.

According to the 2002 Labour Force Survey, the current Kyrgyz labour market is presented by a 2,115,597 (56.3%) economically active population out of which 1,850,101 are employed and 265,496 are unemployed. The distribution of the employed population is: 40.8% work for various enterprises, state and private organisations and institutions and the private sector, and 59.2% are self-employed, mainly in rural areas, at the subsistence level or as an unpaid family worker.

The following features characterise the current labour market³:

- Current high levels of unemployment, under-employment and inactivity;
- Significant numbers of workers (40%+) currently make ends meet through subsistence, agriculture or self-employed actives;
- Large numbers of discouraged and inactive individuals (35.6%+) of working age;

³ Labour Market Policy Development. EC TACIS Project, 2004.

- Limited access of socially disadvantaged and disabled persons (41,000) to employment;
- An educational system biased against employable skills, and a VET system poorly configured for providing skills;
- A job-matching system, dealing with only a fraction of jobs, and few offers of additional support.

Table 4
Employed population by main activity

Main Activity	Total		Urban		Rural	
	Number	%	Number	%	Number	%
Enterprises, organisations and institutions	715,971	38.70	354,959	55.60	361,012	29.80
Hired by separate citizens	142,232	7.70	101,736	15.90	40,496	3.30
Sole entrepreneurial activity	235,203	12.70	142,516	22.30	92,687	7.70
Farm	441,057	23.80	6,441	1.00	434,616	35.90
Personal subsistence / agricultural plot	315,637	17.10	33,233	5.20	282,404	23.30
	1,850,100	100.00	638,885	100.00	1,211,215	100.00

Source: National Statistics Committee, 2002.

It is difficult to gain an understanding of the unemployment situation, due to a lack of effective data and the different approaches to the measurement and definition of unemployment. Latest data suggest that the formal/ILO unemployment rate reached a peak of 9.9% in 2006.

However, these 'official' figures seriously underestimate the true level of unemployment in the economy, especially when the impact of the informal economy, discouraged workers, subsistence agriculture and under-employment are taken into consideration.

Table 5
Levels of unemployment 1993–2005 by %⁴

Indicators	1993	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Unemployment rate (%) ⁵	1.7	7.8	5.7	5.9	7.2	7.5	7.8	8.6	8.9	9.0	9.9	9.9

Source: World Bank & updated by National Statistics Committee.

⁴ In accordance with the strict ILO concept.

Unemployment figures, according to the National Statistics Committee, demonstrate that unemployment amongst young people is more pronounced than amongst older people – most notably amongst the age groups 20 to 24 (60,460) and 25 to 29 (43,599)⁵, with unemployment being more pronounced in urban rather than in rural areas (19.6% v 8.3%).

In 2003–2005, only 10% of those unemployed were entitled to receive unemployment benefits⁶ from 250 som per month (US\$ 7/€5) to a maximum of 1,000 som; this sum has remained constant since 1999 despite rises in inflation. Outside the Bishkek area these benefits are still paid in kind, in the form of flour and other food products. The majority of the long-term unemployed and all young people entering the labour market are not entitled to unemployment benefit.

According to a survey conducted by Baltic Surveys/The Gallup Organisation (October 7–25, 2006) 52% of citizens indicated that unemployment and poverty has a cause-and-effect relation.

1.2 National socio-economic policies

From the day of its independence, the country initiated and implemented various reforms. However availability of resources and implementation capacity of state entities were question marked. The country provided more entitlements (universal health care, basic and higher education) than the country can afford. Thus, the key Kyrgyz national economic policy was shifted to a public resource management policy. In view of the country's low income and high poverty levels, enhanced growth is the most fundamental requirement for progress in poverty reduction, consistent with fiscal and external sustainability. Reforms in the public sector are crucial, thus encouraging and facilitating the development of the private sector, while ensuring that available public resources are efficiently targeted to the most socially vulnerable population. The necessity to strengthen the fiscal adjustment process and accelerate public sector reforms are reflected in the Medium-Term Budget Framework (MTBF) for 2006–2008, 2009–2011.

In order to increase urgently required social spending, whilst simultaneously reducing the budget deficit, the government-accepted priority is the introduction of more flexible budgeting, focused on budget outputs rather than inputs. Achieving the dual goals of budget consolidation and poverty reduction require far-reaching improvements in strategic planning by spending agencies, flexibility of budgeting practices and improved prioritisation, targeting and programming of budget spending, as well as eliminating malpractices in budget execution. Practices such as incremental budgeting, separation of capital and recurrent costs, use of protected budget line items, lack of transparency of “special means” revenues and quasi-fiscal expenditures in the energy, transport and agriculture sectors worsen the trade-off between deficit reduction and poverty management.

5 The figure for 15 to 19 age group is 35,440.

6 Entitlement is based on one years work during the previous three and a 0.5% contribution to the Population Employment Fund.

However, ministries and state agencies are not likely to take the MTBF seriously until the annual budget formulation process is aligned more closely to the MTBF and the budget execution process is strengthened, not simply in terms of reducing the deviation from the approved budget, but also in terms of transparency and accountability in budget execution decisions. There is also an issue of the Ministry of Finance not exerting itself properly with regard to the quality of MTBF submissions. For example, The Ministry of Agriculture submission for the MTBF 2006–2008 does not meet the MOF requirement to specify the strategic objectives, including results as well as the relationship between inputs, outputs and outcomes. It is perhaps a capacity issue (lack of policy development capacity) on the one hand and on the other hand, taking into consideration the strong donor involvement, there is a massive need for the Ministry of Finance to send the right message to ministries and state agencies regarding its seriousness in moving to a results-oriented budget formulation.

2. The political system and administrative reforms

The basic principles of the state administrative structure of the Kyrgyz Republic were defined by the first Constitution of the independent Kyrgyz Republic, adopted on May 5, 1993. The Constitution was amended several times during Akaev's regime through referendums; the last amendments were inserted in 2003.

The instability of the economy has manifested itself in a rather insecure political environment, resulting in the removing from power President Akaev and his government on March 24, 2005, and subsequent demonstrations during a year-and-a-half after this revolution. A mass protest took place in Bishkek from November 2 to November 9, 2006 and was organised by the "For Reforms" movement, the leaders of several political parties and parliamentarians of Jogorku Kenesh, demanding a launch of constitutional reforms in the country.

As a result of the "For Reforms" political demands, a new Constitution was adopted, which curtailed the presidential powers and gave more authority to parliament. With the adoption of a new Constitution, a slight optimism has appeared that the economic and political climate will change for the better following the recent dramatic events.

The new Constitution came into force on January 15, 2007 and the next 6 months were dedicated to developing and implementing mechanisms of change. As Jogorku Kenesh stated, it has to revise as many as more than 130 primary and secondary legislations in compliance with the requirements of the new Constitution.

The people of Kyrgyzstan, by adopting a new Constitution, are committed to "support national revival and an improvement in the state system, taking into consideration that the unity of the Kyrgyz people is the basis of the country's stability and consent in compliance with the commandment of its ancestors to live in unity, peace and concordance".

According to the Constitution, the Kyrgyz Republic is a sovereign, unitary, democratic and social state. The people of Kyrgyzstan are the sovereign bearers and the only source of state power.

The Parliament of the Kyrgyz Republic (Jogorku Kenesh) is a representative and legislative body of the Kyrgyz Republic, consisting of 105 parliamentarians elected for five years. A citizen of the Kyrgyz Republic of male or female sex, who has reached the age of 25 by the day of the election, who has the right to take part in elections and has permanently resided in the Kyrgyz Republic for a period of 5 years before his/her nomination as a candidate for deputy, can be elected as a Deputy of Parliament of the Kyrgyz Republic. A Deputy of Parliament has the right of inviolability. A deputy cannot be delayed or arrested, subjected to a search or personal examination, except in cases where he was discovered in the act. The calling of the deputy to criminal and administrative account, imposed in the legal order, is allowed only by the agreement of Parliament of the Kyrgyz Republic.

A citizen cannot be elected as a Deputy of Parliament if he/she has a criminal record for the crime committed, unless such record had been expunged and cancelled in an order prescribed by law.

The Parliament of the Kyrgyz Republic, based on the number of its deputies, creates committees, temporary commissions, and elects their chairmen. A deputy of Parliament can be a member of only one committee or commission.

The executive power in the country is exercised by the government of the Kyrgyz Republic, 11 ministries, 4 state committees and commissions, 15 state agencies, 3 state inspectorates, Chamber of Accounts, Social Fund, State Custom Committee, their regional subdivisions and 7 local state administrations. The Government of the Kyrgyz Republic is headed by the Prime Minister. The Prime-Minister Apparatus includes his deputies, Heads of Units and Departments.

Since 2007, the government of the KR has been formed by the political party "Ak Jol" that was able to get 50% of votes for Jogorku Kenesh. The candidacy for the Prime Minister was suggested by the leading party "Ak Jol", and then appointed by the President. The Prime-Minister, after his(her) approval, forms the structure of the government and selects individual ministries and heads of state bodies. The structure, individual ministries and heads of state bodies are then subsequently approved by Jogorku Kenesh upon submission by the Prime Minister.

The legal system of the Kyrgyz Republic was shaped and developed within the framework of the Soviet state law. The legal system of Kyrgyzstan, since acquiring independence, has some features of the French legal system (as regards the state structure), as well as the legal system of the Russian Federation. The first part of the Civil Code of the Kyrgyz Republic came into force on May 8, 1996 replacing the previous Civil Code of the Kirghiz Soviet Socialist Republic dated 30.07.1964. The second part of the Civil Code of the KR came into force on January 5, 1998.

The New Civil Code of the Kyrgyz Republic, as one of the main primary legislations of the country, consists of general statements and regulations of civil-legal relationships; the law of property and other proprietary interests; obligatory rights, including separate kinds of insurance; the law of intellectual property; inheritance law; application of norms of international and private law to civil and legal relationships.

The Kyrgyz law on political parties was enacted in 1999. The law sets out the definition of the political party as follows: “It is an association (union) of citizens on a voluntary basis that have common objectives and tasks aimed at facilitating the political will of a certain group of citizens, and participation in running the state (public administration) through its representatives in Jogorku Kenesh (Parliament), local self governance and other bodies of representation”. As of today, there are 44 different political parties in the KR that undertake their activities in compliance with this law. A political party can go through legal registration if it has at least 10 people within its membership. As a result, political parties are dwarf parties, mainly concentrated in the capital city Bishkek, with no representation in the regions. The political parties can actively affect the government’s capacity to respond to the needs of civil society through election to the Parliament and for the post of the President.

The President is elected by the majority of votes of Kyrgyz citizens. Up until 2007, Jogorku Kenesh was elected, based on candidates’ nominations by regions, villages, cities and parties. As a result, large and influential families and clans were able to nominate their representatives to the highest legislative organ of the republic. Political parties had difficulty competing with families and clans, as the 2005 election to Jogorku Kenesh illustrated. One of the main prerequisites of the March Revolution was citizens’ dissatisfaction with the way Jogorku Kenesh was elected. At that time, the President Bakiev promised to make crucial amendments to the Constitution, one of them being: political parties will play a more sensitive role in the election process.

2.1 International organisations: main force behind administrative reforms

In Kyrgyzstan, all reforms including Public Management Reforms, are driven by international donor agencies as described by the Country Landscape (Annex one). Administrative reforms in the country were initiated in 2001. However, for the first time, Public Management Reforms as a government priority were articulated in the Comprehensive Development Framework up to 2010 (2001) and then reflected in the National Poverty Reduction Strategy (NPRS) (2003). Both documents were developed with the deep involvement of the World Bank and the active participation of other donor agencies. Apart from those two strategic documents, a Public Management Strategy was developed in 2003 that focused on the basic mechanisms needed for the creation of a system of public administration. That was the first attempt to reshape the state functions and separate them from the

functions of local self-governments and the private sector; it was an attempt to build a professional civil service and to improve the institutional capacity of state bodies; it was an attempt to develop an inventory system of existing legislation through a careful review of the law making and law drafting processes; it was an attempt to match the state budget with the capacity of state bodies to execute objectives and goals set in Country Development, Public Management Strategies and other crucial documents.

Apparently, all of the above mentioned attempts answered the question “What”? Therefore we need to turn our attention to ‘How’? And basically, to ask the question whether those mechanisms are realistic and if the implementation is coherent. Searching for the answer ‘How’ gives rise to another question “Why”? Why, in spite of attempts to build up cheaper and more efficient government public management reforms did it fail to produce the claimed benefits?

The approach to reforms in the country is very legalistic. Decision-makers think that if a good law is in place, the reform process will go smoothly. Unfortunately, the reality is so different from this assumption. Passing laws and regulations is a relatively easy thing. But their implementation requires a commitment to change, which cannot be taken for granted in a society where citizens have to struggle to survive. Laws, regulations and other policy tools will work if there are sufficient people who want them to succeed. Therefore, it is of the utmost importance to look at the question of who has an interest in having an effective public management system in our society and how might they be more involved in such reform efforts. The question then is how can they become a catalytic force for change and what is the legitimate role of donors in this? At present, donors have to work with state bodies whose staff, by virtue of the nominal power they seem to have are resistant to anything which seems to threaten that power, in particular, the power of patronage and spoils (Young, 2006). Each ministry is a separate principdom, and the minister does not want to lose his (her) power. The elite want to live today and have all types of benefits today, because tomorrow his (her) life can change completely due to the loss of his/her position.

On the other hand, there are too many, at least 5, donor agencies sitting around an individual ministry. In such a situation, the application of “best global practice” is almost meaningless. As a result, aid dependency brings huge problems of project coordination and project ownership as approval is given to whatever is likely to bring in the money (Polidano, 2002). Those projects are built upon the “client’s needs”, identified for the government, rather than as a response to the needs and demands of the present day. A vivid example of such donor agency support was when money was given to support the government in meeting the conditions of the World Bank or IMF.

2.2 Role of citizens

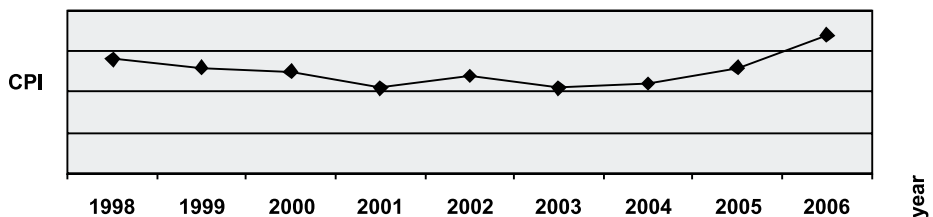
Kyrgyz citizens are very passive where the access and quality of goods and services provided by ministries and state agencies is concerned. Focus Group Discussions

with end-users revealed that rural citizens (more than 70%) still do not have any clear ideas about the functions and tasks of ministries and their regional subdivisions; what to expect from them; what issues can be solved by central ministries and what issues can be tackled at the level of village community (aiyl-okmotu). The findings of the FG meetings justify the discrepancy between the volumes of demanded and delivered services and the lack of a proper information and feedback system. In this situation, it is difficult to expect citizens' intervention in a positive way, thus greatly contributing to improving the service delivery by ministries and state agencies.

Many donor projects support civil society to make its life sustainable. However, the inability to improve life, forces citizens to be very active in a political sense. 2005–2006 were years of revolution, strikes and demonstrations. Strikes and pickets became a way to dialogue with the government and a way of solving social-economic problems aggravated by a lack of employment opportunities, internal migration and housing needs of young people etc.

One of the most remarkable sightings in Kyrgyzstan in 2005–2006 was a group of people in front of Government House insisting on the resignation of the President and the Prime Minister. Through this form of protest, certain groups of citizens, mainly representatives of big clans and families, put pressure on the President's Administration and Prime Minister's Office when they did not agree with the appointment or dismissal of governors, senior civil servants and top political positions, decisions of Jogorku Kenesh. This causes a feeling of instability and insecurity and as a result, many small and medium businesses moved away from the country, thus aggravating the economic situation more and more and driving the country into despair.

Figure 4
Transparency International Corruption Perception Index: Kyrgyzstan



According to the “Agency 24” survey (2005), trust in the government is very low. 54.41% of all citizens demanded the resignation of the President and 38.5% demanded the resignation of the Prime Minister. 48.69% of citizens do not trust the President against 5.2% who do trust him and believe that the President will be able to change the life of the people for the better. 41.42% of respondents believe that the President will not keep his word and will do nothing rather than initiate

certain actions. These figures justify that during the election of the President, Bakiev will be able to obtain the votes of citizens (70%) due to a tandem with Kulov. Unlike the President, 25.4% of citizens trust Prime Minister Kulov against 14.1% who do not trust him.

Table 6
International Corruption Perception Index (ICPI) in selected countries

Country	Rating of the country		ICPI	
	2003	2004	2003	2004
Armenia	78	82	3,0	3,1
Russia	87	96	2,7	2,8
Kazakhstan	101	125	2,4	2,2
Kyrgyzstan	118	126	2,1	2,2
Ukraine	111	129	2,3	2,2
Georgia	127	136	1,8	2,0
Tadjikistan	128	138	1,8	2,0
Azerbaijan	125	140	1,8	1,9

Source: www.transparency.org

From the question of whose interests the government serves, 79.8% of respondents think that the President serves the interests of his family and clan and 57.67% believe that the Prime Minister serves the interests of the middle-class.

It is not surprising that political parties and NGOs use mass demonstrations as a sign of distrust in the government (however, communications between the opposition and the government look like a conversation between the deaf and dumb). There are diversified approaches and attitudes to this event; however, it showed that society is different and that civil society is more active and is not willing to wait another 15 years for the life of ordinary people to take a turn for the better. As the Baltic Surveys (2006) revealed, 70% of citizens consider demonstrations as the only way for social protest in the country and 67% of citizens are potential marchers. However, the majority of citizens veer towards a more civilised way of expressing protest, i.e. they are against capturing the White House and overthrowing the President, or burning cars and looting.

Apart from political parties, there are 11,154 non-government organisations that secure civil society's active participation in public administration. Those NGOs have their headquarters mainly in the regions (i.e., in small Naryn oblasts, there 37 registered NGOs), carry out the most tedious work and provide assistance to needy people (pensioners, orphans, unemployed, invalids, single mothers, and others) thus filling in the gap produced by the improper and inefficient activities of state bodies (N. Mukanova).

2.3 Political parties

There are a few political parties that have political platforms, programmes and affiliations in the regions, of which are: the Social Democratic Party headed today by Mr. Almaz Atambaev (former Minister of Economy, ex Prime Minister), Ata Meken (Homeland) headed today by Mr. Omurbek Tekebaev (former speaker of Jogorku Kenesh) and the “Democratic Forces Union” headed today by Mr. Kubat Baibolov (ex. Parliamentarian), established in November 11, 2005. It should be noted that most of the high officials and Members of Parliament have their own political parties that serve their own interests. Therefore, the political parties are dwarf parties, and citizens do not rely on them.

It is mainly teachers, doctors, scientific researchers and youths who represent the “Democratic Forces Union”. The party has regional representations in each oblast. The party’s main platform has evolved out of the political demands of citizens to change the Constitution and the public management system as a whole. The party offers drastic changes in the electoral system and legislative procedures rather than cosmetic repair of the government structures. They suggest introducing these changes not today, not tomorrow but starting from 2010. Meanwhile, the party will focus its attention on public awareness, new members’ enrolments and expanding its activity in the remote parts of the country. DFU draws to civil society’s attention the necessity for changing the form and essence of governance. They believe that political, economic and constitutional crisis in the country is caused by the drawbacks of the Presidential model of governance.

The DFU political platform, with regard to public management, is as follows:

- Constitutionally-balanced division of authority between legislative, executive and judicial powers and their equal responsibility and accountability for their actions, and reporting to Kyrgyz citizens as the only bearer of sovereignty and source of public power;
- Publicity and transparency of decisions made by state bodies with regard to public management for the sake of individuals and society’s interests as a whole;
- Comprehensive reform of the judicial and legislative systems, structures and functions of law-enforcement entities;
- Abolition of overlapping state entities and their sub-divisions, thus improving their regulatory functions;
- Reducing the maintenance cost of government officials (vehicles, cell-phones, excess in furnishing offices);
- Strengthening accountability for target use of budget funds.

3. Public administration reforms, main ideas and problems

An important step in the public administration reform process was the enacting of the Law “On Civil Service” in November 1999. Later, this law was revised, amended and approved in November 2004. The law was an important step forward in developing a modern legal framework governing the rights, obligations and conditions of service related to civil servants. After the enactment of the Civil Service Law, the government developed a number of secondary legislation (regulations) necessary for the implementation of the Law. The law distinguishes the civil service from public service. According to the Law, the civil service constitutes state bodies, responsible for executing state power as mentioned in the Constitution. It relates to the Ministries, State Agencies, State Committees, State Commissions, Oblast and Rayon level State Administrations and is separated from teachers, healthcare workers, uniformed services, workers in State Owned Enterprises and others (public service).

The following years were dedicated to the streamlining and implementation of the adopted Law on Civil Service and relevant by-laws and regulations and uniform application of these legal provisions across the public administration. Guidelines on the application of new methods of management in governmental organs, including a Job Catalogue, Training Needs Assessment and Civil Service Training Policy, were prepared.

The Civil Service law introduced the position of State Secretary, which is defined as the highest civil service position rather than a political position. A State Secretary cannot be changed with a change in minister or heads of state agencies, state committees and commissions. The State Secretary has the same status as the First Deputy Minister. The State Secretary is recruited on a merit selection basis approved by Prime Minister resolution. The State Secretary, in accordance with the functions assigned by the law on Civil Service and the Regulation on State Secretary, is responsible for the implementation of a unified government policy with regard to the civil service and sectoral policy, the issues of human resource management, public finance and financial management.

The next needed steps included the revision of existing laws and regulations on the civil service to improve the systems for career progression, recruitment, attestation, performance appraisal, rotation, ethics etc., setting up a Civil Service Management Agency responsible for the implementation of the laws and regulations, reorganisation of ministries (carried out on a pilot scale with the support of UNDP and EC – Tacis), public expenditure management reform, and the development of an administrative procedures law. To cope with this task, the government agreed with the World Bank to obtain a Governance Technical Assistance Credit (GTAC) in 2003, which was released in three tranches (in 2003, 2004 and 2005). The World Bank provided technical assistance to the value of 9.4 million USD through Government Structural Assistance Credit (GSAC) to support the Government in meeting the conditions of GTAC.

One of the guiding principles of the public administration and civil service reform is the creation of a competent civil service staff that possesses adequate knowledge, skills and right attitude for undertaking their duties. Training and retraining of civil servants is used as the main tool for the capacity building of civil servants, which will enable them to respond to the new requirements stemming from the government's changed responsibilities and tasks. The Academy of Management under the President of KR (Academy of Management) is the key civil service training institution in the Kyrgyz Republic, which coordinates the civil and municipal servants' training and upgrading across all educational establishments and the regions. In June 2001, the Institute for Public and Municipal Administration was founded under the Academy of Management. The Institute consists of the Department for Public Administration and Local Government and the Centre for Retraining of Public and Local Government Servants, which was established in January 2004 by government decree. A civil service training policy was developed, which clearly states that reform activities must be accompanied by some degree of training, or re-training, simply because such an activity, by definition, requires change, and the people working in the organisation, or organisations, subject to reform should be assisted to adapt to those changes. In line with this policy, the training of staff is shaped to adapt the key personnel of ministries, agencies and central offices to new techniques and technologies that were not in use before, but which are widely agreed to be necessary to improve the process of management, especially to make it more economical.

Further public administration/management reforms required strengthening the effectiveness of the State, improving the transparency and responsiveness of the public sector and increasing efficiency, effectiveness and accountability within the public sector through the improvement of the legal and regulatory framework applicable to the public administration as a whole.

As indicated, subsequent administrative reforms in the country were initiated in 2001. Public management strategy was developed in 2003. Implementation of those reforms was secured by launching UNDP and EC TACIS projects. In compliance with the above-mentioned strategy and in line with administrative reforms, the ministries and other state agencies were expected to increase their efficiency towards service delivery to citizens. It implies optimisation of the ministries' structures, their performance improvement, clear definition of their functions and tasks, and job description of staff.

Despite some achievements, the civil service of the Kyrgyz Republic still suffers from a number of shortcomings. The main problems can be summarised as follows:

- Existence of institutions whose functional and organisational structures have not been reformed to meet the requirements of the present-day Kyrgyz society;
- Need to create new organs and institutions from scratch that can perform newly defined state functions;

- Incomplete and unreformed legislation governing the rights and obligations of civil servants, with particular deficiencies in distinguishing between elected and appointed civil servants, and in specifying practices in the areas of pay policy, leave, recruitment and ethics;
- Lack of capacity of civil servants to respond to the new requirements stemming from the government's changed responsibilities and tasks;
- Prevalence of widespread corruption within the state administration due to various reasons, including lack of transparency, unaccountability and poverty;
- Weak, or at least, under-utilised human resource management capacity within the public administration;
- Professionalism of the public administration also hinges on certain important issues, such as low wages, lack of incentives and a lack of possibilities for improving professional capacities.

3. 1 Decentralisation

The decentralisation strategy was approved in 2002 and by its contents, was more an analytical paper than a practical one. The strategy highlighted the existing problems as follows:

- Poor and contradictory legislation;
- Insufficient state support for local self-governments;
- Inefficient financial mechanisms and regulation;
- Low-skilled municipal officials;
- Undeveloped social mobilisation;
- Lack of mechanisms for inter-sectoral cooperation.

The emphasis in the 3 years since that strategy was published has been on bringing forward improved legislation, including a very crucial Law on Local Self-government, and the Law on Economic and Financial Base of Local Government. The latter was aimed at introducing a new local government budget system which would allow municipalities to break away from the clutches of the local state administration (LSA). Unfortunately the LG budget system is more a myth than a reality. The Ministry of Finance just refused to try to implement this in previous years, although in June 2006, it showed some commitment to introduce it for the financial year 2007. The local state administration also has an interest in keeping municipalities at arm's length. Municipalities are overburdened with the execution of so many administrative and delegated functions, which benefit only LSA. Thus, the mayors are appointed by central government, 80% of local taxes are taken by LSA, which can redistribute them on its own discretion and municipalities are only allowed to spend their budget across approved line items. For example, Karakol city is allowed to spend only 300,000 soms for waste management – for a town with a population of 60,000 (Young, 2006).

Decentralisation has proved itself to be a widely spread and intensively used word. However, local self-government is still treated by those in central government as part of the Local State Administration system. The national agency that represents the local government in the centre is a state agency by its legal status, so by definition, it cannot secure and encourage the proper functioning of local self-government.

3.2 Lessons learned from implementation of PMR in the Kyrgyz Republic

1. PM reforms in the country are driven by donor agencies, mainly the WB, IMF, USAID, UNDP, EC TACIS. Those projects very often overlap, sometimes contradicting, rather supplementing.
2. Every donor agency sets up its own objectives, which do not necessarily reflect the needs of the beneficiary agency.
3. Necessity for reforms is driven by the possibility to bring more money to the country, which is not necessarily used efficiently enough.
4. A huge problem exists in the coordination of diversified projects funded by donor sources.
5. Beneficiaries feel a lack of the projects ownership.
6. Progress of the projects is accessed through a regular reporting system. Reports of the projects are first to be approved by a Contracting Authority, then are sent to the beneficiary agency just for introduction.
7. The issue of continuity is a real problem that the country faces. Every project wastes a lot of time and resources for the project office's mobilisation, familiarisation with the situation in the beneficiary organisations, orientation-familiarisation meetings, collecting background information, doing desk researches and establishing working relations with the top management and decision-making staff of the beneficiary agency.
8. As a result, project staff operates as an "isolated intellectual exercise" for the sake of satisfying the reporting requirements.
9. On the part of the beneficiary agency, there is always an attempt to use the project assistance as supplementary manpower. Thus, clarification and agreement that the project staff "will-work-with" the beneficiaries' staff and their management, and "will-not-work-for" them is time-consuming.
10. Changes in a ministry or any public administration entity require changes in the sectoral policy, policymaking process and political will of the country. The efficiency and effectiveness of the public administration system should be looked at through the ability of the state entity to render services and/or public goods to the clients – citizens. Reshaping of functions and changing the organisational structure does not necessarily lead to achieving the goals

and objectives envisaged in the overall national policies, for example, the Decentralisation Strategy.

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Country public management reforms landscape: Kyrgyz Republic

Dates	General	Organisation	Personnel	Finance
May 5 1993	<ul style="list-style-type: none"> The First Constitution of the Independent Kyrgyz Republic was adopted, amended in 1996. 	<ul style="list-style-type: none"> The Constitution defines the basic principles of the state structure in the country: <ol style="list-style-type: none"> The President is the Head of the State, the supreme official and the Head of the Executive Power. Jogorku Kenesh, the Parliament of the Kyrgyz Republic, is the representative body exercising legislative power in the country. The government of the Kyrgyz Republic is the supreme body of the executive state power. The President appoints the Prime Minister and members of the government. The Prime Minister defines the structure of the government. 		<ul style="list-style-type: none"> The national budget system created, consisting of two tiers. The first one is the state budget that is developed and proposed by the government, and is approved by Jogorku Kenesh. Apart from the state budget, there is the local administrative budget (local self-government budgets were established later on).
2000				<ul style="list-style-type: none"> Consolidation Structural Adjustment Credit of the World Bank for 2000–2004

Dates	General	Organisation	Personnel	Finance
<p>May 29 2001</p>	<ul style="list-style-type: none"> Comprehensive Development Framework up to 2010 was developed as a long-term development strategy, containing government-wide goals for obtaining political and social welfare, ensuring consistency and wide participation of all social strata of the population in the reforms that are being carried out. CDF was approved by the National Assembly. The goals of the CDF are totally in compliance with eight goals of Millennium Development Goals 	<ul style="list-style-type: none"> National Coordination Council on CDF implementation created. 	<ul style="list-style-type: none"> CDF main development priorities: <ul style="list-style-type: none"> forming an effective and transparent public administration, professional, effective and accountable civil service and developed democratic institutions; human development, protection of the rights and freedom of citizens, and creating jobs and reducing poverty, sustainable growth of economy 	<ul style="list-style-type: none"> Funds for implementation of CDF were not anticipated by the state budget; it was foreseen to finance all CDF activities mainly through the credit of the WB and grants of the international donor agencies: WB "Governance Survey" (2003); WB "Country Financial Accountability Assessment" (2003); WB "Local Governance and Anti-Corruption" (2004); WB "Public Expenditure Review" (2004)
<p>January 12 2002</p>	<ul style="list-style-type: none"> Law "On Self-Governance". The law was amended in various years – September 2003, January 2005, and February 2006. 	<ul style="list-style-type: none"> Ministry of Local Self Government established. 		<ul style="list-style-type: none"> Local self-government budgets formally established: Law "On financial-economic basis of local self-governments" (2003)
<p>September 6 2002</p>	<ul style="list-style-type: none"> National Poverty Reduction Strategy (NPRS) up to 2005 seeks to translate the vision set up in CDF into concrete measures and emphasises three categories of intervention: (1) promoting sustainable growth, (2) building a fair society, (3) developing an effective state. 	<ul style="list-style-type: none"> National Coordination Council on CDF implementation supported by the World Bank and IMF. On February 21, 2003, the NPRS was approved by the Executive Council of the IMF, and on February 27 by the Board of Directors of the World Bank. 		<ul style="list-style-type: none"> Country Assistance Strategy of the World Bank for 2003–2006 (2003).

Dates	General	Organisation	Personnel	Finance
<p>December 17 2002</p>	<ul style="list-style-type: none"> National Strategy "Decentralisation of the public management and local self government development" signed by the President. The focus was on strengthening the responsibilities and capabilities of local governments with emphasis on decentralised social services delivery and the management of communal/ urban utilities divested from state enterprises 	<ul style="list-style-type: none"> Coordination Council on Decentralisation chaired by the Prime Minister established. 		<ul style="list-style-type: none"> UNDP "Strengthening the State Governance System and State Administration Reform" (2002)
<p>February 18 2003</p>	<ul style="list-style-type: none"> Amendments and additions were made by the law "On making amendments and additions to the Constitution of the Kyrgyz Republic" of February 18, 2003 			<ul style="list-style-type: none"> UNDP "Decentralisation Programme. Support to the Congress of Local Communities" Governance Technical Assistance Credit (GTAC), WB

Dates	General	Organisation	Personnel	Finance
<p align="center">August 11 2004</p>		<ul style="list-style-type: none"> National Civil Service Agency established 	<ul style="list-style-type: none"> Revised and amended Law "On Civil Service" approved. The law determines: <ul style="list-style-type: none"> a legal framework governing the rights, obligations and conditions of service related to civil servants. The civil service constitutes state bodies, responsible for executing state power including Ministries, State Agencies, State Committees, State Commissions, Oblast and Rayon level State Administrations and is separated from teachers, healthcare workers, uniformed services, workers in State Owned Enterprises and others (public service); introduces the position of a State Secretary training of civil & municipal servants. 	<ul style="list-style-type: none"> Government Structural Assistance Credit (GSAC), WB
<p align="center">June 5 2004</p>	<ul style="list-style-type: none"> Public Management Reform Strategy 	<ul style="list-style-type: none"> Advisory Council (Secretariat) on Good Governance established 		<ul style="list-style-type: none"> EC TACIS "Modernisation of the Public Administration in KR" EC TACIS Project: "Support to the Civil Service Reform in KR" UNDP Project: "Strengthening the State Governance System and State Administration Reform"

Dates	General	Organisation	Personnel	Finance
February 2005		<ul style="list-style-type: none"> In February, 2005, after Parliament election, the former Parliament bicameral legislature was converted to the unicameral body. Jogorku Kenesh consists of 90 members elected for five years. 50% of members of Jogorku Kenesh are elected on a proportional basis. 		
June 21 2005	<ul style="list-style-type: none"> National Anti-Corruption Strategy adopted, focusing on improvement of the effectiveness of the government; raising the accountability of state bodies and government officials; reforming key government institutions that have direct impact on businesses and the population. 	<ul style="list-style-type: none"> National Anti-Corruption Council and National Agency for Corruption Prevention established 		
2005		<ul style="list-style-type: none"> Ministry of Local Self Government was reorganised into the National Agency of Self Governance November, 2005. 		<ul style="list-style-type: none"> EC TACIS Support to Strengthening Local Self Government in KR" (2005 – 2006)"
December 30 2006	<ul style="list-style-type: none"> Due to pressure of the opposition, a new Constitution was adopted by the Parliament that was drafted by the leaders of the movement "For reforms". 	<ul style="list-style-type: none"> The December Constitution anticipated the parliamentary form of governing instead of the presidential form of governing, balanced the President's power with more power given to the Government and the Parliament. 		

Dates	General	Organisation	Personnel	Finance
<p>January 15 2007</p>	<ul style="list-style-type: none"> As a result of the Constitutional Reform, a new Constitution was adopted passing the law "On new redaction of the Constitution of the Kyrgyz Republic" 	<ul style="list-style-type: none"> The President amended the Constitution considerably and adopted a totally new version of the Constitution that expands the President's role enormously. As a result, the Constitution of January 15 the President has even more power than, the ex-president Akaev. 	<ul style="list-style-type: none"> According to the new Constitution, a political party that will be able to win 50% of votes in the 2010 election has the right to nominate its representative for the position of Prime Minister. 	<ul style="list-style-type: none"> More than 40 projects, sponsored by international donors, are being carried out in Kyrgyzstan today. The current portfolio is \$561.2 million. Total aid of international institutions to Kyrgyzstan is \$1.5 billion, without taking into account technical support. The budget for the Country Development Strategy for 2007 – 2010 is planned in the amount of \$8.75 billion. Mid-Term Budget for 2007–2010 is \$3.33 billion. The State budget will provide \$2.53 billion and the donor community will contribute \$413.0 million. The government should look for an additional \$6.22 billion needed for the Strategy implementation. The budget for political and Public Management Reforms is planned in the amount of \$85.00 million. The state budget will contribute \$48.3 million and \$36.7 is the contribution of the donor community.
<p>May 2007</p>	<ul style="list-style-type: none"> Country Development Strategy for 2007 – 2010 The process of drafting and elaborating the Country Development Strategy began right after the March revolution of 2005 and was completed by May 2007, when it was approved by Decree of the President. Main objective of the Strategy is increasing economic capacity of the country by means of: <ul style="list-style-type: none"> a) political and PM reforms, b) anti-corruption activities, c) human and social development, d) pollution – free environment 			

Chapter 7

Public Management Reforms: Latvia

Inga Bite Perceva

1. Socio-demographic issues

On 1st January, 2008 Latvia had 2,271,000 million inhabitants. The number of inhabitants between 1999 and 2008 has decreased by 128,000.¹ EUROSTAT prognosis is that the number of inhabitants will again decrease.

An unfavourable demographical situation since 1991 is indicated by two main negative processes – a decrease in the birth rate, the ageing population, and the migration of inhabitants. EUROSTAT gives a prognosis that the rapid ageing of the population will continue in the near future. As an influential factor it should be mentioned that the emigration rate is higher than immigration.

In the period 1999 to 2008 the density of inhabitants in urban and rural areas has changed. At the beginning of 2000, 68.1% were living in urban areas and 31.9% – in rural areas. On the 1st of January, 2008 the figures were 67.9% in urban areas with 32.1% in rural areas. The change in density can be identified with the changes in economic circumstances and structure. Latvia is also characterised by a relatively high concentration of inhabitants in the capital – in 2008 31.6% of inhabitants were living in Riga.

Together with a diminishing number of inhabitants in total, there have also been changes in the number of inhabitants with different ethnic backgrounds but fundamental changes since 1999 have still not taken place. In 2008, Latvians are 59.2%, Russians 28.0%.²

The proportion of men and women has not changed fundamentally over several decades. In 2008 the numbers were 46.1% men and 53.9% women.

2. National socio-economic policies

Economic activity in all main economic sectors reached its peak in 2006–2007. Domestic demand invigorated the development of services, especially the development of trade and construction. High growth rates were also observed in the transport and communications sectors. Manufacturing output in the period 2001–2006 rose on average by 10 – 6% per year, but experienced a sudden drop of 1% in 2007 and is expected to decrease even more in 2008. The competitiveness of Latvian manufacturers was first explained by the rapid rise in productivity spurred by the investments that were made in previous years, but it is currently facing serious criticism due to the overall economic downturn.

1 Official statistics: <http://www.csb.gov.lv/csp/content/?lng=en&cat=2269>.

2 Official statistics: <http://www.csb.gov.lv/csp/content/?lng=en&cat=2269>.

Whilst economic growth in Latvia was achieved in a considerably stable macroeconomic environment, it was nonetheless hit by the global economic recession. The general government budget deficit in Latvia is low and does not exceed the level set by the Maastricht criteria. Parliament has confirmed a general government budget deficit for 2006 at 1.5 % of GDP and has succeeded in producing a balanced budget in 2007. However, both the Government and Parliament struggle to cut down government spending in order to close year 2008 with a positive balance sheet and to provide realistic GDP growth forecasts for 2009. Yet, it is assumed that Latvia does not run the risk of exceeding the budget deficit mark of 3 % as established by Maastricht criteria.

The current account deficit is comparatively large, but it should not be considered today as critical as it is covered by foreign direct investment and long-term loans. Net foreign reserves of the Bank of Latvia fully cover the reserve money.

However, it must be admitted that over time the situation has changed. In August 2008, the inflation rate in Latvia was 15.6%; in Estonia 10.5% but in Lithuania 12.2%, whilst the average inflation rate for the EU was 4.2%³. The unemployment rate in July 2008 for Latvia was 5.7%; Estonia 4% and Lithuania 4.6%, whilst the average unemployment rate for the EU 27 was 6.8%⁴. The situation is also striking regarding the data of GDP growth – the growth of the second quarter of 2008, compared to the same quarter of the previous year in Latvia was 0.2%; Estonia -1.4% and Lithuania 5.5%, whilst the average GDP growth for the EU 27 was 1.6%⁵.

What are the causes of such numbers? How have those numbers changed over the years of independence? What are the factors determining the present differences between the three Baltic States, bearing in mind their similar starting points? Were the starting points really similar? What are the external and internal impacts on the economical situation of Latvia and most important – what can we do to cope with the situation and regain a stable and consistent economic growth of the state? These are the main issues to be addressed by the government of Latvia and the main questions to be answered by experts. Most probably it will not be possible to find one correct answer for each of them.

The BICEPS report of September 2008 reveals that, unsurprisingly, policymakers in Latvia have turned to global factors, such as the rise in oil and gas prices or the surge in food prices as the explanation for poor inflation performance. Still, experts find that Latvia stands out as having much higher domestically generated

3 http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PRE-REL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_09/2-16092008-EN-APPDF.

4 http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PRE-REL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_08/3-29082008-EN-BPPDF.

5 http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PRE-REL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_09/2-03092008-EN-BPPDF.

inflation than the other two Baltic States, mainly due to the overheated labour market and significant wage growth⁶.

The official average wage rate (bruto) in Latvia (not including the shadow economy) has grown from to 269 LVL (458 EUR⁷) in the first quarter of 2006⁸ to 453 LVL (771 EUR) in the first quarter of 2008⁹, which shows an official increase of 68% over two years, while the minimal wage determined by the Cabinet of Ministers has increased from 90 LVL¹⁰ (153 EUR) to 160 LVL¹¹ (272 EUR) or approximately 77%.

In the middle of 2007, a new salary system for civil servants and those working for direct public administration institutions was introduced – salaries of medical workers, teachers and policemen were increased according to other normative regulations, which resulted in a significant wage growth for the public sector (bruto) from 301 LVL (512 EUR) in the first quarter of 2006 to 516 LVL (878 EUR) in the first quarter of 2008¹², namely 71%, which exceeds the growth of the common average wage rate.

Experts also relate to a belated policy response to the overheating.¹³ The so-called *Inflation Reduction Plan* was only introduced in March 2008, when the inflation rate was already 16.8%.¹⁴

The government of Latvia is now in the very hard budgetary process for 2009, with the Bank of Latvia, on one side, pointing out that there should be no deficit anticipated in the project, which according to their experience, will result in a deficit at the end of 2009. On the other side stand the labour unions, requiring an increase in wages, at least at the inflation rate. The Prime Minister has announced that there will be no wage increases in the public sector for 2009, which leads to approximately 1.85% foreseen deficit. All direct public administration institutions are required to reduce their staff by 5% by January 2009 and another 5% by January 2010. A cut of a total of 10.6% in the budget programmes of all public administration institutions is required and is in process. The results are still to come, whereas the Government had promised to submit the project of the Budget law to Parliament by October 6, 2008. According to the Constitution of Latvia,

6 Stagflation in Latvia: How Long, How Far, How Deep? A Baltic International Centre for Economic Policy Studies report, September 2008.

7 Here and after according to the official Exchange rate for September 30, 2008. www.bank.lv.

8 Official statistics: <http://www.csb.gov.lv/csp/content/?cat=2304>.

9 Official statistics: <http://www.csb.gov.lv/csp/content/?cat=244>.

10 25.10.2005. Regulations of the Cabinet of Ministers No.790 "Regulations On Minimal Monthly Salary and Minimal rate Per Hour".

11 28.08.2007. Regulations of the Cabinet of Ministers No.592 "Regulations On Minimal Monthly Salary and Minimal rate Per Hour".

12 Official statistics: <http://www.csb.gov.lv/csp/content/?cat=2304>.

13 Stagflation in Latvia: How Long, How Far, How Deep? A Baltic International Centre for Economic Policy Studies report, September 2008.

14 http://www.fm.gov.lv/?lat/makroekonomika/inflacija/apskatu_arhivs/761.

if the project of the Budget Law is declined by Parliament, the Government is automatically driven out of office. However, Parliament adopted the Budget Law on November 14, 2008 as was proposed by the Cabinet of Ministers.

3. The political system

Latvia is a democratic republic with a parliamentary system of government. According to the constitution of Latvia, Parliament (*Saeima*) is elected in general, equal, direct and secret elections, based on proportional representation. The *Saeima* has 100 seats. The Parliament elects the President of the State and approves the Cabinet of Ministers. The President is the Head of the state and serves largely representative functions.

The elections of the *Saeima* are held once every four years. The distribution of the seats in the Parliament has changed, compared to the results of the last elections held in October 2006, mainly due to a number of deputies resigning from their political parties and forming new political organisations, whilst holding a deputy's mandate. At the end of 2008, the following parliamentary groups existed: "People's Party" – 21 seats, "Union of Greens and Farmers" – 17 seats, "New Era" – 14 seats, "Concord Centre" – 18 seats, an electoral union of "Latvia First Party" and a party "Latvian Way" – 10 seats, a Latvian National Conservative Union "For Fatherland and Freedom"/LNNK – 5 seats, "For Human Rights in a United Latvia" – 5 seats, party "Civic Union" – 6 seats and another 4 seats held by non-partisan members of Parliament¹⁵.

The Latvian party system is rather unstable. The number of politically influential (with representation in parliament) parties changes with every new election. Disillusionment with the existing political forces gives permanent grounds for new parties to form. Latvian political parties have rather small memberships. The last elections demonstrated the rise of a new phenomenon – regardless of the dissatisfaction with the ruling political forces, hopeful votes for the same parties were still given.

Due to a relatively large number of political parties represented in the *Saeima*, the process of government formation usually takes at least one month after the elections. Although, in theory, the President of State can choose any candidate for the President of Ministers according to his/her independent judgement, in practice, the candidate is nominated after intense negotiations among potential governing-coalition parties.

During the period 1993–2008 Latvia had thirteen (including the current) Cabinets with an average duration of 13 months. However, the fact that during certain periods Latvia had minority governments, points to the moderate nature of political conflict. Moreover, despite frequent cabinet changes, the political orientation of the government has been remarkably stable with the domination of right-wing politics.

15 More info: http://www.saeima.lv/index_eng.html.

The *Saeima* approves major governmental policy goals. Before parliamentary approval, a candidate for the post of President of Ministers presents the composition of Cabinet of Ministers and a draft declaration. Coalition parties usually negotiate these declarations, based on their programmes and tactical interests. In most cases, government declarations are based on bargaining results rather than comprehensive development plans. In practice, the distribution of ministerial positions among coalition parties is a major subject for debate among political forces.

4. New management ideas

The researches by state institutions and donors on the early reform stage showed that various government failures (ineffective institutions, inappropriate human resources, use of resources not based on priorities, public interventions in the fields, where market failures have not been traced, lack of transparency in public spending, corruption) have restrained private investment, which is an essential element for development, employment opportunities and a reduction in poverty¹⁶.

Public management has been highly influenced by the process of joining the European Union. Public administration followed because of the need to ensure the adoption of the *acquis* and absorption of the structural funds. However, no common requirements or indicators exist for public administration, with the exception of the Copenhagen criteria and the Treaty of Amsterdam, proclaiming that public administration must be democratic and follow the rule of law. The main obstacles to Latvia's accession were indicated to be the slow adjustment of the legal basis, as well as a lack of appropriate financial and human resources in the Commission's regular reports.

In addition to EU PHARE support and monitoring of the accession progress, the process of public administration development has been influenced by international organisations (SIGMA, UNDP, World Bank). For instance, the 2000 report by Sir Robin Mountfield to the President of Ministers on public management should be mentioned¹⁷. It called for strategic management and public management reform as a pre-condition for EU membership, a common agreement among political parties that public management reform is in the interest of all parties, the civil service and "New Chancellery" institution subordinated to the President of Ministers and having policy and strategic planning co-ordination and civil service reform functions, linkage of the budget process with strategic planning, horizontal audits of functions, establishment of agencies, combating of corruption and proposals for regional development.

This period draws an important line within the perception of the nature of public administration and new public management ideas, such as results-based manage-

16 *Report and Recommendation of the President International Bank for Reconstruction and Development to the Executive Directors on a Proposed Second Programmatic Structural Adjustment Loan in the Amount of US\$20.21 Million to the Republic of Latvia*, August 15, 2002.

17 The Report by Ser Robin Mountfield "Public Administration Reform", Secretariat for the Special Assignments Minister for Public Administration Reform Affairs, 2000, Riga.

ment, accountability, client-oriented service and other principles, are at the core of all laws and strategic documents influencing the quality of public administration.

5. Pressure from citizens

In Latvia, there has been no extensive research on the interaction between the state and its inhabitants. Within the framework of the evaluation of the Public Administration Reform Strategy 2001–2006, an opinion poll of the inhabitants was conducted with the question: “What three things should be changed in the work of public institutions first?” The answers were grouped according to the following main themes: fighting corruption in public administration; streamlining bureaucratic procedures; improving the attitude of civil servants towards their customers; improving the effectiveness and accessibility of public spending, and serving the state and society in public office.

A significant performance indicator of public administration is public confidence. The public sees public administration, politicians and local governments as a whole of public administration – when confidence in one of the powers decreases, it also decreases in general; however, efficient activities of public administration may improve public confidence. In the next planning period this will be a significant aspect which impacts the efficient implementation of the selected lines of activity and ability to attain the objective of the public administration development policy. According to the Eurobarometer data, in the autumn of 2007 only 19% of respondents trusted the Government and only 16% expressed their confidence in Parliament, which is the lowest indicator in the EU and shows a decrease in public confidence when compared with previous years.

Other important actors are entrepreneurs and non-governmental organisations. They have been priority co-operation partners, but this practice should be extended to all groups of society in the future.

6. Political goals

The analysis of the declarations of the Cabinets of Ministers since 2000 shows a decrease in public administration reform issues on the political agenda. A declaration of the Cabinet of Ministers for 2000–2002 clearly states the main reform tasks: the development of a public administration reform policy, a common wage system, reducing overlapping functions, informing society, the promotion of co-operation between the state and society and more effective public spending¹⁸.

The period 2002–2004 saw an increase in the centralisation and politicisation of the civil service. This government has also stressed the interaction between the state and society (transparency, accountability, co-operation and information).

Since 2004, the declarations rarely mentioned the issues of public administration, which usually occurred in the context of other policies: clear mechanisms for

18 More info: www.mk.gov.lv.

public participation, the introduction of e-government, social dialogue, reducing gender discrimination and the promotion of research effectiveness.

The declaration of the government for 2004–2006 did not feature any special issues of public administration; it only mentioned the issues of transparency and combating corruption.

However, the government of 2006–2007 and the current one included many initiatives aimed at introducing results-based governance. A very important component in the field of Public administration remains increasing the efficiency of the government (diminishing the number of employees in the public sector, increasing professionalism, reducing administrative costs). Other political priorities named in the declaration are the improvement of impact assessment, a reduction in administrative burdens, advancement of e-government and the effectiveness of public service provision, an increase in policy coordination in order to approach the vision set by the National development plan, and completion of the long-term development strategy of Latvia.

7. Elite decision-making

Public administration reform became an important issue in Latvia after regaining its independence. Systematic work on public administration reform began in 1993, when the Law on Order of Cabinet of Ministers and the Law on Civil Service was adopted, and the State Reform Ministry, the Latvian School of Public Administration and the Civil Service Board were established. In 1995, a Conception of Public Administration Reform in Latvia was adopted and public administration became a priority of the 5th *Saeima*.

Since 1993–1995 there have been several changes in the institutions responsible for public administration reform: a Public Administration Reform Bureau (1997–2000), Minister for Special Assignments in Public Administration and Local Government Reform Issues (1999–2000), and Minister for Special Assignments in Public Administration Reform Issues (2000–2002).

Since 2003, the State Chancellery has been responsible for public administration reform. Political responsibility in this area was assigned to the Prime Minister, thus concentrating the development of public administration policies in the core of the government. A State Reforms Division was formed in the Policy Coordination Department of the State Chancellery. This division is responsible for matters relating to the development and co-ordination of public administration policies, but the development and co-ordination of local governments' policies was assigned to the Minister for Regional Development and Local-governments.

8. Administrative system

Article 58 of the Latvian Constitution stipulates that public administration institutions are subordinated to the Cabinet of Ministers. According to the State Administration Structure Law, public administration is organised in a single

hierarchical system. No institution or administrative official may remain out of the system. The hierarchy ensures subordination of public administration to the people's will, expressed in a democratic way, and the chain of legitimacy (the voters – the Parliament – the Government – the administration) also includes the lowest administration level of public administration.

Direct administration institutions are all institutions and officials of the Republic of Latvia. They are the ministries and other administration institutions directly subordinated to the Cabinet of Ministers, Prime Minister or Minister. The ministries are top-level direct administration institutions that develop state policies and are subordinate to a respective Member in the Cabinet of Ministers. In early 2008, there were: the State Chancellery, 16 ministries and 3 secretariats of ministers for special assignments in Latvia (a total of 19 top-level public administration institutions). The Corruption Prevention and Combating Bureau also enjoys the status of a top-level institution: it is supervised by the Prime Minister. 98 institutions are subordinated and 84 institutions are supervised by members of the Government, including 30 state agencies. Information about direct administration institutions is publicly available. A database of direct administration institutions has been available on the webpage of the Cabinet of Ministers since 2005.

Indirect administration institutions are local governments and other derived public persons, their bodies and officials. With regard to indirect administration, the focus is on the autonomy of these institutions. Therefore, their subordination to the Cabinet of Ministers implies supervision (control of legality and lawfulness): the Government should ensure that indirect administration performs its tasks in compliance with the laws and regulations.

9. Contents of the reform package

The content of the public administration reform has been in line with the policy goals in the certain period. Beginning with the transformation of public institutions after the collapse of the Soviet Union, the content of reforms has broadened to results-based management, medium-term budgeting, human resource management, quality management, e-government, involvement of civil society and many other related issues. The two last periods – 2001–2006 and 2008–2013 mark periods when comprehensive approaches to public administration reforms have taken place.

The Public Administration Reform Strategy 2001–2006 and its implementation plan established a number of reform goals and activities¹⁹:

1. Unified, goal- and future-oriented public administration – improving the policy process, results-oriented planning, implementation and reporting, policy impact assessment and horizontal co-operation between institutions;

¹⁹ “The Public Administration Reform Strategy 2001–2006” (adopted by the Cabinet of Ministers 10.07.2001.) and its implementation plan (adopted by the Cabinet of Ministers 11.12.2001.), available on www.mk.gov.lv.

2. Stable and effective state finance and budget management – facilitation of public–private partnership, fiscal policy implementation in a stable macro-economic environment and medium-term budgeting;
3. Public trust in public administration and participation in public policy processes – improved opportunities for civil society, ensuring public participation in policy planning and availability of information;
4. High-quality public services – improving the quality and availability of public services;
5. Highly motivated, qualified and honest people working in government – civil service and employees – improving motivation, an evaluation system of public service employees and modern management principles in human resources.

After the evaluation of the Strategy of Public Administration Reform, the conclusion was that no further reforms in terms of major shifts and changes are necessary. Thus, the future Strategy of Public Administration Reform, which is meant to cover the period 2008–2013, should ensure sustainable development for the state of Latvia into a democratic society. Under the supervision of the State Chancellery, “Guidelines for the Development of Public Administration Policy for 2008–2013, Better Administration: Quality and Effectiveness” were drafted²⁰.

The main goal for the future development of public administration is **to ensure continuous development, by raising the comprehension of the rule of law, efficiency and quality of services according to the needs of society**. This goal is supported by sub-goals and different activities, requiring a sustainability-oriented policy planning and strategic planning system, availability of public services, assurance of the effective application of human rights, professionalism and motivation in the work of the civil service and active involvement of society in the decision-making process.

The activities planned can be divided into three general groups – revision and improvement of the systems that have been implemented in the previous reform period – policy planning system, enhancement of the financial management and strategic planning system, review of the status and activities of public authorities, increased work efficiency of administrative courts, provision and improvement of internal control systems in the area of corruption prevention in state and local government authorities, public involvement in the decision-making process and drafting, implementation and assessment of legal acts; improvement and further development of the systems and activities that have not been a priority in the previous period – enhancement of service quality of public authorities, development and availability of e-government and e-services, development of the quality management system; new policies – simplification of administrative procedures, assessment of administrative costs and reduction of administrative burdens, strengthening the

²⁰ “Guidelines for the Development of Public Administration Policy for 2008–2013. Better Administration: Quality and Effectiveness” (adopted by the Cabinet of Ministers 03.06.2008.), available on www.mk.gov.lv.

role of the Ombudsman. Due to the actual socio-economic situation, several of the activities have been prioritised already – improvement in the co-operation of the public and private sectors, reduction of administrative burdens and an increase in work efficiency.

The basic principles for further development of the Latvian public administration are:

- Political leadership, representing the core interests of society;
- Respective competence of all employees of public administration;
- Appropriate institutional system of public administration;
- Correct procedures for making public decisions.

Hopefully Latvia will make significant steps towards these goals by 2013, disregarding the present economic situation.

It must be emphasised that new Policy Guidelines set not only goals, but also policy outcomes and performance indicators for the overall evaluation of public administration development within the period.

10. Implementation process

The process of the implementation of Policy Guidelines is monitored by the Council for the Development of Public Administration Policy (Public Administration Reform Council in the planning period 2003–2007).

The Council is a consultative body consisting of representatives of non-governmental organisations, businessmen, universities, courts, local governments, the *Saeima* and public administration institutions and it also serves as a forum for discussions about the development process, priorities and actual issues.

The State Chancellery is responsible for the overall co-ordination of the implementation of public administration policy, especially quality management, the improvement in quality of public services, human resource management, policy planning system and strategic planning. Other responsible institutions implemented, and still are implementing, many activities:

- Medium-term budgeting (Ministry of Finance),
- IT and public services (Ministry of Transport and later Secretariat for Minister of Special Assignments in E-government Issues),
- Regional optimisation of state institutions, participation of civil society at the regional and local levels (Ministry of Regional Development and Municipalities),
- Administrative process (Ministry of Justice),
- Public and private partnership, better regulation and reduction in administrative burdens for businesses, “one-stop-shops” (Ministry of Economics),

- Internal and external audit systems (Ministry of Finance and State Audit Office),
- Human resource management in the framework of the European Union (European Integration Bureau and now Ministry of Foreign Affairs),
- Ethics and reduction of corruption (Corruption Prevention and Combating Bureau);
- Research issues (Ministry of Education and Science);
- Development co-operation (Ministry of Foreign Affairs).

A so-called institutional mechanism of the first implementation stage (a responsible ministry with an executive committee overseeing implementation comprised of the highest level public officials) was essential to achieve initial political will and facilitate ownership of reform issues within the ministries. Later, the State Chancellery took over the responsibility for core public administration issues.

Governmental links with policy think-tanks and business communities have been rather weak. First, the policy coordination department in the State Chancellery functions like a think-tank itself. Second, the culture of think-tanks on public management issues is underdeveloped in Latvia. Therefore, the role of international consultants was important, especially in the areas of policy planning systems and human resource development.

In the period 2008–2013 there was a tremendous take-off for the development of public administration, which will be provided by EU Structural Funds for the administrative and human resource capacity building.

11. Reforms actually achieved

In 2006, when the Strategy of the Public Administration Reform for 2001–2006 and its implementation action plan was assessed, the first comprehensive study for public policy in public administration reform was carried out – “Assessment Report on the Impact of the Strategy of the Public Administration Reform for 2001–2006”²¹ (M. Šimane). The assessment included an overall evaluation of the implementation process, results achieved, experiences of foreign countries, a public opinion poll and discussion in the Public Administration Reform Council and the recommendations for the next period. The assessment also covered some specific lines of activity under the Strategy of the Public Administration Reform for 2001–2006.²² After the evaluation by independent experts and reports by ministries, the State Chancellery prepared an informative report “On the Implementation of the Strategy of the Public Administration Reform for 2001–2006 and the Action Plan for the Implementation of the Strategy of the Public Administration Reform

21 Šimane M., *Stratēģijas ietekmes uz valsts pārvaldes reformu 2001–2006 ziņojums*, VK pasūtījums, Rīga, 2007.

22 Ikstens J., – *Politikas plānošanas pamatnostādņu ieviešanas novērtējums*, Agency of Applied Studies “Nikolo grupa”, VK pasūtījums, Rīga, 2006.

for 2001–2006”²³ In view of the above points and aiming at further development, planning of the development of the public administration policy for 2008–2013 was conducted.

The main problems of the period identified by the assessment are:

- 1) Insufficient implementation of the system of policy planning and medium-term budgeting which is impacted by the gradual implementation of specific strategic management elements, by insufficient co-operation of central public administration institutions and the legislator and by inflexible financial management.
- 2) Ensuring quality services in public administration is impeded by insufficient co-operation from the public, local government and private sectors, by the fragmented development of e-government and by various obstacles for solving a number of issues related to the functions of public administration and the status of institutions.
- 3) There are gaps in the operation of institutions in ensuring an efficient administrative procedure, together with the fact that the administrative courts are currently extremely occupied. The situation is substantially affected by personnel mobility and employees’ lack of knowledge, public and various social groups on legal matters, including individuals’ rights and liabilities in the administrative procedure. The gaps in the legal regulation for ensuring internal controls and reducing corruption risks are also important.
- 4) The development of a uniform approach to the policy of human resources in public administration has been impeded by the fragmented planning and implementation of the policy. Human resource management is dispersed at the level of authorities, and the successful application of good practices is rare.
- 5) Insufficient public involvement in the decision-making process and in drafting legal acts, which is caused by the reluctance of public administration employees to co-operate with NGOs, the low number of people involved in NGOs and also by the insufficient capacity of NGOs and their specific knowledge on the public administration processes. These processes are impacted by the low level of public confidence in public authorities, political parties and the legislator or in public authorities in general.

Organisational changes. During 2003–2004, with the Commercial Law coming into force, an assessment of institutions and companies (including state non-profit organisations and state companies) was carried out. As a result, they were transformed into direct administration institutions, state agencies, or state commercial companies according to the functions performed by them. The aim of the institutional reform of public administration is to ensure that clear and transparent conditions for the operations and funding are available and maintained in the func-

23 “On the Implementation of the Strategy of the Public Administration Reform for 2001–2006 and the Action Plan for the Implementation of the Strategy of the Public Administration Reform for 2001–2006” (adopted by the Cabinet of Ministers 29.05.2007), available on www.mk.gov.lv.

tioning of public administration. Another aim was to discontinue the legal status of “non-profit organisations as a state limited liability company” and “non-profit organisations as a state joint-stock company” because these statuses did not provide a sufficiently transparent regime of funding and supervision of institutions.

Performance measurement. In 2000, Latvia began the development and implementation of a uniform policy planning and co-ordination system. When forming the system, special focus was placed on the development and implementation of policy impact assessment procedures. An integral part of the process was the introduction of an annotation mechanism prescribing that an annotation should be attached to every draft legal act providing a summary on the importance of the draft legal act, its impact on the current situation and on the state budget, compliance with regulatory documents of the EU and the opinion of the non-governmental sector. Late in 2005, an independent study was conducted on the implementation of the Guidelines, and the ‘Guidelines for Development of the Policy Planning System’ were approved by the Cabinet of Ministers in 2006. This reform was favourably assessed by the World Bank (World Bank, 2006: 24).

The implementation of the strategic planning system, which is a substantial step towards linking the policy planning process and drafting of the state budget, began in 2004. State and municipal agencies also develop their action strategies in line with the Law on Public Agencies. A transition to the medium-term planning system of the state budget, which is drafted by the Ministry of Finance, is of critical importance to implementing the strategic planning system.

Financial management reform. The reform of linking state budget planning and action strategies began with the Guidelines for Medium-term Budget Planning Methodology adopted by the Cabinet of Ministers in 2001. The aim of the reform was to implement a results-oriented policy and budget planning in the medium term, to improve the quality of budget decision-making and the transparency of procedures. In 2003, the Cabinet of Ministers approved guidelines on the results and their indicators, separating outputs and outcomes and determining the main kinds of results. Medium-term budget planning is a process which involves defining state development priorities, fiscal objectives and strategy, budget objectives, priority lines of development and medium-term state budget expenditure.

More effective administrative management. The introduction of the quality systems in public administration began in 1999. It remains based on the standard of ISO 9001:2000 or Latvia’s national standard of LVS EN ISO 9001. The introduction of quality management and ensuring the quality of services in Latvia implies decentralised quality management and the provision of quality services. It is a voluntary process: the decision to introduce quality management is taken by the head of an institution.

Changes in human resource management. Since regaining independence, human resources of public administration – the people employed in public administration – have been grouped in several “categories” according to labour relations,

functions, institutions, salary systems, etc. However, no clear and comprehensive conceptual solution was developed that would apply to all persons employed in the public sector. In 2003, in direct state institutions, 27,061 civil servants were employed, of whom 20,591 are in a specialised civil service. At the beginning of 2003, the function of development of civil service policy and public administration personnel policy was assigned to the State Chancellery. According to the World Bank, Latvia was the first country in Central and Eastern Europe to switch to a competency-based framework in 2007. Also, Latvia started introducing a modern pay system based on a complex job evaluation methodology, which was also favourably assessed by the World Bank (World Bank, 2006: 9).

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Information by Ministry of Finance www.fm.gov.lv

Information by Saeima www.saeima.lv

Information by Cabinet of Ministers www.mk.gov.lv

Country public management reforms landscape: Kyrgyz Republic

Dates	General	Organisation	Personnel	Finance
<p>1990 – 1992</p>	<ul style="list-style-type: none"> • First government after restoration of independence at the end of Soviet occupation; transition from the soviet structure of the administration to an independent state. 	<ul style="list-style-type: none"> • Law on Ministries of Republic of Latvia (1991). • Law on Council of Ministers of Republic of Latvia (1992). • Law on Non-profit Organisations. • Law on State Enterprise <i>Reorganisation, re-establishment and establishment of public institutions.</i> 		
<p>1993</p>	<ul style="list-style-type: none"> • Administrative reform as one of the government's priorities – establishment of the State Reform Ministry. 	<ul style="list-style-type: none"> • Restoration of the Constitution (1922) • Restoration of the Law on the System of the Cabinet of Ministers (1925). • Concept paper on Reform of Municipalities. • Law on Non-Governmental Organisations and their Unions. <i>Systemic approach to administrative reforms.</i> 	<ul style="list-style-type: none"> • Establishment of recruitment, preparation and appraisal system of civil servants. • Establishment of State Administration School (training institution for public employees). • Establishment of State Civil Service Administration. 	<ul style="list-style-type: none"> • Law on State budget.
<p>1994</p>	<ul style="list-style-type: none"> • Concept Paper on public Administration Reform (<i>main directions – reform of relations between the state and society, reform of functions of public administration, reform of the structure of public administration, reform of basic principles of public administration and reform in main instruments of public administration</i>). 	<ul style="list-style-type: none"> • Regulations of Cabinet of Ministers on administrative process. • Establishment of non-governmental organisation. • Council on Ethics. • Law on Combating Corruption. • Regulations of Cabinet of Ministers on the System of Ministries. <i>Emphasis on a hierarchical and monolithic institutional system, at the same time – strengthening of civil society, information of society.</i> 	<ul style="list-style-type: none"> • Law on civil service <i>Emphasis on apolitical civil service with notable social guaranties.</i> 	

Dates	General	Organisation	Personnel	Finance
<p>1995</p>	<ul style="list-style-type: none"> • Abolition of State Reform Ministry, the coordinative functions transferred to State Chancellery. • Reform issues are reviewed in the context of preparation to join EU. • Establishment of bureau • Public administration. • Establishment of the Council of Public Administration Reform. • Law on the System of Ministries. • Public Administration Development Strategy by year 2000 (<i>main directions – determination of development priorities, adjustment of institutional structures, development and implementation of public administration development conception, continuation of reform of the civil service, accomplishment of the implementation of the civil service, continuation of budget reform, and improvement of relationship "individual-society-state"</i>). 	<ul style="list-style-type: none"> • Regulations of Cabinet of Ministers on Internal Order (Rules of procedure of the Government). • Regulations of Cabinet of Ministers on Delegation of Competencies of Public Administration to Authorised Institutions. • Beginning of administrative territorial reform. 	<ul style="list-style-type: none"> • Implementation of the Law on the Civil Service and related regulatory act on management contracts. 	<ul style="list-style-type: none"> • Priority of economic and financial issues. • Monitoring of public administration reforms by the International Monetary Fund, World Bank (PAL I, PAL II and PAL III).
<p>1996 – 1998</p>				

Dates	General	Organisation	Personnel	Finance
<p>1999 – 05. 2000</p>	<ul style="list-style-type: none"> Establishment of the position of the Minister of Special Assignments on Public Administration and Municipality Reform Issues. Report by Sir Robin Mountfield on public administration reform. (2000) – Need for strategic directions, political consensus on importance and priority status of public administration reforms, strengthening of horizontal coordination by establishing new central government institutions. 	<p>.</p>	<ul style="list-style-type: none"> Strategy on Work of Civil Service Administration 1999–2001 <i>Common principles of personnel management in the civil service.</i> 	
<p>2000 – 05. 2002</p>	<ul style="list-style-type: none"> Establishment of Special Assignments Minister on Public Administration Reform Issues. Work on long-term development strategies. Strategy of Public Administration Reform 2001–2006 and its implementation plan <i>(main issues – reform of institutional and policy planning system, implementation of medium-term budgeting, promotion of dialogue between society and the state, improvement of the quality of public services, development of a civil service system).</i> Establishment of Policy Coordination Department in State Chancellery. 	<ul style="list-style-type: none"> Law on Public Agencies. Public Administration Structure Law. Commercial Law. Law on Coming into Force of the Commercial Law. 	<ul style="list-style-type: none"> Implementation of new State Civil Service Law (Law of second generation) and related regulatory acts on development of job descriptions, performance appraisals, principles of conduct, requirements regarding higher education. 	

Dates	General	Organisation	Personnel	Finance
2001	<ul style="list-style-type: none"> • National Programme for Integration into EU. • National Development Plan 2003–2006. • Policy planning guidelines. 	<ul style="list-style-type: none"> • Strategy and Programme on Combating Corruption. • Establishment of Bureau on Combating Corruption. • Regulations of Cabinet of Ministers on Implementation of Quality Management in Public Administration. • Adoption of Law on Administrative Procedures. 	<ul style="list-style-type: none"> • Concept Paper on Work Pay System for Civil Servants and Workers in Public Institutions. 	
2002		<ul style="list-style-type: none"> • Methodology of Fundamental Reviews in Public Administration. • Rules of procedure of Cabinet of Ministers (second generation regulation). • Conception on E-government. • Establishment of impact assessment system (Instruction on annotations for laws and regulations). • Law on the System of Public Administration. 		

Dates	General	Organisation	Personnel	Finance
2003	<ul style="list-style-type: none"> • Abolition of Special Assignments Minister on Public Administration Reform Issues and the function transferred to the State Chancellery. • Methodology on Elaboration of the Strategic Plans of Public Administration Institutions. 	<ul style="list-style-type: none"> • Concept Paper on Establishment of State and Municipal Agencies. • Law on Associations and Foundations. • Concept paper on legal status of subordinated public institutions (health, education, science, social services etc.). • Program e-Latvia”. • Policy Guidelines on Development. Coordination of the Republic of Latvia. • Law on Administrative Procedures enters into force. • Administrative Structure Law enters into force. • Internet Data basis of policy documents. 		<ul style="list-style-type: none"> • Policy Guidelines on the System of Results Indicators. • Policy Guidelines on Macro economical and fiscal development 2004–2008. • Law on Internal Audit.
2004		<ul style="list-style-type: none"> • National Programme on Combating Corruption 2004–2008. • Law on Coming into Force of Law on Associations and Foundations. • Internet-based data basis on Public institutions of central administration. 		<ul style="list-style-type: none"> • Law on Public Procurement for State and Municipal Institutions.

Dates	General	Organisation	Personnel	Finance
2005		<ul style="list-style-type: none"> • Programme on the Development of E-government 2005–2009. • Policy Guidelines and Programme on the Strengthening of Civil Society. • Methodology on Impact Assessment in the Policy planning System. • Amendments to the Government Rules of procedure introducing Strategic plans of central public administration institutions. 	<ul style="list-style-type: none"> • Concept Paper on the Single Pay System of Public Sector Employees. • Regulation of Cabinet of Ministers on Job Classification System and Job Classification Procedure in Public Direct Administration Institutions. • Amendments of State Civil Service Law regarding job classification and salary system. • Regulation of Cabinet of Ministers on Pay System of Direct Administration Institutions. 	<ul style="list-style-type: none"> • Policy Guidelines on Promotion of Public and Private Partnerships.
2006	<ul style="list-style-type: none"> • National Development Plan (including capacity building of public administration). • Impact Assessment of Public Administration Reform Strategy 2001–2006. 	<ul style="list-style-type: none"> • Guidelines on the Development of the Policy Planning System. 	<ul style="list-style-type: none"> • Amendments of State Civil Service Law introducing the civil service in state agencies. 	<ul style="list-style-type: none"> • Implementation of Strategic Planning System in Ministries and Secretariats of Special Assignment Ministers and public agencies. • Conception on the Introduction of Strategic Planning and Medium-term Budgeting in Public Administration.
2007		<ul style="list-style-type: none"> • Instructions on performing impact assessments on draft normative acts (guidelines for filling in the annotation of draft normative acts). 	<ul style="list-style-type: none"> • Several cabinet-level reports on initiative to cut numbers of continuously vacant positions in public institutions. • Several amendments to cabinet regulations aiming at cutting back on management contract-based pay of government employees. 	<ul style="list-style-type: none"> • Cabinet regulations on the methodology for the calculation of total expenditure ceilings for each public institution over the medium-term. • Cabinet regulations on basic principles of developing budget requests.

Dates	General	Organisation	Personnel	Finance
<p>2008</p>	<ul style="list-style-type: none"> • Development Planning System Law adopted by Parliament. • Law on Cabinet of Ministers adopted by Parliament. • Guidelines for Development of Public Administration Policy for 2008–2013: Better Governance. 	<ul style="list-style-type: none"> • Concept paper on coordination system of state-funded research. • Instruction on developing, updating and evaluating strategic plans of public administration institutions • Government. Communication Guidelines 2008 – 2013 adopted. • Introduction of the Information system of policy planning papers (POLSYS). 	<ul style="list-style-type: none"> • Abolition of Civil Service Administration, dividing functions between Ministry of Finance and State Chancellery. 	<ul style="list-style-type: none"> • Law on Long-term Stabilisation Reserve adopted by Parliament. • Tax reform aiming at macro-economic stabilisation; increasing the rates of VAT and lowering income tax rates.

Chapter 8

Public Management Reforms: Lithuania

Vitalis Nakrošis

1. Socio-economic forces: general

Since re-gaining its independence, Lithuania has been influenced by the following most important forces: the transformation from a communist regime into a democracy, the development of a market economy and integration into the European Union, NATO and other international organisations. These forces have shaped Lithuanian public management reform since 1990.

Lithuania is one of the poorest countries in the EU. In relation to the EU average, Lithuania's GDP per capita (in 2005, based on PPP) constituted 56.6% (23rd in the EU 25 member states). Lithuania is a net beneficiary from the EU budget, receiving assistance from EU structural funds. Also, Lithuania was planning to join the euro zone from 2007, but its application was rejected because of an excessive and unsustainable level of inflation.

1.1 Global economic forces

Russia was the main trade partner of Lithuania in the 1990s. However, the Russian financial crisis from 1999 prompted a slowdown of economic growth in Lithuania. Owing to severe budgetary constraints, the Lithuanian government was forced to cut public expenditure (by 7% in 2001 and by 8% in 2002). Fortunately, Lithuania managed to re-orient its foreign trade after the Russian crisis. However, Lithuania is still highly dependent on Russian oil and gas, whose prices are constantly increasing. In 2008, about two-thirds of its total exports were going to the EU internal market. In absolute numbers, Lithuania's government expenditure started growing particularly fast since EU membership: it increased by about 65% in the period 2004–2007.

Lithuania is facing increasing global competition. It exports primarily low-tech goods and has only a small domestic market. Global competition negatively affected some economic activities, including the bankruptcy of a few companies (e.g. "Ekranas", a large producer of TV tubes, went bankrupt in 2006).

1.2 Socio-demographic issues

In 2005, about 3.4 mln inhabitants lived in Lithuania. In the period 1990–2005, the Lithuanian population decreased by 7.7% (owing to low birth rate and emigration). It is estimated that about 450,000 of the Lithuanian population emigrated in the period 1990–2008. However, the pace of emigration has been decreasing during the period 2006–2008.

Lithuania is ethnically homogenous, with ethnic Lithuanians accounting for about 80% of the total population. Therefore, Lithuania experienced less ethnic tensions,

unlike other Baltic countries. However, the concentration of ethnic minorities in the Vilnius region poses certain challenges of a regional nature.

The unemployment problem used to be one of the most significant social issues in Lithuania. However, owing to fast economic growth, employment has been rising and unemployment has been falling in recent years in Lithuania. In 2007, the level of employment was 64.9%. Although it approximated the EU-27 average of 65.4%, Lithuania has not yet attained its employment target of 70%.

Moreover, Lithuania is facing the problem of ageing population. However, the budgetary impact of this problem is likely to be lower compared to other EU countries. This is partly due to the pension reform in Lithuania, which reduced the risk of unsustainable public finances.

1.3 Socio-economic policies

Since 1990, national policies have aimed at reducing the scope of the public sector through privatisation and liberalisation of economic activities. The share of the private sector in the GDP had already reached about 70% in 2001.

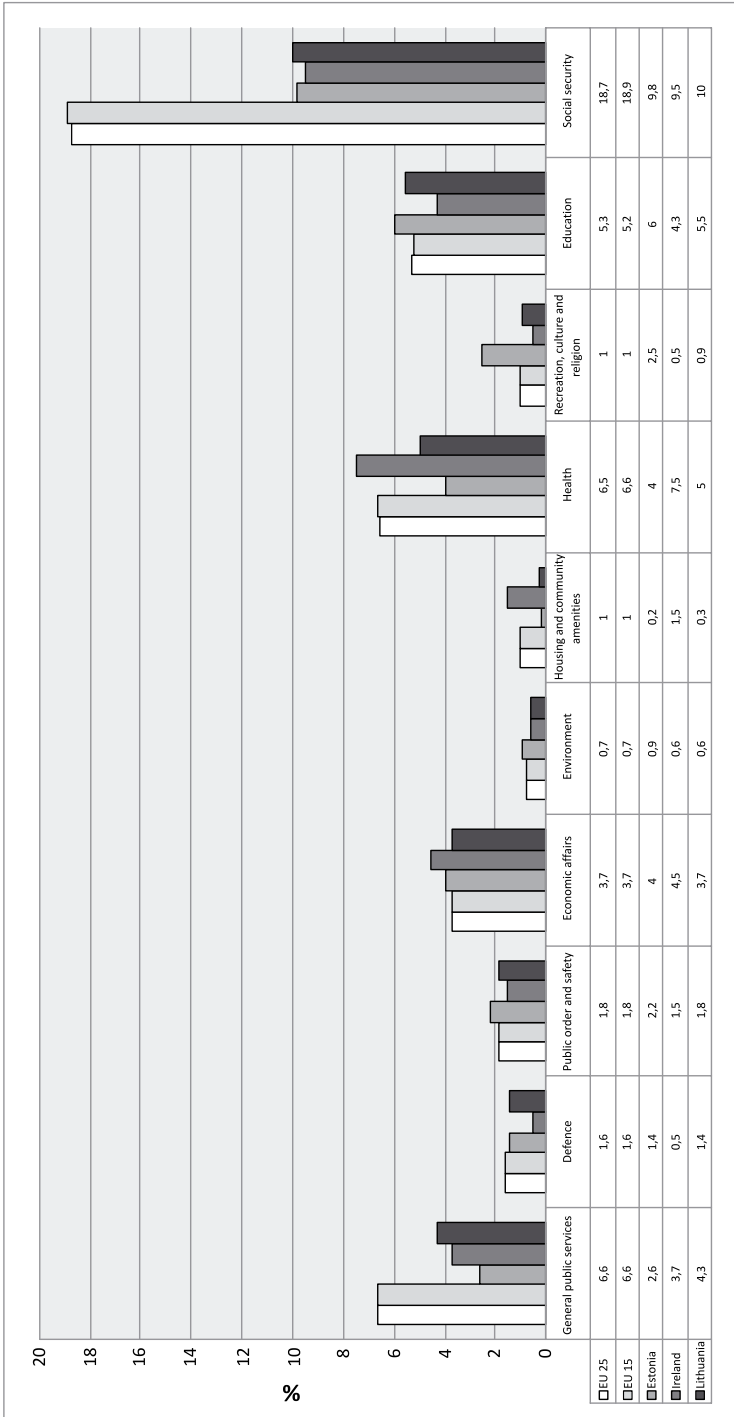
After the adoption of the EU membership (Copenhagen) criteria in 1993, more attention was paid to the capacity to cope with competitive pressure and market forces inside the EU single market. The availability of EU financial assistance for socio-economic development from 2000 brought about the need to design socio-economic development programmes and instruments. The 2004–2006 Single Programming Document (Objective 1 programme of the EU structural funds) aims at reducing the development gap vis-à-vis the EU average by promoting long-term competitiveness of the Lithuanian economy.

Lithuania remains a weak welfare state. The level of government expenditure in Lithuania is the lowest in the EU 25 member states (33.7% in 2005). Government expenditure for social protection in Lithuania is also very low: in 2005 it amounted to 10.1%, about two times lower than the EU 25 average, but similar to such small states as Estonia or Ireland (see Table 1 below). However, the volume of pensions and other social support has been growing relatively fast in the period 2006–2008.

Lithuania has recorded decreasing fiscal deficits since 2004, reaching 0.5% of GDP in 2005 and 0.6% in 2006. During this period, Lithuania beat its fiscal targets set in the national convergence programmes of 2005 and 2006 by about twice. However, in 2007, Lithuania missed its fiscal target by reaching a fiscal deficit of 1.2%. Government's commitment to reach a balanced budget in 2009 seems unrealistic in an environment of slower economic growth.

The latest important trend in national socio-economic policies is associated with the adoption of the national Lisbon Strategy Implementation Programme for 2005–2008. This programme aims at economic growth and employment (the main goals of the Lisbon strategy). However, the implementation of this programme

Table 1
Government expenditure by function in EU 25, EU 15, Lithuania, Estonia and Ireland, 2005



Source: Eurostat.

has been slow and ineffective (Institute of International Relations and Political Science, 2006).

2. The political system

Lithuania is a unitary state, a semi-parliamentary democracy. Power is divided among the legislative, executive and legal branches of power. Lithuania has a dual executive: the President and the Government. The President, who is elected directly for 5 years, is the Head of State and Commander-in-Chief, overseeing foreign and security policy. The President nominates the Prime Minister, who is the Head of government, and his/her cabinet upon approval of parliament (*Seimas*). Also, the President can veto legislation adopted by the *Seimas*, but this can be overruled by a larger majority in the *Seimas*.

The *Seimas* is a one-chamber parliament with 141 members elected for a four-year term. The *Seimas* approves or rejects the candidacy of the Prime Minister (together with the government programme), approves the national budget (based on a proposal from the government) and accepts or rejects annual reports of the government. The Prime Minister and Ministers form the cabinet in the executive.

From 1990–2000, the Lithuanian government was controlled or dominated by a one-majority party (the right-wing parties in 1990–1992 and 1996–2000 or left-wing parties in 1992–1996). Since the end of 2000, coalition governments have been in power. A minority coalition government came into power in 2006.

There are two levels of government in Lithuania: the central government and local government (with 60 local authorities). The central government organises government at the territorial level and the ten counties, whose governors are appointed by the government. The competence and resources are concentrated at the central level: the share of municipal expenditure in the overall governmental expenditure constituted about 25 % in 2005.

2.1 New management ideas

The Lithuanian political parties began a more intensive competition over public management reforms only in the post-accession period. According to the political party's programmes for the 2008 parliamentary elections, some left-wing and centre parties advocate rather traditional approaches to public administration, whereas a few right-wing parties – new public management ideas. For instance, the Homeland Union (the Lithuanian Christian Democrats), which is likely to win the 2008 general elections, supports a transition towards the position-based model of civil service through such instruments as fixed-term contracts for senior civil servants.

The right-wing governments, which ruled during the period 1999–2001, initiated more advanced ideas of new public management. For instance, in 2000, Lithuania introduced strategic planning at the central level, which was linked with the budget process in 2001. Under the strategic planning system, three-year strategic plans

and budget programmes are drafted by each appropriation manager on the basis of governmental strategic aims (priorities) and the maximum levels of appropriation (Nakrosis, forthcoming).

Previously, the Lithuanian authorities accepted new management ideas from the EU institutions (because of the priority and conditionality of EU membership) and, to a lesser extent, other international organisations (OECD/SIGMA, the World Bank, UNDP). Due to the priority of EU membership, EU-supported reforms of public management succeeded, to a larger extent, compared with other reform initiatives in Lithuania. However, advice from the EU was rather mixed due to internal diversity inside the EU and the lack of competence in the area of public administration.

Also, new management ideas were promoted by the business community, think-tanks and academia. However, the use of managerial ideas stemming from non-governmental sources has been rather limited in the Lithuanian government.

2.2 National political agenda

The national political agenda was dominated by the priority of Lithuania's accession to the EU and NATO until 2004. After gaining membership in these organisations, Lithuania became confronted with two sets of competing issues: issues of the welfare state (social security, health care and education, salaries of public servants, etc.) and issues of Lithuania's international competitiveness (research and development, innovation, foreign direct investment, tax reform, etc.). The former issues are addressed primarily through financing from the state budget, while the latter issues – through the 2007–2013 EU structural assistance.

The Lithuanian government of 2006–2008 implemented well its commitments of social policy, where it was easier to reach political consensus compared with the areas of tax policy and other political decisions (Nakrosis, 2008). The reforms of higher education and health care have been rather unsuccessful. For instance, according to one independent assessment, Lithuania had the least consumer-friendly health system among the EU 25 member states and Switzerland in 2006 (Health Consumer Powerhouse, 2006).

Also, the implementation of the “competitiveness” agenda is lagging behind in Lithuania. The Lithuanian government made certain important decisions on the revenue side (e.g. reducing the level of income tax) and the expenditure side (e.g. allocating 10% of overall European Regional Development Fund financing to R&D). However, no favourable effects have yet materialised at the macro level: according to Statistics Lithuania, the volume of foreign direct investment still remains rather low.

2.3 International organisations and the European Union

The International Monetary Fund, the World Bank and OECD/SIGMA played an important part in the process of public management reform in Lithuania, especially

before EU membership. Access to foreign advice was important in designing and launching some new public management reforms. For instance, the introduction of strategic planning in Lithuania was supported by experts from Canada and the introduction of programme-based budgeting by experts from the US.

From about 1996, public management reforms became driven primarily by Lithuania's accession to the EU. The EU dominated public management reforms through various means: access to different states of the accession process, monitoring the process of accession, the provision of legal and institutional templates and EU financial assistance, etc. For instance, there was a fear that slow progress of meeting EU requirements in the civil service area would delay the start of EU membership negotiations with Lithuania (together with the first group of more advanced applicants). Therefore, it was decided to adopt a draft Law on Civil Service in the *Seimas* in the autumn of 1999, prior to the forthcoming announcement of the Commission's Regular Report in September, 1999 (SIGMA, 2007: 55).

The EU supported the reinforcement of institutional and administrative capacities in Lithuania under its *PHARE* programme and Transition Facility. During the period 1998–2006, Lithuania benefited from about 150 such projects. *PHARE* and Transition Facility assistance mostly helped Lithuania implementing EU requirements and performing their monitoring (see Table 2). Also, administrative capacity and public administration efficiency became eligible under the EU structural funds in the period 2007–2013. The Lithuanian government allocated 2.5% of all EU structural support for a new priority of administrative capacity.

Table 2
The contribution of PHARE and Transition Facility
to the implementation of EU requirements

Contribution	%
Helped Lithuania implement EU requirements and perform their monitoring	70,45%
Helped transfer provisions of EU legal acts into national law	47,73%
Helped prepare strategic documents necessary for the EU policy implementation	31,82%
Helped negotiation with the European Commission concerning EU membership in the pre-accession	20,45%
Helped prepare positions for negotiations at the EU level	9,09%

Source: the survey of the Lithuanian beneficiaries. See Viešosios politikos ir vadybos institutas. *Galutinė teminio administracinių gebėjimų vertinimo ataskaita*. Vilnius, 2008. http://www.finmin.lt/finmin.lt/failai/pereinamojo_laikotarpio/09.23_AG_ataskaita.pdf.

Although the EU's influence is associated primarily with the Weberian model of public administration, some characteristics of new public management occurred in Lithuania in the pre-accession period (programme and project-based management, policy implementation agencies, monitoring and evaluation). Also, the EU

contributed to the emergence of a regulatory model through the establishment or strengthening of a number of regulatory agencies in the Lithuanian public sector (Maniokas, 2002).

However, the EU's influence had some distorting effects. In order to meet the various requirements of the EU during a relatively short period of time, domestic reform efforts were mobilised in the policy areas, where the EU has exclusive or shared powers (in particular the EU internal market or the Common Agricultural Policy). This is partially why Lithuania's performance in the area of health care or education, where the legal competence of the EU is limited, is lagging behind.

2.4 National political culture

Lithuanians trust the EU (59%) more, compared with the national government (24%), the national parliament (13%) or the national system of law and justice (25%) (See Table 3 below). However, such a low level of trust could be explained by the negative attitude of the public towards the Lithuanian political system in general. According to regular surveys of the Ministry of the Interior, overall trust in Lithuanian central and municipal institutions increased from 35% in 2005 to 48% in 2006 and to 51% in 2007 (Vidaus reikalų ministerija, 2007: 5–6).

Table 3
Trust in various institutions, 2007

	Lithuania			EU 27		
	Trust	Do not trust	n.a.	Trust	Do not trust	n.a.
EU	59	21	20	48	36	16
Government of Lithuania	24	69	7	34	59	7
Parliament of Lithuania	13	81	6	35	56	9
Lithuanian system of law and order	25	66	9	47	46	7

Source: The European Commission. *Eurobarometer 68: Lithuania*. 2007.
http://ec.europa.eu/public_opinion/archives/eb/eb68/eb68_it_nat.pdf.

The legalistic approach used to prevail in the Lithuanian public sector. However, managerial culture gained some ground after the implementation of certain public management reforms. According to preliminary results of organisational self-assessment, the Lithuanian public sector organisations are very goal-oriented (focus on task accomplishment, goal-oriented, result-oriented and hard-working). However, these organisations are not innovation-oriented (focus on innovation, risk-taking, willing to experiment, creativity) (*Viesosios politikos ir vadybos institutas, forthcoming*).

It is interesting that Lithuanian civil servants support new public management ideas for civil service reform (SIGMA, 2007). However, compared with other

Baltic states, the Lithuanian higher civil service is more dominated by the old nomenclature, which could be less open to new reform ideas.

3. Elite decision-making

Public management reform was characterised by elite decision-making in the Lithuanian executive. Many reform issues were decided by national administrative elites supported by EU administrative elites in the pre-accession period. However, in the areas of health care or education reform, the ruling elite failed to achieve political consensus in the post-accession period.

The *Seimas* was more involved in the establishment of an overall public administration framework by adopting new legislation or amending existing legislation. The role of the legislature in parliamentary control was weak. However, it became more involved in controlling the executive after the establishment of an audit committee in 2004. The involvement of local elites in public management reform is limited, owing to the concentration of power at the central level.

Many public management reforms are desirable, but only a small set of reforms is feasible. The most feasible reforms are only linked to important national priorities (especially membership in the EU and NATO), supported by the government centre or influential interest groups and caused by strong external pressures (such as the Russian financial crisis in 1999). In the absence of these conditions, there is a limited willingness to engage in new reform initiatives because they create additional workload and conflicts inside the Lithuanian administration. Often, the existing problems are solved by increasing government funding for particular institutions or groups of people (e.g. the social orientation of the state budget in 2006 and 2007). However, slowing growth of the national economy and increasing fiscal deficit may constitute a reform opportunity in the future.

4. Pressure from citizens and corruption

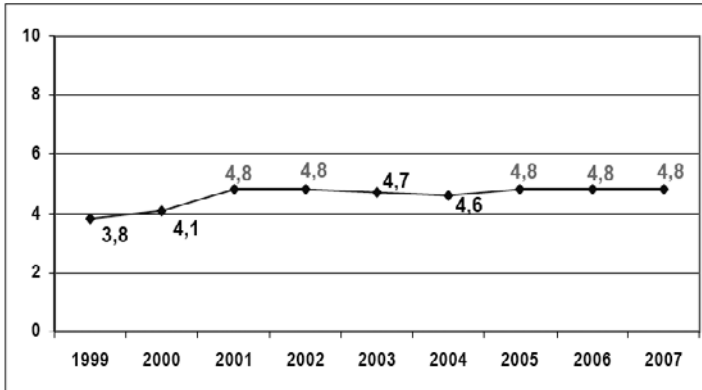
Pressure from citizens has been weak because of the weak civil society and relatively closed decision-making in the government. Sometimes certain interest groups (such as the Confederation of Industrialists) exert strong pressure on important policy decisions.

There are several think-tanks in Lithuania with the Lithuanian Free Market Institute (promoting the ideas of a free market) being the most active one. However, their influence on public management reform has been rather limited. Since 2007, various non-governmental stakeholders from academia or think-tanks became more involved in public management reform through the new Sunset Commission.

Lithuania remains among the most corrupt countries in the EU. According to Transparency International, the Lithuanian corruption index of 2005–2007 was 4.8 (see Figure No. 1). The main source of corruption is public procurement, whose volume is increasing. Despite the establishment of the Special Investigation Service and the adoption of an anti-corruption legislative framework, little progress has

been achieved in preventing corruption in Lithuania. The media sector generated some pressure for reform by reporting cases of corruption, abuse or mismanagement in the public sector.

Figure 1
Lithuania's corruption index in the period of 1999–2007



Remark: 10 – very transparent state, and 0 – very corrupt state.

Source: Transparency International. *Transparency international korupcijos svokimo indeksas 2007 m.*
http://www.transparency.lt/new/images/cpi2007_info.pdf.

5. The administrative system

The administrative system is rather complex and fragmented in Lithuania. There are about 900 Lithuanian budgetary institutions operating at the central or local levels. All these institutions are grouped into five groups of institutions. The first and most important group of institutions include the Presidents' Office, the *Seimas*, the Government's Office and all ministries. Also, about 200 public non-profit institutions, which were established by various state or municipal institutions, receive funding from the budget in a direct or indirect way. In addition, some state-owned or municipal companies are involved in the provision of services or products for the public. Moreover, a few foundations operate in the Lithuanian public sector. Finally, some services are delivered to the population under the arrangement of public-private partnership and/or through private companies.

The administrative system at the level of the central government is organised into the State Chancellery, 13 ministries and other public administration institutions subordinate to the government or ministries. The establishment of a new energy ministry was proposed by a few right-wing political parties in 2008 to support the implementation of a new political priority. However, previous attempts to establish a ministry of information society were unsuccessful.

According to the World Bank, there have been ‘dramatic improvements in Lithuanian systems of policy co-ordination (both horizontal and vertical) in recent years’ (the World Bank, 2006: 20). Also, the Lithuanian EU co-ordination system was rather successful “as a result of the strong coordination role of the State Chancellery” (the World Bank, 2006: 20). This is especially true for the transposition of the EU legal provisions, which remains very centralised with the State Chancellery at its centre (Maniokas, Vilpisauskas, 2008: 1). In the last years of accession to the EU, the Ministry of Finance became more powerful in the executive with the Minister for Finance D. Grybauskaitė, often treated as “the first among equals”. However, following her appointment to the European Commission, the authority of this ministry has somewhat declined in the Lithuanian executive.

In 2007, the Lithuanian public sector employed about 26% of all employed labour force. The size of the Lithuanian public sector is similar to the average public sector in the EU 25. According to the data of the Civil Service Department of Lithuania, there were 24,790 civil servants employed at the end of 2006: 19,384 – at the central level and 5,406 – at the local level. The size of the Lithuanian public administration is growing in terms of the total number of civil servants (see Table 4). This is related to Lithuania’s accession to the EU (in particular the management of EU assistance) as well as new functions at the central or local level.

Table 4
Lithuanian civil servants employed at the central
and local administration, 2003–2006

	2003	2004	2005	2006
Central administration:	15230	15617	16785	19384
Parliament’s chancellery and institutions under it	810	852	885	1180
Courts	1003	1267	1493	1663
President’s office and institutions under it	95	94	93	95
State chancellery and institutions under it	1466	1465	1597	1811
Ministries	1826	1964	2068	2228
Institutions under ministries	9236	9171	9787	11446
Counties	794	804	862	961
Local administration (municipalities)	4338	4685	5032	5406
Total:	19568	20302	21817	24790

Source: The Ministry of the Interior in Lithuania, 2007.

The main objective of the civil service reforms, which resulted in the adoption of the 1999 Law on Civil Service, was related to the establishment of a stable and professional civil service. This objective, which was linked to Lithuania’s accession to the EU, has been largely achieved. The career-based system of civil service is applied in Lithuania. In 2007, the characteristics of career-based systems in Lithuania

stood at 71% (Lithuania met 12 characteristics of the career-based system equal to Germany, Austria, and Poland) (SIGMA, 2007: 7).

After accession to the EU, more stability was achieved in the administrative system at the central level: if the turnover of staff was about 30% following the 1996 parliamentary elections or about 20% following the 2002 parliamentary elections, it dropped to 8–10% of all servants in the period 2004–2006 (SIGMA, 2007: 28). The civil service remains more unstable at the local level because of higher politicisation. However, there is a risk that a significant change in the composition of the government can increase politicisation of the civil service after the next parliamentary elections in 2008 (especially the absence of the Lithuanian Social Democratic Party or the presence of populist parties in the ruling coalition).

5.1 Contents of the reform package

Contents of the reform package (in terms of reform trajectories) in Lithuania concerned:

- *Finance*: Lithuania achieved moderate progress in the areas of budgeting, accounting and audit. There was a transition from an input-oriented line-item sectoral budget to a semi-programme budget with changed format and content, from a cash-based system to accrual accounting (with a modified cash-based system in place) and from traditional financial and compliance audits to a mix of financial and performance audits.
- *Personnel Management*: there was a transition from a post-based civil service system to a career-based system (in 1999), but it was relaxed later (in 2002). Since 2004, the main initiatives of the civil service reform concerned the selection, appraisal, remuneration and training of civil servants. For instance, a stronger link was established between performance management at the central level and performance of individual servants through the modification of civil servants' appraisal in 2007. Although the main functions of the civil service are running smoothly, the motivation of civil servants became the most important reform issue in the period 2006–2008.
- *Organisation*: a new territorial-administrative level (counties) was introduced in 1994. Although decentralisation is one of the most popular reform proposals in Lithuania, the processes of decentralisation/de-concentration have been rather slow. A separate regional development framework was introduced in 2000, consisting of the National Regional Development Council (an advisory body) and 10 regional development councils (legal authorities).
- *Performance Management*: Lithuania has an extensive performance management system in place at the central level (a three-level strategic planning framework). However, performance information is little used in the decision-making and budgeting processes. In 2003, the Lithuanian government introduced impact assessments for draft governmental decisions. Lithuania has only initial experi-

ence with quality management: only five Lithuanian institutions introduced the Common Assessment Framework by the end of 2006.

Based on this assessment, Lithuania appears to reach a second category of states called “modernisers” according to the classification by Pollitt and Bouckaert (Pollitt and Bouckaert, 2000). It is similar to such countries as Canada, Finland, France, The Netherlands and Sweden.

A public administration development strategy until 2010, which was approved by the Lithuanian government in 2004, contains the following main objectives:

1. Improving the central government (structures and performance);
2. Improving the territorial government (structures and performance);
3. Improving the local government (structures and performance);
4. Administrative capacity (or human resources);
5. E-government.

5.2 The implementation process

In the first years of re-gaining independence in Lithuania, public management reforms were associated with the design of a new constitutional order and transition to a market economy (including privatisation). Later public management reforms became driven primarily by Lithuania’s accession to the EU from 1996.

After Lithuania’s accession to the EU, domestic-level factors began playing a more important role in public management reform. In the initial years of EU membership, central leadership from the government centre was weak, the capacity of responsible institutions to support public management reforms was limited and co-ordination among different levels of governance or ministries was insufficient.

However, there has been some improvement in the overall co-ordination of public management reform in the period 2006–2008. At the end of 2006, the Sunset Commission, which was established for the purpose of streamlining bureaucracy, optimising the administrative system and improving the efficiency of human and financial resources, was re-established. It has been rather effective in analysing and discussing important public management issues, but the implementation of its recommendations remains problematic due to limited political support.

In the pre-accession period, Lithuanian public management reform was characterised by ad hoc and sectoral efforts. The first two attempts for comprehensive reform, which were undertaken by the Ministry of Public Administration Reforms and Local Authorities in 1995 and 1997, were not successful. A more comprehensive and thematic approach was adopted in 2004, when the Lithuanian government approved the public administration development strategy until 2010. However, it was found that progress in improving the territorial government has been poor: there was a lack of political will to decentralise the central government in Lithuania (the World Bank, 2006: 25–26). A new version of this strategy from 2010 is under preparation in Lithuania.

This strategy was designed and is being monitored by the Ministry of the Interior. Its Public Administration Department is responsible for public administration reform. A new Strategic Planning and Public Administration Department was established in the State Chancellery in 2007. Additional staff was recruited in these institutions to deal with various public management issues.

5.3 Reforms actually achieved

Lithuania gained EU membership in 2004, and its accession progress and readiness to apply the EU *acquis* was assessed by the European Commission as among the best. Lithuania has the lowest transposition deficit of the EU internal market directives in the EU 25: only 0.6% from all directives compared to the EU interim target of 1.5%. This is despite the fact that Lithuania, together with other new member states of the EU, needed to implement a larger volume of EU legislation over a shorter period of time compared with the old EU member states. Lithuania's procedures for managing the implementation of the EU legislation are viewed as "exemplary in the EU" (Sedelmeier, 2008: 821).

Despite a good transposition of the EU legislation, some implementation gaps remain in Lithuania. The implementation of EU better regulation initiatives in Lithuania was unfavourably assessed by experts from the OECD/SIGMA programme in 2006 (OECD/SIGMA, 2006). Some Lithuanian regulatory institutions remain rather weak. According to the survey of twinning partners, the Lithuanian beneficiaries from the sectors of the EU regulatory policy match the EU good practice to a lower extent, compared with other sectors (Viesosios politikos ir vadybos institutas, 2008). For instance, the National Control Commission for Prices and Energy lacks sufficient legal authority and financial resources to carry out its regulatory activities.

However, Lithuania is unlikely to meet its targets under the EU Lisbon strategy. One of the main targets to raise the R&D expenditure to 2% of GDP by 2010 will not be met (the level of this expenditure only reached 0.80% in 2006, see Table 5). Lithuania is also unlikely to meet its employment target. Although employment was increasing in the period 2003–2006, it is associated largely with a growing economy. Also, Lithuania is less successful in absorbing the EU structural and cohesion funds: in 2007 it remained below the average of the new EU member states.

Table 5
Achieving the main targets of the EU Lisbon strategy in Lithuania

Indicator	2003	2004	2005	2006	Targets for 2008 and 2010
Investment in R&D (% from GDP)	0,68	0,76	0,76	0,80	1,2 and 2,0
Employment of the population aged 15–64	60,9	61,1	62,6	63,6	66,0 and 68,8

Source: Statistics Lithuania.

The introduction of performance management in Lithuania is often regarded as an example of good practice and Lithuania is often used as a benchmark for other new EU member states and former Soviet Union countries. Together with Latvia, Lithuania has received the highest rating of performance management in Central and Eastern Europe (around level three), with “a planned, implemented and reviewed (in both cases) performance management system in place” (World Bank, 2006: 20). However, despite the large scope of performance management, its use is not extensive in Lithuania (Nakrosis, forthcoming).

Also, the establishment of the career-based civil service system is considered to be one of the most important achievements in Lithuania. OECD/SIGMA and the World Bank repeatedly concluded that Lithuania (together with Latvia) constitute an exception from unfavourable trends in Central and Eastern Europe: Lithuania continued its civil service reforms in the post-accession period, unlike most other new EU member states. In a scale of five levels, the World Bank rated Lithuania’s reforms as “substantially achieved” (level 2), the highest level among all new EU member states (World Bank, 2006: 31).

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Country public management reforms landscape: Lithuania

Dates	General	Organisation	Personnel	Finance
<p>1990 – 1992</p>	<ul style="list-style-type: none"> • Governments of K. D. Prunskienė, A. Šimėnas, G. Vagnorius, A. Abišala (1990–1992) • Adoption of the Lithuanian Constitution (1992): a legal framework for all branches of power and institutions. 			
<p>1992 – 1996</p>	<ul style="list-style-type: none"> • Governments of B. Lubys, A. Sleževičius, L. M. Stankevičius (the Lithuanian Democratic Labour Party) • The Government Law adopted (1994): a legal framework for the cabinet and ministries. 	<ul style="list-style-type: none"> • The laws on local self-governance and county governance adopted (1994) • the Ministry of Public Administration Reforms and Local Authorities established (1994): a co-ordinating body for public administration • Paper “Directions of Public Administration reform” prepared by the new Ministry (1996). 	<ul style="list-style-type: none"> • The Civil Servants Training Centre established (1993). • Law of the Officials (1995): the start of professional public service. • The Ombudsman Office reporting to the Lithuanian Parliament founded (in 1995). 	<ul style="list-style-type: none"> • Law on the State Control adopted by the Seimas (1995).
<p>1996 – 1999</p>	<ul style="list-style-type: none"> • Government of G. Vagnorius (the Lithuanian Conservative Party) • A public administration reform as a separate issue in the government programme (so-called policy of “clean hands”). 	<ul style="list-style-type: none"> • Re-organisation of the ministries (1996): three new ministries (including the Ministry of European Affairs) established; five ministries abolished. • The Special Investigation Service established (in 1997), responsible for anti-corruption. • The first NPAA (National Programme for the Adoption of the Acquis) prepared (1999). 	<ul style="list-style-type: none"> • Law on Compatibility of Public and Private Interests in Public Office (1997): ethics in the civil service. • Established Institute of Public Administration (1999): training of civil servants. 	<ul style="list-style-type: none"> • Law on the State Control amended by the Seimas (1998).

Dates	General	Organisation	Personnel	Finance
1999 – 2000	<ul style="list-style-type: none"> Governments of R. Paksas. A. Kubilius (the Lithuanian Conservative Party) Public Administration Law adopted by the Seimas (1999) (an administrative procedure established). 	<ul style="list-style-type: none"> The Sunset Commission (1999): review of institutions and functions. The Strategic Planning Committee established (1999): a new cabinet committee. The Law on Regional Development adopted (2000): regional councils and plans. 	<ul style="list-style-type: none"> Law on Civil Service (1999): a career-based civil service model. 	<ul style="list-style-type: none"> Adoption of the Strategic Planning Manual (1999): start of strategic planning and programme-based budgeting at the central level from 2000. A new edition of the Budgeting Law adopted by the Seimas (2000).
2000 – 2001	<ul style="list-style-type: none"> Government of R. Paksas (the Liberal Union in the coalition government). Public administration as a priority of the government programme (so-called "period of new policy"). 	<ul style="list-style-type: none"> Number of ministries reduced to 13 (2000): the Ministry of the Interior becomes responsible for public administration. 	<ul style="list-style-type: none"> The governmental resolution on services to citizens (2001), including the principle of "one-stop-shop". 	<ul style="list-style-type: none"> The government resolution on internal audit (2001): a basis for setting up internal audit units.
2001 – 2004	<ul style="list-style-type: none"> Government of A. Brazauskas (the Social-Democratic Party in the coalition government). Long-term State Development Strategy adopted by the Seimas (2002). The Single Programming Document adopted by the European Commission (2004). Public Administration Development Strategy until 2010 adopted by the government (2004). 	<ul style="list-style-type: none"> Concept Papers on Decentralisation and Territorial-Administrative Units (2003). The EU affairs co-ordination procedure adopted by the government (2004, updated in 2005). 	<ul style="list-style-type: none"> A new edition of the Law on Civil Service passed by the Seimas (in 2002). A revision of the Government Law (2002): reform of higher civil service. The Civil Service Department under the Ministry of the Interior established (2002). The new anti-corruption law and anti-corruption programme adopted by the government and Seimas (2001, 2002): the Special Investigation Service as a co-ordinating body. 	<ul style="list-style-type: none"> A three-level strategic planning system established (2001). The new Accounting Law adopted by the Seimas (2001). The Law on Internal Control and Audit adopted (2002), the Law on State Control amended (2002). The e-government concept paper adopted by the government (2002, 2003). The government resolution on impact assessment of draft governmental decisions (2003): A new edition of the Budgeting Law adopted by the Seimas (2003).

Dates	General	Organisation	Personnel	Finance
<p>2004 – 2006</p>	<ul style="list-style-type: none"> • Government of A. Brazauskas (the Social Democratic Party in the coalition government). • The National Reform Programme adopted by the government (2006) to implement the reviewed Lisbon strategy. 	<ul style="list-style-type: none"> • The audit committee established in the Seimas (2004), contributing to more effective scrutiny of the executive. 	<ul style="list-style-type: none"> • The Law on Civil Service amended and a new procedure governing the appraisal of civil servants' performance adopted by the Government (2005). 	<ul style="list-style-type: none"> • Accounting reform (2005): transition to accrual accounting. • Common Assessment Framework introduced and good practice examples of public sector selected (2005). • Higher budgetary spending and socially-oriented budget (2005, 2006, 2007).
<p>2006 – 2008</p>	<ul style="list-style-type: none"> • Government of G. Kirkilas (the Social Democratic Party in the minority coalition government). • The Law on Public Administration amended: new provisions concerning the structure of public administration units (2006). 	<ul style="list-style-type: none"> • The Sunset Commission under the government re-established (2006). • A new decentralisation action plan and the decentralisation of few functions to the local authorities (2007). • Government's call for the implementation of "one-stop-shop" principle by 1 September 2007. 	<ul style="list-style-type: none"> • Law on Civil Service amended in 2007 (with regard to remuneration, appraisal of civil servants, etc.). • Basic salary of civil servants increased in 2007 and 2008. 	<ul style="list-style-type: none"> • Commitment to a balanced budget in 2009 announced in the convergence programme and the Fiscal Austerity Law (2007). • Audit report of programme-based budgeting published by the National Audit Office (2007) as well as first ex-ante and ex-post evaluations of strategic plans and budget programme commissioned by the Ministry of Finance (2007).

Chapter 9

Public Management Reforms: Poland

Marek Debicki, Anetta Jaxa Debicka

1. Socio-economic forces: general

Major social developments after 1989 include the very basic social transformation. The Solidarity peaceful “revolution” had a rather limited number of objectives. In the first place, Poles wanted freedom from Soviet dominance and ability to govern themselves. Secondly, there was a demand for establishing the government through free elections. Poles also clearly wanted to be a part of the family of democratic nations governed on the basis of the rule of law, rather than the discretion of the party elites.

The socialist economy was also discredited and obviously incapable of providing goods and services, even at a rather basic level. The first elected Prime Minister, T. Mazowiecki, admitted that his government had only limited ideas on how to organise the economy. Gradually, political and technical discussions led to the development of policies designed to create a framework for political democracy and market economy. One of the preoccupations of the government in the early period was the development of policies designed to limit inflation, which reached alarming levels. Anti-inflation policies popularly known as “the Balcerowicz plan” have been remarkably successful, although this caused significant social costs and met with significant opposition. Increasing the presence of foreign companies selling goods and services in Poland, as well as starting production facilities had a growing impact on Polish society. Marketisation starts producing “winners” and “losers” and has an impact on emerging social cleavages. Governments also had to develop plans to dismantle a vast number of publicly-owned enterprises. Many, (if not most), state factories had outdated technology and produced goods which had no market.

2. Global economic forces

After 1989 Poland benefited from the activities of global corporations and international organisations, (but also increasingly became judged by), most prominently, the World Bank and the IMF. Poland is being increasingly judged by the international economical actors on the basis of performance rather than heroic activities aimed at ending the totalitarian order. Various international organisations and investment companies perform analyses and evaluations assessing Poland’s performance. Among such evaluations, some of the most important are: Human Development Index, Quality of Life Index, Index of Economic Freedom, Global Competitiveness Index, Corruption Perceptions Index, Foreign Direct Investment Confidence Index, Globalisation Index and the Global Retail Development Index. Such evaluations are monitored by policymakers as well as NGO’s and have impact on the development of economical and fiscal policies.

In the international arena, Poland very early on, articulated a policy of joining NATO and the EU without really resolving the issue of the possible tensions caused by being a “friend” of the USA and a member of the European Union. Both of these policies ended with undisputable success. Poland became a full member of both NATO and the EU. Polish administration performed remarkably well in the gigantic preparatory work prior to admission to these organisations. It should be mentioned that these policies were supported by all major parties.

3. Socio-demographic issues

Poland presently has a population of 38.1 million. It is experiencing a declining birth rate and by 2030, it is expected that its population will decrease to only 35.9 million. The number of people over the age of retirement is also increasing and is expected to reach over 9.5 million in 2030.

There has also been a significant migration from rural communities to the cities. Presently 61% of Poles live in the cities. Poland is also highly homogenous in terms of ethnic composition as only some 1.5% of the population belong to ethnic minorities. This is perhaps a somewhat low estimate, given that it is based on self-identification. About 90% of the population are Catholic; the Greek orthodox religion is followed by 1.6% and Protestants represent 0.4% of the population, whereas 7.4% of people state that they have no religious affiliation.

We observe a significant increase in the numbers of students in post-secondary institutions, from 794.6 thousand in 1995 to 1926.1 in 2004. However, the increase in the number of those attending technical colleges and other non-degree institutions are rather modest.

Most of those who are employed work in the private sector (71%).

Presently, Poland has a relatively low level of unemployment – one of the lowest in Europe. One of the main reasons for the decline in the rates of unemployment is significant emigration. As in other countries, unemployment is higher amongst women and in rural areas. What is particularly alarming is the fact that unemployment is high amongst the young. Not surprising is the fact that a significant number of Poles still live below the government’s poverty line. The patterns of emigration have also changed. In the past, emigrants were amongst the poorest and least-educated Poles, mostly from the rural communities. Presently, large numbers of people who seek work in other countries are highly skilled and educated and frequently members of professions desperately needed in Poland (such as nurses and physicians). Poland also suffers from very uneven levels of regional development and so far, policies aiming at regional socio-economic equalisation have not produced significant change. The governments produced seven-year development plans with an objective of integrating into EU-level regional policies. It is impossible to assess if these plans (once fully implemented) will have a positive impact on regional inequalities.

4. National socio-economic policies

All governments after 1989 have been introducing elements of the framework necessary for the operation of the market economy, such as a modern banking system, accounting laws, and corporate laws and regulations. Moreover, significant activity has taken place in order to dismantle the economical inheritance from the previous era, although privatisation laws and methods did not always produce good results, sometimes leading to corrupt deals and inefficiencies. Some argue that the public purse has been constantly losing by selling assets below their market value. At present, about 82% of state enterprises are in some stage of privatisation. On the whole, it is generally stated that the process is taking too long but the issues are very complex and in many instances, the only solution is the acceptance of significant economic and social losses by simply closing factories. Former state farms (PGR) are among some of the most troublesome enterprises in this respect.

Privatisation in many instances carries large social costs. Significant efforts have been made to attract foreign investors. Views on privatisation and marketisation divide society and political elites. The earlier fascination with capitalism and the private market has diminished and governments have slowed down this process. To some extent, this was caused by errors in the privatisation policies. This was particularly true during the PiS government which had some economical ideas similar to those utilised by the governments in PRL and was responding to increasing views that governments were selling national assets at a “fire sale prices”.

5. The political system

In the period between 1989 and 2008 Poland developed or adopted a set of political structures compatible with the notion of democratic governance based on the rule of law. Presently, the basic problems are not with the institutions per se but with the manner in which these institutions work. Another major issue, acknowledged by all authorities on the subject, is the very poor quality of legislative draftsmanship and the frequency with which new legislation (or significant amendments to the existing laws) is introduced, as such a practice creates difficulties in developing consistent and rational operations. Both lawyers and public servants frequently comment that it is practically impossible to keep up with the changes, even in a specific field.

The groundwork of Poland’s political institutions was laid down in the Constitution, adopted by the national referendum in 1997, and to some extent by its predecessor, the so-called Small Constitution of 1989. Thus, Poland has a two-chamber Parliament, cabinet government and office of the President, which to some extent, shares power with the Executive. The President of the Republic of Poland is the supreme representative of the Republic of Poland and the guarantor of the continuity of State authority. He also has a share in conducting international relations and is the Head of the armed forces.

The President of the Republic ensures the observance of the Constitution, safeguards the sovereignty and security of the State, as well as the inviolability

and integrity of its territory. At the top of the court system is the Supreme Court and the Supreme Administrative Court; in addition there is also a Constitutional Tribunal.

According to both political commentators, as well as academics, some of the problems with the manner in which Parliament and the Cabinet operates, are due to the unclear and not yet fully developed laws and informal norms governing these institutions. Rules governing the behaviour of MP's are also confusing to most people, since they are not completely bound by party discipline. The manner in which the Prime Minister is chosen is not based on a voters' decision either; on several occasions it was not the leader of the Party with the largest number of seats who became the Prime Minister, but a person of his choice. In this way, a relatively unknown politician suddenly becomes the Prime Minister and the actual leader of the government is not even a member of the Cabinet.

The party system is also in a process of development. New parties emerge at the time of elections. In most instances the frequent emergence of "new" parties amounts to nothing more than a change of name. Almost without exception there is no emergence of new faces in the party elites. Parties simply emerge as a result of internal conflicts in already existing parties or on the basis of negative public opinion polls. In such instances, some members decide to separate from their colleagues and establish a new party. In one instance, even the Prime Minister appointed as a 'political technocrat without any party affiliation' became a part of the leadership of a newly formed party. This all amounts to a form of "musical chairs". Programmes or policies of the parties are difficult to ascertain and frequently prospective voters are told only that the new party or the party in opposition stands for justice, good government and is opposed to corruption. It is not surprising that the level of trust in political elites is extremely low and so is the citizens' participation in elections.

The two issues most commonly raised by the parties vis a vis each other are: accusations as to the behaviour of the party elites in the communist era and corruption. This is combined with distasteful arguments *ad hominum*, sometimes even resorting to racism. Levels of political patronage and corruption are extremely high and governments which promise to 'clean the house' end up behaving even worse than their predecessors. It should be mentioned that all of the governments elected after 1989 were (including the present one) formed by coalitions. There are also unresolved issues as to the division of power between the Cabinet and the President.

6. New management ideas

Poland is continuously reorganising management systems in the public sector. New Public Management had its impact on the Polish administration by providing ideas and demands for recognition of the need to modernise Polish administration and at the same time reducing its size.

The introduction of IT into the public sector has been one of the priorities of all governments and it is recognised as a necessary component of modernisation. This is combined with improvements of both quality and quantity of information available to the public although administrative secrecy is still too high. However, only very few services are available “on-line”.

Significant attention is paid to the introduction of cost benefit analyses into the policymaking and policy implementation process. The Supreme Chamber of Control, in its reports evaluating different structures, conducts economical analyses. Concepts of good governance include the notion of prudent fiscal management. New policies have to identify both costs as well as sources of financing. However, the practice of cost benefit analysis still has to be significantly improved.

The next major item on the management reform agenda is related to the high level (particularly in public perceptions) of corruption. Each government attempts to introduce new tools for combating this “disease”. This has been one of the most important issues in the electoral campaign of the present government. So far, the results have been very disappointing. In 2006, a special anti-corruption agency, CBA, was established with the mandate to investigate and prosecute cases of corruption. This is a rather controversial agency with perhaps as many opponents as supporters. Attempts are made to improve the manner in which services are delivered and pro-consumer – citizen orientation is also on the management agenda.

It should be stated that in the citizens’ perceptions, management of the public sector is viewed as highly corrupt and inefficient. This contributes to the overall low levels of trust in both political and administrative structures.

7. Pressure from citizens

Poland has experienced a significant development of citizen groups actively attempting to participate in co-governance of the country. Some of the NGO’s have already acquired a strong position in the system and have high visibility. We can divide these organisations into three main groups: international, national and local.

As to the first group, several international organisations have established Polish chapters. This has been carried out with significant help from organisations already well-functioning at the global or regional level. Among such organisations are: Transparency International, Amnesty International, several women’s organisations and, lately, the most controversial organisations of sexual minorities. These organisations provide significant critique of government policies and articulate demands for new policies or results of monitoring existing programs. In many fields, such organisations participate in policy design and even delivery of social programmes (notably in provision of services for the poor, the homeless etc).

There are also many organisations which are of domestic origin – either local or national. Several national and local organisations have established permanent offices and persist over time. We also see the emergence of ad hoc organisations which frequently focus on a single issue.

On the basis of the available evidence, it is, however, impossible to assess the combined impact of such civic activities on the political system as a whole. It should also be stated that such activities are limited to only certain groups in society but they are viewed as a necessary element of the development of a democracy on a societal level.

8. Party political ideas

Party platforms, as has already been indicated, are rather limited. Given the concentration of parties on obtaining power, they are less interested in developing coherent policies. Instead, issues related to the (Communist) past are one of the most prominent and are dividing political parties. Given that it is already almost sixteen years since the abolition of the mono-party system, these issues are less and less relevant – particularly for the young Poles. Yet, as the number of former communist activists among political elites declines, the elites increase demands to deal with the past.

Existing party platforms concentrate, to some extent, on the necessity of combating nepotism and corruption. Unfortunately, neither the proposals nor the credibility of elites in this area promise quick results. Each government uses its power of appointment to reward their friends, without much attention being given to qualifications and experience. There are two issues on which there is some ideological debate. Given the unemployment and large number of people living below the poverty line (particularly among the elderly) there is a division of opinion as to the extent to which Poland should be a welfare state and provide a greater degree of assistance to citizens in the form of services and income security. Debate on this issue is, however, confusing and there is a lack of consistency in party positions. At present, paradoxically, parties which could be classified as conservative are in favour of greater state assistance to citizens in need. Another emerging division is the emerging Euro-scepticism in opposition to the general enthusiasm connected to joining the EU. Liberalism in economical policies is increasingly perceived in negative terms.

However, these party positions are more election strategies rather than well thought out ideological differences.

9. Chance events

Poland is continuously experiencing charges against members of the political elite including Prime Ministers and even the President. These charges range from accusations of espionage for the Soviet Union (in the past) to charges of corruption, including illegal stock transactions and tax evasion or falsifying documents. One of the techniques used to allegedly expose corruption are Parliamentary Investigative Committees. Several members of such committees rose to prominence as a result of their role in those investigations which were nationally televised. Several MP's and high ranking civil servants have been charged (and some have been convicted) with criminal offences related to their official functions. Some members of practi-

cally all Cabinets have been faced with a vote of non-confidence. Such frequent charges of corruption or work for the communist secret services contribute to the lack of stability in both the civil service and political elites. In addition to such events there have also been cases of natural disasters (such as floods) which the governments, according to critics, did not deal with appropriately. Such events have exposed some organisational weakness in the administration and poor coordination between national and local agencies.

10. Elite decision-making

Elite interaction can be characterised by a high degree of personal conflicts. The necessity of forming governments without a clear majority but by the party with the highest number of seats (or a coalition) in Parliament, frequently leads to significant tensions between parties and their leaders. This is even more problematic when the President comes from the party which, in Parliament, is in opposition to the government. Parties are also experiencing significant internal problems resulting in a rather weak position of party leaders. Many members of the party, parliamentary and government elites attempt to increase their standing by individual actions rather than co-operatively working through the party. The media are continuously speculating as to the relative power of particular individuals. This was very evident in the last presidential election and the behaviour of different groups supporting various candidates. Some of the parties acting in the national arena have practically no local organisations.

What is rather alarming is the fact that parties (regardless of their place on the political spectrum) when they form the government, use very extensively, political power to appoint "their people" to a very wide range of positions which should be occupied by specialists with proper education and experience. This prevents, to a large extent, the development of a professional civil service and causes a high degree of politicisation of the civil service, particularly at a management level. Frequently, members of political elites attempt to act as technocrats with very negative consequences for the law making process and design and implementation of the policies.

11. The administrative system

There is no point in providing the reader with too many details of the large number of statutes outlining the components of Polish administration. One has the impression that the specificity of legislation, in many instances, prevents public servants from properly managing the system, without contributing to the notion of the rule of law as a basis for every decision undertaken by the administration.

The administrative system of Poland finds its basis in the Constitution and several statutes dealing with the basic administrative structures. There are basically two components of the system. In the first place, there are administrative structures which are part of the centralised national system of administration. Such agencies (for the most part ministries) operate under the direction of the Cabinet

under the leadership and direction of individual ministers who are heads of such units. It should be noted that ministers have statutory powers independent from the Prime Minister or the Cabinet.

There are also some sixty or seventy central agencies which are under the supervision and are responsible to Parliament, the Prime Minister or designated Ministers. These agencies are not part of the unified national system of administration directed by the Cabinet. National administration also has regional branches in all the territorial units, which are acting under a regional director called *Wojewoda*. The most important part of the administrative reforms was the creation of a new administrative division of the country into 16 territorial units instead of the earlier division consisting of 49 units.

Territorial administration has been established on 3 levels: *województwo*, *powiat* and *gmina* with the last one being the basic one. This system was established between the 1990 (self-government at the level of *gminas*) and 1998 (self-government at the level of *powiat*s and *województwo*). Local elected bodies have also been created at each level (after the reform of 1998). *Wojewodztwo*s are there to provide the development of local development strategies and maintain regional culture and identity. *Powiat*s (the level of self-government most criticised as being superfluous, mostly have functions assigned to them by the central administration and have very limited sources of income other than transfer payments from the national level. The most important level is that of *gmina*'s, which is the basic unit of self-government. There are some 2500 *gmina*'s in Poland. *Gmina*'s vary significantly in the level of economical and political development. Some have already created a fairly modern administration, which is relatively well-functioning and providing a wide range of services to citizens. However, a large number of *gmina*'s is still underdeveloped in terms of administrative capacities.

On the whole, this system provided some means of equalising services and compensation for economic under-development. There is also a hope that with time, local political elites connected to the self-government will increase levels of citizen participation and have a positive contribution to the development of democracy at a local level.

Another significant reform of the administration resulted from the generally recognised need for 'de-politicisation' and professionalisation of the civil service. In 1996, a Parliamentary law established the civil service at national level and subsequently the Civil Service Commission was also created. In 1998, due to problems with the earlier legislation, a new Civil Service Law came into force. It should be noted that up until today, only a small percentage of public servants have civil servant status. The previous government (PiS, LPR and Samoobrona) abolished the Civil Service Commission in 2006 and created a new system of primarily political appointments of the administrative elites. The present governing coalition (PO and PSL) has already proposed legislation re-establishing the civil service; however, according to that bill, it will be managed by the Prime Minister's office. The vast majority of public employees are appointed under the – somewhat amended – pieces

of legislation inherited from the communist past. Particularly lacking are rules under which public servants of local governments are hired and employed.

12. Contents of the reform package and the implementation process

Reforms in Poland can be divided into several groups: political, legal, administrative and socio-economic. We have already outlined the basic political and administrative reforms. Additionally, many of the changes in the legal system outside administrative law have a significant impact on the way in which administration performs its duties. Without going into detail, it will suffice to indicate only the most obvious ones. New laws dealing with corporations, the law of contracts, laws dealing with privatisation, procurement rules, regulations dealing with non-profit organisations, accounting rules and labour law or freedom of information legislation all can be examples of legislation which set important boundaries within which, both national as well as local (self-government) administration, discharges its duties. What should be emphasised time and time again is that in practically every field, legislation is being continuously amended (in only one parliamentary session, the Civil Code was amended over seventy times). Unfortunately, quite often, amendments are both unclear and contradict the basic principles of the original statute.

It seems that frequently, if there are problems with administering a particular statute, instead of analysing the causes of the problem, decision-makers change the law without even knowing what was wrong with the previous act. It also appears that such decisions are very frequently based on purely normative reasoning without even an attempt to gather and evaluate empirical evidence. A good illustration of this approach can be seen in the recent decision to create programmes training legal draftsmen without any analysis of the reasons for the poor quality of legislation.

Significant efforts had to be made in adapting Polish laws to the requirements of the EU. That part of the reforms is going relatively well and a system has been established to provide systematic analysis of all Bills as to their conformity with EU binding legislation.

From an institutional perspective, the creation of a court system, compatible with a liberal democratic political system, has been completed. However, the performance of the courts is subject to significant critique by both academics and practitioners. The business community is particularly concerned with the unacceptable delays and lack of consistency in rulings. There also is a tension between the Constitutional Court and the Supreme Court, given that all courts are obviously bound by the Constitution and have to interpret the frequently unclear constitutional norms.

There are also problems with the relationship between statutory law and inferior legislation. Frequently, statutes give very limited direction as to the manner in which they are to be implemented. Orders in Council or Orders of Ministers

and other inferior laws in such instances either perform a function which belongs to the Parliament, or repeat what is already in an Act of Parliament. Thus, the administration has significant problems in translating laws into administrative policies or individual decisions. It would require an encyclopaedic treaty to enumerate all reforms undertaken in Poland in the last fifteen years. This is certainly beyond the scope of such a short report. Even monographs and textbooks on public administration or administrative law, designed for Polish students, have not yet catalogued all of the reforms and certainly there is no overall analysis of all changes.

The three most important reforms in the public sector dealt with pensions, healthcare and education. There is no point in describing details of these reforms. Instead, one can point out the principles on which these reforms have been constructed.

There are four common ideas on which these reforms are based.

In the first place, in most social policy areas, several options have been introduced and to some extent, it is up to the citizens which option they choose. So, for example, there are three different types of retirement – pension plans which can be utilised depending on income and the perceived need for providing for one's income security upon retirement. All of these reforms have provided for a mixture of public services and services delivered by private entities. The private providers are delivering the specific service either through for-profit or through non-profit organisations.

Educational reform added to the public institutions of higher learning and schools providing degrees/education for-profit and some institutions involved in such activities established by non-profit organisations. The same principle governs the delivery of health services. The most important principle is providing choices for citizens. Such choices are, to a large extent, based on the economic status of individuals and as in every private market economy, ability to pay determines one's options. Reforms of the health services are among the most contentious. There is a significant body of opinion objecting to any form of privatisation of all forms of delivery; others view it as unavoidable and already happening.

A second leading motive of reforms is an attempt to decentralise the delivery systems as well as the responsibility and development of implementation plans. This has created problems for local governments, particularly in the field of health services. Local governments have responsibilities frequently beyond their financial means. It is generally agreed that local self governments have been given powers without providing adequate sources of revenues. Subsidies from the central budget in some way defeat the idea of local governance. Given the significant variance in the economic base, some regions have problems in providing adequate services.

One of the major problems in the implementation of the major reforms is the very poor quality of data collection and data analysis. This is particularly evident in the case of financing retirement plans. Given that employees have a choice of a pension plan, it is crucial that there is good information about both the employer

and employee contributions and that the monies are deposited with the appropriate pension plan. Unfortunately, this frequently is not the case.

All of the major reforms have initially created significant confusion among citizens. People simply did not know the new rules and were not accustomed to making choices on their own. Administration of the pension system and financing of hospitals can be primary examples of fields still suffering from a lack of clarity as to some of the basic rules governing the administration of these programs. Directors of hospitals frequently run out of money and are unable to secure that the appropriate testing of patients is carried out or that some of the more expensive procedures are administered. In some instances, there is insufficient money to pay nurses or doctors. Although prohibited by law, some hospitals resort to deficit financing; others simply suspend the admission of patients or refuse to perform elective surgery. Private medical insurance systems contribute to the problems of health services delivery and in many instances, patients pay twice for the same service.

Private schools on every level are subject to administrative control, supposedly assuring the appropriate level of instruction; however, from all quarters, one hears complaints about the significant variance in quality standards. It is perhaps assumed that with time, the market place will eliminate inferior providers of services. Given the very high level of demand for such services, this is not likely to happen in the near future (if at all). However, in some fields, we have already witnessed signs of the poor providers being eliminated; an example of that might be the reduction of private post-secondary institutions. The level of tuition, and not only the quality of instruction, determines choices made by prospective students.

13. Reforms actually achieved

All of the already described major reforms are at least in part functioning and over time citizens are more and more aware of the available choices offered to them by newly introduced public service reforms. Local administration is providing more and more services. Many hospitals are already working on a cost recovery basis. Given the low level of inflation, it can be assumed that the National Bank is exercising adequate control. Also, monitoring and management of the public debt is improving significantly. There are also improvements in data collection systems, although there are some systems which are totally inadequate (such as land title information). Additional problems include the high level of corruption and low capacity for programme delivery by the administration in some cases. The lack of clear rules and financial difficulties, in which providers of services frequently find themselves, feeds corruption. Given the decentralisation policies of the EU, local government public servants will face constantly increasing responsibilities. That part of the public service is very poorly prepared to perform such tasks. One should also note that the previous government was reverting to a centralistic style of policymaking. In the view of the PiS, which was the major member and architect of the governing coalition, in order to finally defeat the communists (many

of whom are in the higher levels of administration and in big business in their opinion), a strong presence of the central government is required. The present coalition seems to recognise the need and value of decentralisation and increasing reliance on local governments.

Political patronage also hinders the development of human resources, appropriately educated and with adequate experience, given the frequency with which public sector managers are replaced by new governing elites. As someone noticed – it is surprising that the public system works as well as it does. Poland, like perhaps any other political system, provides us with evidence that we should never think of reforms as having a finite point; rather that it is a never-ending process.

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Country public management reforms landscape: Poland

Date	General	Organisation	Personnel	Finances
	<ul style="list-style-type: none"> Round table talks ended with an agreement between the Communist Party and the Solidarity calling for partially free elections to the Parliament. The opposition was to have 35% of the seats in the House (Sejm) and entirely free elections to the Upper House (Senat). The elections held on June 4, 1989 ended with a total victory for Solidarity. The so-called "contractual Parliament" elected Gen. Jaruzelski as President and Solidarity candidate Tadeusz Mazowiecki became the first freely-elected Prime Minister after the communist takeover. 	<ul style="list-style-type: none"> Enactment of the Small Constitution 		<ul style="list-style-type: none"> Already in 1989 process of reforming finances began. In October of that year a policy in that respect was initiated. It is commonly known as the Balcerowicz plan. Its first objective was to stop the alarming level of inflation and redesign the financial system to make it compatible with a market economy. This policy was translated into 10 acts of Parliament dealing with different aspects of public finances. The Polish constitution established limits to the level of public debt. Since that time, the objective of budgetary policy is reduction of the deficit and financing programmes from the actual income of the public sector.
1989				
1989 – 1990		<ul style="list-style-type: none"> Parliament passed new legislation dealing with post-secondary education which partially privatises the system. 		
1989 – 1991		<ul style="list-style-type: none"> Legislation decentralising primary and secondary schools 		

Date	General	Organisation	Personnel	Finances
1990	<ul style="list-style-type: none"> Beginning of the process of constitutional reforms leading towards the establishment of structural and procedural foundations of a democracy based on market economy policy. 	<ul style="list-style-type: none"> Resulting from the decision to establish a market economy legislation was passed privatising state enterprises 	<ul style="list-style-type: none"> Amendments to the 1982 State Employees Act to some extent to modernise the public service. 	<ul style="list-style-type: none"> With the introduction of the self-government legislation, new financial / budgetary laws divided the budget into central and local budgets providing for financing of the local governments from their own sources of income and subsidies from the central budget.
	<ul style="list-style-type: none"> Reorganisation of the central administration. 	<ul style="list-style-type: none"> Transfer of responsibilities for delivery of health services from the central government to the local governments. 		<ul style="list-style-type: none"> Several laws dealing with accounting rules have been developed beginning that year. Such laws, although primarily developed for the private sector, are also utilised in the public sector.
	<ul style="list-style-type: none"> Structural reforms aiming at increasing the system of government based on the principles of the rule of law. 	<ul style="list-style-type: none"> Subsequently statutes passed in 1991, 1995 and 1997 reformed system of financing health care shifting the responsibility to employers. The reforms also created a new system of agencies (kasy chorych) administering healthcare. 		
		<ul style="list-style-type: none"> Establishment of the National School of Public Administration in order to prepare professional civil servants for the national administration. 		
1990 – 1996				<ul style="list-style-type: none"> It should be mentioned that in the 90's several statutes have been enacted introducing new accounting and audit laws and systems. Such statutes have an impact on the public sector and budgetary process and techniques

Date	General	Organisation	Personnel	Finances
1990	<ul style="list-style-type: none"> • Policy development leading to the establishment of elected local self-governments is initiated by Mazowiecki's government. 			
	<ul style="list-style-type: none"> • Discussions and preparation for Poland's entry into NATO and the EU. 			
	<ul style="list-style-type: none"> • Policy deliberation on introduction of privatisation legislation. 			
	<ul style="list-style-type: none"> • Development of drafts of the new constitution. 			
	<ul style="list-style-type: none"> • Development of decentralisation policies transferring several services to the local self – governments 			
1991 – 2000	<ul style="list-style-type: none"> • Further reforms of the system of local governments. 			
1991	<ul style="list-style-type: none"> • Development of privatisation policies. 	<ul style="list-style-type: none"> • Establishment of the National School of Public Administration in order to prepare professional civil servants for the national administration. 		
	<ul style="list-style-type: none"> • Reforms of the civil service. 			
1993		<ul style="list-style-type: none"> • Legislation establishing National Investment Funds as an instrument of privatisation. 		
1996	<ul style="list-style-type: none"> • Introduction of the draft new Constitution 		<ul style="list-style-type: none"> • Introduction of apolitical human resources management units and Directors to ministries and other central agencies. 	

Date	General	Organisation	Personnel	Finances
			<ul style="list-style-type: none"> Establishment of the Civil Service Commission as agency managing civil servants in the central government. This institution was abolished in 2006. 	
			<ul style="list-style-type: none"> Gradual expansion of in-service training. In-service is obligatory for civil servants under both acts. 	
1996 – 1997	<ul style="list-style-type: none"> Privatisation reforms 	<ul style="list-style-type: none"> Privatisation legislation 		
1996 – 2006			<ul style="list-style-type: none"> The already mentioned Civil Service Acts resulted in appointments on the basis of competitive entry exams – some 2195 civil servants, a large proportion of whom are graduates of the National School of Public Administration. 	
1997	<ul style="list-style-type: none"> Debate on and discussion of the new health and social services policies 	<ul style="list-style-type: none"> Legislation establishing 3 levels of local self-governments (note in that period there have been some 20 acts of Parliament). The initial 1997 legislation envisaged a highly decentralised system. Transfer delivery of a large number of services from the central administration to the local administration accountable to local self-governments (number of services so transferred is so large that it cannot be enumerated in table form). 		<ul style="list-style-type: none"> First policies dealing with the reform of the banking system.

Date	General	Organisation	Personnel	Finances
	<ul style="list-style-type: none"> • First policies dealing with the reform of the banking system. 	<ul style="list-style-type: none"> • New banking act establishing banking system similar to that of other advanced capitalist states 		<ul style="list-style-type: none"> • The National Bank was established with the goal of stabilisation of Polish currency and control of the interest rates.
		<ul style="list-style-type: none"> • Enactment of the Constitution upon approval by the National referendum 		<ul style="list-style-type: none"> • Comprehensive banking law was enacted.
		<ul style="list-style-type: none"> • Establishment of new statute dealing with the Constitutional Tribunal. 		
		<ul style="list-style-type: none"> • Civil Service Act 		
1998	<ul style="list-style-type: none"> • Health and social services policy debate. 	<ul style="list-style-type: none"> • Five acts of parliament established new system of social security and pensions based on proportionality between personal contributions and level of pensions 		<ul style="list-style-type: none"> • In 1998, a comprehensive statute on Public Finances was enacted.
	<ul style="list-style-type: none"> • Discussion of the pension system and first policy papers in this field. 	<ul style="list-style-type: none"> • New Public Finances Act 		
	<ul style="list-style-type: none"> • Development of policies aiming at the reduction of administrative barriers to market activities. 	<ul style="list-style-type: none"> • New Civil Service Act – this legislation increased the possibility of political interference in appointments and promotions. 		
	<ul style="list-style-type: none"> • Reorganisation of health services. 			
	<ul style="list-style-type: none"> • Educational reforms. 			
	<ul style="list-style-type: none"> • Development of first policies aiming at public private partnership. 			
	<ul style="list-style-type: none"> • Reform of the system of social services. 			

Date	General	Organisation	Personnel	Finances
1999		<ul style="list-style-type: none"> New act further changing the administration of education – this reform decentralises supervision and control of the schools. 	<ul style="list-style-type: none"> First local self-government office acquired ISO certificate. 	
2000	<ul style="list-style-type: none"> Introduction of TQM into the public service. 		<ul style="list-style-type: none"> Since 2000, each government announced policies designed to reduce corruption and conflict of interest in the public administration. 	
			<ul style="list-style-type: none"> Several governments began initiatives to develop policy dealing with the public service in local self-governments. 	
			<ul style="list-style-type: none"> Relatively large-scale actions leading to the acquisition of ISO 9001 certificates by governmental agencies, both local and central. 	
			<ul style="list-style-type: none"> Development of PPP policies and transfer of some services to the private sector 	
2000 – 2006	<ul style="list-style-type: none"> Development of anticorruption policies 	<ul style="list-style-type: none"> In this period practically each government introduced new policies and legislation designed to combat wide spread corruption in the public service and among political elites. Note – there is such a number of policy statements and legislation (ranging from acts of Parliament to OC and OM that it is pointless to list them all). 		
2001	<ul style="list-style-type: none"> Development of Freedom of information policies 	<ul style="list-style-type: none"> Freedom of Information legislation. 		

Date	General	Organisation	Personnel	Finances
2002		<ul style="list-style-type: none"> Establishment of the second chamber of the administrative courts. This rectified the paradoxical situation in which there was a Supreme Administrative court (NSA) and there were no courts of first instance. Enactment of The Code of Ethics (for the civil service). 	<ul style="list-style-type: none"> Each government announced policies of reduction of administrative personnel. Data indicates growth of the central administration from 135,865 in 2002 to 161,463 in 2003. 	
2002 – 2003			<ul style="list-style-type: none"> Significant increase (between the years 2000–2003) of the size of local administration. 	
2003				<ul style="list-style-type: none"> Polish Government developed a general financial policy aiming at the preparation of Poland for entry into the Euro system and synchronisation of the financial system with that of the EU. At present it is difficult to assess the status of that policy given the change of government. Several governments introduced policies establishing different rules governing the subsidy system.
2004		<ul style="list-style-type: none"> In 2004 the Constitutional Tribunal declared certain provisions of the statutes establishing the new system unconstitutional. As a result of this decision new act was passed in 2004 		

Date	General	Organisation	Personnel	Finances
2005				
2006		<ul style="list-style-type: none"> By an Act of Parliament the Civil Service Commission has been abolished and the civil service is administered from the PMO. The legislation also introduced a new system of appointments to senior positions in the service without a competitive basis for appointments. 	<ul style="list-style-type: none"> In 2006, Central Anti-corruption Bureau was established in the central administration. 	
1989 – 2007	<ul style="list-style-type: none"> In the period under discussion Poland had 13 Prime Ministers and was (and is) governed by coalitions ranging from “the first” Solidarity government of P. M. Mazowiecki, Agrarian Party (PSL) “Post Communists with Prime Ministers Oleksy, Cimoszewicz and Miller and the present coalition which is difficult to “pigeonhole” in ideological terms; it includes extreme nationalists, conservatives and populists. 			

Chapter 10

Public Management Reforms: Romania

Calin Hintea

1. Socio-economic forces: general

Between 1946 and 1989 Romania experienced one of the most authoritarian communist regimes among the countries in Central and Eastern Europe. Even when changes began to occur in this region in the late 1980s, the communist regime in Romania has kept its rigidity and duress. The communist regime finally collapsed in December 1989 due to a mass revolution. Unfortunately, the revolution was not peaceful, but rather violent (1060 people lost their lives during the conflict and another 2927 were injured). Because the communist regime remained inflexible until its collapse in 1989, the subsequent development of the Romanian society was negatively impacted. The transition to a democratic society has been more sudden and drastic than in other countries that have experienced a gradual deterioration of the communist regime.

The Romanian administrative environment has not acted for a long period of time as a catalyst for change and reform. The poor condition of the economy (generated by the collapse of communist economic structures and relationships), uncertainty regarding the ownership of land or real estate, the legacy of centralised and politically driven administrative systems, widespread corruption, an organizational culture based on values that are not compatible with a democratic society, the lack of viable administrative institutions able to plan and implement change and properly interact with the citizens, all represent a hindrance to a coherent and timely reform process.

After 1989 (the first democratic Constitution was adopted in 1991), the main factors that have influenced the evolution of the Romanian society include the restructuring of the economy, adhesion to the European Union and NATO, the fight against corruption, and the building of a functional and democratic political-administrative system.

2. Global economic forces

In the years following the 1989 revolution, the volume of foreign investments in Romania has been limited, mostly due to political instability and a high country risk ranking. This situation has recently begun to change. The foreign direct investment and net inflows have increased from 1.0 billion USD in 2000 to 5.4 billion in 2004. Furthermore, at the beginning, of 2005, the volume of FDI reached a peak – 1 billion Euros for the January – February period. This represents, according to statistics provided by the National Bank of Romania, a 94.2 percentage increase when compared with the same period in 2005 (515 million Euros).

The growth rate of GDP increased from 6.1 per cent in 1997 to 8.3 per cent in 2004 and then decreased to 6 per cent in 2007. The trade balance in 2004 was 7346 million Euros (value of exports: 18,935 million Euros; value of imports: 26,281 million Euros) and in 2007 was 19071 million Euros (value of exports: 31748 million Euros; value of imports: 50819 million Euros). The share of exports to the 25 EU countries in 2004 was 72.8%. The share of imports from the 25 EU countries in 2004 was 64.9%).

3. Socio-demographic profile

The total population of Romania is 21.5 million (2008 estimate). The annual population growth rate has been negative for the last decade (-0.13, 2008 estimate). However, 2005 was the first year after the revolution when the birth rate increased. A decrease in the birth rate for the last decade and emigration to other countries are the two main factors that account for a decrease in the total population (between the 1992 and 2002 census there was a slightly over 1 million population loss). It is believed that approximately 2 million Romanians currently work abroad. During the year 2007 the volume of money they sent back home equals ~7 billion Euros.

The percentage of females in the total population is 51.3%. The percentage of urban population out of the total population is 52.7%. There are two major ethnic minorities that currently live in Romania – Hungarians (6.6%) and Gypsies (2.5%). During the communist regime, the majority of Germans and Jews living in Romania at that time emigrated to Germany and Israel.

The changes in the demographic structure of the population reflect the ageing population. In 2006, there were 1.34 million more retired people than people employed (the ratio of retired persons to employees is 1.5 to 1).

4. National socio-economic policies

The time interval between 1989 and 1999, from the standpoint of economic policy, has represented a difficult stage in the transition to a market economy. The limited successes regarding the reform and economic growth have been the result of several problems, including a continuous delay of the reform and privatisation of state companies, continued subsidies to underperforming industries, political instability, external debt accumulated after 1989, the impact of the economic embargo imposed by the UN on Yugoslavia between 1992–1995, high inflation rate, spreading corruption, excessive bureaucracy, and frequent legislative changes.

In 1997, probably the worst year from an economic standpoint, the inflation rate was 154.9% as opposed to merely 11.9% in 2004. 2000 was the first year when economic growth occurred. While from 1997 to 1999 GDP dropped, in 2000, GDP steadily increased by 1.6%, investment rose by 5.5%, and the level of salaries also increased. Beginning in 2000, a more structured reform was initiated. It translated into important steps towards economic restructuring, stabilisation of the currency

exchange rate, reduction of inflation, and the attraction of foreign capital. Important fiscal changes occurred when flat income tax (16%) was introduced (2005).

According to a World Bank report issued on September 13th, 2005 (Business in 2006) Romania ranks 78th among the 155 surveyed nations regarding an improvement in the business climate by means of simplifying business and fiscal regulations. Seven indicators were considered in this survey. They are: starting a business, hiring and firing requirements, contract management, loans, protection of investors, deed and property title recording, and requirements regarding the closing of deals. Three new indicators have also been added: business licensing, foreign commerce, and compliance with tariffs/taxes. However, when these ten criteria are applied to recently initiated reforms, Romania ranks 12th.

The constant involvement of the World Bank and IMF in the monitoring of the economic policies implemented in Romania, a gradual increase in the trust foreign investors have, and a gradual but steady economic growth, all represent factors that may positively impact the reform of public management.

5. The political and administrative system

The Constitution specifies that Romania is a parliamentary republic and states the principle of the separation of powers among the three branches of government. Romania has a multi-party system with numerous parties being actively involved in political life. However, only a few are represented in Parliament (6 in the current legislature, plus the parliamentary group representing the national minorities).

The President is elected by popular vote for a maximum of two terms. The length of the term was extended from four to five years as a result of a popular referendum held in October, 2003. The President is the Chief of State, charged with safeguarding the constitution, foreign affairs, and the proper functioning of public authorities. He is Supreme Commander of the armed forces and Chairman of the Supreme Defence Council. According to the Constitution, he acts as a mediator between the power centres within the state, as well as between the state and society. The President nominates the Prime Minister, who in turn appoints the government, which must be confirmed through a vote of confidence by Parliament.

Romania has a bicameral (two-chamber) parliament. Its lower house, called the Chamber of Deputies, comprises 343 seats, of which 15 are reserved for ethnic minorities; the upper house, or Senate, has 143 seats. Members of both Houses of Parliament are elected for four-year terms, by universal suffrage, according to a modified system of proportional representation. Elected officials at all levels of government, with the exception of the President and Mayors, are selected on the basis of party lists.

Romania has a multi-party system with numerous parties being actively involved in political life. However, only a few are represented in Parliament in 2008 – the Conservative Party (CP); Democratic Party (DP); Greater Romania Party (GRP); Hungarian Democratic Union in Romania (HDUR); National Liberal Party (NLP)

and the Social Democratic Party (SDP). Since 2006, the government is, in fact, a coalition formed by the National Liberal Party and the Hungarian Democratic Union in Romania.

The President appoints a Prime Minister to head the government; the Prime Minister is commonly the leader of the party with the majority of seats in parliament. The Prime Minister is responsible for selecting a cabinet to help carry out the operations of the government. In recent years, a coalition government has been in place. The level of heterogeneity and the number of parties comprising the coalition have varied greatly. It is worth noting that the Hungarian Democratic Union in Romania (HDUR) has been part of each government coalition since 1996.

According to Article 3 in the Romanian Constitution, the tiers of the local public administration are the communes, the cities and the counties. They have full capacity to act, own assets, and have the right to initiate any effort that is related to the administration of that local unit according to the legal framework. The principles underlying the organisation and functioning of public administration are local autonomy, decentralisation of public services, elected governing bodies, legality and the consultation of citizens in matters concerning local affairs. In order for local autonomy to be achieved, the public administration authorities from communes, cities, and counties adopt a budget and appropriate funds. They can also levy taxes according to the legal provisions.

For administrative purposes, Romania is divided into 41 counties and the city of Bucharest. An elected county council is the governing body at the county level. Local councils and elected mayors are the public administration authorities in villages and towns. The county council is the public administration authority that coordinates the activities of all village and town councils in a county. The President of the county council is the head of the county public administration and is responsible for the good functioning of the specialised departments under the supervision of the council, as well as the economic agents under the authority of the council. The central government appoints a Prefect for each county and the city of Bucharest. The Prefect is the representative of the central government at the local level and is the head of all public services of the ministries and other central agencies at the county level. A Prefect may block the action of a local authority if he deems it unlawful or unconstitutional. The matter is then decided by an administrative court.

There are no hierarchical relationships among the governing bodies elected at the local level and the authorities of the central public administration. Also, the relationship between the county public administration and the local public administration is based on the principles of legality, autonomy, and collaboration in dealing with public affairs.

6. New management ideas

Each government, since the 1989 revolution, has on its agenda the reform of public administration. Though the concept of public management has not always

intertwined with the reform of public administration, positive outcomes were nonetheless generated. The new managerial ideas such as the use of contractualisation, strategic management and planning, performance measurement systems and reform networks, etc were simulated primarily by:

- The European Union as part of the adhesion process. Though there are no specific adhesion standards in this field, the pressure from the EU proved to be significant. Pressure was exercised, both through the European experts working with the government in Bucharest, and through specific requirements underlying programs financed by the EU, concerning the reform of public administration (for example the PHARE Programme Twinning Light).
- Various international organisations involved in the reform of Romanian society were: the World Bank, SIGMA-OECD, USAID, and NATO. For example, the adhesion of Romania to NATO led to the implementation of approaches such as PPBS and MBO within military and civilian structures. The World Bank is involved in another programme with significant impact called UMP-PAL. Its main goal was the reform of public administration.
- International consultants who were part of the various programmes implemented in Romania.
- Universities – the last two State Secretaries responsible for the reform of public administration are from the academic community and NGOs interested in the reform of public administration.

7. Pressures from citizens

There has not been a direct and sustained pressure on behalf of citizens for a comprehensive programme for the reform of public administration. However, citizens did represent an important catalyst for change in a variety of ways:

- By having increased expectations with regard to the quality of public services; increased expectations were determined by diverse factors, including self-perception as clients (compared with the private sector) and increased mobility (people who work abroad learned first how citizens should be treated).
- By providing increased criticism of the functioning of administrative institutions via surveys. Negative attitudes identified via surveys represent a strong incentive for the political decision-makers to initiate programmes and to force administrative institutions to improve. For example, according to data released by Transparency International Romania in September 2008, the Corruption Perception Index for Romania increased to 3.8 points on a 10-point scale (with 10 being the most clean and 0 being the most corrupt).
- Through NGOs, which represent important pressure factors acting on behalf of citizens. Though ignored in the beginning by public administration, they proved to be a valuable resource for the modernisation of public administration, as well as an influential factor with regard to government initiatives. For example, several years ago, the government initiated the creation of an

amusement park called Dracula Land. The park would have been located near a medieval fortress – Sighisoara. Because of public criticism and the pressure of NGOs, the whole project was eventually stopped.

The research conducted by the Public Administration Department at Babes-Bolyai University, 2006–2007, showed interesting differences in the perception (1 being the lowest and 5 being the highest point) of PA reforms of citizens and public servants (Sandor, Tripon, 2008, p.116):

Question	Citizens	Public Servants
The reforms made sense	2.69	3.64
The reforms were efficient	2.95	3.28
Each new ministry came up with a new reform plan	3.38	3.53
The citizens benefited little from reforms	3.77	3.48
The reform attempts were not sufficiently explained	3.96	3.74
The reforms are influenced by the political factor	4.14	4.39
The reforms are influenced by the economic factor	3.82	3.52
Those in charge of implementing the reforms are not real professionals	3.59	3.44
The employees oppose the reform plans	3.40	2.34
There are misunderstandings between the government and the local administration	3.79	3.14
The reform efforts were not coherent	3.98	3.53
The legal framework is too complicated	4.12	4.45
The laws are not enforced	4.04	3.29

8. Party political ideas

It is hard to identify the real impact of political parties on the reform of public management. Traditionally, administrative reform has been closely intertwined with a legal approach, namely the drafting and adoption of new legislation. Many political parties in Romania have an agenda or electoral platform that does not comprise any reference to the reform of public management. There are some political parties that address administrative reform; however it is not a strategic, coherent vision. The measures that are mentioned most often refer to a decrease in the influence politics has over public administration, further the decentralisation process, the reform of the civil service, and the reduction of red tape, improve the public policy process and strategic planning, and an increased financial autonomy of local tiers of government.

As a general conclusion, it can be inferred that a direct influence on the reform process on behalf of the political parties is currently lacking for the most part.

9. Chance events

It is hard to identify specific events that have directly impacted the reform of public management in Romania. Several events that have benefited from much press coverage, such as corruption scandals, have had a positive impact on the behaviour of political and administrative stakeholders. Also, natural disasters such as flooding have generated the initiation of a risk management system, an important component of public management.

10. Elite decision-making process

For a long period of time the political administrative elites in Romania were reluctant to adopt a process of reform and argued that the slow rhythm of the reform was justifiable in light of the assumption that although reform is a good thing, generally the time was not right. Another argument was that the case of Romania is special and that those reforms that apply in other contexts do not fit in this case. At this point in time, such arguments are no longer accepted and the entire political class agrees with the adhesion of the country to the European Union and with the necessity of reforming public administration. Beyond these declaratory statements, however, it is hard to say if the political-administrative elites have a clear understanding of what the reform of public management means. Although concepts, such as the analysis of public policies, performance measurement, and transparent decision-making are often used and misused, public management is still not a viable policy tool. The elites need to clarify for themselves the meaning of the concept and to shift away from a legal approach of the reform process.

11. Content of the reform package

In the years following the 1989 revolution, the reform of public administration lacked a coherent vision regarding its content, the direction in which was headed, and also concrete implementation tools. The general impression was that the Romanian administrative system was struggling to move away from a stage under which managerial approaches seemed not to fit very well. The reform was closely intertwined with the creation of the legal framework; the assumption was that any challenge needs to be addressed through the creation of a new piece of legislation. The administrative environment was not extremely motivating, mainly due to the existing organisational culture, a lack of experience on the behalf of administrative institutions with the reform of public management, the lack of a strategic vision, influence of politics, and the legacy of a centralised administration system. Numerous external pressures, coming especially from the European Union, but also from other international stakeholders, have made the administrative reform a top priority, closely intertwined with the process of adhesion to the European Union.

In 2001, a strategy regarding the acceleration of the reform of public administration was adopted. However, three years after its adoption, the government found out that it has been highly ineffective, mainly due to the fact that the initial objectives set forth were over-ambitious. Though important steps were taken,

including the creation of new institutions, the decentralisation of public services, the reform of public finances, or the reform of civil service, the overall outcomes were not spectacular. Year after year the country reports issued by the EU, as well as by other international organisations, have identified severe limitations regarding the reform of public administration, especially the limited capacity to implement/enforce laws and the limited managerial capacity of the newly created institutions to perform the tasks they were created for. The main advantage of this strategy stems from the fact that it was the first attempt to offer a coherent strategic vision of the reform and to shift the focus away from the legal approach.

The newly adopted strategies focused on three main areas of the reform. They were established through a negotiation process with the European Commission. They are:

- The reform of the civil service (it focuses mostly on the creation of a professional body of civil servants);
- The reform of local public administration (it focuses on enhancing public management at the local level and the decentralisation and deconcentration of public services);
- The enhancement of the process of public policy formulation (it focuses on the amelioration of the coordination systems of governmental activities and the improvement of the managerial capacity of governmental agencies).

From a strategic standpoint, the reform documents are drafted using European standards as a reference point (however, even the European standards are not always clearly defined) and they also integrate the following concepts: transparency, predictability, accountability, adaptability and effectiveness.

It is important to note that all these documents are based on the correct assumption that reform does not merely imply technical capacity; rather it depends on the existing political will.

A more formal, institutional driven approach to the reform process was also implemented. Specialised governmental structures such as the Central Unit for the Reform of Public Administration (within the Ministry of Administration and Interior), the Superior Council for the Reform of Public Administration, Coordination of Public Policies, and Structural Adjustment (under the direct supervision of the Prime Minister), and the Unit for Public Policy were created. The aim was to identify the strategic actors involved in the process of administrative reform and to create national networks for the promotion of the reform.

Several legislative acts have been adopted in order to create the necessary legal framework for administrative reform (such as Law no.188/1999 regarding the status of public servants, Law no. 500/ 2002 regarding public finances, Law 161/2003 regarding transparency in the conduct of elected officials, Law no. 215/ 2001 of local public administration, Law 544/2001 regarding free access to public information, Law no. 340/2004 regarding the institution of the Prefect, etc.),

At the theoretical level, at least, it can be inferred that the reform of public administration in Romania incorporates different aspects that are intertwined with the reform of public management.

12. The implementation process

One of the limitations of the reform process in Romania is related to implementation. Year after year the country reports issued by the European Union have criticised the lack of implementation capacity of the public administration: “There has been little progress in strengthening the Romanian public administration. While in many areas, steps have been taken to establish the legal framework for setting up the institutions responsible for the application of the acquis, there has been little progress in actually creating these institutions. The provision of the financial and human resources to permit the functioning of these institutions, once established, has not been ensured” (European Commission, 1999:63).

New initiatives were implemented in the field of human resources – such as the YPS (young professional scheme) program. This program (financed by the EU) tries to build a new body of professional public managers in the Romanian public administration by selecting, training (usually in foreign universities/administrative institutions) and placing young leaders in Romanian public institutions. In 2006, a new package of several legislative initiatives is being discussed in Parliament. They all address the reform of local public administration. Since 2006, the Prefects are no longer politically appointed – they have a status similar to that of high public servants and are supposed to be professionals in charge of administrative tasks only. Also, the government is currently working on the new administrative code, which is supposed to simplify the legal environment and the work of the public servants. The national government also tries to create a strategy for the monitoring of the reform at both the national and the local level. The monitoring would be the task of existing institutions that are currently responsible for the reform process, ministerial committees, and internal and external monitoring agencies. The creation of an action plan that includes concrete deadlines and performance indicators (more or less measurable) is also part of this process. New institutions that would have a key role in the reform process were also created (for example the National Agency of Civil Servants or the National Institute for Administration).

Besides these obvious successes, there have been barriers to the reform process, including:

- The lack of a managerial culture at the level of both public administration and political decision-makers (Mora, 2008);
- A mentality that emphasises laws/regulations over implementation – the assumption is that once a law is in place the problem it was created to address is already fixed;
- The influence of politics on public administration;
- A lack of capacity for strategic planning;
- Serious limitations regarding project management;

- The lack of clearly-defined and measurable performance indicators (Garboan, Sandor, 2007);
- Serious problems regarding the initial training and also the long life education of civil servants;
- The establishment of reform networks strictly through administrative/bureaucratic procedures;
- Coordination issues at both the local and national level.

A survey conducted in 2004 of civil servants (the survey concerned civil servants' perceptions of the reform) showed that they are not satisfied with the reform of the payment/benefits/incentives, measures meant to curb corruption and the increase in transparency in public administration. Forty-eight per cent of those surveyed believe that the legislative acts adopted in the field of administrative reform are useful, but face limitations when applied in practice, whilst 41 % of those surveyed believe that the legislative framework was poorly drafted.

13. Reforms actually achieved

Identifying the successes in the implementation of the reform process is a daunting task for every administrative system. A research conducted by the Public Administration Department at Babes-Bolyai University, 2006–2007, on a group of public servants responsible for the reform of local public administration, health care, and education, had the following findings:

- The adoption of most of the reform measures were triggered by pressure exercised by external factors (mainly the European Union).
- Those in charge of drafting the reform proposals were, in most cases, politically appointed advisers or foreign advisers, thus civil servants played a very limited role.
- The support for reform proposals was often limited due to insufficient public debates regarding the reform measures. In most cases, when public debates were held, they took place under the influence of various interest groups whose members have their own agenda and are unwilling to compromise.
- The implementation process was extremely difficult. In most cases the deadlines were not met; also resources were not disbursed on time.

It is difficult to have a clear-cut definition of what success means and to be able to measure it. A measure of success in this field for Romania is the gradual improvement of the tone of the country reports from the EU and the adherence to this body (in January 2007). The public administration in Romania has constantly evolved over the last 16 years. During this timeframe, reform programmes were created, new institutions meant to further the reform were initiated, numerous legislation changes were drafted, administrative decentralisation was implemented (transfer of prerogatives as well as financial decentralisation), and a professional body of civil servants was initiated. Policies adopted thus far focused on drafting the legal

framework and the creation of institutions that are necessary for the management of the reform process. As a result, the administrative system in Romania is still in its early stages of a serious reform of public management (at all levels: planning, implementation, and evaluation). In the near future, the managerial reform will have to become a top priority for the Romanian administrative system.

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Country public management reform landscape: Romania

Dates	General	Organisation	Personnel	Finance
1990	<ul style="list-style-type: none"> First democratic elections after the fall of the communist regime (December 1989) 			
1991	<ul style="list-style-type: none"> First democratic Constitution after the fall of the communist regime (December 1989) 	<ul style="list-style-type: none"> Bi-cameral parliament President elected by universal direct suffrage over the age of 18 Cabinet, headed by the Prime Minister, nominated by the President 		<ul style="list-style-type: none"> Wages Tax Law, Corporate Income Tax Law, Public Finance Law
1992	<ul style="list-style-type: none"> Elections – won by FSN (the party established immediately after the revolution) 			
1993	<ul style="list-style-type: none"> Romania signs the European Agreement 			
1994				<ul style="list-style-type: none"> The law regarding Local Taxes
1995	<ul style="list-style-type: none"> Romania officially applies for EU membership 			
1996	<ul style="list-style-type: none"> Elections – won by the opposition (large coalition) 			
1998	<ul style="list-style-type: none"> The private property law 			
1999	<ul style="list-style-type: none"> Code for civil servants 	<ul style="list-style-type: none"> The Ministerial Responsibility Law 	<ul style="list-style-type: none"> The National Agency for Civil Servants (ANFP) was established 	
2000	<ul style="list-style-type: none"> Elections – won by the Social Democrat Party (former FSN or PDSR) 			

Dates	General	Organisation	Personnel	Finance
2001	<ul style="list-style-type: none"> • First Sunshine Law (Freedom of Information Act) – Law no. 544 	<ul style="list-style-type: none"> • A strategy regarding the acceleration of the reform of public administration was adopted • The Local Public Administration Law was adopted • The Urban Planning Law was adopted 	<ul style="list-style-type: none"> • Establishment of the National Institute for Public Administration (INA) – training centre for public servants 	
2002		<ul style="list-style-type: none"> • The Central Unit for Public Administration Reform (UCRAP) was established 		
2003	<ul style="list-style-type: none"> • A new Constitution • Transparency Law – Law no. 52 	<ul style="list-style-type: none"> • The President is elected for 5 years • Establishment of the Public Policy Unit (UPP) • Establishment of the Superior Council for Public Administration Reform, Coordination of Public Policies and Structural Adjustment • Establishment of the Project Management Unit for Public Administration Reform 	<ul style="list-style-type: none"> • Establishment of the Young Professional Scheme Programme – training young professionals to become public managers 	<ul style="list-style-type: none"> • The Fiscal Code
2004	<ul style="list-style-type: none"> • Parliamentary and Presidential Elections 		<ul style="list-style-type: none"> • Establishment of the “Public Manager” system in the Romanian public administration • The law that introduces an ethical code for the civil servants was adopted • Whistleblower’s Law 	

Dates	General	Organisation	Personnel	Finance
<p>2005 January</p>	<ul style="list-style-type: none"> The European Parliament gave the green light for the entry of Romania into the EU 	<ul style="list-style-type: none"> A new strategy regarding the acceleration of the reform of public administration was adopted. The newly adopted strategies focus on three main areas of the reform: <ul style="list-style-type: none"> The reform of the civil service, Reform of local public administration Enhancement of the process of public policy formulation The Local Public Administration Law was modified The framework Decentralisation Law was adopted 		<ul style="list-style-type: none"> Flat income tax adopted
<p>2006</p>			<ul style="list-style-type: none"> The "Prefects" are no longer politically appointed (high ranking public servants) 	

Chapter 11

Public Management Reforms: Slovakia

Juraj Nemec

1. Socio-economic forces

The Slovak Republic was established on January, 1, 1993, as a result of the amicable split of the former Czechoslovakia. From early medieval days, Slovakia was part of the Austro-Hungarian Empire, and after its defeat, became part of the first Czechoslovak state, established on 28th October, 1918. In 1939, the first formally independent Slovak state was established, closely linked to Germany.

In 1945, after the Second World War, Czechoslovakia was re-established as a unitary state. The Communist Party of Czechoslovakia won the democratic elections of 1947, and then in February 1948 took over all powers in the state. After the “Velvet Revolution” in 1989, the process of a gradual transition to a pluralistic democratic political and public administration system began in Czechoslovakia and, as a result of historical developments, Czechoslovakia democratically split on 1st January, 1993 into two independent countries, the Czech Republic and the Slovak Republic. After a successful process of transition in major areas of political, social and economic life, Slovakia became, on May 1, 2004, a member of the European Union.

Slovakia is a relatively small state in the middle of Europe. It measures 49 034 km², the population at the end of 2007 was 5.4 mil, and population density is 110 inhabitants/km². Major ethnic groups are Slovaks (about 4.6 million) and Hungarians (almost 0.6 million). Other small minorities are the Roma (they are indicated in the official statistics since many of them claim to be Slovaks or members of other minorities), Czech, Ukrainian, German, and Polish.

The standard of living in Slovakia is moderate; most statistics rank Slovakia as number 3 or 4 within the group of new EU members from Central and Eastern Europe, especially if purchasing power calculations are made. There are no important social tensions within the country, in spite of the fact that the quality of life is significantly different between social groups and regions. The capital, Bratislava region’s GDP per capita income is above the EU average. On the other hand, some regions in Southern and Eastern Slovakia mainly inhabited by Roma, are significantly under-developed and suffer from massive unemployment. According to Eurostat (2005), almost 21 % of Slovak inhabitants live on or below the poverty line.

From the point of view of the national economy and economic policies, during the past few years Slovakia featured as the most progressive country of the region. Most economic indicators significantly improved (Table 1) and the recent year’s economic growth was the highest in the region.

As a small country with no significant natural resources, Slovakia is an open economy, sensitive to foreign economic problems, with permanent problems of

how to balance its foreign trade figures. Imports outweigh exports, and in some years, the trade deficit was critically high (Table 1). The country is open to foreign investments and important state motivation is provided to companies starting new businesses, especially major international investments. However, the inflow of stable foreign capital is still a bit limited by the limited quality of the “rule of law” and also by the limited performance of the bureaucratic apparatus.

National economic and social policies were relatively liberal, especially during the period 1998 to 2006. Slovakia realised massive economic and social reforms in the early 2000’s, especially during the second election period of Prime Minister Dzurinda’s coalition. Probably the most important economic reform was introducing the flat rate based income taxation and the single VAT rate (both at a level of 19%). In the social area, a three-pillar pensions system was created and massive health care reforms adopted, introducing privatisation and co-payments.

Liberal socio-economic orientation has not been a reality since mid-2006, when the socio-democratic party, Smer, won the parliamentary elections. The winning party created a government coalition from left-wing populist parties and significantly changed this trend. The scope and scale of state interventions into the economy increased, and several popular social measures were introduced (extra money given to pensioners, abolition of user fees in health care, stopping privatisation and liberalisation processes and in 2008, the first fine from the EC was levied on Slovakia because of non-compliance with requirements for the liberalisation of the postal services).

2. The political system in Slovakia

2.1 Basic data

The Slovak Constitution was ratified on 1st September 1992, fully effective from 1st January 1993; changed in September 1998 to allow the direct election of the President, and amended in February 2001 to allow Slovakia to apply for NATO and EU membership.

The head of the executive branch is the President, elected by direct, popular vote for a five-year term. The head of government is the Prime Minister. The Cabinet is appointed by the President on the recommendation of the Prime Minister.

The legislative branch is represented by the uni-cameral National Council of the Slovak Republic (Narodna Rada Slovenskej Republiky) with 150 seats; members are elected on the basis of proportional representation to serve four-year terms.

The last extraordinary parliamentary elections were held on 17th June, 2006 and their results significantly changed the political power structures in the country. The right wing coalition was, after a relatively long period of eight years of being in power, replaced by a new “left and populist” government. The results of the elections were as follows.

Table 1
Main Economic Indicators, Slovakia

Indicator/year	1993	1996	2000	2001	2002	2003	2004	2005	2006	2007
GDP (bil. Sk current prices)	369,9	581,3	936,2	1010,4	1091,8	1189,1	1325,5	1437,6	1636,3	1822,5
Inflation	23,2	5,8	12,0	7,1	3,3	8,5	7,5	2,7	4,3	1,6
Unemployment rate	12,2	11,1	18,6	19,2	18,5	17,4	18,1	14,6	13,3	10,9
Foreign trade balance – current account (mil. Sk)	-28 696	-70 260	-32 412	-84 432	-87 230	-72 501	-106 358	-126 102	-116 491	-98 717
Public debt (% GDP)	-	24,6	-	48,7	43,3	42,6	43,6	36,7	30,9	30,8
Public deficit (% GDP)	-	-	-6,1	-6,4	-7,5	-3,6	-3,3	-3,4	-2,9	-2,9

Source: www.finance.gov.sk, www.nbs.sk

- a) As a percentage of votes by party: Smer (Social democrats) 29.1%, SDKU (Democratic Christian Union) 18.4%, SMK (Hungarian Coalition) 11.7%, SNS (Slovak National Party) 11.7%, HZDS-LS (People's Party) 8.8%, KDH (Christian Democrats) 8.3%.
- b) As measured by seats in Parliament: governing coalition 85 (Smer 50, SNS 20, HZDS 15), opposition 65 (SDKU 31, SMK 20, KDH 14).

The judicial branch is headed by the Supreme Court (judges are elected by the National Council) and the Constitutional Court (judges are appointed by the President from a group of nominees approved by the National Council).

2.2 Slovakia's political system and public management reforms

In this part, we evaluate the political backgrounds of public administration/management reforms in Slovakia and the role of the most important potential actors in preparing and realising public administration and management reforms. The analysis focuses on the role of citizens, of external ideas and pressures, of political parties, and of elites and interest groups. No important chance events¹ happened during the evaluated period.

National political system, political process and political agenda

During the period 1998 – 2006, when most of the real reforms happened, the ruling coalition consisted of parties representing the liberal wing of the political spectrum. This situation allowed for relatively massive reforms, bringing more “market” into the public sector, typical examples of which are the radical health care reform and the pension system reform.

However, from the point of view of reforming the public administration, the governing coalition of liberal parties either did not have an effective strategy, or just followed the needs of interest groups. The way reforms were prepared and the content of the reforms indicate either a lack of expertise, or a problem of vested interests (or both?)².

The public administration reforms of the pre-1996, as well as the 1998–2006 period, were very much elite-driven. The main body behind the 1998–2006 reform was the liberal think tank MESA10, clearly placed on the right wing of the political spectrum (the Democratic Party), indirectly connected to main political lobbies

1 The EU accession process, successfully completed on 1st May 2004, when Slovakia became an EU member, might be mistaken as a “chance event”, in spite of the processes of harmonisation not focusing to any great extent on the public administration system, and accession was a planned process. We decided to evaluate the impact of the EU accession process in the part on external pressures and forces.

2 According to the authors' opinions, all realised reforms formally focused on improving the performance of the Slovak public administration system, but in reality, their contents and measures were constructed to serve the interests of specific groups. In later sections, several pieces of data and facts supporting this opinion will be presented.

and also supported with a lot of foreign finance focusing on the promotion of “free market” solutions.

A relatively small group, headed by V. Nižňanský, prepared the basic concept of the 1998–2006 reforms. The proposed reform strategies were discussed at many public meetings, and there were also consultations with foreign experts (supported by the comprehensive PHARE programme). However, in practice, different voices were not taken into account. One of the main problems at this phase was the exclusion of the Ministry of Interior (responsible for public administration) from the entire process. Under these circumstances, the political and parliamentary discussions about the reform strategy in Slovakia, as could be expected, focused mainly on the political aspects of the reform, with protracted debates on the number of regions and the election system.

The main interest group behind the public administration reforms of the 1998–2006 period were local mayors and lord-mayors. They needed decentralisation, as the tool providing them with more powers and more resources, but did not like the idea of higher accountability and transparency.

With respect to the behaviour and goals of local politicians, the responses of local Mayors to the Local Democracy Institute survey questions in 1997 were symptomatic (Swianiewicz, 2001: 24). The most important issue for Mayors from Slovakia was “to make independent decisions”. According to this source, Slovak Mayors suggested the following values as the most significant to promote for local government:

- democracy: 72 %
- autonomy: 89 %
- effectiveness: 49 %

The right of independent decision-making seems to be the most important value for local politicians, and effectiveness is the last one: this ranking may indicate that many mayors may prefer to serve small interest groups rather than the overall population.

Corruption

The situation in which the reform was prepared will also be assessed from the perspective of the level of corruption in the country (higher corruption means higher risks connected with this type of reforms).

Slovakia is a country where corruption is a significant phenomenon of political and economic life. According to Transparency International (www.transparency.org) the country scores around 3.5 to 4.3 points on a ten-point score – 1 indicating the highest and 10 indicating the lowest level of corruption, indicating relatively high corruption risks. Corruption exists at all levels; the positive aspect of the problem being that corruption cases become more and more visible. In 2006, one minister

had to resign because of a conflict of interest and two Lord Mayors in Slovakia were imprisoned because of proved corruption.

The pool of the agency Focus (http://www.transparency.sk/prieskumy/060424_perce.pdf) shows that corruption is one of the most important problems in Slovakia, and is ranked as the fourth major problem in the country (after the standard of living, unemployment and health care). The proportion of respondents quoting corruption as a major problem is increasing (plus 6 points from 2004). The critical areas of corruption are health care (63%), the judicial branch (47%) and ministries (45%).

Despite the fact that the corruption problem is well-known, no government was capable of adopting effective measures to combat corruption and limit the shadow economy (flat income tax may help a bit). The recent proclamation of Prime Minister Fico is symptomatic: “the government will accept that in the case of two similar projects, the project proposed by the SMER party member will be selected” (<http://dnes.atlas.sk/spravodajstvo/slovensko/225751>).

Citizens' views on purposes of the reform

The results of the public opinion poll performed by INEKO (http://www.ineko.sk/archiv/projekt_heso_miniprieskum.pdf) provide data that may support our arguments mentioned above. The question was the following: “What was the main driving motive of the radical reforms during the 2002 – 2006 election period?” Respondents could choose a maximum of three options. The results were as follows:

1. Results of 2002 elections – 62.2%
2. Interests of small but influential group – 62.2%
3. Bad starting situation – need for reforms – 28.9%
4. Lack of real opposition against reforms – 26.7%
5. Good preparation of reform changes – 6.7%
6. International organisations – 0%

New Public Management (NPM)

The last reform wave of the 1998 – 2006 period promoted private sector solutions in the public sector and decentralisation. Many sectoral reforms were significantly influenced by NPM ideology. For example, in primary and secondary education a “quasi market” with student vouchers and full plurality of all ownership forms was created. However, such NPM approaches were not consistent everywhere (ironically in the university sector, public schools were able to block similar changes). NPM reforms did not affect the public administration structures and processes in a comprehensive way; instead, decentralisation was promoted as the main reform goal and not as one of the reform tools.

NPM was also never explicitly mentioned by the government and reformers, as the ideological base for changes.

The recent left-wing government is strongly against private solutions in the public sector and to some extent, does not like private sector at all. Many 1998–2006 public sector changes were already reverted or redesigned (abolishment of user fees in health care, stopping the establishment of new private universities, stopping privatisation of hospitals, prohibiting profit for health insurance companies and more direct state control in the utility sector, etc.).

External ideas and pressures – EU accession and international organisations

External ideas and pressures were only a moderately important factor influencing the reforms of the public administration system in Slovakia³. Certainly, the most important such pressure was the EU accession process, although public administration was not an explicit, independent part of the negotiations. Slovakia signed the European Charter for Local Self-Government, thus accepting obligations in promoting the subsidiarity principle. Regional self-governments were created as a necessary response to the regionalisation of Europe. The EU accession process mainly influenced the legal structures, rather than the processes of administration.

A lot of foreign help was sought in preparing the reforms, particularly in the phase of analysis and needs definition, but rather less in the execution phase (i.e. the preparation and implementation of concrete changes). The main foreign actors were SIGMA OECD, UNDP, PHARE, the World Bank and the British Know-How Fund, and also a number of support programmes from developed countries (e.g. Germany and Canada) were realised. Most assistance programmes were relatively liberally-orientated and tried to implant several market-type mechanisms into the public administration system in Slovakia.

National political culture and the role of citizens

As indicated, public administration reform in Slovakia was mainly driven by party politics and interest groups' and elite's ideas. The role of the citizen's voice prior to 2006 was almost marginal. Two factors may lie behind this fact.

The first one is the general political culture of most Slovak governments after 1993. Both the Meciar and Dzurinda coalitions might be characterised as non-responsive governments (probably a very important factor explaining their defeats in elections). The "popular voice" was not really taken into account – for example only about 4% of citizens were of the opinion that the health care reform during the 2002 – 2006 Dzurinda government was good and successful.

The second and probably determining factor is the limited importance of the "citizen voice" in a transition country. Coombes and Verheijen (1997) define citizen

³ As can be seen from the public pool quoted above, citizens felt that the role of international organisations in public administration reforms was zero, but this is a real underestimation – probably because of a lack of information.

dissatisfaction and expectations as one of the main sources of large public administration reforms in developed countries at the end of the 20th century. However, this is not so true for transition countries such as Slovakia.

“Thanks” to a heritage of a relatively long period of centralised society, with the communist party deciding on all aspects of society and the economy, citizens in Slovakia are still not adequately prepared to exercise effective control over politicians and bureaucrats, either at the central or local level. Very many, especially elderly people, still feel that public services are a “donation from the state”, although this is not true, as all such services are paid mainly via taxation and fees.

Several data collections prove that the limited participation of citizens and high corruption are important obstacles to any public sector reform in Slovakia. Moreover, people do not trust the government, especially at the central level (Table 2).

Table 2

The level of trust of citizens with regard to various public authorities in Slovakia

	1995	1998	2000
Local authorities	51	50	53
National council	30	32	24
Central government	32	33	32

Source: Swianiewicz, ed., 2001, pp. 56, 231

Data from different surveys show that real participative democracy has not yet been created in the accession countries and there is still a relatively low level of participation by citizens in public activities.

For Slovakia, Swianiewicz (2001: 235) reported the frequency of citizen visits to their local councils in 1996. In spite of the municipality being the closest level of administration, in all the surveyed municipalities less than 10% of citizens regularly visited them, and over 50% of citizens never paid a visit to their local council (this figure was even higher – 67% – in the capital, Bratislava).

Table 3 presents data on the turnout of citizens in state and local elections. Whilst turnout, especially in local elections, is not high in most EU countries, the significant issue for Slovakia is a decreasing level of turnout in local elections. There are several possible explanations – e.g. this may be seen just as an inevitable drop-off in interest after the enthusiasm connected to the “Velvet Revolution”, or it might be seen as a citizen reaction to the inadequate performance of local governments.

Table 3
Turnout in local and parliamentary elections in Slovakia (%)

	1990	1992	1994	1998	2000	2002	2005 first round	2005 second round
Parliament	95	84	76	84	-	70	-	-
Local elections	64	-	52	54	-	49		
Regional elections	-	-	-	-	26	-	18,02	11,05

Sources: Swianiewicz, ed., 2001, pp.77, 238 and www.pravda.sk

The situation, described above, reveals interesting contradictions. In Slovakia, the majority of citizens verbally prefer “the large state” (Nemec, 1997). However, relatively radical liberal reforms have happened, which many people did not like. Liberal parties were able to survive in such an environment, keeping political power in their hands, for two election periods. Moreover, even after the 2006 elections, they lost their chance to continue with this policy only as a result of some internal conflicts between them⁴.

The attitudes of the new leader from 2006 – Smer – towards citizens and their involvement are completely different. Formally Smer support the increased role of all actors in socio-economic development. In reality, Smer is almost a pure populist party, following the “the popular voice” (voice of its electorates – pensioners, low paid employees, farmers) to increase their popularity. The outcome is interesting – with marginal socio-economic changes realised and more than 50% of their election promises not fulfilled (Zachar, 2008) the public support to Smer increased from 29% to almost 50% in mid-2008.

3. The administrative system in Slovakia and its developments

3.1 The reform packages

Many important changes within the public administration system in Slovakia were already made during the early stages of the transition period in the common Czechoslovak state. The most important ones were the re-establishment of self-governing municipalities with a high level of independence, and the abolition of the system of National Committees in 1990. In the Slovak part of Czechoslovakia, 38 district offices and 121 sub-district offices of local state administration were created. At the same stage of reform, many institutions of specialised local state administrations were created, (such as school offices, environmental protection offices, fire departments, health care administration offices and many others). This

⁴ The policy (politics) of the winning party of the 2006 elections, Smer, is completely different. The leaders of Smer follow “the popular voice” to keep their popularity, as a result of which the support for Smer increased from 29% to 45% during the first 100 days of the new government.

process split local public administration into many separate, relatively independent structures, with negative features of atomisation and fragmentation.

Because of the relatively unstable political situation in Slovakia during the 1993 – 1995 period, new public administration reform activities began only in 1996, characterised mainly by the following structural changes:

- the reverse change back to general local state administration;
- changing the territorial structure of Slovakia;
- starting a process of establishing regional self-governments.

These changes were reflected in two important laws, Law No. 221/1996 on the Territorial and Administrative Sub-division of the Slovak Republic and Law No. 222/1996 on Organisation of Local State Administration.

These laws addressed the issue of territorial sub-division, creating the legal framework for the establishment of the spatial execution of self-government functions. Municipalities were defined as the highest level in the hierarchy of territorial units, logically linked to their administration on self-government principles. They also defined the administrative sub-division of Slovakia into 8 regions and 79 districts, at the same time limiting the authority of state bodies in local areas. Regional and district offices of state administration were given a broad range of tasks in this structure. Other administration units included municipalities (and military counties, if they perform state administration responsibilities under special laws).

This “1996 reform” in Slovakia was aimed at increasing the effectiveness and quality of public administration and creating a customer-friendly and responsive system serving its citizens. The costs of reform were much higher than planned, but its results were very limited (Audit ústrednej štátnej správy, 2000).

As is apparent from the brief description of reforms, the basic public administration structures in Slovakia were created soon after 1989, and their main characteristics were similar till the end of the 20th century. This period is characterised by two, to some extent contradictory, features:

- a) very high level of independence of local (municipal) self-government as the only self-government level in the country,
- b) massive “state”, responsible for many public services that are normally delivered by self-government (such as primary and secondary education, local health care, etc.).

The scope of authorities of regional and district state administration offices before decentralisation reforms was really large. At the end of 1998, they carried out the state administration in 32 sections of activities. The economic power of eight regional offices, which were specific budgetary units, was extensive (Nemec, Bercik and Kuklis, 2000). Regional and district offices were founders of several thousands of budgetary and semi-budgetary organisations and facilities with more

than 135 000 employees. The apparatus of regional and district offices included about 20 000 employees.

The powers of municipalities exercising their self-government functions included, before the 2000 decentralisation the following main responsibilities: management of movable property and real estate in the ownership of the municipality, administration of local taxes and fees, guidance of economic activities in the municipality, creation and protection of healthy conditions and a healthy way of life and work of the municipality population, protecting the environment and creating conditions for education, culture, artistic hobbies, physical culture and sports, acquisition and approval of territorial planning documentation of settlements and zones, providing for public order in the municipality, local public transport in big cities (Bratislava, Kosice, Zilina, Presov, Banska Bystrica), construction, maintenance and management of local roads and parking places, public space, public greens, public light, market places, cemeteries, local water resources and wells, water supply networks, sewerage and water cleaning establishments in small municipalities, construction, maintenance and management of local cultural establishments, part of the sport, leisure and tourist establishments, infant homes, part of the ambulatory health service establishments, establishments of the basic social services (daily care), the support of the following activities – education, nature and heritage protection, culture and artistic hobbies, physical culture and sport, humanity activities, municipal police forces and the fire service.

After the general elections in 1998, new Slovak governments refreshed the issue of public administration reform, as one of their main goals. The position of Government Appointee for the Public Administration Reform was created, outside of formal ministerial structures, and Viktor Nižnanský, representative of the right-wing political spectrum was appointed to this position.

The main idea was that decentralisation would solve all inefficiencies (*Stratégia decentralizácie a reformy verejnej správy*, 1999). The start of the reform was postponed several times because of the lack of political consensus on it between political parties, and only massive interventions by Prime Minister Dzurinda at the beginning of 2001 pushed the processes forward. After this, in a very (possibly: too) short time, all basic legislation was approved by Parliament (such as the Civil Service Code, the Public Service Code, the law on the Creation of Territorial Authorities and another one on Elections of Territorial Authorities in July; a law on the Transfer of Competencies of the State to the Regional and Local Self-administration in September; the amendment of the Law on Municipalities and another one on Municipal Property, as well as the law on the Property of Territorial Authorities, the amendment of the Law on Budgetary Rules, and a new Law on Financial Control and Audit, all in October).

The important Law on Transfer of Competencies defined the set of competencies to be transferred in 2001 and 2002 to regional and local authorities, such as road communications, water management, social care, environmental protection, primary education, physical culture, theatres, healthcare (primary and specialised

ambulatory care), regional development and tourism. Regional self-government became responsible for competencies in the areas of road communications, railways, road transportation, civil protection, social care, territorial planning, secondary education, physical culture, theatres, museums, galleries, local culture, libraries, healthcare (polyclinics and local and regional hospitals), pharmacies, regional development, and tourism. A large set of these competencies was re-allocated from direct ministerial responsibility (hospitals, education, etc.).

The reform transferred a massive amount of responsibilities to local and regional self-governments, but did not introduce other crucial elements of decentralisation, mainly real fiscal decentralisation (new responsibilities were financed by grants and not own incomes of self-governments). To continue, the “Project of further public administration decentralisation for 2003–2006” was adopted by the national government, focusing on two main aspects:

- a) Fiscal decentralisation.
- b) Changes of territorial state administration (including a change from general to specialised deconcentrated state administration).

The new legislation was adopted and implemented in 2003 and mainly in 2004 creating a strongly decentralised public administration and public finance system in Slovakia. District state administration offices were abolished and the system of local state administration diminished and converted from general offices (responsible for all competencies) to specialised offices (such as school offices, social protection offices, etc.). A new fiscal decentralisation system was established, where a large proportion of self-government incomes is from own revenues (including shared taxes); however, some mechanisms for equalisation are still missing.

3.2 Implementation processes and status achieved

As already explained, explicit and systematic public administration/management reforms were not part of the reform agenda of any of the Slovak governments. OECD (OECD, 2005) defines the most important modernisation measures as follows:

- increasing transparency, accountability and accessibility of public administration,
- performance measurement and performance management,
- introducing new methods of accounting and auditing,
- decentralisation, restructuralisation and re-allocation of state functions,
- motivation of civil/public servants,
- introducing market type mechanisms.

Some of them were comprehensively addressed, while some are still on the margin of the agenda. Below, we describe what was already implemented.

Financial management reform

From the point of view of the national budget, the reform can be evaluated as positive. During 2000 – 2004, a medium-term programme of introducing performance budgeting was implemented, respecting modern trends and benchmarks. The State Treasury was also created, to manage and monitor all public sector financial operations.

A modern law on public financial control was adopted by Parliament, introducing ex-ante, ongoing and ex-post performance audit of efficiency, economy and effectiveness.

This situation means that the system is formally adapted to the requirements set by modern international “rules of the game” (Allen and Tomassi, 2001). With this, structures are set; however, real processes are not changing very quickly.

The local aspects of the public financial management processes in Slovakia are less optimistic. Some aspects improve, but many important gaps, not effectively addressed by reforms, remain. One of such gaps is the real quality of financial audit at the local level. Prior to 2007, the Supreme Audit Office of the Slovak Republic (www.control.gov.sk), did not have the right to audit independent self-government resources and the only levels of audit/control on self-government level were internal financial control systems established by self-governments. However, in reality and especially at the municipal level, the main principles of control/audit are not automatically guaranteed, namely independence and professionalism. In reality, it is very difficult for the “Main Controller” and his staff to be independent and deliver a really effective job. To a large extent, he is a political appointee, as parties represented in municipal and regional parliaments, and proposing a person for elections, may prefer loyalty to professional merit. Probity audit dominates, and performance ex-ante and ex-post audits are very rare. Some changes may occur in the near future, as the law on financial control directly provides that 3E control shall be realised.

Compared to the limited progress in the auditing area, the accounting system is improving. For example, since 2002, there has been no principal difference between commercial and self-government accounting (cash-based accounting on both self-governmental levels was abolished). Municipalities and self-government regions do not have any specific exemption from valid accounting legislation; however the law and regulations set specific guidelines for execution of accounting on this level.

Since 2005, most public budgets are prepared annually and in the medium-term on a cash basis, differentiating between capital and current expenditures. Resources are allocated to programmes, what may in future (by transparent competition for resources) limit negative impacts of subjective and historical allocation, clearly connected with large space for corruption. From 2007, accrual accounting will be introduced at the self-government level, too.

Cost-centre budgeting does not exist in most public organisations, in spite of the fact that the first such experiment was already introduced by the Ministry of

Interior in 1999 in a small sample of selected district offices. After its enlargement to the whole territory, much resistance was borne by many offices. Already in early 2002, several offices tried to abolish the system; the Ministry was able to maintain it for one more year, but after this, the project was temporarily suspended.

Human resource management

The Civil Service Law and the Public Service law were adopted as part of the 2001–2002 reform package. The Civil Service Office was created as the consequence, but abolished in 2006 (before the elections).

In theory, these laws were expected to increase the motivation of public servants, also because of the performance evaluation system explicitly included in the Civil Service Law. However, because of a lack of funds, the normal salary of a civil servant is dominantly created by a fixed amount (calculated on the basis of position and length of service) and performance increments are, in most cases, marginal (normally below 10% of total net income).

The system of performance evaluation of civil servants in Slovakia is based on the various parts of the Civil Service Law and its details are developed by concrete directives from the Civil Service Office. Three main criteria are used as follows:

1. Fulfilment of written orders of supervisor.
 - a) Level of fulfilment of orders.
 - b) Level of qualifications and their use in fulfilling orders.
2. General performance and benefits to the office, from the point of view of manner, timeliness and personal initiative.
 - a) Fulfilment of duties in appropriate quality, scale and within given deadlines.
 - b) Personal initiative of civil servant when performing duties.
 - c) Individual progress.
3. Respect for the civil service discipline and ethical code.
 - a) The level of respect for civil service discipline.
 - b) The level of respect for the Code of Ethics for civil servants.

However, in reality this is not always so rosy. There are more problems included in this process, such as:

- the criteria are very vague and many of them are difficult to assess,
- the criteria are evaluated by a supervisor only in a subjective way and the final decision (ranking of level of performance) is more or less an individual decision of one person that may be biased.

The preliminary experience with performance evaluation indicates that the system does not work effectively. Frequently, the main factor for award is the personal relationship between the supervisor and the civil servant – the media has frequently

reported the awarding of large increments to top civil servants in ministries, even in cases where the basic targets and goals were not achieved (both under Dzurinda and Fico Cabinets). Performance evaluation did not become a tool for the stabilisation of the best administrators and for enhancing efficiency, effectiveness and economy it is just a formal tool, with almost no positive short-term outcomes.

Organisational changes – decentralisation, restructuralisation and re-allocation

As indicated, decentralisation, restructuralisation and re-allocation were the main ideas of the 1998–2006 reform process. “Stratégia decentralizácie a reformy verejnej správy (1999) stressed low quality, large-scale inefficiency of the public administration system, and proposed to launch a large decentralisation as the main trajectory to improve the performance of public administration. The assumption was that the transfer of responsibilities and fiscal decentralisation would automatically significantly improve the performance of the public administration in Slovakia.

However, despite the fact that there is no doubt that decentralisation is important, if not the most important tool of public administration reform, decentralisation is not a panacea. It has the same character as most other reform mechanisms; it can bring both positive and negative effects, depending on local conditions, the environment and connected complementary measures. Risks connected with the improper introduction of decentralisation measures in transition countries are very high and many published cases and papers indicate this fact.

Increasing transparency, a accountability and accessibility of public administration

Concerning transparency, accountability and accessibility, some important measures were realised; some are still awaiting implementation. As regards transparency, the most important step was introducing a freedom of information legal package (from 2001), gradually increasing the access of citizens to public data.

Accessibility has improved mainly due to the introduction of e-government. Almost all public bodies (except for some very small municipalities) have their internet pages. However, such pages have a mainly informative function and only in some cases allow communication. As the electronic signature is still an open issue (despite an existing law), the transaction function of e-government is rarely used. The system of “one stop shops” does not exist and only a few public administration offices have already created “front desks” to serve citizens better.

Accountability represents a major problem in the Slovak public administration system. Nothing happens to a Minister who publicly announces (www.pravda.sk) “Yes, our office did not follow public procurement rules. Maybe we will pay the fine as set by the Public Procurement Office; however this is just the transfer from one state pocket to another one. But the most important fact is that we have the necessary cars.” Nothing happens either to a hospital director, who responds in a discussion on public procurement problems in his institution: “The life of

the patient is much more important than the Public Procurement Law. Our only concern is to provide the patient with maximum care. The patient does not care about the procurement of medicaments; he just wants his/her drug” (*Správny STV*, 3. 11. 2004 – www.stv.sk).

Performance measurement, performance management and other market type mechanisms (MTM)

Performance measurement and management were introduced in a non-coordinated way by different ministries within their area of responsibility. In some cases, such systems work better; in others, they exhibit important deficiencies and pervasive effects.

As already indicated, the most controversial case from the point of view of performance management is education.

Performance management in the Slovak education system

The financing of primary and secondary schools is based on Law 597/2003 Z.z. According to this legislation, all schools delivering “state curricula” have equal rights to public funding. The system is relatively simple (based on experience, for example, from the UK). The performance indicator is the number of pupils and the amount of normative funding for calculating the grant as defined each year by the Ministry of Education (see Table 4).

Contrary to the primary and secondary levels, not all universities in Slovakia have equal rights for state grants per student. For state and public universities, the grant must be provided and for private, “may” be provided (based on a discretionary decision by the ministry). Such a system is not transparent and does not provide equality of providers. To become eligible for state grants, the university must obtain state accreditation, on the basis of an evaluation of its quality.

As any public sector tool, the Slovak accreditation process has its strengths and weaknesses. Potential positive aspects are peers’ involvement, relative independence of the AC, existence of criteria. On the other hand, it includes many critical points, limiting its effectiveness as a regulative and quality control tool – for example most of the criteria are not sufficiently transparent and can be interpreted very differently, to help or to “kill”. It is also questionable that all these criteria are genuine. For example, in many cases, a 63 year-old professor might deliver much less than a 35 year-old Ph.D. “Thanks” to this it is a fighting tool between new and established schools in their search for public finance, and not as a positive public policy instrument.

Other market type mechanisms in the public sector

Several other MTM’s were introduced in the Slovak public sector, but similarly to other areas, in a very non-coordinated way; some, like benchmarking, are still waiting for their chance.

Table 4
Financial normative for schools Slovakia 2006

School	Normative for salaries	Heating normative minimum	Heating normative maximum	Other running costs normative	Total normative minimum	Total normative maximum
Elementary	18 422	2 321	3 249	2 312	23 055	23 983
Grammar school	23 931	2 321	3 249	2 453	28 705	29 633
Sport grammar school	42 675	2 321	3 249	4 486	49 482	50 410
Professional schools	30 744	2 321	3 249	2 627	35 692	36 620
Secondary business schools	24 972	2 321	3 249	2 480	29 773	30 701
Secondary health care schools	40 792	2 321	3 249	2 884	45 997	46 925
Secondary art schools	56 167	2 321	3 249	3 278	61 766	62 694

Source: www.minedu.sk

Table 5
Forms of delivery of selected local public services in Slovakia, 2001

Service	Municipal employees	Number of municipalities					External contract
		Brutto budgetary organisation	Netto budgetary organisation	Municipal limited company	Municipal joint-stock company		
Waste	2	2	7	9	2	20	
Cemeteries	13	1	8	2	0	9	
Public green	15	1	10	5	1	6	
Communications	12	1	11	6	1	8	
Public lighting	13	1	9	8	0	13	

Source: own research data

Competition, contracting, outsourcing, user fees and privatisation are used in many forms, but mainly in a fully non-systematic way, without proper ex-ante analysis of potential outcomes and impacts. Thus, in most cases, the use of MTM's does not increase the efficiency, the effectiveness and the economy of the public sector. This fact is clearly highlighted by the following example for the local level.

Competition and contracting-in delivery of local public services in Slovakia

This part is used as a clear example of the situation where "MTM's" do not work, or can become counterproductive in a context where basic features of the rule of law are not working properly". To address this problem, we present selected data from our reach database, describing important aspects of contracting.

The data obtained in 2001 (Table 5) clearly show that all legally available forms of service delivery arrangements are used, and that contracting-out to external suppliers is a very frequent solution.

In theory, the decision of the municipality to contract-out should be based on a careful analysis of all available choices. In our research we did not directly investigate the full reality since we knew that this process cannot be systematic under the current circumstances and focused only on the contract award process (Table 6).

Table 6
Methods of selection of external suppliers of selected local public services (2001)

Procurement method used	Number of municipalities				
	Waste	Public green	Public lighting	Local communications	Cemeteries
a) open tender	2	1	1	3	1
b) price bid	0	0	0	0	0
c) restricted tender	1	0	0	1	2
d) negotiations	0	0	0	0	0
e) direct purchase	2	1	8	1	5
f) municipality was not willing to provide information	15	6	4	3	1
Total number	20	8	13	8	9

Source: own research data

The data show that most municipalities mainly use direct purchase or were not willing to provide information about the procurement method used, despite the fact

that they are obliged to do so under the freedom-of-information legislation. We did not insist on answers at this stage, as a missing answer is a good indicator of two potential problems: municipalities either do not want to tell (knowing that the law was not followed), or cannot tell (this again means that the procurement law was neglected). This situation is alarming, and did not improve in later samples.

Non-competitive and non-transparent awards negatively influence the outcomes from contracting, thus this market mechanism does not deliver positive results in many cases.

The data on costs of service delivery are clearly signalling a high probability of corruptive or at least ineffective behaviour of municipalities. Table 7 presents 2004 data on waste collection.

Table 7

Costs per capita for waste collection according to the size of municipality and the delivery method used

Size category Form of delivery	A	B	C	D	E	F
Own delivery	164	323	78	0	150	0
Own budgetary org.	455	0	0	0	0	0
Own semi-budgetary org.	0	151	398	206	79	0
Own limited company	0	89	36	209	163	0
Own shareholders' company	0	181	0	0	0	0
Private person	164	182	0	0	0	0
External budgetary organisation	130	0	0	0	0	0
External semi-budgetary organisation	110	192	0	0	0	0
External limited company	181	141	140	0	158	65
External shareholders company	229	149	114	117	261	0
Partnerships in limited company	0	117	56	246	190	293
Partnerships in shareholders company	0	0	0	0	0	353
Association of municipalities	82	81	137	34	0	0

Source: Majlingova, 2006

3.3 Methods of implementation and barriers preventing full success

The public administration/management reforms in Slovakia have their specific character, which have very much influenced the reform achievements. In this, part we summarise the most important facts concerning this issue, most of them already mentioned above.

From the point of view of main forces, all main reforms (both 1996 and 2000–2006) were top-down reforms. The latter reform wave tried to hide this, for example via realising public meetings and discussions, but all decisions were

clearly prepared and predefined by a small elite group based on liberal ideology. The design of some changes clearly indicates the risk of reforms serving small interest groups.

Compared to most of its neighbours, Slovakia established a specific reform body to realise the main (2000–2006) reforms. The Ministry of Interior and the already existing Council for Public Administration were almost fully excluded from preparing and realising reform policies (surprisingly the “Council” was not abolished, maybe with the intention of hiding the “elite character” of the reform). An interesting case was also the resignation of the reform leader, Viktor Nižňanský, at the end of the first phase of decentralisation, when his proposal for 12 regions was not passed by Parliament and his re-appointment during the second election period of Dzurinda government, when he was invited back to office to finish fiscal decentralisation.

Most of the radical, market-based reforms were realised during the second election period of the Dzurinda government 2002–2006. The World Bank provided large amounts of resources to promote these changes, but without much success. As is apparent from public opinion polls, citizens did not like some sectoral reforms, especially the health care reform and the more proactive social policy. The negative evaluation of, from the point of view of the economic theory, necessary changes, such as introducing co-payments and rationing health care, or linking some social benefits to recipients’ activities indicate that the government (provided by sufficient resources to do this) underestimated the role of public opinion and did not act effectively in explaining why such changes were inevitable and positive. Simple examples, understandable to everybody, were not used to show the positive aspects of some of the “painful” changes and to limit expectable “resistance”, which is natural.

To what extent the failure to explain the necessity of the changes to the citizens led to the defeat of the Dzurinda coalition in the 2006 elections is difficult to estimate. Citizens were not only dissatisfied by some reforms, but also very much dissatisfied with the “behaviour” of the coalition and with the internal fights within it (the 2006 elections were organised as extra-ordinary elections, a few months before the polled term, because the government coalition split, Christian Democrats leaving the coalition). In such a situation, the success of the Social Democratic Smer, promising to revert most of reforms, was not a surprise for most experts.

Did the 2002 – 2006 reforms “kill” their initiators? There is no definitive answer, but it seems that there is some link between how the reforms were designed and the reform promotion and failure of the government, which were in many cases really necessary, brought about unpopular changes.

Specific barriers preventing full success of public administration/management reforms in Slovakia

In spite of the liberal ideology behind the main public administration reform phase of 1998 – 2006, “public management (NPM)” or “governance” changes were never explicit reform goals. Decentralisation and not a better quality of governance was the main focus of the reform strategy. In such a situation, many public management changes were realised only as a result of branch or local initiatives. Such efforts were not coordinated or followed by politicians and top bureaucracy or evaluated and lessons drawn.

The outcomes of introducing public management tools are very varied. In some cases at least, some success was achieved, as in the case of the financing of primary and secondary education. However, in most cases, as reforms were not prepared, outcomes and impacts were either negative or very negative. A classic example is the system of delivery of local public services, where massive corruption seems to be the reality.

The experience from Slovakia highlights that introducing managerial tools into the public administration system in transition countries is more risky compared to established economies and democracies. These barriers might have both a subjective and an objective character. Concerning the subjective reasons, certainly, there is insufficient experience to prepare and implement reforms properly. Concerning the objective side of the problem, the following can be mentioned:

- Potentially competitive markets are, in many cases, still not well-developed, but characterised by monopolistic or oligopolistic structures and behaviour. Given this, it is rather optimistic to expect a sufficient supply of competitive bids for public procurement. Under these circumstances, the argument about possible unit costs savings is far more controversial than in developed countries and the use of MTM’s has to be more carefully evaluated.
- The current systems of public sector control/auditing in use are predominantly the old-fashioned administrative procedural types of control. People involved in the processes of public sector control/auditing are frequently unable to understand all its details.
- Public sector organisations still run old-type financial management schemes, creating incentives to spend and not to save. Modern cost-centre, outcomes-based financial management is more than rare, if it exists at all.
- The “quality of democracy”, comparing developed Western countries to CEE countries in transition, still differs considerably. Democratic institutions cannot have been fully developed during the short period available so far to CEE countries. Citizens are not able, but many of them are not willing either, to influence political processes in the country. Media and the non-profit sector have only just begun to exercise their crucial role in support of democratic processes.

- The concrete circumstances promote the current non-responsive (rent-seeking) behaviour of politicians as a fully effective and simple way to maximise individual benefits (see data on corruption), at least from a short-term viewpoint. In this system, citizen-voters lose, but in fact they are not only victims, but also accomplices.
- The quality of legislation and the general situation of “the rule of law” are also not supportive. In many cases, real problems in enforcing the law are pertaining.
- Systematic training and exchange of information about managerial tools in public administration is missing.

Conclusions

Despite the major changes that have already occurred and which are described above, we still need to emphasise the necessity for further modernisation of public management and public financial management approaches in Slovakia, as decentralisation alone cannot solve all the existing deficiencies. Many modern, already successfully introduced public management/governance instruments are still missing from the legal framework and/or from daily practice in the country.

Modern governance values and practices should be enforced into daily practice, not only by proclamations, but also by effective legislation, regulation, and inevitably also by real daily practice. To manage local public finance better, the emphasis should be placed on accountability and effectiveness, where certain gaps still exist.

Mechanisms, such as programme budgeting, formula and competition-based allocation of resources, equality of all ownership forms competing for the right to deliver local public services by fair and transparent rules, cost-centres accounting in larger cities, performance evaluation, careful performance management, performance-based audit and control, independence and professionalism of audit and control, and many others, represent a long list of objectives for future action. However, the capacity (and will) of the new Prime Minister Fico government to promote the necessary changes is questionable.

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Country public management reforms landscape: Slovakia

Date	General	Organisation	Personnel	Finances
Czechoslovakia				
1990	<ul style="list-style-type: none"> • First democratic elections. 	<ul style="list-style-type: none"> • Re-establishment of self-government level (municipalities), National Council Act 369/1990, about 2800 municipal governments created, system of specialised offices of state administration created (district and sub-district). 	<ul style="list-style-type: none"> • Fully decentralised personnel management, civil service not established. 	<ul style="list-style-type: none"> • First steps of fiscal decentralisation, municipalities allocated with about 10% of total public expenditures.
Slovakia				
1. 1. 1993	<ul style="list-style-type: none"> • Establishing the country, V. Meciar as the Prime Minister. 			
1994	<ul style="list-style-type: none"> • Intermediary government of the Prime Minister Moravcik. 			
1994 – 1998	<ul style="list-style-type: none"> • Meciar back in Prime Minister position. 	<ul style="list-style-type: none"> • Law No. 221/1996 on the territorial and administrative sub-division of the Slovak Republic and Law No. 222/1996 on organisation of local state administration enacted: system of general state administration offices (district and region) created. 	<ul style="list-style-type: none"> • Fully decentralised system continues. 	
1998	<ul style="list-style-type: none"> • New Prime Minister Dzurinda and his government elected with liberal ideology. 			
1999		<ul style="list-style-type: none"> • "Strategy of public administration reform" published. 		

Date	General	Organisation	Personnel	Finances
2001	<ul style="list-style-type: none"> Basic reform legislation package approved by Parliament (such as the Civil Service Code – July, Public Service Code – July, Law on Creation of Territorial Authorities – July, Law on Elections of Territorial Authorities – July, Law on Transfer of Competencies of the State to the Regional and Local Self-Administration – September, Amendment of the Law on Municipalities – October, Amendment of the Law on Municipal Property – October, Law on the Property of Territorial Authorities – October, Amendment of the Law on Budgetary Rules – October, Law on Financial Control and Audit – October). 	<ul style="list-style-type: none"> Municipalities allocated with new responsibilities in areas of road communications, water management, evidence of citizens, social care, environmental protection, education (elementary schools and similar establishments), physical culture, theatres, health care (primary and specialised ambulatory care), regional development and tourism. Regional self-government became responsible for competencies in areas of road communications, railways, road transportation, civil protection, social care, territorial planning, education (secondary education), physical culture, theatres, museums, galleries, local culture, libraries, health care (polyclinics and local and regional hospitals), pharmacies, regional development, and tourism. A large number of these competencies were re-allocated from direct ministerial responsibility (hospitals, education, etc.). 	<ul style="list-style-type: none"> Civil Service and Civil Service Office established, centralised recruitment of all civil servants by the Office. 	<ul style="list-style-type: none"> New competencies financed by transfers, not by own incomes. Fiscal decentralisation not realised.
2002		<ul style="list-style-type: none"> Self-government regions functional. 		
2002	<ul style="list-style-type: none"> The "Project of further public administration decentralisation for 2003–2006" approved. 			
2003 – 2004		<ul style="list-style-type: none"> Last set of responsibilities transferred to self-governments. Changes of state administration system (districts abolished and changed from general to specialised de-concentrated state administration). 		
2005				<ul style="list-style-type: none"> Fiscal decentralisation system finished and in force, about 30% of total public expenditures allocated to self-government.

Date	General	Organisation	Personnel	Finances
2006			<ul style="list-style-type: none"> • Civil service Office abolished, with civil service law almost unchanged. 	
2006 -	<ul style="list-style-type: none"> • New right and populist government with Prime Minister Fico. 	<ul style="list-style-type: none"> • Attack on private providers of public services by new government. 		<ul style="list-style-type: none"> • EU approval for Slovakia (2008) to enter the Euro zone from 2009.

Chapter 12

Public Management Reforms: Ukraine

Tatyana Malyarenko, Volodymyr Salamatov

1. Socio-economic forces: general

1.1 The main trends of socio-economic development and national economic policy of Ukraine (1991–2007)

Ukraine's road to a market economy has been very complicated and painful.

During the first ten years of independence, Ukraine suffered from a permanent crisis in the economy; its real GDP decreased by 54 % and social inequality declined. Compared with other post-soviet states, Ukraine suffered the fastest and most devastating decline in industrial production, which might be comparable only with the economic situation in countries with intra-state armed conflicts.

Shortly after independence, in December 1991, the Ukrainian government liberalised most prices and erected a legal framework for privatisation. However, the practical effect of market reforms was miserable, due to a widespread resistance to reform within the government. The legislature soon stalled any reform efforts and led to some backtracking.

During this period, reformers' energy was concentrated on transforming political institutions and sharp debates, around a strategy of national state building, emerged.

The national socio-economic policy was extremely populist, including growing public and social expenditures, groundless privileges, state price control, huge subsidies and credits for unprofitable state-owned enterprises. As a result, there was a growth in the budgetary deficit and hyperinflation reached about 10 000 %. Without a doubt, negative trends in the economic sphere led to demoralisation and disorganisation in Ukraine's society.

In his first term (1994–1999), President Kuchma introduced the first complex programme of socio-economic development of Ukraine, including mass privatisation, price liberalisation, liberalisation of trade and the introduction of a national currency (*hryvnia*), all of which encouraged and promoted foreign investments and an enhancement of entrepreneurial activity within the country.

During his second term (1999–2004), President Kuchma pledged to reduce the number of government agencies, to streamline the regulatory process, to create a legal environment to encourage entrepreneurs, and to enact a comprehensive tax overhaul. Reforms in the more politically sensitive areas of structural reform and land privatisation were still lagging. Foreign institutions, particularly the IMF, have encouraged Ukraine to quicken the pace and scope of reforms.

With regard to the economic situation, real GDP in 2000 showed strong export-based growth of 6% - the first since independence – and industrial production grew by 12.9%¹.

Between 2000 and 2004, the economy continued to expand. In 2001, real GDP rose to 9% and industrial output grew by over 14%. Growth of 4.1% in 2002 was more moderate – in part a reflection of the faltering growth in the developed world. Growth was a sturdy 8.2% in 2003 despite a loss of momentum in much needed economic reforms. In 2004, real GDP rose by 12.4%.

In general, during this period, growth was supported by strong domestic demand, low inflation, and solid consumer and investor confidence.

The concentrated location of export-oriented industries in the territory of Eastern Ukraine, non-transparent privatisation of strategically important enterprises in metallurgy, chemicals and petrochemicals and chaotic economic reform during 1991–2006, led to the establishment and consolidation of the powerful regional economic-financial groups (EFG) who still dominate in the Ukrainian economy. EFGs have broad representation in parliament, central government and in local councils.

During 2005–2006, Ukraine went through two *revolutionary orange governments* (the Cabinet of Prime-Minister Yuliya Tymoshenko from February to September 2005, and the Cabinet of Yuriy Ekhanurov from September 2005 to July 2006). Experts say both cabinets made a number of mistakes, which established the long-term grounds for cutbacks in industrial production, a swift slump in Ukraine's export and growing inflation.

Apart from the impact of the *Russian natural gas factor*, the mistakes of the central governments, in national economic policy, are as follows:

- *The increase of non-productive incomes of the population as a result of populist budgetary policy.* The real income of Ukraine's population increased by 28.1% in 2005 when real GDP rose by 2.4% and labour productivity rose by 1.2%. The highest increase in salaries was observed in governmental organisations, whilst the industrial sector demonstrated unprecedented unemployment over the last ten years.²
- *Re-privatisation policy.* The rhetoric about the re-privatisation of 3.000 industrial objects, announced by Prime Minister Yuliya Tymoshenko, promoted uncertainty for investors. The political uncertainty led to a reduction in investments and decreasing economic activity. Investments, including direct foreign investments and budget investments decreased by 14% in 2005.

1 We have used the official statistics from *Economic situation and forecast* (Review of Ukrainian economy development, 2000–2007) in Analytical materials of the Ministry of Economy of Ukraine. www.me.gov.ua.

2 Social-economic situation in Ukraine for 2005. The State Committee of Statistics. The Economist, January 2006.

- *Incompetent monetary policy and pseudo-fight against oligarchs.* A reduction in customs' tariffs on imports, a policy of money manipulation, the artificial over-evaluation of the national hryvnia and economic/political pressure on the export-oriented industries (the government presented its policy as a fight against oligarchs) contributed to a negative balance of foreign trade and to a recession in production in strategically important industries. As a result, in 2005, Ukraine's exports grew by only 7% (in 2004 – 37.2%).

In 2005, the dynamics of the Ukrainian economy were characterised by a stable slowing down of economic growth (growth fell from 12.4% in 2004 to 2.4% in the following year); growing inflation; a negative balance of foreign trade; reduction in investments; rising wear and tear of industrial equipment and the absence of a real perspective to increase employment. In 2005, real GDP increased due to the privatisation of “Krivorožstal”. If the privatisation of “Krivorožstal” had not taken place, the slump in GDP would have been -5%. The negative tendencies were exacerbated by a rapid leap in prices for Russian natural gas.

On the basis of the above dynamics, many experts testified to the pessimistic perspective of GDP decreasing to a considerable extent in 2006, but, in fact, GDP increased by 7%. The main factors contributing to this were the systematic and balanced economic policy of the government and the new *Anti-crisis coalition*, which came to power after the parliamentary elections of 2006. The main direction of this policy was the stabilisation of the economy after the post-revolutionary shocks and crises and the elimination of investors' nervousness.

The government of Viktor Yanukovich achieved a real improvement in relationships with Russia, thus resolving the most irritating problem for the Ukrainian economy – the increasing price of Russian natural gas. During 2006 and early 2007, the Ukrainian economy had been recovering from political shocks and dilettantism of national economic policy. It would seem that Ukraine entered into a phase of re-constructive growth.

1.2 Global economic forces

The Ukrainian economy depends heavily on exports. Exports amount to about 40% of Ukraine's GDP. However, Ukraine also depends on imports of energy, especially natural gas, amounting to about 85% of its annual energy requirements. Ukraine's dependence on Russia for energy supplies and the lack of significant structural reforms have made the Ukrainian economy vulnerable to external shocks. The competitiveness of export-oriented industries of the Ukrainian economy, such as ferrous metals and chemicals, critically depends on the price of Russian gas.

In 2005, the Russian state-controlled monopoly *Gasprom* increased natural gas prices for Ukraine. In common with price increases for natural gas from Turkmenistan, the price increased from 95 USD per 1,000 cubic metres in 2005 to 135 USD in 2006 and 2007. As many experts emphasise, the critical threshold price

for gas is 110 USD per 1,000 cubic metres.³ Thus, many enterprises of ferrous metals, chemicals and machine building were found to be unprofitable and consequently suspended their work. The problem of the increasing deficit of foreign trade has become aggravated and exports grew more slowly than imports (7.9% against 21.2%).

A key issue, which determines the long-term vital interests of Ukraine, is the perspective and *conditions* for Ukraine to join the WTO. Many experts believe that joining the WTO will primarily support export-oriented industries of the Ukrainian economy, in particular, the export of natural resources. Once and for all, it will cement the deepening internal imbalances and will blot out the perspective of innovative development.

In order to boost the economic development complex, structural and institutional reforms are required in broad areas i.e. the economy, public administration and the political system.

1.3 Socio-demographic issues

The demographic situation in Ukraine is characterised by an accumulation of tendencies that are reaching crisis proportions.

The population is decreasing, with an increase in the death rate amongst working-age people and a negative balance of external migration.

According to data from the census of 1989, the population of Ukraine numbered 51.7 million. At the beginning of 1993, it reached its highest level for the entire post-war period, at a level of 52.3 million. Over the course of the years 1993–2004, the population of Ukraine dropped by 5.3 million, from 52.2 million to 46.9 million.⁴

The reasons for the reduction in the population include a reduction in the birth rate, an increase in the death rate, the unsatisfactory state of health of the population, accompanied by the low quality and insufficient access to the health care system in the country, and an excess in the level of emigration over the level of immigration.

The dynamics of the basic socio-economic indices for 1990–2005 testify to a sharp decline in the quality of life for the overwhelming majority of the country's population, most prominently the loss of savings brought about by the hyperinflation of 1991–93, the spread of unemployment, a decrease in monetary income (wages and pensions), and a depreciation in the value of that income as a consequence of inflation.

3 Naydenov V. and Voronin A. The Ukrainian economy has been crawling into depression. www.dialogs.org.ua.

4 Dynamics of Ukraine's population. The Kiev Centre of Political and Conflict Studies. www.analytic.org.

The existence of poverty and destitution was only officially admitted in Ukraine in 2000; at which time, 27.8 per cent of the population (13.7 million people) was considered to belong in the category of the impoverished, and 14.2 per cent (almost 7 million people), in the category of destitute. Thus, there are grounds for predicting that poverty will be a persistent and chronic problem.⁵

Over the past ten years, the human development index has been consistently low: Ukraine occupies 91st place among UN member states.⁶ In general, the dynamics of the socio-economic development of Ukraine allow for establishing the grounds for conclusions about the inefficient activity of the authorities in general and the executive power in particular.

2. The politico-administrative regime of Ukraine

2.1 Development of the Ukrainian Multi-Party System: The initial period

Officially, the multi-party system was legally commended in 1990 after the invalidation of Articles 6 and 7 of the Constitution of the USSR. As of March 26, 2006 there were 126 political parties registered in Ukraine. In Ukraine, the multi-party system presently undergoes a stage of formation: there are a great number of small, undeveloped, un-cooperative parties in the country; the majority of them directly or indirectly depending on the authorities and financial-industrial groups.

Experts say that the following stages of development can be distinguished: (1) formation of the first alternative political parties on the basis of an informal social movement – 1990–1991; (2) legalisation of the most influential parties, such as the Communist Party of Ukraine and Rukh – 1992–1994; (3) the first splits in the “brand” types of parties, the beginning of and intense development of the tendency of party formation by administrative means, as well as the establishment of new parties – “political projects” of economic groups – 1994–1998; (4) re-distribution of the political spectrum between the most influential parties, strengthening “brand” parties and personification of political parties – 1999–2004.⁷

As the 2006 elections have shown, ideological parties in Ukraine are now crisis-ridden. There is a gradual expiration of classic leftists and a crisis of classic national democratic parties. Still, Ukrainian political parties have approximately 2 million members in total (4–5% of the country’s adult population). The largest party in Ukraine is the Party of the Regions, with 1 million members.

The network of the majority of Ukrainian political parties does not cover every region in the country with their local organisations. The electoral campaign of 2006 proved that even the largest parties have a regionally concentrated support of voters. So, for example, the Party of the Regions is supported by the south-eastern

5 Lyudmila Shangina. The demographic situation in Ukraine. Connections. 6 April 2005.

6 Trofimova N. “Zero” dynamics of human development. – Den, May 5, 2005, p. 6.

7 Ukraine’s Political Parties on the Eve of the Parliamentary Elections: The Present State and Trends. UCEPS Analytical Report. Razumkov Centre. National Security and Defense. No. 12, 2001.

regions, the Socialist Party of Ukraine by the central regions, and the parties within the “Our Ukraine Block” and “Yuliya Tymoshenko Block” are supported by the western and central regions. This is explained objectively, e.g. the dramatic regional differences in Ukraine’s society regarding parties’ programmes, leaders, priorities and approaches to the solution of the socio-economic and geopolitical problems. As a result, Ukraine’s population has to make a choice between diametrically opposite political courses. Additionally, the majority of people are disposed to vote for charismatic leaders, which leads to the creation of “personified” blocks.

With regard to the electoral system, in 1997, the Parliament adopted the Law of Ukraine “On the Election of People’s Deputies of Ukraine” which introduced parliamentary elections on a mixed base.

On April 6, 2004, the Law of Ukraine “On deputy elections to the Verkhovna Rada of the Crimean Autonomy, local boards and village, country and city mayor elections” was adopted. Under this law, elections were conducted according to the proportional system and the country and village board deputies were elected according to a majority vote by the relative majority in single member constituencies, in which the whole territory of a village the country is divided. Besides, such board deputy candidates may be nominated by organisations of political parties, their electoral blocks and by self-nomination.

In 2004, Verkhovna Rada accepted the Law “On Deputy Elections in Ukraine”, according to the proportional system with the only national constituency, where parties and electoral blocks present the only list of deputy candidates. The political parties or election blocks need to collect at least 3% of the national vote in order to gain seats in parliament. This system should make the representation of political forces proportional to the results of the nation’s will. However, the new electoral law, together with the constitutional reform, increased incentives for businesses to engage in politics.

The specificity of state power organisation under Ukraine, conditions the weak influence of political parties on the formulation and implementation of state policy by the executive bodies. Such influence is normally exerted in the form of collective and individual arrangements between parliamentary factions and the President of Ukraine, who makes personal nominations.

During the period of the formation of the first *revolutionary government* (February 2005) and approval of Yuliya Tymoshenko as Prime Minister, a prototype of coalition-government was formed by the parties/winners of the Orange revolution. However, the policy of this government did obtain the support of the majority, formed by parliamentary factions. As a result, the conflict within the triangle “Verkhovna Rada – Central Government – President of Ukraine” went onto an open stage. First, the corruption scandals in the *Orange team* since September 2005 and the dismissal of Yuliya Tymoshenko and ministers from her party, demonstrated the absence of ideological instruments and institutional arrangements for the existence of a coalition. Since 1st January 2006, when constitutional reform

came into its own, having used its stronger power, Verkhovna Rada dissolved the government three times in one month.

2.2 Elections 2006

According to the Central Election Commission of Ukraine 67, 55% of registered voters participated in the elections of 2006. According to the official results, 45 political parties took part in the elections, but only 5 parties and electoral blocks passed the required 3% electoral threshold. *The Party of Regions* received 32.14%, *The Yuliya Tymoshenko Block* received 22.29%, *The Our Ukraine Block* (Viktor Yushchenko's block) received 13.95%, *The Socialistic Party of Ukraine* received 5.69%, and *The Communist Party of Ukraine* received 3.66%. Over 22% of voters supported minor candidates and therefore, they have not been presented in parliament, due to the electoral method used.

The elections in 2006 demonstrated a deep-rooted division of Ukraine on *Orange West* and *White-Blue East*. As expressed during the *Orange revolution* and the post-revolutionary period, social tensions and political conflicts affected the process of parliamentary coalition forming.

The protracted inability of the Verkhovna Rada to establish a coalition after the parliamentary elections was the cause of the parliamentary crisis of April – August 2006.

One would think that the *Orange coalition* (Yuliya Tymoshenko Block, Our Ukraine Block and Socialistic Party) is a logical continuation of the *Orange revolution*. President Viktor Yushchenko supported the establishment of a coalition in this composition, but constant conflicts, scandals, mutual recrimination and blackmailing, delayed the moment when the coalition agreement was signed.

They announced the establishment of the *Orange coalition* on 22nd June, 2006. The Party of Regions and the Communist Party of Ukraine intended to form a parliamentary opposition and their deputies blocked the building of the Verkhovna Rada. Simultaneously, regional councils in Eastern Ukraine, with a majority formed by the Party of Regions and left parties, passed a vote of distrust to the heads of regional administrations appointed by the President. Regional councils and municipalities made the decision to recognise the Russian language as a regional language in the territories of Eastern Ukraine and some of them declared their territories as “territories free from NATO”. What is more, in order to protest against the foreign policy of the President, residents of Crimea and organised “troops of civil resistance” blocked US forces, which arrived in the peninsula to take part in military exercises.

On 6th July 2006, as a result of a conflict over a nomination issue, the *Orange coalition* was dissolved. On 7th July, 2006 the Party of Regions, the Communist Party and Socialistic Party signed a new coalition agreement and announced the establishment of an *Anti-Crisis* coalition. The first decision of the *Anti-Crisis* coalition was the nomination of Viktor Yanukovich as Prime Minister.

In fact, the *Anti-Crisis* coalition, the Prime Minister and parliamentary majority were in opposition to the President and his party since public confidence had been decreasing dramatically. The *Universal of National Unity* (3rd August, 2006) was a result of compromise, which however caused a major public discussion of Ukraine's domestic and foreign policy. Ideological disagreements lay in the status of the Russian language in Ukraine, the possible membership of Ukraine in NATO and the participation of Ukraine in the Single Economic Zone with Russia, Kazakhstan and Belarus.

Finally, the *Universal* contains all of the above statements in Viktor Yanukovich's edition, such as (1) The Ukrainian language is the state language, but not necessarily the only one; (2) the question of Ukraine's membership in NATO can be answered only after a referendum; (3) Ukraine will be a member of the Single Economic Zone.

Before voting for Viktor Yanukovich, the Verkhovna Rada formed the Constitutional Court. It was one of President Yushchenko's clauses. He hoped that the Constitutional Court would abrogate constitutional reform. However, the parliamentary majority adopted a special law prohibiting the Constitutional Court to revise this reform.

2.3 The Constitutional Reform of 2004–2006

The constitutional reform of 2004–2006 is legally represented by the Law of Ukraine № 2222- IV "About the introduction of changes in the Constitution of Ukraine", effective from 8.12.2004. The draft of this law went through with the expertise of the Constitutional Court of Ukraine, in order to be adopted by Parliament.

The main statements of the constitutional reform are as follows:

1. Enlargement of the sphere of influence of the Verkhovna Rada and strengthening its power,
2. Restriction of the President's powers,
3. Implementation of the proportional electoral system at the level of constitutional and ordinary laws, strengthening the political parties, and their influence on the political process.

The constitutional reform was supposed to transform Ukraine into a parliamentary system. Before this constitutional reform, principles of the formation of the government did not allow a situation whereby government officials from amongst party members are accountable to their party for the performance of party directives. The President personally appointed public servants and, therefore, they reported to him. Likewise, the Prime Minister was appointed by the President, albeit with the approval of Parliament. Party factions in the Verkhovna Rada could support or refuse the nomination of the Prime Minister, but they were not responsible for the cabinet's policy.

With the constitutional reform, the parliamentary majority chooses the Prime Minister. The Prime Minister then nominates most cabinet members, who must be approved by Parliament. The President can only nominate the Defence and the Foreign Affairs Ministers, whom the Parliament must approve and can dismiss.

In general, the new constitutional scheme is comparatively simple. The President formulates and co-ordinates foreign policy, defence and internal security. The Cabinet of Ministers and Council of Security and Defence deal with other, mostly socio-economic issues, subordinating certain ministers to the President of Ukraine, whilst others to the Verkhovna Rada and the Prime-Minister of Ukraine led to a division of power between these actors.

Some experts say that strengthening the power of the regional and local councils and weakening the influence of the President in the regions stimulate centrifugal tendencies in Eastern Ukraine and urge regional elites towards federalism, allowing pro-Russian political parties to change the European and Euro-Atlantic vector of foreign policy pursued by the President.

The President, however, still retains significant authority. He is able to nominate and initiate the dismissal of the Prosecutor General, the Heads of the SBU (security service), the National Bank, and the Central Electoral Commission, although Parliament has to confirm these nominations. More importantly, the President maintains the sole right to appoint all regional governors, although regional councils have the right to refuse them. He is able to dissolve Parliament in certain cases, and holds the right to initiate legislation and dismiss the cabinet. But, in practice, ministers and regional governors depend on the Prime Minister substantially. Having been appointed by the President, regional governors are responsible to the Prime Minister.

With the constitutional reform, Ukraine departs from a system of strong presidency, typical in post-Soviet countries, to move closer to the European (parliamentary) model. In the long run, it could indeed be more suitable for a regionally and linguistically diverse Ukrainian society, and might reduce internal East-West tensions.

With regard to public trust in the major political institutions and actors, in the year following the *Orange revolution*, the level of public confidence in the *Orange team* did not exceed 10% (in 2007, the general positive attitude to Viktor Yushchenko was about 16% and negative attitude was 53%). After great public enthusiasm and hopes for democratic reforms, which were demonstrated during the revolution, the disappointment of society was immense. The majority of residents consider that reforms were conducted in the wrong way.

None of the top representatives of the political elite is supported by the majority of citizens. The most popular is Viktor Yanukovich. Experts explain a stable level of confidence in him and his Cabinet of Ministers because the government conducts its policy in conformity with voters' expectations. On the contrary, public confidence in Viktor Yushchenko has been diminishing.

3. The political elite of Ukraine and public management reforms

The present political elite of Ukraine consist of several segments. The first segment covers the former representatives of the Soviet nomenklatura; their proportion is estimated at about 73 %. The second segment includes the “new economic elite”.

These two elite groups effectively collaborate, in order to achieve their common goal, the essence of which is to protect their personal interests and to convert power into property.

Another special feature of the political regime of Ukraine is the influence of regional elites on the main political processes. Among groups of regional elite, *Donetsk economic and political group* is the most consolidated and powerful.

In comparison with other territories, the Donetsk region moved much further toward new regionalism, including the existence of a powerful regional elite, regional movements and networking, regional self-determination, internal socio-economic integrity, and new forms of local partnership development. In principle, this movement to regionalism is conceptually discordant with the general strategy of President Viktor Yushchenko, who upholds the compulsory rigid unitarism with the single Ukrainian national idea.

Two additional, special features of this type of “new regionalism” should be emphasised. First, there is a prevalence of informal networks, methods and agreements among entrepreneurs, local governments, deputies, community representatives and other stakeholders. Second, it is normal to use shadow economy resources for social programme financing. It is a widespread practice in the Donetsk oblast’ to share the profits from shadow activities amongst the different social groups. In this way, they reconcile the oblast residents to the shadow economy’s existence and, as opinion polls show, support their point of view and excuse corruption.

In the final analysis, it seems obvious that Ukraine is moving towards federalism and that the regional elite have become a decisive factor in the political regime.

During the period 1997–2005, the main groups of the political elite of Ukraine clearly demonstrated their interest in public management reforms.

The first group consisted of the President of Ukraine, Leonid Kuchma, and his personal team. Having possessed strong powers, the President of Ukraine and the Administration of the President seized the initiative to reform public administration.

The main motive of Leonid Kuchma to raise all waives of administrative reform (1997, 1999 and 2003) was maximisation of his power and influence. Due to numerous scandals, his popularity drastically decreased in 2000. At this time, regional bureaucracies and regional economic elites became the main peers of his regime. The strategy of “managed competition among groups of regional elite”, realised by Leonid Kuchma between 2000 and 2004, allowed him to stimulate the elite’s loyalty in exchange for a broad spectrum of privileges.

In general, although President Leonid Kuchma demonstrated the political will to enhance the effectiveness of public sector functioning, the series of political crises and scandals forced him to change priorities and to consider public management reforms as second-rate goal.

Having designed his own presidential campaign, Viktor Yushchenko focused his programme on the radical democratic reforms, including administrative-territorial reform, local governance and judicial reforms. It should be noted that as the leader of parliamentary opposition, Viktor Yushchenko and his faction “Our Ukraine” initiated broad public discussions about the questions of administrative reform and influenced the policy of the central government.

Regarding party platforms on public management, most parties declare the necessity of public management reforms in Ukraine, emphasise the values of transparency, fighting corruption, and closing the gap between the state apparatus and the needs of ordinary citizens. However, no political party has elaborated a detailed strategic plan to conduct public management reform.

The Political Analysis Centre and Bogdan Gal have analysed the programmes of political parties and political leaders having participated in the electoral campaign of 2006. In accordance with this analysis, there are three pillars (three main themes) of the programmes: judicial reform, administrative reform and local governance reform. Major parties proposed to implement reforms in the following way:

The Party of Regions: in general, local self-governance development; changes in the territorial system of Ukraine towards federalism, decentralisation of government, introduction of elected governors of the regions and optimisation of the management systems of the central/local bodies.

The Block of President Yushchenko “Our Ukraine”: in general, development of local self-governance; transparent policymaking; annual reports of public servants about their revenues and expenditures.

The Yuliya Tymoshenko Block: in general, local self-governance development; separation of power and business; radical measures against corruption and direct elections of heads of local administrations.

Many experts believe that under the present conditions of severe political counteraction and economic crisis, the preconditions for public management reforms in Ukraine are largely missing.

The fact that political parties stay on a generic and rhetorical level of “Public Management Reform” may also be explained by the weak influence of political parties on the formulation and implementation of the state policy.

4. Contents of the reform package and implementation process

With regard to Ukrainian public management reforms, our central claim is that these reforms have not yet been implemented in Ukraine.

Since 1997, various attempts to conduct *administrative reform* have been taking place.

Initially, the goal⁸ was to have a basis to reform the system of state governance, to create a more effective apparatus of state governance and to lay down the fundamentals for reforming the public service and the administrative-territorial system of Ukraine.

From the very beginning **the concept of modernisation of a post-totalitarian society** with domination of liberal – market ideology was the main item on the reform agenda.

The first period of reform lasted from 1991 through 1997 and was characterised by the chaotic reform of both the socio-economic sphere and the state machinery. It was obvious that the system of state administration in Ukraine remained inefficient; it did not meet the challenges of the time and it was unable to solve the problems facing the country. The core of reforms during this period reduced the apparatus of public service and public expenditures. But, on the contrary, as compared to 1991, the number of employees at the central executive bodies rose by 67.8 thousand, and in 1997 it reached 160 thousand.⁹

The second period began in July 1997, when President Leonid Kuchma announced the need for administrative reform. The ensuing Concept of Administrative Reform emphasised that “in Ukraine an inefficient public management system existed; Ukraine inherited, and has continued to abide by, all principles, methods and procedures of planning and programming from the former Soviet administrative-planned system. The public management system of Ukraine is inwardly contradicted, cumbersome, and excessively byzantine. This system is still not capable of dealing with the challenges of a new political reality. As a result of this, the current public management system hampers socio-economic and political reforms”¹⁰.

The new “ideology” to be introduced was based on three principles: (1) increasing the efficiency of authorities’ actions in order to keep up with the tasks faced by the state; (2) ensuring the transparency of the state’s decision-making, and personal responsibility for their fulfilment; (3) closing the gap between the state apparatus and the needs of ordinary citizens.

First, the administrative reform concerned the reorganisation of the bodies of the executive branch. The subordination system and the status of separate central bodies of the executive branch were changed, and a number of state departments were liquidated. The status of separate ministries (e.g. the Ministry of Family and Youth, the Ministry of Information) was lowered to the level of a state committee; a number of departments and state commissions were also renamed. This compli-

8 The Decree of the President of Ukraine No.810 of July 22, 1998 “On Measure for Implementing the Concept of Administrative Reform in Ukraine”.

9 Statistics of Public Service in Ukraine. Official web-site of Main Department of Public Service in Ukraine. www.guds.gov.ua.

10 The Concept of Administrative Reform, 1998.

cated the scheme of interaction of the central bodies of the executive branch and led to duplication in their work¹¹.

Contrary to the initial reform concept, administrative reform was focused at the central level only, and was not transferred to the lower levels. The consequence of this is evident today: the unbalanced regional policy of the executive branch makes it impossible to remove the significant disproportion in regional development, and provokes conflicts between different regions.

During the entire post-soviet period, each Ukrainian government declared the necessity to create the effective state machinery in order to plan and implement the public policy. But it seems that ineffective public policy is generated by an infringement of the balance between corporate vs. national interests, by the disintegrative activity of government bodies, and a wide circulation of sub-legal factors in the regulation of economic and political activity.

It is illustrative that during the 1997–1999 period President Leonid Kuchma signed more than 100 directives and the Cabinet of Ministers elaborated about 300 programmes dedicated to putting in order the public administration system of Ukraine. Still, the share of budget expenditures on maintaining central executive bodies in 1997–1999 more than doubled: from 1.5 % to 3.1 % of the total amount of state budget expenditures¹². Unfortunately, although the size of the state apparatus increased, the socio-economic situation in Ukraine took a turn for the worst.

4.1 The implementation process (1997–1999)

The constant conflict between the legislative and executive branches of power in this period put obstacles before the process of implementation of administrative reform.

For instance, the President of Ukraine repeatedly applied his veto right to the Law “On Local State Administration” prior to the Law finally being approved (the Law “wandered” between the Administration of the President of Ukraine and the Verkhovna Rada for two years). Drafts of the Law “On the Cabinet of Ministers” were prepared separately by parliament and the President. The President of Ukraine applied his veto right to this Law six times¹³.

Reform efforts in this period targeted the structural reform of public authorities, personnel development, communications between the government and the public, and the improvement of the decision-making quality and efficiency of their implementation.

11 The Decree of the President of Ukraine No. 250 of March 13, 1999 “On Changes in the System of the Central Bodies of the Executive Branch in Ukraine.

12 The analysis of expenditures on maintenance of state administration bodies in Ukraine in 1994–1999. Issue No.4 – Kyiv. Counting Chamber of Ukraine, 2000, pp.12–17.

13 Reasons that Condition the Need for Administrative Reform in Ukraine. National Security and Defense. 1999. UCEPS.

However, these reforms were not completed. The Verkhovna Rada was not able to create the legal basis for the functioning of the executive branch; moreover the presidential campaign of 1999 changed political priorities (that is, because of the shaky position of Leonid Kuchma, he did not want to take unpopular steps before the elections). **The third period of reform** began in December 1999, after the presidential elections.

The administrative reform was the main theme of Leonid Kuchma's presidential campaign of 1999. Leonid Kuchma won the elections and the Administration of the President redoubled their efforts towards administrative reform. Firstly, three Presidential Decrees were adopted:

1. Decree of the President of Ukraine No.1572 of December 15, 1999 "On the System of the Bodies of the Executive Branch",
2. Decree of the President of Ukraine No. 1573 "On Changes in the Structure of the Central Bodies of the Executive Branch",
3. Decree of the President of Ukraine No. 1574 "On the Compositions of the Cabinet of Ministers of Ukraine".

During this period, the main direction of the reforms was the Cabinet of Ministers, the power of which was to be strengthened. The structure of government and its functions were clearly defined. The Decrees foresaw the establishment of the Governmental Committees as working groups within the Cabinet of Ministers in order to improve the efficiency of decision-making and coordination between the different executive bodies.

4.2 Main results of the 1999–2004 reforms

The main results of this period can be summarised as follows:

- 1) Functioning of the institute of state secretaries in the Cabinet of Ukraine and in all ministries during the period 2001–2003.
- 2) The establishment of the divisions of strategic planning and internal policy at the Secretariat of the Cabinet of Ukraine, and at the ministries and local administrations.
- 3) Development of the contacts between the system of public administration and the public (Division on issues of public relations at the Secretariat of the Cabinet of Ukraine). Similar divisions were created in local administration bodies.
- 4) Development of personnel supporting the administrative reform and of a network of higher educational institutions engaged in vocational training of experts in the field of public administration and local self-government. The courses on strategic management, programmes and projects evaluation, policy analysis, human resource management and societal development were included in the training programs.

In addition, new approaches to public expenditures planning were implemented and, finally, during the last year of his term of office, Leonid Kuchma approved strategic documents in the public service sphere. The most important is: The Concept of Adaptation of Public Service Institution to the Standards of the EU (№278/2004).

In general however, administrative reform does not seem to have been implemented successfully. Some key problems and contradictions are as follows:

- Unclear division of power between the President of Ukraine and Verkhovna Rada;
- Inefficient procedures of decision-making within the Cabinet of Ministers;
- Irrational structure of the Central government and its inefficient inner organisation;
- Unstable status of public service as an institution.

These issues are briefly reviewed below.

4.3 The “Orange” period (2005–2006)

Between February 2005 and July 2006, the programme launched after the appointment of the Cabinet of Ministers of Yuliya Tymoshenko and entitled “Towards the People” indicates a new period of administrative reform. New posts, such as Deputy Prime Minister in Charge of Administrative-Territorial Reform and Deputy Prime Minister for European Integration, were created. Several analytical departments, such as the Division of Administrative Reform within the Secretariat of the Cabinet of Ministers and Office of the Deputy Prime Minister were directed to render analytical and technical assistance.

Initially, the government planned to prepare a number of regulatory and legal acts in order to carry into effect “Ukraine – EU” Action Plan (2005). They are as follows: the laws “On Ministries and Other Central Executive Authorities”, “On the Civil Service” and “On the Administrative-Territorial System”.

This generally enthusiastic approach met serious impediments, although the time chosen for conducting reform was altogether auspicious: the Ukrainian economy demonstrated 12.4% growth; the level of confidence to government was exceptionally high.

Still, the main obstacles of administrative reform were the lack of proficiency and methodological and practical skills. Administrative reform began without any strategy or implementation plan; the prepared documents were extremely complicated to use; according to official information, about 40,000 experienced public servants were dismissed at the managerial level in public administration. Finally, as it turned out, it was not possible to find qualified personnel to make up for the lack of dismissed specialists.

The most illustrative example of failure is the territorial and administrative reform (the draft law “On the Territorial System of Ukraine”, 2005). As was in-

tended, the first stage of reform (two to four years in length) would have created and expanded self-sufficient communities and four or five centres at the rayon level to provide administrative and social services to the inhabitants of the settlements. The second stage of reform would have introduced changes at the rayon level, and the third, at the highest (oblast) level. Special working groups were established in four oblasts (Vinnytsya, Odessa, Ivano-Frankivsk and Lugansk) to test the provisions of the draft law.

The draft law was strongly criticised during the first, and further, discussions and expert meetings for its unclear criteria for defining territorial communities and the disregard of people's needs for public goods and services. Moreover, changing the share of local budgets in consolidated budget expenditures was not preceded by a clear delineation of functional powers between public authorities and local governments¹⁴.

4.4 The “Post-Orange” period

The parliamentary elections of 2006 resulted in the appointment of the Cabinet of Ministers and Prime-Minister V. Yanukovich, whose reforms sharply opposed the course of the President V. Yushchenko, driving them to take any possibility to infringe upon one another's interests and power. This exhausting and often irrational confrontation involved all public and governmental organisations subordinated to the hostile parties.

Let us take an example of conflict around the Law of Ukraine “On cabinet of Ministers of Ukraine”, the adaptation of which, in fact, provoked the President's decision to dissolve parliament.

This Law further strengthened the power of the parliamentary coalition vis-à-vis the President with regard to the appointment/dismissal of ministers and, in particular, the Minister of Defence and the Minister of Foreign Affairs and their vice-ministers. The draft law also disaffirmed the norm to submit the candidatures of local governors with the President and deprived the President of the right to dismiss the heads of regional state administrations. Thus, President Viktor Yushchenko considered this Law as anti-constitutional and illegitimate and appealed to the Constitutional Court.

5. Discussion as conclusion: The hidden reason for the reforms' failure

Both a qualitative and quantitative investigation of public management reform in Ukraine demonstrates its narrow-mindedness. Top officials and middle-level public servants believe that almost no positive results have yet been reached. The traditional reasons for this include the absence of real political will to conduct reform, low motivation, lack of professional knowledge and skills of the personnel as well as the absence of resources necessary for the reforms.

14 State and Citizen: Improving the State, pp.17–26.

However, we argue that the main reason for failure lies in the political-administrative regime's ability to survive, and in the conceptual failure of the *modernisation* approach to reform.

After Ukraine obtained its unexpected independence in 1991 and due to outside forces, the need for public management reform became clear for the political and administrative elite. Since 1995–1996, the questionable conception of *modernisation* of the post-totalitarian society and the destruction of all methods associated with a planned-command economy, have been dominant. During the entire post-soviet period, each Ukrainian government declared the necessity to create an effective mechanism of public policy. But either the transparent parameters of efficiency or the basic value system, on which the state functioning is to be based, have not yet been questioned.

In accordance with *Peter Drucker (2001)*, the system of national values, which is an important driving force of reform, often falls out of public policy attention. As a result, the national value system declared in the Constitution of Ukraine is totally replaced by using national resources to promote individual wealth.

Another factor is related to the fact that the political-administrational and economic processes in Ukraine are subordinated to the rules of the *administrative market*. As a system of shadow redistribution of power, the administrative market was the basis for economic life during Soviet times and it was consolidated due to the special form of territorial-administrative structure of the country (*Kordonsky, 2000*). A specific feature of the administrative market is the principle of fusion of the political, economic and administrative activity within the state. It is interesting to observe that lines of division of the territory of the former Soviet Union in 1991 coincided exactly with the borders of spheres, where the leaders of the Soviet administrative market applied their power. The emerging administrative markets in newly independent states continue to live in accordance with their traditional rules.

The efforts to Europeanise Ukraine e.g. through joining WTO and the EU have been focused on the development of the public administration *processes*, not taking into account the special administrative circumstances and the crucial role of the human factor (*Christensen, Rainer, 2003*).

The Ukrainian *administrative market* has been functioning and transforming itself under the influence of changes in the business environment. It seems that it has not been replaced by a socially oriented market economy of Western type, even under the pressure of globalisation trends. As a result, there is a systematic domination of private-corporate interests of territorial-financial or financial-industrial groups over the national interests of Ukraine. There is a disintegration of public authorities' activity and a wide proliferation of sub-legal factors of economic and political activity.

However, these aspects, as a rule, are not critically discussed at the state level and they are not taken into account in governmental policies. The main task of

the government is to maintain the dynamic balance among all elements of the existing framework. In accordance with the ENP reports, corruption is the biggest challenge to the democratic development and economic growth of Ukraine (*ENP Action Plan Progress Report: Ukraine, 2005, 2006*).

But, corruption itself is one of the tools helping the administrative market to function and it cannot be reduced significantly without the destruction of the illegal system of the administrative market. A new system of public management should be built on the principle of separating business and public administration, of the real independence of the judiciary from business interests and from political parties and executive authorities. The communicative and normative functions of corruption inside the administrative market provide relative safety for existing illegal players, and also guarantee an internal integration through the interdependence of all players and the instability of their positions (which is a condition for the proper functioning of the existing market). In such a framework a fair operation of the judicial system and a radical change of the political-administrative regime are possible, only with the presence of political will and consistent efforts, as well as clear, comprehensive and acceptable moral values. Transition from a modernisation paradigm to the paradigm of an effective state is urgently required.

Country public management reforms landscape: Ukraine

Dates	General	Organisation	Personnel	Finance
1990	<ul style="list-style-type: none"> • Legalisation of multi-political party system. 			
1991	<ul style="list-style-type: none"> • Declaration of Independence of Ukraine. • Election of Leonod Kravchuk as the 1st President of Ukraine. 			
1994	<ul style="list-style-type: none"> • Election of Leonod Kuchma as the 2nd President of Ukraine. 			
1996	<ul style="list-style-type: none"> • Adoption of the Constitution of Ukraine as a Presidential-Parliamentary Republic (June 28). 			
1997	<ul style="list-style-type: none"> • Adoption of law "On municipal self-government". 	<ul style="list-style-type: none"> • Establishment of the Central Division of Public Service. 	<ul style="list-style-type: none"> • State Bill on Public Service; 	<ul style="list-style-type: none"> • Establishment of the State Treasury.
1998	<ul style="list-style-type: none"> • President's Decree on Concept of Administrative Reform (July 22) with → 	<ul style="list-style-type: none"> • Orientation on transparency of procedures, and rules of official decision-making and their realisation. • Priority of effective provision of public services 	<ul style="list-style-type: none"> • responsiveness of public servants for implementation of public policy. 	<ul style="list-style-type: none"> • Intent to create an effective system of municipal finance and improvement of state services' provision.
1998		<ul style="list-style-type: none"> • Establishment of Committee on Administrative Reform under the auspices of L. Kravchuk, 1st President of Ukraine. 		

Dates	General	Organisation	Personnel	Finance
<p>1999</p>	<ul style="list-style-type: none"> • Election of L. Kuchma for a 2nd term of Presidency in Ukraine • Confirmation of Administration Reform goals by newly elected President of Ukraine. • Development of Strategy of Administrative Reform in Central Government. • Consolidation of Ministries into 16 and 35 Government Departments. • Functional examination of majority of Ministries and Government Departments. • Adoption of law "On Municipal State Administrations". 	<ul style="list-style-type: none"> • Transformation of the Cabinet of Ministers into a body making public decisions. • Cabinet's apparatus was transformed into Secretariat of the Cabinet of Ministers which began to take a functional approach instead of a traditional model of branch management. • Establishment of Committees at the Cabinet to support a process of decision-making. • New regulations/rules for Cabinet Meetings making them more transparent with Ministers' personal participation. 	<ul style="list-style-type: none"> • Political responsiveness of Ministers on their bodies activity. 	
<p>2000</p>		<ul style="list-style-type: none"> • Development of • Government activity programme based on clear formulated aims and criteria under Victor Yushenko as Prime-Minister. • Establishment of Department on Administrative Reform in the Cabinet of Ministers. 		
<p>2001</p>	<ul style="list-style-type: none"> • Start of civic movement "Ukraine without Kuchma". 	<ul style="list-style-type: none"> • Establishment of State-Secretary Position in government bodies (President's Decree, 2001, May 29). 		<ul style="list-style-type: none"> • Adoption of the Budget Code determining all stages of the budget process. • Establishment of 682 budgets of municipal bodies to be paid directly to municipalities by the State Treasury (with the exception of Oblast and Rayon Administrations) to provide financial independence of self government.

Dates	General	Organisation	Personnel	Finance
2002	<ul style="list-style-type: none"> Laws of Ukraine "On Information", "On Citizens' Appeals", Decree of the President of Ukraine "On Additional Actions concerning the Support of Openness in State Authority Bodies". 		<ul style="list-style-type: none"> Training of the Ministry of Economy Staff in policy analysis. 	
2003	<ul style="list-style-type: none"> Establishment of the divisions/ departments of Strategic Planning and Internal Policy at the Secretariat of the Cabinet of Ministers, at Ministries and Local State Administrations. 	<ul style="list-style-type: none"> Decree of the President of Ukraine on the cancellation of the State-Secretary position in government bodies (May 26). 		<ul style="list-style-type: none"> Adoption of the state law "On the Tasks of the State Regulatory Policy on the Sphere of Economical Activity (September 11).
2004	<ul style="list-style-type: none"> Decree of the President of Ukraine "On Providing Conditions for Wider Public Participation in Policymaking and its Implementation" (July 31). Regulation of the Cabinet of Ukraine "Some Issues concerning ensuring Public Participation in a Process of Public Policymaking and Implementation (October 15). Orange Revolution (Nov.-Dec.) Adoption of the State Law on Amendments to the Constitution of Ukraine transforming Ukraine into a Parliamentary-Presidential Republic (December). Election of Victor Yushenko as the President of Ukraine. 	<ul style="list-style-type: none"> Affirmation of Procedure of Consultations with the Public on the Formation and Implementation of a State Policy, Capacities of the Public Council under the Cabinet of Ministers and Model Status of Public Councils in the central, and local authority bodies. 	<ul style="list-style-type: none"> Start of public discussion concerning a draft of the Code of worthy behaviour of civil servants (Code of Ethics of Public Servants). Decree of the President of Ukraine "On the concept of adaptation of public service institution in Ukraine to EU standards" (#278, March 5). Regulation of the Cabinet of Ukraine "On confirmation of Programme on development of the public service during 2005-2010" (#746, Jun 8). 	
2005	<ul style="list-style-type: none"> Wide public discussion of the draft of Administrative-Territorial Reform which led to the cancellation, Dissolution of "Orange Entity" (Sept.). 	<ul style="list-style-type: none"> Establishment of Main Department on Relations between the Government and the Public at the Secretariat of the Cabinet of Ministers. 		<ul style="list-style-type: none"> Adoption of State Law "About the Stimulation of Development of the Regions" (#2850-IV, Oct 1).

Dates	General	Organisation	Personnel	Finance
<p>2006</p>	<ul style="list-style-type: none"> • Start of the implementation of the Amendments to the Constitution of Ukraine restricting the power of the President of Ukraine and significantly increasing the political power of the Prime Minister of Ukraine (since January-March). • Failure to create in Parliament an Orange coalition, establishment of a Parliament coalition including the Party of Regions, Socialist and Communist Parties, failure to create a "Wide" Parliamentary Coalition. • Signature of the National Unity Pact by the President of Ukraine, Anatoliy Kinakh, former Prime Minister, and the leaders of 4 out of 5 parties and blocks presented in Parliament (Block of Yulia Tymoshenko rejected signing) (Aug. 2006). • Parliament finally accepted oath of 14 Judges of the Constitutional Court that allowed restoring the operations of the Court after more than a year's pause. • The new government (Prime Minister Yanukovitch, since Aug.) concentrated on the fight with political opponents and the creation of a strong vertical power system. • Establishment of Parliamentary Opposition (Sept.-Oct.). 	<ul style="list-style-type: none"> • Attempt of the Prime Minister to eliminate the Presidential branch of state power at the Oblast level as the positions of Heads of Oblast state administration redirecting their prime responsiveness directly to the Prime Minister instead of the President of Ukraine. The tense relations between the President and the Prime Minister were partly caused by the procedural gaps in the system of relations between two centres of power established by the Constitution of Ukraine. 	<ul style="list-style-type: none"> • Decree of the Cabinet of Ministers on installation/ launch of quality management system at Public Service (May). 	<ul style="list-style-type: none"> • Five thousand regulatory acts were cancelled (Oct.). - 21 pieces of legislation were enacted, laying the foundations for accession to the WTO (at the end of 2006). • The political crisis meant a delay to key policy initiatives ranging from judicial reform, the adoption of a new tax code and a new company law to key reforms in the public sector finance and administration. • The draft Privatisation Programme for 2007-2009 was submitted to Parliament by the State Property Fund. (Nov. 2006). • Parliament extended moratorium of farmland sales until January 1, 2008 (Dec. 2006). This extension had negative economic consequences since it reduced investments, lowered incomes for rural households and local budgets.

Dates	General	Organisation	Personnel	Finance
<p>2007</p>	<ul style="list-style-type: none"> • The Parliamentary Commission to develop possible amendments to the Constitution was established because of continued conflict on the state power distribution. • The political crisis (Apr.-May) as a result of the government's lack of strategic vision, strategies and programmes for reforms in different sectors of economic and social life as well as "manual" management. • Crisis connected with corruption issue in Constitutional Court itself which ended in the dismissal of two members of the Court appointed by the President. • The President signed the decree on the Dissolution of Parliament (Apr. 2) • Approximately 160 people's deputies of Ukraine resigned. Listings of Our Ukraine Party and Yulia Tymoshenko Block were zeroed, creating no possibility for restoring the corresponding deputy quotas. • The re-election of Parliament (Sept. 30, 2007). 	<ul style="list-style-type: none"> • The Law on the Cabinet of Ministers became the focal point of the political agenda (Jan.). • EU launched the first two Twinning projects to be implemented by the State Administration of Ukraine for Aviation Safety (SAA) with its French and Polish Partners, while the second, was with the National Electricity Regulatory Commission of Ukraine (NERC) together with Italian Partners. The projects are aimed at improving the quality of their work through the harmonisation of their standards and regulations with respective EU legislation, achieving organisational changes and upgrading professional knowledge and skills. 		<ul style="list-style-type: none"> • Parliament passed a Law which allowed the privatisation of several large companies. <ul style="list-style-type: none"> - a telecommunication company Ukrtelecom, a chemical factory, Odessa Portside Plant, and Electrical Equipment (Jan. 2007). • Government approved the Concept of a Tax System Reform for 2007-2015. The Concept foresaw the simplification of tax administration and tax rates' reduction as well as envisaging the adjustment of Ukrainian tax legislation to EU standards. (Feb. 2007). • Parliament approved the Law on the State Land Cadastre which should regulate and optimise all operations with land in Ukraine (March 2007). • Parliament approved the Law on the State Property Fund of Ukraine (SPFU) that defines its major functions as an executive body, its status and structure. (Apr. 2007). • The Concept of Local Budget Reform was approved, which declared the main principles of inter-budgetary relations' reform. (May 2007).

Chapter 13

Public Management Reforms in CEE: Lessons Learned

Juraj Nemec

The country studies presented in the main body of this book provide comprehensive information about public administration and public management reforms in selected states of Central and Eastern Europe. In this chapter, we try to summarise the main findings and formulate some conclusions from the point of view of the main idea of this book, presented in the introductory chapter.

1. What happened? – Reform contents and timing

The contents of our country case studies clearly indicate that there is no common “model” of public management reform in Central and Eastern Europe. The respective patterns already differ from the point of view of the beginning and content of reforms, depending on local political, social and other environments.

Some similarities may be found in the two main phases of public administration – management reforms in Central Europe (including the Baltic States):

- The democratisation phase, building of new public administration systems in early 1990.
- The EU pre-accession phase at the end of the nineties and the beginning of the 21st century (Romania was slightly later).

The first phase of reforming public administration systems in the countries mentioned was similar to and connected mainly with the abolition of old “socialist” structures. The most visible common action was the establishment/re-establishment of self-governing municipalities with a high level of independence. The base for the process was created by a set of new laws on local self-government, respecting the basic criteria for this level of government, as defined by the European Charter of Local Self-Government.

The process of establishing local self-governments in Central Europe is interconnected with some current problems of public management reforms due to the too large fragmentation in some countries, which undermines the opportunity for positive reform results. As we can see from Table 1, many CEE countries have thousands of communities with municipal status and with a population below 1,000 (a substantial proportion of these have fewer than 200 inhabitants). This means, that “Reform programmes are challenged by the inability of such communities to provide administrative and financial capacity, and the scale economics and catchment areas necessary for essential services” (Davey, 2002, p. 35).

After the crucial processes of democratisation, the paths of Central European administrative reforms began to come closer again in the late nineties as a result of joining the EU accession process. Despite the fact that the public administration

system was not an explicit part of the *Acquis Communautaire*, several targets were set by the EU regarding administrative/management reforms in the public sector. Typical common tasks were: establishing the Civil Service; further decentralisation, especially creating regional self-governments; introducing e-government services and improving the system of financial controls to be able to utilise EU funds.

Table 1
Average size of municipalities in selected CEE countries

Country	% of municipalities below 1000 inhabitants	Average population of municipality	Average area of municipality (sqm)
Bulgaria	0	35 000	432
Poland	0	16 000	130
Hungary	54	3 300	32
Slovakia	68	1 900	17
Czech Republic	80	1 700	13

Source: Davey, 2002, p. 36

The “pre-accession” wave of reforms has many similarities, but also many differences from the point of view of timing and tasks. The Civil Service system was established, for example, in Estonia in 1996, but in Slovakia this came in 2001. Comprehensive reform packages were introduced in more countries more or less at the same time.

The Estonian Government introduced a “Concept for Public Administration Development”, adopted in 1999. The Concept states that public administration reform is aimed at creating an efficient, citizen-oriented civil service. The Czech Republic document “Concept of public administration reform” from 1999, included a complex reform package divided into two parts – (1) reform of regional public administration and (2) modernisation of the central state administration. After the general elections of 1998, the new Slovak (EU accession-oriented) government established the position of Government Appointee for Public Administration Reform and the main reform document, focusing especially on decentralisation the “Strategy of decentralisation and public service reform” which was published in 1999. The new separate regional development framework was introduced in 2000 in Lithuania, consisting of the National Regional Development Council (an advisory body) and 10 regional development councils (legal authorities). Latvia adopted as its main reform policy, the document “Public Administration Reform Strategy 2001–2006” and its implementation plan. Similar reform activities were happening at the same time in Hungary, Lithuania, Poland, and in Romania with 2–3 years’ delay (a later start of the accession process).

The period after EU accession by Central Europe and the Baltic states in 2004 is interesting. The most common “post-accession” reform areas are public finance,

respecting the need to fulfil convergence criteria (max. 3% budgetary deficit and maximum level of the total public debt below 60% of HDP). Slovakia is such an example, introducing a modern medium-term programme performance national budget system from 2005. On the other hand, Slovakia abolished the Civil Service Office in 2005. Not everywhere (Lithuania, or to some extent, Latvia, might be examples in all aspects (e-government services), many needed reforms slowed down or did not begin after accession – some authors (Agh, 2008) begin to speak about the phenomena of “post accession crisis”.

The situation in other CEE countries cannot be assigned to any uniform pattern. The contents and timing of reforms is individual and depends on the country specific internal and external environment.

The limited local stability in Kyrgyzstan meant that basic administrative reforms in the country were initiated only in 2001. For the first time, Public Management Reforms as a government priority were articulated in the Comprehensive Development Framework up to 2010 (2001) and then reflected in the National Poverty Reduction Strategy (NPRS) (2003). Apart from those two strategic documents, the Public Management Strategy was developed in 2003 that focused on the basic mechanisms needed for the creation of a system of public administration.

In Ukraine, some changes already began in the period 1991 – 1997, characterised by the chaotic reform of both the socio-economic sphere and the state machinery. In July 1997, the President of Ukraine, Leonid Kuchma, announced the need for administrative reform. Due to his Decree, the State Commission for Administrative Reform in Ukraine was established. The State Commission elaborated the Concept of Administrative Reform in order to create a scientific and methodological base for the reorganisation of the public sector in Ukraine. Several decrees and regulations were prepared, but the increasing political instability limited their success or even their chance to be implemented. The country case study suggests that the real public management reform has not yet been implemented in Ukraine.

In Kazakhstan, the main aims of the public sector reform agenda were set within a long-term vision for Kazakhstan, announced by the President in 1997, and called “Kazakhstan 2030”. Reform strategies comprised several main goals, such as increasing the effectiveness of the government, implementing modern information technology, eliminating bureaucracy in government bodies and restricting state interventions in the economy. Compared to other countries, thanks to their relative political stability and wealth, some planned targets were also achieved.

In Armenia, the reform efforts might be characterised by their long interruptions and sporadic nature. The first attempts at a legal framework for the civil service were articulated in 1994 - the concept of the Civil Service was re-developed by the Government in 1997 - but its implementation was again delayed in the light of the 1998 change in power. The final version of the Civil Service Law was enacted only in December, 2001. Under such conditions during the first reform stage (1999–2003), only basic systems for managing the core government apparatus were

established. The second reform stage (2003–2008) focuses on improving broader public services and still lacks complexity and comprehensiveness.

A simplified picture of what happened, and when, based on the cluster analysis method is provided in Table 2.

Table 2
Country clusters: reform contents and timing

Cluster	Main features	Countries
1	First PA/PM reforms began in the early nineties and at the beginning reforms were supported by many international donors to supplement limited local experience. From the mid-nineties the dominant goal was EU accession and the necessary administrative adjustments. After 2004 the speed of the reform more or less slowed down.	Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia
2	Similar to 1, but with a few years' delay.	Romania
3	A stable and strong presidential system allows for relatively successful changes, especially after 2000.	Kazakhstan
4	Too much local instability is still harming the needed reforms today	Armenia, Kyrgyzstan, Ukraine

2. Reforms' reasons and driving forces

Similar to the phasing and main contents, the purpose of the reforms and their driving forces are relatively similar in Central Europe, but in this case we also find some important similarities in Eastern European states.

The first reform phase in Central Europe, at the beginning of the nineties, represented a clear attempt for democratisation, including democratisation of public administration, fulfilling the need to establish standard administrative structures which function in developed countries. This phase was dominantly supported, and also supervised by SIGMA, OECD structured and financed by the PHARE programme. Other international donors were also very active during this period, such as the World Bank, the International Monetary Fund, and country specific "donors" – for example, Estonian public management reform practices have been influenced by relevant solutions in Germany (the legal framework, in particular), the UK and the Nordic countries (individual management tools). Such help was necessary because of the shortage of human and financial resources, the lack of experience and the urgency for solutions.

However, compared to Eastern Europe (see later), the major decisions about the design and operation of public administration systems in Central Europe have remained very much "home-grown", also thanks to the effective reform coordination activities of SIGMA, OECD. Whereas policy transfer was an important policy tool

in the 1990s, this has been gradually replaced by a more knowledgeable process of policy-learning in recent years.

The country reports indicate that almost all reforms realised during this period were elite, top-down driven decisions and activities. They have also been supported by citizens, welcoming democratisation changes and a fast departure from previous centralistic attitudes.

As already described above, the second phase of reforming public administration systems in Central Europe, is very closely linked to the EU accession process. The role of other international organisations diminished, and only a few, dominantly sectoral, or very specialised activities (e.g. the establishment of a cost centre system in the Slovak public administration supported by German funds) remained supported by bodies such as the World Bank, the International Monetary Fund and country specific partners.

The EU financially supported the reinforcement of institutional and administrative capacities under its *PHARE* programme and Transition Facility and later, by structural allocations. The impact of the EU accession process on Central European public administration/management reforms is obvious, important, but also limited. As the *Acquis Communautaire* did not include specific comprehensive chapters providing benchmarks for national reforms and EU evaluations focused mainly on partial elements of administrative systems (establishment of the Civil Service, financial control, etc.), internal motivation for administrative reform remained the dominant factor of the reform contents. Thus, accession to the EU may have speeded up certain developments, but it did not provide complex structurally innovative solutions.

Also, during this period, reforms remained elite, top-down driven decisions and activities. Their support from citizens began to decrease, simultaneously, with a significant decrease in the citizens' trust in public institutions. Data from Slovakia are a very good example of the first case – for example, almost 90% of people claimed that the health reform in 2004 was unsuccessful and badly prepared and managed. The trust of citizens in the government, parliament and political parties decreased to critical levels – recent Eurobarometer (<http://ec.europa.eu>) data provide a very clear picture (Table 3), at least for EU members.

After accession, the EU pressure for changes almost disappeared, and reforming public administration became a more “voluntary” and nationally motivated process. The reaction to such new conditions was relatively different between new EU member states. Some of them continued to try to realise more complex reform plans (Latvia, Lithuania) and others significantly slowed down, and instead of the required complex reforms, only a few small changes occurred (Slovakia, Czechia). One of the reasons for such a particularity might be the fact that EU structural fund allocations for 2007–2013 were made only for the purpose of improved administrative capacity and public administration efficiency, thus complex reform measures were difficult to finance from external resources.

Table 3

The trust of citizens in the government and parliament (% of citizen)

Country	Trust in Parliament	Trust in Government	Trust in political parties
Bulgaria	12	17	17
Czech Republic	16	21	16
Estonia	36	56	22
Hungary	15	13	17
Latvia	12	15	10
Lithuania	12	17	13
Poland	16	26	14
Romania	22	25	25
Slovakia	34	37	15
Slovenia	31	31	17
EU average	34	32	24

http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_part1_en.pdf

A simplified picture of the principal reform reasons and driving forces in Central Europe, based on the cluster analysis method, is provided in Table 4.

Table 4

Central Europe country clusters: reforms, reasons and driving forces

Cluster	Main features	Countries
1	First PA/PM reforms represented the need for democratisation, a switch from the old system and a demonstration of will to change. From the mid-nineties, the most important reason and driving force for reform was EU accession. After accession there were few initiatives.	Czech Republic, Lithuania, Poland, Slovakia
2	First PA/PM reforms represented the need for democratisation, a switch from the old system and a demonstration of the will to change. From the mid-nineties, the most important reason and driving force for reform was EU accession. After accession, reforms continue.	Latvia, Lithuania, Hungary
3	First PA/PM reforms represented the need for democratisation, a switch from the old system and a demonstration of the will to change. From the mid-nineties, the important reason and driving force for reform was EU accession, but many or most changes would happen without EU pressure. After accession, reforms continue, but in a limited scale.	Estonia
4	Reforms began mainly in relation to EU accession and are still connected to it.	Romania

2.1 Eastern Europe public administration/management reforms: The beneficiaries or victims of donors' activities?

Country case studies, describing the situation in Eastern Europe, suggest that the majority of reform changes in this region were driven by international donor agencies. Compared to Central Europe, where some country reports indicate that local reform capacities were created step by step and most funds were provided by the EU in a relatively coordinated form, in this region, little progress would be possible without external help. Many positive changes would not be possible without the use of international expertise and funds, as local capacities and financial resources were, and still are, very limited.

However, several evaluations of foreign help highlight several negative features. The Kyrgyzstan report indicates that frequently there are too many (at least 5) donor agencies sitting at the neck of an individual ministry. In such a situation, the application of "best global practice" is almost meaningless. Moreover, most projects are built upon the "client's needs" identified for the government by external "experts", rather than responding to the needs and demands of the present day.

Shakarashvili (2005, pp. 13–14) adds to this: "Especially at the early phases of the post-Soviet reforms, these countries were strongly attracted by the idea of "westernisation" and were open to close collaboration with international (predominantly Western funded and Western influenced) organisations. Often, this collaboration resembled a teacher-pupil type of relationship, when governments would not object to following the recommendations of external partners without questioning their validity or appropriateness for the local context, whilst the Western agencies were not shy to reveal the "consultant knows it all" attitude. The policy design recommendations were often based on the specific experience and knowledge of international experts in their own countries."

The Hungarian report also stresses problems connected with a lack of coordination and lack of understanding of local specifics:

- a) the uncoordinated/inconsistent nature of technical assistance which, coupled with donors' strong incentives to show a strong presence in the recipient countries, resulted in a "consultant crowding out" (Ahonen, 2002);
- b) the frequent irrelevance of Western "international/European best practice" accompanied by an inadequate familiarity with the locality and an approach "oriented more to advocacy than to consultancy" (Buss-Vaughan, 1995, de Vries-Sobis, 2005, p. 136);
- c) strikingly high operating and overhead costs paid for consultancies of the donor country, seriously decreasing programme efficiency and creating an image of donors "paying back money for themselves" (Hirschmann, 2003, Prigozhin, 2002).

These problems are real and harmful. However, what would have happened without foreign help? Would countries have managed to reform their governance

systems better without external pressures and help – or almost nothing would happen? Foreign help is still necessary in Eastern Europe, however, if such a chance exists, more effective, more customised and coordinated approaches may deliver more, with less resources and pain.

3. Reforms' types

Our book expected to deal with public management reforms, but it is apparent from all our country studies that it is still difficult to use the term 'public management reform in CEE conditions'. At the beginning of transformation in Central Europe and in the Baltic States, after 1989, reforms focused on the re-establishment of basic democratic administrative values and structures. Most reform attempts in Eastern Europe, starting (really starting) much later, still focus today on the same issues and cannot simply be called public management reforms.

The pre-accession period was also very much connected with capacity building, where the still necessary basic administrative changes were mixed with several public management elements. The analysis of Hungarian reform packages clearly indicates this situation, distinguishing between "classic" public management reform measures and "CEE specific measures", such as fine-tuning or legal-structural retrenchment of existing institutions, improving the bureaucratic workflow and control in administrative organisations, or measures to achieve EU conformity of certain institutions or policies. When comparing the relative proportion of these two classes, one may conclude that the share of public management-type measures within the overall set of reform measures, was very low at the beginning, but has been constantly significantly rising.

The Hungarian report also identifies one important and almost common feature of reforming administrative systems, at least in Central Europe: tradition of the "*Rechtsstaat*" culture characterised, in general, by the dominant role of law and legalism in the way the government thinks and acts. This culture significantly influenced the contents of many reform measures, when governments tried to treat problems by legal norms and not best practices. Pavel (2007) showed this fact when evaluating the development of the public procurement law in the Czech Republic. Both the number of paragraphs and number of pages increased with every new amendment of this law, independent of the fact that a value for money audit of public procurement is much more important, compared to the probity aspects of the process. Legislators tried to improve the quality of procurement by extra legal measures, but without any real impact on efficiency, effectiveness and economy. The Czech report also provides the evidence for this issue: "One of the answers to the question 'What is the goal of the reorganisation?' was: 'The goal of the reorganisation is to reorganise'." Also, the Romanian report signalled "over-legalisation": both civil servants and citizens almost completely agree with the fact that the Romanian legal framework is too complicated.

The relationship between classic administrative changes and public management changes, changed according to time, was also very different between the selected

countries. To describe the situation we can use the Coombes and Verheijen (1997) and Pollitt and Bouckaert (2004) classification of reforms – these two classifications have the same base and can be simplified as follows:

1. Radical public management type of reform;
2. Mixed type of reform;
3. Incremental reforms.

If we exclude Eastern European countries, where reforms are still in their early phase and it would be very difficult and preliminary to try to label them, the situation in the remainder of the countries seems to be as follows (Table 5):

3.1 Radical NPM approach – to what extent is this type of reform relevant and helpful for CEE?

It is apparent that Estonia is the country from our sample, where NPM ideas have prevailed in various public administration reform concepts and strategies originating in the second half of the 1990s and a certain over-idealisation of the private sector (and free market) is still prevailing today. Massive privatisations have led to the selling off of strategic enterprises such as the railways (in 2001 until its re-nationalisation in 2007) or crucial services such as emergency medical aid without much public discourse or market-testing. There is no doubt that Estonia is the closest to NPM reforms of all the CEE countries. Because of this, Estonia also frequently serves as the benchmark for evaluation of the appropriateness and suitability of NPM principles and tools to the transitional countries.

The Estonian country report touched this issue in a relatively comprehensive way and indicated the main problems connected with over-estimating the role of NPM approaches when reforming administrative systems in transition countries. We quote this part of the text again, because of its importance:

“In Central and Eastern European (CEE) transition countries...public administration has had to face a special challenge because both the creation of a political democracy and the implementation of the principles of efficiency and effectiveness have become crucial tasks of modernisation at the same time” (Jenei and Szalai 2002: 368). Without having basic public management frameworks in place, there has already been pressure to reform the not-yet-existing management practices. “NPM is particularly bad if pushed upon transition and developing countries because if it can make any sense, then it is only in an environment of a well-functioning democratic administrative tradition” (Drechsler 2005: 101). As argued by Schick (1998: 124), “the greater the shortcomings in a country’s established management practices, the less suitable the [NPM] reforms”. Other authors point out the need to decrease the level of NPM activities in order to establish support and trust. “The extent to which the public organisation succeeds in restoring or enlarging societal and/or political support may result in a decrease of NPM-like

Table 5
Classification of reforms in Central Europe

Country	Reform type
Czech Republic	Dominantly incremental and legalistic reforms during the entire evaluated period. Few management reforms after 2000. The "Conception of public administration reform" from 1999, planned for complex changes, but only administrative measures were really implemented. New liberal government elected in 2006 tried to propose NPM changes, but had no real power to implement them.
Estonia	Estonian reforms seem to be the most radical and NPM based. One of the main challenges in Estonia has been posed by the desire to jump straight into having modern management systems without previously establishing a solid base – the classical hierarchically-structured public administration. The central aim in Estonian public administration has not been to build a solid ground for democracy, but to improve the efficiency of public institutions. Yet, as a consequence of the policies adopted by successive neo-liberal governments, the underlying theme behind government reform initiatives has been reducing the role of the state. Such an anti-state attitude has contributed to the development of ideas based on the minimal state.
Hungary	Hungarian reforms can be characterised as the mixed model, starting from a dominantly incremental and legalistic reform approach at the beginning of the nineties, slowly changing to a mixed type with a radical NPM switch in the post-2006 period. Current NPM changes focus on two central elements – downsizing (including a radical decrease in civil service employment – at the territorial and local levels this was well into the two-digit range, in some cases possibly even achieving 30 to 50 per cent) and radical reforms of the human resource management system.
Latvia	Latvian reforms can also be characterised as the mixed model from the beginning to the current reform activities. Several NPM types of reform changes were implemented, especially in the later phases of reforming the public administration system, but NPM never dominated reform strategies.
Lithuania	The country report suggests that Lithuania appears to reach a second category (mixed model) of states called "modernisers" according to the classification by Pollitt and Bouckaert (2000). In the pre-accession period, Lithuanian public management reform was characterised by ad hoc and sectoral efforts. From about 1996 to 2004 public management reforms became driven primarily by Lithuania's accession to the EU. More intensive competition over NPM type reforms began only in the post-accession period.
Poland	Poland is a typical representative of a prevailing legalistic approach to reforms and can be allocated to the third (incremental changes) group of reform countries. Poland is continuously reorganising its management systems in the public sector. New Public Management had a limited impact on the Polish administration, by providing ideas and demands for recognition of the need to modernise the Polish administration and at the same time, reduce its size.
Slovakia	Slovakia, from the point of view of the whole investigated period, represents a mixed ("modernisers") approach, but deeper analysis distinguishes three main phases. Prior to 2003, the reform was dominantly incremental and legalistic, with few NPM ideas realised. During the second election period of the liberal Prime Minister Dzurinda's government (2003–2006) radical NPM changes were realised, such as massive decentralisation and the introduction of performance financing schemes. The new Prime Minister Fico's coalition, in power from 2006, returned to the idea of a powerful state dominating in the system of delivery of public functions.
Romania	The information from the country report suggests that Romania lies somewhere between group two and three. Each government, after the 1989 revolution, has on its agenda, the reform of public administration. Though the concept of public management has not always intertwined with the reform of public administration, some new managerial ideas such as the use of contractualisation, strategic management and planning, performance measurement systems, reform networks, etc were included in reform packages.

or political pressure, or in an increase or at least a preservation of resources, tasks and autonomy.” (Verhoest et al 2007: 486). Peters (2001: 176) concludes that “once a so-called Weberian administrative system is institutionalised, then it may make sense to consider how best to move from that system towards a more ‘modern’ system of PA.”

Several analyses (e.g. Pollitt and Bouckaert, Lane and many others) clearly indicate that NPM strategies are not just a positive multi-dimensional tool and NPM, as the simple dominating ideology, is not the best approach for public sector reforms anywhere. Under these circumstances, it is not surprising that the attitudes of governments to the use of NPM differ across countries, reflecting its multi-dimensional character.

The use of NPM in transition countries, to be successful – to deliver positive outcomes and impacts – has to reflect specific “transitional” circumstances which may limit the possible positive impacts of NPM use to reform public sectors and exaggerate negative features. We will return to several specifics of transition countries in the following sub-chapter, but we can already indicate some important differences.

Especially at the beginning of transformation, also potentially competitive markets in transition countries are, in many cases, still under-developed, but characterised by monopolistic or oligopolistic structures and behaviour. Given this, it is rather optimistic to expect that competition may help to improve the performance of the public sector. For example, failures of health reforms in Slovakia and the Czech Republic are very much connected with the too early establishment of pluralistic health insurance systems that just cannot function in an environment of under-developed financial markets (Nemec and Lawson, 2005).

Democratic institutions and norms cannot be fully developed during the short period of fast economic transformation. We will clearly demonstrate this fact in the next chapter, when evaluating the role of citizens in administrative reforms. In under-developed democracies, rent-seeking behaviour of politicians and bureaucrats is fully effective (from an economic point of view), and the simplest way to maximise individual benefits (see data on corruption), at least from a short-term viewpoint.

The possible success of NPM is also connected with the “quality of the state of law”. If both governments and business circles apparently neglect the need to respect the law, NPM instruments may just provide more space for corruption.

3.2 But a pure legalistic approach does not help either!

The previous part demonstrated several problematic dimensions connected with too much NPM radicalism in reforming the public administration and the public sector in transition countries. On this basis, one may conclude that “NPM reforms in CEE are successful if not implemented”. However, this would be significant oversimplification – we need to stress at least two important facts:

- A. NPM as a reform ideology may not be the proper approach for reforms in transition countries, but many NPM-based policies and instruments will be implemented as soon as possible. For example, performance evaluation methods, especially benchmarking, may really help to improve transparency and accountability.
- B. NPM is one extreme, but a dominantly legalistic approach to the reform is the second (and also ineffective) extreme. Over-legalisation and over-regulation normally do not deliver efficiency, economy and effectiveness, as we already indicated in the example of public procurement law. Under conditions of limited respect for the law, typical for most transition countries, we attempt to improve the performance of public administration by extra laws, norms and regulations which cannot work but simply create an extra burden for business and the citizen.

The conclusions are straightforward. Neither radical NPM nor simple legalism is the best option for public administration reforms in transition countries. Some effective balance, customised for local conditions should be suggested. In any case, the implementation of radical NPM reforms might become meaningful if the basic and reliable “Weberian” administration is not well established. To what extent such recommendation might be really implemented is doubtful – the reality of political processes in this group of countries does not provide much space for effective policymaking and policy implementation (Dunn, Staronova and Pushkarev, 2006). Short-term pure political decisions dominate; long-term policies are the exception.

4. Pollitt & Bouckaert public management reform model and CEE reforms

In this part we try to test some selected hypotheses concerning the public management reforms in CEE, most of them derived from the Pollitt and Bouckaert (2004) public management reform model (the structure and the contents of country studies do not provide enough material to analyse all possible dimensions), also highlighted in the first chapter.

4.1 Country’s public management reform is a top-down process

This hypothesis was confirmed in all our country studies. Under specific CEE conditions, where citizens’ activities are moderate to marginal (see later text) and the role of the NGO sector is still significantly limited, the only real power to push reforms is the central level. In some cases, this central level might be dominated by the President. A typical example is Kazakhstan as a Presidential Republic:

“Since 2000 the significant growth in the Kazakhstan economy is achieved thanks to the President’s strong leadership. With a reduction in grass-roots political activity, political and economic initiatives came mostly

from the top. As the economy strengthened, elite decision-making and the centralisation of power were consolidated”.

An interesting example of the top-down “closed” elite decision-making approach is represented by the case of the Slovak 1998–2006 reform period. As indicated by the country report, after the general elections in 1998, new Slovak governments refreshed the issue of public administration reform, as one of their main goals. The government decided not to use standard structures to prepare and implement reform measures (Ministry of Interior, Council for Administrative Reform), but created a special position of Government Appointee for Public Administration Reform, outside of the formal ministerial structures. This person, supported by a small circle of experts, selected on an ideological base, drafted all reform measures. Proposals were communicated to the public during several public meetings; these consultations were merely formal and did not influence proposed reform contents.

4.2 Reform’s institutional capacity is weak

It is almost inevitable that the institutional capacity to draft and implement effective administrative reforms in the CEE regions is limited – and as a result (as the Estonian report proposes) most reforms are “trial and error” approaches. More facts support these assumptions, such as:

- A: There is no doubt that in the nineties, when most reforms began, there was a real lack of general and specific expertise to set effective reform policy – no country in the world had previous experience with transformation from a centrally managed and planned society to a market based democratic one. The main driving force behind the reforms was to leave as quickly as possible and become detached as much as possible from the past.
- B: Those responsible for reforms were mainly representatives from top elites, in some countries people with a limited knowledge and skills – for example the Romanian report claims:

“Beyond these declaratory statements however, it is hard to say if the political-administrative elites have a clear understanding of what the reform of public management means. Though concepts such as the analysis of public policies, performance measurement, and transparent decision-making are often used and misused, public management is still not a viable policy tool. The elites need to clarify for themselves the meaning of the concept and to shift away from a legal approach of the reform process”.

or people with a clear ideological path – Slovak or Estonian cases might be representative of this group.

- C: Many CEE governments have been mainly unstable and generally short-lived coalitions of different political groups and the ministers responsible changed frequently. The relationship between politicians and bureaucrats in CEE is

not standard or professional and a sustainable system of bureaucracy was not established; administrative structures changed when the government or the minister changed. The frequency of changes and lack of professionalism limit significantly the chances for effective reforms and represent almost non-existent long-term policies. The Estonian report emphasises this:

“In most other political matters, the Estonian political elite are far from being consensually united. According to Lauristin (2003: 613), the reasons why Estonia does not have comprehensive and effective policies, are not just a scarcity of economic resources or poor administrative capacities, but a lack of sufficient political support. Rivalry between political parties has led to constant changes in the administrative reform agenda as well as to a lack of consistency in the chosen strategies.”

4.3 The intensity of reform is subject to political cycles and to specific local conditions

Several trends and aspects can be observed under this heading. It is common that when a change of government coalition occurs, this is also connected to a change in reform policies – and as indicated above, there is almost no political continuity and politics dominate policy in CEE.

The phasing of reforms in CEE does not fully depend on the classic “Downs” political cycle model (for example, that the government is most sensitive to citizens’ needs shortly before elections and non-popular reforms have to be implemented soon after elections). In Central Europe, in most cases, reforms were envisaged by respective governments shortly after elections as part of the government’s proclamations and/or as special policy documents, but their real implementation cannot be clearly connected to the concrete phase of the political cycle. For example, in Slovakia, the 2002–2006 coalition began the implementation of major reforms very close to the end of its mandate. The new coalition (after 2006) made many important changes immediately after the elections. Very similar patterns can be found in the Czech Republic.

Especially in Eastern Europe, the intensity of reforms is not really connected to the political cycle, but much more linked to concrete local situations. In most cases, very limited political stability limits any chance to implement planned changes (Ukraine, Kyrgyzstan).

4.4 The citizen’s role, especially in the phase of policy formulations, is very limited

The very limited impact of citizens in the processes of public management reform policymaking and implementation is one of the dominant specific features in the CEE region. The dialogue between citizens, politicians and officers on public issues is developing slowly and is still exceptional. For example, the Czech report states:

“The region’s typical public administration/management reform implementation barrier is the disunion of citizens and politics and very weak NGOs. This means that pressure from citizens in the Czech Republic is still very weak, if any, and is used only in critical moments in the country.”

Data collected in Czechia indicate several problematic findings – as already mentioned, the trust of citizens in political parties stagnates at a very low level of about 10%. Many people find political parties useful, but think that their working is insufficient. 79% of inhabitants think that the political parties are not interested in citizens any more than once every 4 years, just prior to elections and 85.4% of people think that they cannot influence decision-making, even in their municipality (CESES, 2002).

Limited citizen activity has its roots in school education, is a surviving heritage from centralised systems prior to 1989, and is also connected with relatively limited room for formal and real involvement of non-profit organisations in the creation of legislature and administrative decision-making. However, the role of the NGO sector is increasing bit by bit and is beginning to have some impact on public management reforms. The Polish report suggests that:

“Poland has experienced a significant development of citizen groups, actively attempting to participate in co-governance of the country. Some of the NGO’s have already acquired a strong position in the system and have high visibility. We can divide these organisations into three main groups: international, national and local.”

4.5 EU-backed public management reforms are more likely to succeed

We investigate this issue only in Central Europe, as EU accession is not relevant for Central Asia or for Caucasus countries. First, we need to emphasise that the reflections of this hypothesis in our country reports do not provide a unanimous picture. There is almost no doubt that reforms pushed by the EU accession process (as compulsory or semi-compulsory measures) were prepared and implemented – one of the most visible cases was adopting the civil service law. However, several questions remain:

- Would these reforms also happen without EU pressure?
- Reforms were implemented but did they succeed?

Both these dimensions are discussed by the Estonian report in a relatively comprehensive way. It states for example that:

“(Reforms) accelerated by the pressures of EU accession left fewer resources for the analysis of new policies.”

It is hard to underestimate the impact of the EU on Estonian political and public administration developments. Hope and desire to gain EU

membership was one of the major incentives to foster process in various policy fields, including public management reforms.

Although the EU paid considerable attention to the administrative capacities of the candidate countries, it did not provide a specific model for the organisation and functioning of public management.

In Estonia, Europeanisation has influenced both the institutions and functions of central government. Some institutions have been founded to administer structural funds (such as the Estonian Agricultural Registers and Information Board), while others have been substantially strengthened (the Environmental Investment Centre and the Ministry of Finance). Europeanisation has also affected several functions distributed across central government institutions. The preparation of the National Development Plans has influenced the general framework of strategic planning. In addition, the development of internal audit functions throughout government institutions has been substantially shaped by the EU. Finally, there are institutions whose administrative capacity was systematically strengthened during the accession process. Finally, the EU accession process in Estonia had a broader impact on the country's public management by improving coordination culture (Viks and Randma-Liiv, 2005).

Despite certain positive examples, accession to the EU had a limited impact on the Estonian public management reforms. As internal motivation for administrative reform proved insufficient, external factors (mainly related to EU accession) also failed to provide any stronger motives for a consciously developed and systematically implemented public management reform. Thus, accession to the EU may only have speeded up certain developments in Estonian public administration but not provided structurally innovative solutions.

A good example of how the EU affected the public management reforms comes from the Lithuanian case. There was a fear that slow progress of meeting the EU requirements in the civil service area would delay the start of EU membership negotiations with Lithuania (together with the first group of more advanced applicants). Therefore, it was decided to adopt a draft Law on Civil Service in the *Seimas* in the autumn of 1999 before the forthcoming announcement of the Commission's Regular Report in September, 1999.

4.6 Public management reforms backed by international donors and consultants are more likely to succeed

It is also possible to investigate this issue in Central Europe, but its implications are much more important in the East, where the coordinative function of the EU accession process did not influence public management reforms significantly. It is also necessary to understand, as indicated above, that we should distinguish between "happen" and "succeed".

Also in Central Europe, especially in the earlier phase of transformation, many reforms happened because of pressures of (non-EU) international donors, such as the World Bank, the International Monetary Fund, USAID or country specific donors. Not all of them were successful – e.g. the establishment of pluralistic health insurance systems in Czechia and Slovakia.

In Eastern Europe most reforms happen because of pressures from several international donors, and relatively few of them are evaluated as a success by country reports – the Armenian text is symptomatic:

“As other transition countries, Armenia also did not escape the not very coherent, if not outright contradictory policies driven by different donors. As Hovsepyan and Khudaverdyan (2006, p. 28) mention, ‘the piecemeal nature of this assistance, probably as a response to the extraordinary complexities of the public administration structures and associated political environment, and the need to disaggregate the field into manageable domains, has resulted so far in a fragmented approach to the reforms and the potential loss of a strategic perspective.’”

4.7 The relatively high level of corruption represents a region-specific feature with important impacts on NPM type of reforms

Unfortunately, according to different sources, corruption is also an important factor in Central Europe and a really widespread issue in the East. One of the most frequently quoted sources are CPI indexes created and measured by Transparency International (http://www.transparency.org/policy_research/surveys_indices/cpi/2008), providing the following picture of our region (Table 6):

As indicated, for example in the Slovak report, higher levels of corruption limit the chance for many NPM tools, such as competition and contracting to deliver the expected positive outcomes. If the issue of corruption is not incorporated into the reform design, the probability of failure increases dramatically – however, most governments in CEE do not want to hear that corruption exists and may influence public management reforms.

To be more complex, we also need to emphasise that corruption can also be (to some extent) limited by public management reforms – especially by increased transparency and accountability. The first already happened almost everywhere in CEE – countries adopted a law of free access to information and citizens, the NGO sector and universities, and think tanks now have much better access to data, necessary for the measurement of efficiency and effectiveness. Such findings are frequently published, thanks to freedom of the press, and are beginning to slowly influence public opinion and public attitudes, and through this, also the performance of the public administration system.

Table 6
2008 Corruption Perceptions Index

country rank	country	2008 CPI score	surveys used	confidence range
1	Denmark	9,3	6	9.1–9.4
1	New Zealand	9,3	6	9.2–9.5
1	Sweden	9,3	6	9.2–9.4
26	Slovenia	6,7	8	6.5–7.0
27	Estonia	6,6	8	6.2–6.9
45	Czech Republic	5,2	8	4.8–5.9
47	Hungary	5,1	8	4.8–5.4
52	Latvia	5,0	6	4.8–5.2
52	Slovakia	5,0	8	4.5–5.3
58	Lithuania	4,6	8	4.1–5.2
58	Poland	4,6	8	4.0–5.2
62	Croatia	4,4	8	4.0–4.8
67	Georgia	3,9	7	3.2–4.6
70	Romania	3,8	8	3.4–4.2
72	Bulgaria	3,6	8	3.0–4.3
72	Macedonia (Former Yugoslav Republic of)	3,6	6	2.9–4.3
85	Montenegro	3,4	5	2–5 - 4.0
85	Serbia	3,4	6	3.0–4.0
92	Bosnia and Herzegovina	3,2	7	2.9–3.5
109	Armenia	2,9	7	2.6–3.1
109	Moldova	2,9	7	2.4–3.7
134	Ukraine	2,5	8	2.2–2.8
145	Kazakhstan	2,2	6	1.8–2.7
147	Russia	2,1	8	1.9–2.5
151	Belarus	2,0	5	1.6–2.5
151	Tajikistan	2,0	8	1.7–2.3
158	Azerbaijan	1,9	8	1.7–2.1
166	Kyrgyzstan	1,8	7	1.7–1.9
166	Turkmenistan	1,8	5	1.5–2.2
166	Uzbekistan	1,8	8	1.5–2.2

4.8 Other issues

According to Pollitt and Bouckaert (2004), chance events, such as disasters and scandals may trigger, facilitate or slow down the drive for reforms. However, in

the CEE region it is really difficult to find any clear correlation between chance events and reform drafting and implementation. One reason might be the limited occurrence of important chance events – several country reports (Hungary, Slovakia and others) claim that chance events did not happen. Chance events may activate citizens or NGOs, in some cases, and via this, influence some partial implementation changes, but no country report indicated that chance events facilitated reforms. Certainly, periods of political instability (can be counted as chance events??) slow down any real reform changes.

The hypothesis that public management reform is more likely to succeed if initiated by an influential ministry (or ministries) is partly confirmed by some of our country studies, but in a specific way. The situation in Central Europe suggests that many reforms were prepared and implemented by ministries or special bodies with limited influence and this fact may be one of the reasons why most reforms were poorly implemented and planned outcomes and impacts not achieved. We are able to identify only one “heading” specific case: Slovak reforms 2004–2006, when the Prime Minister was the main power pushing public management reforms forward, and in a relatively short time, almost all those planned, were implemented.

Concerning the relation between the impacts of the fractioned government on public management reform we can only stress – as already mentioned above – that CEE specific problems are highly fractioned, purpose-made government coalitions, with a lack of capacity for any policymaking or policy implementation.

The Hungarian report dealt with the issue of the ‘administrative law state’ and the ‘public interest state model’ in a relatively comprehensive way. It stressed the impacts of a “Rechtstaat” culture on public management reforms in Hungary (where more massive NPM type reforms began to be implemented only recently). We quote some of the respective parts:

“In analysing Hungarian administrative culture, examining the educational background of civil servants is also instructive. Empirical analysis of the subject concludes that graduates of Law still play a pre-eminent role in the Hungarian public administration. This claim is supported by two arguments. First, they are strongly (by about 100% in 2005) over-represented in sub-sets of higher importance, such as (i) among civil servants in managerial positions and (ii) in ministries. It is particularly peculiar that in its days, in the Senior Civil Service consisting of the highest ranking civil servants, 57% of civil servants have a degree in Law (Gajduschek 2006 p. 605). Secondly, legal regulations make it clear that in practice, lawyers are definitely perceived as the most competent generalists of administration. Examples include the exemption rules on the so-called “specialised examination system” of civil servants, compulsory for a large majority of administrators: only lawyers are exempt from the obligations of passing this – mostly legal type – exam. The situation is similar with the General Basic Public Administration Examination scheme (Gajduschek-Hajnal 2000).”

The Czech report discusses the issue of the short-term orientation of civil servants in relation to the 2004 reforms, indicating that this problem is still valid (may be more valid compared to the early reform phases, where “post-revolution” enthusiasm pushed many changes forward quickly. We quote some of the respective parts:

“Resolution of Government from March 3 2004 approved a procedure and main directions for reform and modernisation of the central state administration (CSA). The following main directions have been chosen:

- rationalisation of processes in CSA,
- improvement of management in CSA,
- improvement of quality of CSA,
- implementation and improvement of state service in CSA, and
- rationalisation of financing CSA.

A project form of realisation has been chosen – each of the goals was expected to be reached via the realisation of different projects, realised by both public administration offices and other subjects (e.g. expert studies, etc.). However, the implementation was very slow and partial, also because most officials of CSA preferred passive resistance and expected that the reform activities would disappear before their real implementation.”

The role of think tanks in the CEE region is difficult to assess, especially because of one important fact – there are really few, if any, independent and powerful think tanks in most CEE countries. The standard in this sphere is different (or similar?) to old democracies – most governments indirectly create/support think tanks connected to their ideology and use such bodies in the phase of reform preparation and advertisement (MESA 10 connected to liberal parties in Slovakia might be an example of such trends, with similar cases almost everywhere in Central Europe).

5. Main reform achievements

Public administration – management reforms in the CEE region can be evaluated from many different angles, but it is necessary to accept they delivered many important and necessary positive changes and improvements, compared to the situation in the beginning. In many cases and areas effective practices were established, and the gap between the quality of administration in developed countries and in the region is becoming smaller and smaller. In the next text we highlight the most important developments in crucial public management “sectors”.

5.1 Financial management

From a macroeconomic point of view, it is necessary to admit that all EU member countries significantly improved their financial discipline, also thanks to the

implementation of modern budgeting methods. Before the financial crisis at the end of 2009, very few countries still had to cope with too large deficits and debt levels, beyond the Maastricht criteria¹ (Hungary, Poland).

Slovak (macro) public financial management reforms are (probably together with the Baltic States) the most progressive and radical. From 2005, Slovakia began with a full accrual medium-term programme and performance budgeting at the national level, and from 2010 this method will also be applied at the municipal level.

A switch to programme performance budgeting is an ongoing process in the region, with the first steps realised in the East – for example in Armenia or Kazakhstan. Such process is crucial, as it helps to link inputs to outputs, outcomes and results, and, if really properly implemented (or with some time delay), it can significantly help in delivering “value for money” from public expenditures.

Several other public financial management tools began to be routinely used, especially in Central Europe – such as contracting, outsourcing, public procurement, or even public-private partnerships projects. As the Slovak report indicates, their results in delivering value for money are significantly different, and depend on concrete local conditions and the environment. High levels of corruption are one important barrier to success. Cost benefit analysis and impact analysis are more and more commonly practised, also because of the need to use CBA in connection with EU structural funds’ allocation.

A relatively weak point is the efficiency of financial controls and auditing in CEE. As the Slovak report suggests, the probity – compliance – legalistic approaches dominate, and auditing value for money is still a limited practice. From all trajectories of financial management reform (budget, accounting, audit), Lithuania made good progress in the area of financial and performance audit: it enriched financial and compliance audits with some performance audits carried out by the National Audit Office.

5.2 Civil service and human resources management

According to the country reports, all the countries examined established some type of civil service system; only the timing and details are different and the first country with a modern civil service law was Hungary, in 1992. The establishment of the Civil Service Office and the scope of its responsibilities is not a coordinated or unanimous process. Interesting cases are those situations where such an office was established and abolished – Poland or Slovakia, and the Ministry of Labour was re-appointed to fulfil its functions. Another option was used, for example, in Latvia, where it was decided from the very beginning that the role of such an office would be given to the Chancellery.

New civil service systems include main important characteristics, such as:

1 Simplified: Maximum level of deficit 3% of GDP and maximum level of debt 60% of GDP.

- Impartial competitive appointments on a merit base (at least formally). The conditions, criteria and processes of appointment are relatively transparent and provide for some reliability. Some countries decided on a centralised system of appointment, some use decentralised.
- The criteria for promotion and for rewarding civil servants are defined and, to a large extent, also followed. Regular performance evaluation is the rule (see later text).
- The legal status, responsibilities, duties and rights of civil servants are legally defined everywhere, and the language is relatively similar. More differences might be found in the category “public servants”. Specific remuneration schemes for civil servants are a common solution.

The success of the processes of establishing and developing the civil service and its method of human resource management is different. OECD/SIGMA and the World Bank repeatedly concluded that Lithuania (together with Latvia) constitute an exception from unfavourable trends in Central and Eastern Europe: Lithuania continued its civil service reforms in the post-accession period, unlike most other new EU member states. In a scale of five levels, the World Bank rated Lithuania’s reforms as “substantially achieved” (level 2), the highest level among all new EU member states (World Bank, 2006: 31).

5.3 Organisational changes

Decentralisation is especially a common feature in the language of public management reforms in the CEE region; however its scale and reality differ significantly. The most radical decentralisation changes can be found in Estonia and Slovakia; in Slovakia decentralisation was the main motto of reforms after 2000. The opposite can be found in the East, for example, Ukraine did not create “real” self-governments.

The most important formal decentralisation changes are connected with the creation of regional and local self-governments and the transfer of competencies and resources to these levels. The impact of these changes is different, respecting the fact that decentralisation is a tool with important potential, but also with some limitations, and respecting the need to introduce decentralisation measures with respect to a concrete reform environment and to avoid “unexpected” negative consequences with its implementation. An improper allocation of responsibilities limits the chance for economics of scale and increases transaction costs. Too small government units suffer from a lack of competence and expertise, but also from a lack of resources:

“The administrative capacity of sub-national governments and the administrative and compliance costs of decentralisation must be taken into the account when assigning expenditure among levels of government” (Allen and Tommasi, 2001, p. 74).

The findings of Vitek et al (2002), calculating the administrative costs of local taxation in the Czech Republic, on the example of a random sample of several municipalities, using methods of personal interviews, personal time-shots and analysis of existing statistical data are a very good example of extra costs from unsolved fragmentation (Table 7).

Table 7
Administrative costs of taxation in selected Czech municipalities (2000)

Municipality	Number of inhabitants	Revenue from local taxes (thousands CZK)	Administrative costs (thousands CZK)	Administrative costs (%)
A	150	3	6	200
B	400	7,5	8,1	107,5
C	6400	1313	182	13,9
D	9800	970	307	31,6
E	23000	1365	243	17,8
F	33100	7750	243	3,13
G	72000	15207	486	3,2

Source: Vitek et al 2002

In many, especially “Eastern” cases, decentralisation, and especially fiscal decentralisation, occurred mainly *de jure*, and not often *de facto*. (Sevic, 2005) defines the most important financial mechanisms to be established and sets out four crucial questions, which are still only partially answered in the region:

- A. How do we design the best appropriate intergovernmental fiscal system that will guarantee needed local revenues, especially if it is impossible to predict exact real incomes from local taxes, fees and other sources of local authorities’ revenues?
- B. What is the appropriate system of management of local taxation?
- C. Should we react to territorial disparities, created by fiscal decentralisation between regions and municipalities because of different tax bases and different expenditure needs?
- D. Municipal borrowing and its regulation.

All countries examined expressed (more or less “loudly” and concretely) the will to decrease the overall civil/public service/public sector size – the most radical in this direction was Estonia. In reality, most planned “reduction” targets were not achieved, also because EU accession was connected to the need to appoint new civil servants and to deal with EU matters. Czechia, Poland, Slovakia and others, formally declared several times a strategy of deployment; however, the total size

of public employment has stabilised or is even growing (see the Czech country report).

The critical issue in this area is “uniformity of downsizing” – for example the Slovak government announced in 2006 its plan to decrease the number of civil servants by 20% in all public bodies. This plan neither respected the accepted assumption that only proper ex-ante analysis can help to find redundant working places in public administration, nor the fact that a simple reduction in staff may not mean much from the point of view of efficiency, but may decrease service delivery quality significantly.

“Downsizing” is connected also with privatisation, contracting and outsourcing (mentioned above) and the creation of a real “public-private-civil sector mix”. The scale of such processes differs, with Estonia as the most radical case. In this area we have to stress that most countries still overestimate – or even politicise the ownership principle in the processes of the production of public services. Changes in governments are connected with a switch of attitudes (“left”-wing governments prefer public alternatives, liberal governments private solutions) – and as a consequence, reversed and costly organisational changes happen. The classic example is health care (Nemec, 2008) – at the same time Slovakia is reconsidering its pluralistic health insurance system, Poland is starting to work on its implementation (in both cases, the costs of change will be higher than any possible benefits). At the same time, when Slovakia revises its liberal health care reform, Czechia starts to implement it.

In less developed countries, downsizing is also a necessary reaction to a lack of public resources, caused by low economic performance. With a lack of resources, privatisation does not help but simply limits the chance of many citizens to have the necessary access to core services, especially health care (Armenia).

5.4 Information technologies

Country reports and also many other sources indicate that one of the most progressing CEE reform areas is e-governance, especially in Central Europe, where computer literacy and internet accessibility are relatively high. However, countries with limited access to internet are also trying to implement e-government activities – the best example is Kazakhstan, with a specific e-government programme from 2005. In a situation where only 3% of country inhabitants have access to internet, the government builds public electronic centres, where people can have access and training. Main cities want to be progressive – Astana began the pilot project “Electronic City” in 2007.

The issue of e-governance was not comprehensively dealt with in country reports, but there are many sources showing positive progress. For example, Kunstelj, Leben and Vintar (2006) propose, on the basis of comprehensive research in Slovenia, that:

The results of the supply-side survey show that most administrative bodies are presented on the web with information about their organisation and operation. They also offer e-mail communication with citizens. Much downloadable application forms are already available for the procedures in the competence of central government bodies, contrary to the local self-government procedures. E-transactions have not been implemented yet.

On the demand side the survey results show that awareness of e-government among internet users is surprisingly high, as all of them are aware of at least one functional group of e-government (information, e-mail communication with civil servants, downloadable application forms and public e-services). At first glance, the level of e-government usage is also relatively high, as 83 % of internet users have already used at least one of the above-mentioned possibilities; however, only a small amount of the provided information, application forms and e-services has already been used. The same is also true of e-mail communication.

Still missing in most countries is a uniform and interlinked public information system, downsizing the administrative burden to citizens and entrepreneurs, who still need to walk between offices with public certificates. The most positive case is Slovenia, with the rule that already submitted information to the government shall not be again requested. Estonia is also doing well; other countries are lagging behind, but progressing – one-stop-shops for entrepreneurs are more the rule than the exception (Spacek, 2006).

5.5 Performance management

Performance management and performance financing schemes are relatively frequent, but deliver mixed results. A positive example might be the introduction of performance management in Lithuania which is often regarded as an example of good practice. Lithuania is often used as a benchmark for other new EU member states and former Soviet Union countries. Together with Latvia, Lithuania has received the highest rating of performance management in Central and Eastern Europe (around level three), with “a planned, implemented and reviewed (in both cases) performance management system in place” (World Bank, 2006: 20).

The Slovak report indicated some problems, but also positive achievements, connected with the introduction of performance financing schemes for primary, secondary and tertiary education. Randma-Liiv (2005) described successes and limitations connected with the introduction of Pay-for-Performance in the Estonian Civil Service.

A positive trend is the increasing use of benchmarking at all levels of government, especially by local governments and service delivery ministries. The general importance of benchmarking is obvious – it might improve both public sector performance (“compare”) and public sector accountability to citizens (“publish and

consult”). In the specific CEE environment, the importance of effective benchmarking is even more important – the switch from standard performance evaluation to benchmarking (supplementing performance evaluation with benchmarking) may help to cope with the crucial problems of the limited reliability of the performance data, for example, because of different local conditions, and of the pervasive effects of wrongly set up or wrongly implemented performance systems.

5.6 Quality management

Quality initiatives are frequent, but usually decentralised in the CEE region. Many public bodies decided to implement ISO systems to improve the quality of internal processes and outputs. Other quality initiatives are, for example:

- introducing standards for public services,
- instituting one-stop-shops,
- engagement of customers and third-sector partners in the decision-making processes,
- control over quality in the provision of public services through adoption of citizen charters,
- granting citizens the right to turn to an independent ombudsman in case of unsatisfactory service provision,
- introducing the Common Assessment Framework performance evaluation systems (Table 8).

Table 8

The number of registered users of the Common Assessment Framework in the new EU member states

Country	The number of registered users of the CAF
Bulgaria	5
Czech Republic	58
Estonia	18
Hungary	118
Latvia	5
Lithuania	9
Poland	53
Romania	33
Slovakia	18
Slovenia	50

Source: www.eipa.nl

However, as some quality comparative activities indicate (e.g. the European Public Service Award), CEE countries still need to improve significantly and cope with the more intensive demand from citizens for quality public services, which

will increase with time, for sure (compared to today's situation of limited citizen activity, as described by country reports).

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