



***Delivering  
Public Services In  
Cee Countries:  
Trends And  
Developments***

EDITED BY JANE FINLAY AND MAREK DEBICKI

THE TENTH ANNUAL CONFERENCE HELD IN  
CRACOW, POLAND, APRIL 25 – 27, 2002



**NISPAcee**

The Network of Institutes and Schools of Public Administration in  
Central and Eastern Europe

and

**The Polish Association for Public Administration (SEAP) Bialystok and  
Malopolska Institute of Local Government and Administration (MISTIA)**

## **DELIVERING PUBLIC SERVICES IN CEE COUNTRIES:**

### **TRENDS AND DEVELOPMENTS**

Proceedings from the Tenth Annual Conference held in  
Cracow, Poland 25-27 April, 2002

Edited by

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OECD, LEED Programme

and

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## **DELIVERING PUBLIC SERVICES IN CEE COUNTRIES: TRENDS AND DEVELOPMENTS**

Cracow, Poland 25-27 April, 2002.

(The Network of Institutes and Schools of Public Administration  
in Central and Eastern Europe)

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## **PUBLIC SERVICES IN CENTRAL AND EASTERN EUROPE: TEN YEARS OF TRANSITION**

*Jak Jabes* \*

“Delivering Public Services”, the theme chosen for the 10<sup>th</sup> Annual Conference of the Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPAcee) is timely. At the beginning of transition, many of the countries covered by the NISPAcee geography were interested in providing the basics of public administration and service delivery to their citizens, i.e., the framework laws that were necessary to manage civil servants; the authorities necessary to decentralise, devolve and deconcentrate and the constitutional arrangements that would help a market economy function. As some of the CEE countries made advances on these fronts, other transition countries from Asia joined the NISPAcee family with the same emphasis on basic themes. The 5<sup>th</sup> annual NISPAcee conference in Tallinn in 1997, where a working group met for the first time to debate service quality, drew papers that were mostly tangential to the issue. The small group of participants was interested in the subject but clearly much more work had to be done for them to grasp the key problems associated with public service delivery in order to formulate meaningful research questions.

Now we are at the cusp of European membership for many former communist countries of CEE. The citizenry of these countries has become very sophisticated and expresses itself well through civil society. Demand for public services that are timely and of high quality is on the increase. Citizens in these countries know and understand their rights, and are exercising them as well.

It is not that public services were not provided during the communist era in Europe; it was rather that citizens did not have much of a say in what was provided for them and accepted the services given no matter how shoddy the quality – there was little possibility to influence the process. Transition brought about the implosion of borders as well as access to all the communication media. Citizens of former communist countries could get a strong glimpse of what was out there in other countries. They experienced first-hand through travel, as well as satellite dishes beaming Western television, the public services in other more developed European countries and they wanted the same.

The program prepared by NISPAcee for this conference says: “At the beginning of the 1990s in the former communist countries, adapting to new models

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of service delivery was more than a feasible mode of operation. Most of the necessary components of the new models of service delivery – reformed political and administrative systems and a fully operating private sector – were in their initial stages of development..... The main objective of this conference is to exchange the knowledge accumulated and the experiences gained in new methods of public and social delivery in the former communist countries.” The participants fuelled a rich discussion.

### **New Public Management**

In the transformation of the public administration of former communist countries, especially those in Europe, the influence of New Public Management (NPM) was visible early on.<sup>1</sup> These ideas quickly began to have an influence on civil servants in transition countries, who were fascinated with the belief of jumping ahead and saving a few steps in the process of modernising and reforming their public administration systems. The near-missionary fervour of the adherents of the NPM movement fuelled these beliefs. The record 10 years into transition does not support the initial euphoria. Some countries, which originally adopted NPM, have made serious mid-course corrections; others have dropped some of the ideas, including mass privatisation, contracting out etc. Along the way, former communist countries have also become choosier in the ideas and systems that they are willing to experiment with, especially seeing that many in the West were also critical of NPM.<sup>2</sup>

The emphasis on NPM helped underline the importance of service delivery in transition countries and put these concepts on the public administration map. This means that the focus shifted to citizens, to “results”, to the quality of actual services delivered, and to the impact of services. And so the transition economies started coming to grips with notions such as performance contracts, performance evaluation, incentives and targets. Looking at service delivery meant that the legal environment also had to be re-analysed to see whether the existing laws were supportive of the human resource management reforms that would go hand in hand with an emphasis on service.

### **Service Delivery Themes**

The growing interest of the community of practitioners, researchers, trainers and academics in public administration subjects was clear from the growing

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<sup>1</sup> See for example, Hood C. A Public Management for All Seasons? *Public Administration*, 1991, 69, 1, pp. 3-19; and Walsh, K. *Public Services and Market Mechanisms*, Basingstoke: London. 1995.

<sup>2</sup> Savoie, D. What is Wrong with the New Public Management? *Canadian Public Administration*, 1995, 38 (1); Schick, A., Why Developing Countries Should Not Try New Zealand Reform, *World Bank Research Observer*, February 1998.

number of working groups devoted to thematic discussions. Besides the six working groups, a group devoted its deliberations to the main theme, discussing the establishment of alternative service delivery while large-scale system transformation was taking place in the region.

Within this overall theme, 6 sub-themes were discussed:

1. Service delivery systems
2. Demands of citizens and suppliers
3. Structural innovations
4. Quality of services
5. Access – with the special focus on equity
6. Control, monitoring and evaluation systems

Presenters and participants were asked to focus their discussions on the problems of “portability” of experiences looking at cross-national comparisons and using them to advance policy design and policy implementation.

One of the important dimensions of public administration reform or development in the last decades has been the involvement of citizens in their systems of governance and this both at the policy and operational levels. In our governance work at the Asian Development Bank, we refer to this process as participation.<sup>3</sup> More and more, the challenge for transition countries and developing countries is finding the means of putting the citizens in a partnership with their elected and bureaucratic governments in order to agree upon and/or improve the governance systems. The need to look at the challenges and options on how we better implement service delivery while factoring in citizen participation is very important. This takes us to the beginning of the process rather than the end results, which seems to be more emphasised by the selected themes in this conference.

We are observing more and more that OECD countries are strengthening their relations with citizens. Fifteen years after the first groundbreaking work that the Public Management Service of the OECD did on service delivery,<sup>4</sup> the focus is now shifting to engaging citizens in policy making. While participation is an offshoot of strengthened democracy, it also helps in building trust. In the process, governments benefit from new ideas and citizens shape the public services they want in terms of quality and delivery mode. It is important to emphasise how one can engage citizens in the service delivery process and not confine oneself only to the results, outputs and outcomes of public service delivery. This is because engaging citizens in policy-making is a key component of good governance.

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<sup>3</sup> Asian Development Bank, *Governance: Sound Development Management*, Manila, 1995.

<sup>4</sup> OECD, *Administration as Service, Citizens as Clients*, Paris, 1988.

The conclusion from the main theme was that while there was a dire need to renew public functions in CEE, first and foremost the development of administrative capacities was necessary. The resulting conclusion from the diverse sub-themes around service delivery during the conference suggests that in the end, democratic governance starts at the local level and requires the engagement of voluntary actors.

### **Working Groups**

Some of the working groups are now well established and are planning second-generation projects. The working group on Politico-Administrative Relations announced that it would devote research into role perceptions of senior officials and coalition relations. Other working groups addressed service issues while remaining focused on their subject matter. A new working group on “Teaching Anti-Corruption” was announced and drew much interest from participants.

A number of suggestions emerged to facilitate engaging citizen involvement in public service delivery. These ranged from finding champions in government to improving process simplification and standardisation to structural adjustments that make it possible for minorities to feed into the policy process. Participants pointed out a number of tools, new and old, which can be successfully used to promote such engagement. Among the most promising were e-democracy applications, organised feedback, training in participative methods, and for multiethnic communities, the enforcement of anti-discrimination measures and the active promotion of co-operation among diverse ethnic groups.

Strategic planning of participation, equal opportunity programs, training on diversity management, back office re-engineering were some of the promising practices observed in the formerly communist countries which want now to ensure citizen involvement in public administration. However, the list of constraints that would impede citizen participation was very long. Starting from weak civil society, discussants pointed out that in a number of countries, there was still political and civil service instability. Even when the public administration was stable, it often lacked the political will to engage citizens, participative traditions, recognition of ethnic diversity, and enforcement mechanisms.

### **Keynote Speakers**

The role of a learned conference certainly is to draw our attention to significant problems. Keynote speakers were quite successful in pointing to a number of unresolved issues in transition economies. Public administration practitioners have always complained of the difficulty they faced when models from established democracies were transferred or imported. Gyorgy Jenei stressed this issue jokingly by showing that if one picked different parts of western quality models

one ended up with one's own goulash. The tension between managerialism and legalism, the end results of different western politico-administrative traditions, continue to create tensions in transition countries which sometimes have difficulty trying to borrow from both and as a result sometimes unable to balance the two properly.

Michal Kulesza, who received the Alena Brunowska award for teaching excellence, referred to the nation, administration and politicians as the three entities of a Bermuda Triangle, whose co-operation or struggle for power would define whether civil society would awaken or continue to remain a sleeping giant. Interestingly, in his keynote address, Geert Bouckaert lay to rest the notion that improvements in quality should be undertaken because they would increase the trust that citizens had in their government, as the data was not necessarily supportive of this relationship.

## **Conclusion**

Transition economies have undertaken major transformation of their systems. Many in the CEE region are different public administrations than when transition began. Candidacy to the EU has had a significant impact in bringing this change about. Having to meet the exigencies of the *acquis communautaire* has meant that countries have not only adopted and adapted EU legislation but also the values that go hand in hand with a willingness to function within the European Administrative Space. In the process, in CEE, significant amounts of investments have been made in capacity building and training, leading to increasingly sophisticated public administrations, which demonstrate genuine concerns for better service to their citizens. On balance, the papers and presentations made at the 10<sup>th</sup> Annual NISPAcee Conference highlighted this overall transformation while pointing out the weaknesses and incomplete elements.

## **A Personal Note**

Through my work in CEE, I was involved in the early days of NISPAcee, working closely with successive Steering Committees and Secretariat staff. Returning for this 10<sup>th</sup> anniversary, I am very happy to report that the quality of the work has tremendously improved. This improvement is evident in the papers presented at the Conference, in the level of participation, in the organisation of the work and in the funding levels that the Network has been able to obtain. NISPAcee was founded because a number of people believed that fostering professional networks in the CEE region, where learning would occur from colleagues who shared a similar past and public administration system, would be tremendously useful. The richness of the presentations and the exchange of this conference together with the ever-increasing membership attest how appropriate the initial founding ideas were.

## **Acknowledgements**

The NISPAcee Steering Committee would like to thank Barbara Kudrycka, Rector of the Bialystok School of Public Administration and her staff for their co-operation in preparing, implementing and contributing to this Conference's success. Our thanks also go to Krzysztof Lipski, Director of MISTIA, Cracow for both his and his Institution's support and to Maria Gintowt-Jankowicz, Director of the National School of Public Administration, Warsaw for her school's support. Viera Wallnerova of the NISPAcee staff did an excellent job in the months leading up to and during the Conference and we wish to thank her for hard work and devotion. The smooth running of the Conference was also thanks to Ludmila Gajdosova, Juraj Sklenar, Elena Zakova and Jan Andruch from NISPAcee whose task has grown immensely due to the large number of participants now attending this yearly event. The Local Government and Public Service Reform Initiative (affiliated with the Open Society Institute, Budapest, Hungary) once again supported the meetings of four Working Groups. This year, the Information Development Programme, the World Bank, Washington, and the United Nations Thessaloniky Centre, Thessaloniky (UNTC) gave their support to participants in the Working Group on E-government. Our thanks go to each of them. Far-reaching thanks also go to Elizabeth Valmores, Jak Jabes' assistant for her help in typing the changes to the many references contained in this book and also to Jak for taking the time to check them.

**SECTION 1**  
**Keynote Presentations**





# RENEWING PUBLIC LEADERSHIP: THE CONTEXT FOR PUBLIC SERVICE DELIVERY REFORM

*Geert Bouckaert\**

The simultaneous modernisation of the private and the public sector and of civil society combined with pressures on society, as a whole, requires renewed public leadership. This includes political, administrative and citizen leadership.

## **Six Qualities for Governments in a Volatile Environment**

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, re-establishment of trust in government is needed. A third reason is that government's role is changing under new pressures including the loss of the government monopoly, greater competition, the opening up of societies and international structures. This applies to the EU as well as to the CEECs (Bouckaert, 2002).

The list of common challenges in the Western world seems to result in an equally common list of about six qualities for governments and their administrations in volatile environments (Bouckaert, Ormond, Peters, 2000: 7 – 16). Administrations need to focus on integration across governments. Governments need to address issues that respect no organisational boundaries in an effective cross-governmental way. Vision and capacity to develop a balanced strategic view of the public interest is a second quality. This involves putting short-term projects in a longer-term perspective in the context of budget realities, and the views of civil society and individual citizens. A third feature is effectiveness, including economy and efficiency. Today's challenge is to draw on a much wider set of means and networks or relationships in order to implement public programmes successfully, and achieve desired outcomes. Fourth, internationalisation requires adapting domestically, and influencing others to a mutual benefit. As frontiers get lower, smaller countries have relatively more to gain by timely organisational and economic adjustment, while external co-ordination impacts on all government activity. Fifth, trust and legitimacy are related to building new relationships. Although some countries are better placed than others are, no country is immune to a decline in trust. This requires anticipatory action by governments to bring about responsible engagement of citizens, and make them confident that their public institutions cater to their needs. Sixth and final feature is responsiveness

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as a quality of adapting to change. More than ever, an unpredictable environment requires governments to have the capacity to scan ahead, detect trends and think creatively about ways of shaping policies and institutions to respond to new challenges.

This results in about 4 main strategies of maintaining, modernising, marketising and minimising (Pollitt and Bouckaert, 2000) in all fields of management and policy (Bouckaert 2000a; Bouckaert, 2000b). It is not obvious so far, either theoretically, or empirically, to what extent results have been obtained (Pollitt, Bouckaert, 2002).

### **Tendencies of Public Management in OECD Countries**

Three trends appear as a changing focus. First there is more emphasis on performance and costs. The implicit assumption is that big administrations and bureaucracy do not change by themselves and need pressure on their black boxes in order to focus more on performance and as a consequence improve this performance. The guideline is therefore: more internal pressure results in better performance. The key question then becomes what kind of pressure is required at what level and under what circumstances will this result in improved performance? Internal pressure is included in several ways. Strategic plans are translated into operational plans and are used to define responsibilities and accountabilities. This increases pressure and helps to focus on results. The financial cycles are transformed resulting in performance budgets, double bookkeeping and cost accounting, and performance audits. This appears to be a strong leverage to emphasise results. Personnel functions include performance-based contracts, promotions, hiring and firing. Finally organisational relations are determined by performance-based contracts. All these institutionalised instruments should help to guarantee a permanent focus on results. However, some consider this as insufficient. Internal pressure should be complemented by external pressure. Market type mechanisms are installed, i.e. vouchers or competitive tendering in order to increase pressure. Obvious questions are of course the level and type of external pressure, its timing and conditions to become functional. Pressure may become dysfunctional, i.e. too high, or the wrong type of pressure, or at the wrong time, or under the wrong circumstances, causing unintended effects.

Defining autonomous units as specialised and separate organisations is also a strategy to better define responsibilities and to facilitate accountability. This specialisation also requires a context of co-ordination to materialise the gains of this specialisation.

A second type of change focuses on responsibility and accountability in a context of managerial autonomy. Redefining mechanisms of allocating responsibilities, by using contracts, is complemented by redefining mechanisms of

accountability and expanding (internal and external) (performance) audits and evaluation. This combined redefinition assumes, as a consequence, a better focus on performance.

A third type of reform includes the increasing involvement and commitment of different actors in society. Citizens as customers, and users, and payers, or clients become active. Citizenship turns into an activity rather than remaining a status (Kymlicka and Norman, 1995). Citizens become active partners of government itself (OECD, 2001). Citizens and civil organisations but also private companies become active parts in a societal chain that creates value added. This is part of a government governance system of which government is a part as well as being ultimately responsible.

### **A Performance Based Conceptual and Procedural Framework in the Public Sector**

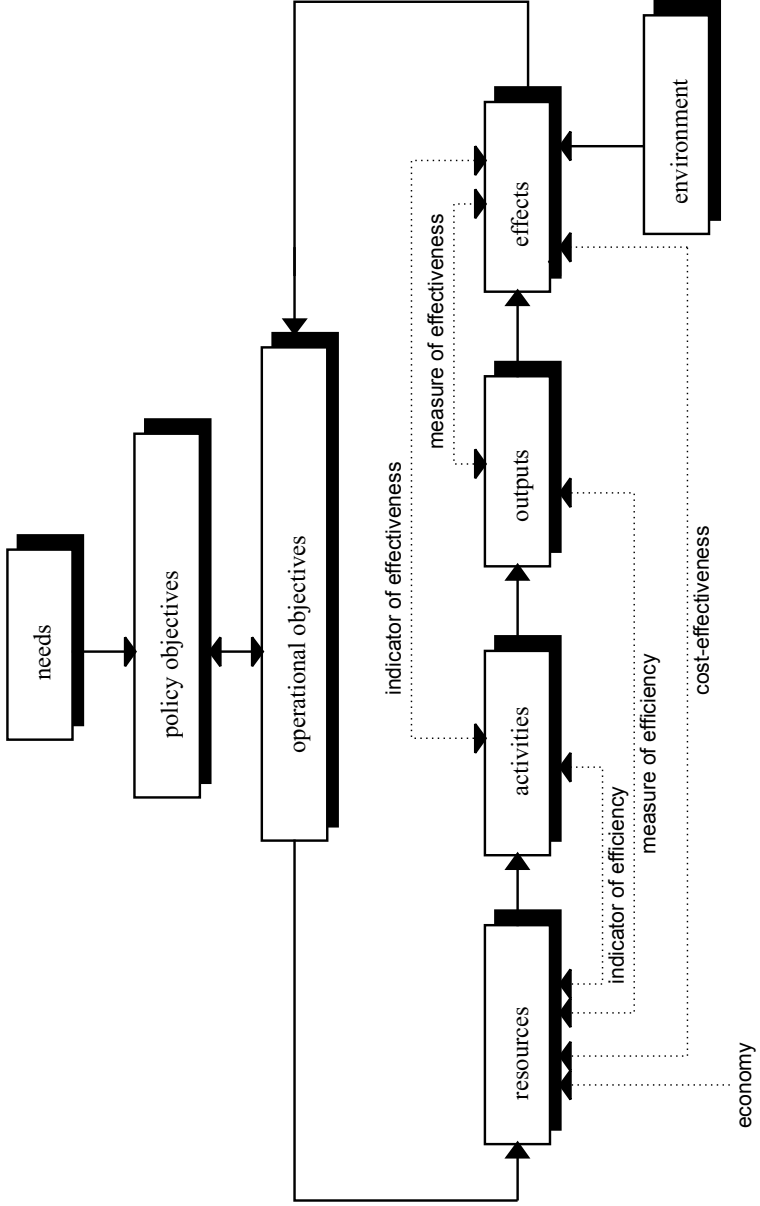
It is quite clear that all OECD countries are shifting to an almost common performance-based conceptual and procedural framework in the public sector.

The commonality of the glasses, which are used to look at a government reality, is shown in graph 1. Needs are confronted with financial capacities and result in policy objectives which are strategic, e.g. reducing poverty by half in the next decade. This is translated into yearly operational objectives, which match the strategic objectives. Required resources (inputs) generate activities of public organisations, which result in outputs. These outputs should have intended effects, which of course are dependent upon environmental features. These effects should be confronted with the operational objectives.

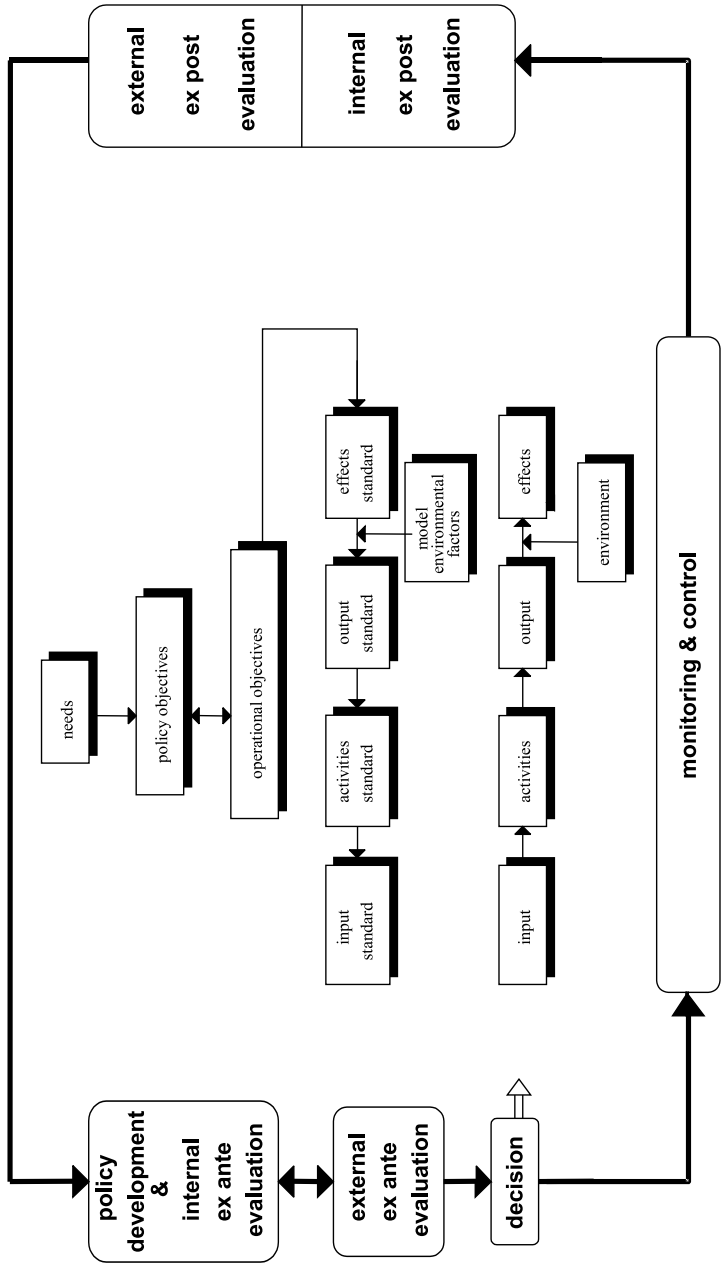
It is important that all actors involved in the policy and management cycle wear the same glasses of graph one and look at the governmental reality using these glasses. This is demonstrated in graph two. At the ex-ante stage, whether it is internal (the line organisation) or external (the horizontal department of finance, or the mother department) policy development ex-ante evaluation should use this framework in a contradictory discussion. The same applies at the ex-nunc stage where ongoing implementation requires monitoring and control. The third analytical stage, which chronologically may overlap, is the ex post evaluation, internal and external. This ex post evaluation feeds a contradictory debate, which is useful for the next cycle.

Professional leadership requires a similarity of frameworks and contradictory debates based upon the contents generated by these frameworks at all stages of the cycle.

**Graph 1**  
**Policy Cycle: Conceptual Framework**



**Graph 2**  
**Procedural Cycle for Policy and Management**



## New Public Leadership (NPL) and Management Reform

According to the OECD “the most important role of public sector leaders has been to solve the problems and challenges faced in a specific environment. When we say we want more leadership in the public sector, what we are really looking for are *people who will promote institutional adaptations in the public interest*. Leadership in this sense is not value neutral. It is a positive espousal of the need to promote certain fundamental values that can be called *public spiritedness*.” (OECD, 2001b:7).

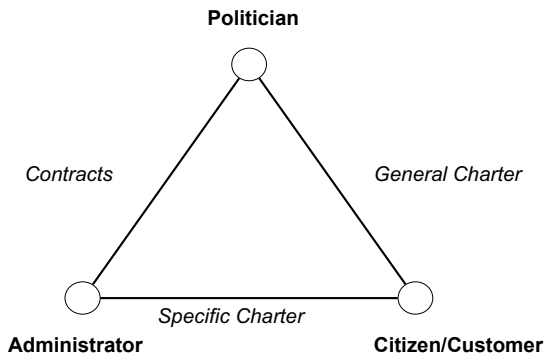
Derived from this definition, the report continues to describe three general trends of leadership development: developing comprehensive strategies, setting up new institutions for leadership development, and linking existing management training to leadership development.

This article puts leadership in a broader context of governance and links it to the modernisation agenda.

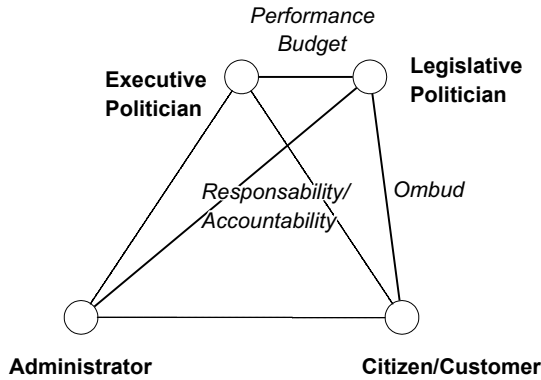
The point of departure is a double triangle, which is corroborated by new or renewed procedures or instruments, which have emerged in the last decades.

The traditional triangle (graph 3) consists of the executive politician, the administrator and the citizen as a customer. These three interactions are framed in renewed or even new settings. Politicians and administrators define their relationships in contracts or mandates or agreements which all have in common that competencies, resources and results are linked. Politicians also start framing their relations with citizens as customers in Charters. This occurred explicitly in the UK, France, Belgium and Portugal. Between administrators and their customers more detailed charters per sector or per institution were established.

**Graph 3**  
**Renewing traditional relationships**



**Graph 4**  
**New Public Leadership: Actors and Instruments**

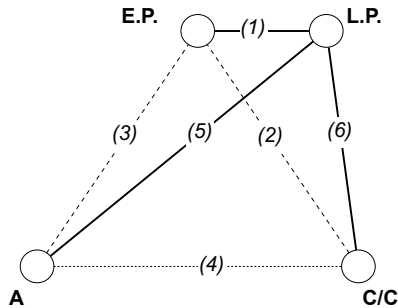


The double triangle consists of politicians (executive and legislative), administrators and citizens as customers.

Their interactions have also been supported or amended by new types of instruments or procedures, which refer explicitly to the reform agenda of public management itself. The link between executive politicians and legislative ones is redefined in performance budgets. Some countries made pronounced efforts to improve this relationship e.g. Canada with its Improved Reporting to Parliament Project (IRPP). The degree of performance coverage and the way of covering (percentage wise) the budget resources by indicators differ between countries. However this becomes an increasingly accepted standard of interaction. Between administrators and the legislative, parliamentary commissions require administrators to explain their responsibilities and also be accountable for certain matters which, in many cases, are defined in the contracts administrators have with the executive politicians. Finally citizens/customers have renewed relationships with the legislative. Of course some Scandinavian countries already have a long tradition of ombudsman functions, but this renewed link is sometimes defined as the second or third line of defence for citizens where the first line is quality control inside the administration (with a possible appeal).

This results in six new and renewed relationships between four actors as shown in graph five which will be discussed systematically in the next paragraphs and which are summarised in table one.

**Graph 5**  
**Six renewed public leadership relationships**



A critical discussion of the six public leadership relationships results in the following analysis, which is limited due to space constraints of the article.

*Relationship One:*

*Performance Budgets between Executive and Legislative Leaders*

Performance (based) budgets are documents voted in Parliament in which the legislative authorises the executive to spend money for a particular purpose during the next year. Budgets should answer the question: what will happen next year? This requires leadership from the executive side, which prepares and defends the proposed document. Generating explicit objectives in order to stimulate a contradictory debate on policies aiming at effects, through outputs realised, requires a new type of leadership. On the other hand the legislative should focus on main themes and on these objectives and get sufficient information from its supreme audit institution, which it should instruct to focus accordingly. In a system of countervailing powers this requires parliamentary leadership. As a consequence of these discussions there may be a bonus or a malus for certain programmes. Leadership means steering and accepting this kind of consequence.

*Relationship Two:*

*General Charters between Executive and Citizen Leadership*

The link between the executive and citizens is under pressure. Trust figures seem to demonstrate that citizens have many second opinions in matters of political executive leadership. Also citizens react more and more using voice and exit. Extreme and volatile voting behaviour, terrorism, hooliganism, or migration is more visible in Western systems. Even if general charters or renewed Magna Carta's will not solve this, it may be an expression of a renewed pact between



**Table 1**  
**Contents of Leadership per Interaction**

<b>NR</b>	<b>CONTENT</b>	<b>ACTOR ONE</b>	<b>ACTOR TWO</b>
1	PERFORMANCE BUDGETS	<b>EXECUTIVE LEADERSHIP</b> -Generate Explicit Objectives -Stimulate Contradictory Debate -Accept Bonus/Malus	<b>LEGISLATIVE LEADERSHIP</b> -Focus on Explicit Objectives -Organise Contradictory Debate -Instruct Audit Office -Steer to Bonus/Malus
2	GENERAL CHARTER	<b>EXECUTIVE LEADERSHIP</b> -Release Sufficient Information -Involve Citizens as Customers in all stages of the policy cycle -Redirect Services	<b>CITIZEN LEADERSHIP</b> -Stimulate Open/Fair Service Perception -Develop Reasonable Expectations -Accept Reasonable Price/Quality Ratios
3	CONTRACTS	<b>EXECUTIVE LEADERSHIP</b> -Accept Contradictory Debate: Principle/Agent -Choose between Market State and State of Law -Focus on Outcomes in an Output Context -Steer for Goal Convergence	<b>ADMINISTRATIVE LEADERSHIP</b> -Reduce Information Asymmetry -Focus on Outputs in an Outcome Context -Take an Accountability Attitude -Reduce Goal Divergence
4	SPECIFIC CHARTERS	<b>ADMINISTRATIVE LEADERSHIP</b> -Release Sufficient Information -Involve Citizens as Customers in Stages of Design, Implementation, and Evaluation -Redirect Services Accordingly	<b>CITIZEN LEADERSHIP</b> -Stimulate Open/Fair Perception -Develop Reasonable Expectations -Accept Reasonable Price/Quality Ratios -Guarantee Positive Co-production Commitment
5	RESPONSIBILITY/ ACCOUNTABILITY AGREEMENTS	<b>LEGISLATIVE LEADERSHIP</b> -Focus on Outputs and Outcomes -Focus on Quantity and Quality -Distinguish between Political and Administrative Responsibility	<b>ADMINISTRATIVE LEADERSHIP</b> -Guarantee Transparency -Distinguish between Political and Administrative Accountability
6	OMBUD	<b>LEGISLATIVE LEADERSHIP</b> -Choose General Interest and Principles of the State of Law	<b>CITIZEN LEADERSHIP</b> -Reject (Ab)use Based on Self-Interest -Emphasise Public Interest/ Principles of State of Law

citizens and their executives powers. For that reason a citizen partnership requires executive leadership which includes a transparency on policies and service delivery and a deliberate involvement of citizens as customers and otherwise. This may have, as a consequence, that services or policies are redirected. On the other hand citizens, individual or clustered, or their organisational expressions, profit or non-profit, should develop reasonable expectations, stimulate and accept open and fair perceptions and reporting on what happens in the public sector, and accept reasonable price/quality ratios. This includes also the media. Citizen leadership includes all these responsibilities.

*Relationship Three:*

*Contracts between Executive and Administrative Leadership*

The link between executive politicians and administrators always was a complex interaction and also depends heavily on the politico-administrative systems. Nevertheless executive leadership in this context means that a contradictory debate before a decision is possible between principle and agent. Transparency of modelling is also important. Choosing for a market state or a state of law, defines role models and rules of games. Executive leadership should also focus on outcomes as a result of outputs, which are negotiated in contracts. Goal convergence should be a key concern for executive leadership. On the other hand, administrators have a main responsibility in reducing information asymmetry and in focusing on outputs in a context of projected outcomes. Subsequently, administrative leadership should take an accountability attitude and facilitate goal divergence.

*Relationship Four:*

*Specific Charters between Administrative and Citizen Leadership*

Specific charters make the link between the administrators and the citizens. This requires administrative leadership, which includes sufficient information for citizens, direct and active involvement of these citizens in the whole cycle of design, implementation and evaluation. This may result in redirecting services. On the other hand citizen leadership, including the media, should take a positive attitude towards co-production, stimulate an open and fair perception, develop reasonable expectations and accept a fair price/quality ratio.

*Relationship Five:*

*Defined Responsibility and Accountability Agreements between Administrative and Legislative Leadership*

Administrative leadership should be willing to guarantee transparency and positively distinguish between political and administrative accountability. On the other hand legislative leadership should focus on outputs and outcomes, on

quality and quantity and also distinguish between executive and administrative responsibility.

### *Relationship Six:*

#### *Ombudsman as an Interaction between Citizens and Legislative Leadership*

Legislative leadership in its interaction with citizens will have to choose explicitly for general interest and principles of the state of law. On the other hand citizen leadership should reject self-interest-based positions, which damage general interest, and behave in a civic way.

### **Some Preliminary Conclusions**

This article differs in four ways from the traditional leadership literature in general and from the leadership study of the OECD (2001b).

Contrary to the OECD analysis, public sector leadership was placed in a governance context, which is broader than the public sector *sensu stricto*. Civic society, briefly defined as citizen/customers, should be seen here in its broadest context and include private companies and non-profit organisations as well as ad hoc citizen groups next to individual citizens. A specific actor in this side of the double triangle is the media, which has a major responsibility in renewing leadership in society.

A second difference is that leadership is not just a feature of an individual but also a characteristic of a relationship between two actors or institutional settings.

A third difference is to connect the leadership requirements to precise managerial instruments, which have been installed in the context of public sector reform. This results in opportunities and threats since it may affect a balance of power. Opportunities may turn into threads if the leadership circumstances are not fully realised.

A fourth difference is its applicability in the EU as well as in CEECs.

Renewed public leadership therefore consists of three components, which should interact in a renewed way:

- new political leadership, executive and legislative;
- new administrative leadership; and
- new citizen leadership.

This may result in rebalancing the power in society.

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## **PUBLIC SERVICE IN A CORPORATE WORLD – THE DANGERS OF MANAGERIALISM AS A TOOL FOR PUBLIC ADMINISTRATION.**

*Marek Debicki* \*

Human beings (as many philosophers have said over the centuries) are social beings and good men and women are better when they live in a good society. John Rawls in “A Theory of Justice” states that people have a collective sense of justice and the public good and that good society helps in the moral development of an individual.<sup>1</sup> In his view, a good society requires a system of institutions operating on a principle of good governance. Such a notion is at the same time ethically good and a product of rational choice.

I see the role of public service as creating and maintaining this good environment, assisting nature and people in a healthy mental and physical development and protecting us from the ill-effects of our greed, stupidity or short-sightedness.

I initially thought of writing an overview of the most important techniques to improve public services in procedural and structural terms – tools primarily developed in the private sector management.

It was to be a paper about different aspects of the Economic Rationalist-Managerialist – Customer Service – a paradigm of public governance. In other words this would be about such innovations as TQM, Business Excellence Model, ISO 9000, QMS, Management by Objectives, National Performance Review and the Consumer Satisfaction Index. In a paper I wrote on consumer-citizen surveys of government services, I counted well over thirty methods of measuring that dimension of governance).<sup>2</sup> It was to be a paper about methodologies and tools of policy making, policy evaluation performance evaluation and audit.

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<sup>1</sup> See John Rawls, *A Theory of Justice*. Belknap Press of Harvard University Press, 1971; also, John Rawls “A Distributive Justice” in Peter Leslett and W. G. Runciman (eds.), *Philosophy, Politics, and Society*. Third Series London: Blackwell, 1967.

<sup>2</sup> See e.g., J. E. Benton and J.L. Daly, “Measuring Citizen Evaluations”, *Public Administration Quarterly*, Winter 1997; also, A. Dutka, *Handbook for Customer Satisfaction*, Illinois: NTC Publishing Group. 1996; B. Marson and G. Dinsdale “Citizen / Client Surveys. Dispelling Myth and Redrawing Maps”, CCMD, Ottawa 1999; also UK Citizens Charter. *Service for Citizens. The Agenda for Improvement*. Report of the London Conference. London, 1994; A. Kroeger, *Governing in the Millennium: How Much Less Government*, CCMD, Ottawa 1996; T.H. Poister and G. T. Henry, *Citizens Rating of Public and Private Service Quality: A Comparative Perspective*. *Public Administration Review*, 54, no 2, March/April 1994.

However, given the dominance of the New School of Management in setting the directions in efforts to provide us with better governments and governance it might perhaps be of some value to present an argument as to the possible negative consequences of blindly following this path.<sup>3</sup>

All of the above mentioned (and many other) techniques and tools of governance are based on some very questionable (in my view) assumptions – particularly when applied to public governance. Too frequently, when applying these techniques we do not stop to think about their intellectual foundations. These theories, prescriptions and models emerged at the time when Keynesian economics and public policies based on its tenants brought both governments and (what should be remembered) many corporations to the brink of disaster. The great promises of a world free of hunger, poverty-related illnesses and discrimination unfortunately did not materialise.

If anything, during that period despite all the efforts to provide work for all, some measure of wealth equalisation and other forms of welfare policies reducing inequality between individuals and nations, according to many authorities, these problems increased.<sup>4</sup>

The New School of Management began with a much-needed critique of the welfare state and particularly the waste of monies and other resources.

Very quickly its representatives began to make more general claims. The intellectual foundations of this school are based on a concept of the Economically Rational Man derived from classical (A. Smith) and neo-classical (M. Friedman) economic theories. It is not our job to assess the validity of these models for the operation of the private entities.<sup>5</sup> However, it is very much our duty to understand the meaning of such theories for public policy and public administration, since they set a very clear path for the system of public institutions, what they do and what they are supposed to be doing.

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<sup>3</sup> See for example D. Osborne and T. Gaebler, *Reinventing Government*, 1992; most textbooks on Public Administration give a good account of this literature, e.g., K. Kernaghan and D. Siegel, *Public Administration in Canada*, Nelson, Canada third ed., 1995 or G. Peters, *The Decline of Civil Society. How Come? So what?* The John Manion Lectures 1996. Also, R. Batley, *A Research Framework for Analysing Capacity to Undertake the "New Roles" of Government*. University of Birmingham 1997, G. Peters, *Managing Horizontal Government*, CCMD, Ottawa, 2000; J.N. Rosenau, E.O. Czempel, *Governance without Government; Order and Change in World Politics*. New York, 1992, N. Flynn, *Public Sector Management*, 2nd ed., New York, 1994.

<sup>4</sup> See e.g. J. Rifkin, *The End of Work*. Penguin Putnam Inc. 1995 or The OECD, *Jobs Study: Facts, Analysis, Strategies*, Paris, OECD 1994, also F.Bourguignon and C. Morrison, *Adjustment and Equity in Developing Countries*, OECD 1992.

<sup>5</sup> See M. Friedman, *Capitalism and Freedom*. Chicago. Chicago University Press 1962.

The New School of Management makes a very large claim – after all Gaebler and Osborne “Reinvented the Government”. This school of thought has been a very valuable source of critique of poor management of public monies, antiquated structural arrangements and sometimes the provision of goods and services which are not required or of poor quality, at a very high price. It is presently impossible to consider public policy and service delivery without cost benefit analysis, and for that alone we should be thankful to those academics and practitioners who introduced such an analysis to our policy making, policy analysis and service delivery.

In our region, given the high costs of building modern democratic systems with very limited financial resources, we should be very judicious in the way we spend public monies and such analytical tools can and should be of great assistance. At the same time, this approach has some very negative (in my view) consequences, perhaps going as far as creating roadblocks in the development of individuals, communities, societies and the global community as a whole.

The emerging New World Order is based on the concept of globalisation, which is very different from the previously used notion of internationalisation. Internationalisation was based on the premise of interdependency of communities. Globalisation is a product of corporations which treat the world horizontally carrying out their activities in those parts of the world which at any given time reduce their costs and provide the best possible benefits without undue consideration for social and political costs to employees, communities or societies. (Labour practices in the international clothing industry operating in Latin America should put us all to shame). Such corporate strategies are facilitated by new technologies, which are increasingly capable of supporting decision-making but which ignore the societal and geographic boundaries. Corporations no longer promise their employees long term positions even for excellent quality work or loyalty to the company.

Even the leading sectors such as banks, financial services and the electronic industry have been using layoffs as one of the means to increase profits. (During certain periods, particularly in the USA, but also in other countries, layoffs were highest in these very profitable sectors).

Capital movement is the most globalised economic activity – imagine, every 24 hours more funds move across national boundaries than the annual GDP of the United States! Governments are incapable (at least presently) of matching financial resources, or the speed and techniques of decision making in the private sector. The requirements of democratic procedures of public decision-making make it doubtful that in any system, which has some form of parliamentary law making, due process and public accountability, that this is possible at all.

This is particularly true since we no longer have a democracy in which leaders act for us.

There is increasing evidence that governments are unsure of their role – particularly vis-à-vis the private sector. It is clear that it is in our collective interest to support a healthy market place – but how far and at what social cost? It is clear that the new economic order has very clear expectations from the political systems.

The corporate world wants balanced budgets, free and global financial markets and reduction of labour costs, particularly through the reduction of benefits provided by the employers and movement towards a system of part-time work. L. Balcerowicz is a typical representative of such views – for example in “Freedom and Development” he states that the system of pensions is responsible for the high levels of unemployment and destabilisation of the system of finances.<sup>6</sup> The corporate world also has a preference for private delivery of a variety of services which have been traditionally provided for by the public sector (hospitals, senior citizens’ housing, educational institutions or even goals are some examples of this trend).

Increasingly, there is empirical evidence that capital is favoured over labour (Self, Hughes, Savoie, Kelsey, Rifkin and scores of other authors document this trend).<sup>7</sup> It is evident that those who can afford it will have better schools for their children, better medical services and pensions if they can provide for such services privately. At the same time, if the elite do not use public services, they have less knowledge about the quality of such services or the need for expansion and improvements of that part of the public system of service delivery.

There is very little empirical evidence that the rest of us benefit significantly through the trickle-down effect of high level of profits or the highly priced imaginative private system of pensions or other services. (The difference is, for example in the treatment of kidney stones using an ultrasound technique in private clinics and the traditional highly invasive surgery in the public sector, or the primitive prosthesis available through public health care and highly sophisticated computer assisted artificial limbs provided by private clinics).

This economic order does not operate within the confines of communities or nations but predominantly on the basis of individual accumulation of wealth

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<sup>6</sup> See L. Balcerowicz, *Wolnosc i Rozwoj Ekonomia Wolnego Rynku*. Krakow, Znak, 1995.

<sup>7</sup> See P. Self *Self Government by the Market*, Houndsmill, Macmillan, 1993; O. Hughes, *Public Management and Administration*, London St. Martin’s Press, 1994; J. Kelsey, *Economic Fundamentalism: The New Zealand Experiment – A World Model for Structural Adjustment*, London Pluto Press, 1995, J. Rifkin *op.cit.*



without consideration for community relationships.<sup>8</sup> As The Honourable Pierre S. Pettigrew (not some left wing radical but a member of the Liberal Cabinet in Canada) observed – “globalisation has brought a democratic deficit with governments losing power and influence while horizontal and non-democratic bodies of all types see their power and influence grow.”<sup>9</sup>

In his view, movement from industrial to financial capitalism has frequently caused the replacement of exploitation by the more radical and disturbing phenomenon of “exclusion” of communities, some nations and in each and every community, a large number of individuals. This exclusion applies to individuals losing jobs, communities losing a single employer or whole societies in which hunger, genocide and poverty are a way of life.

At the same time, both the citizen’s demands for transparency, accountability and empowerment combined with modern communication technologies contribute to a decrease in social trust or what Robert D. Putnam refers to as a decrease in “social connectedness”.<sup>10</sup> He states that in the US (and this can be observed in practically all developed societies) “we destroyed a large number of quite well functioning communities”.<sup>11</sup>

OECD data on levels of social trust – or, to be more precise the lack thereof, (particularly in our Region) is even more alarming than what Putnam has observed in the US. A similarly well known report “French Society in the year 2000 “demonstrates a significant loss of credibility of the French state”.<sup>12</sup>

Putnam and others note that modern market societies are destroying social capital. Please remember that not long ago, many economists in our region (particularly some of the excellent work done by Hungarian academics) argued that we should, due to the lack of financial capital, compensate by the development and use of a relatively high level of social capital. Data on unemployment and the misery of retired members of our societies gives one reason to be concerned as to the use of that capital.

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<sup>8</sup> S. Jenkins, *Accountable to None: The Tory Nationalisation of Britain*. Harmondsworth, Penguin, 1995; O. Hughes *op.cit.*; W. Hutton, *The State We’re In*, London. Jonathan Cape, 1995; C. Offe, *Modernity and the State: East, West* Cambridge, Polity Press, 1996; J. Saul, *Voltaire’s Bastards*, Toronto: Penguin Books, 1991; L. Thurow, *The Future of Capitalism*, New York, NY; William Morrow & Company, 1996.

<sup>9</sup> The Honourable P.S. Pettigrew, *Seattle: The Lesson for Future Governance*. John Manion Conference, 2000, p. 6.

<sup>10</sup> R.D. Putnam, *The Decline of Civil Society*, John Manion Lectures 1996 p. 7.

<sup>11</sup> R.D. Putnam, *op.cit.* p.8.

<sup>12</sup> Cases, Hatén, Thibeaud French Society in the Year 2000. Paris 2001.

Modern democracies operate through their relatively short history on the ideology of social contract. We give the state our support and loyalty in return for the right to a life, liberty and property.

How long can this system withstand high levels of unemployment and the reduction of medical and other basic services? We were promised and expect good governance, which is a necessary factor in a democratic society. Good governance creates a two-way process linking governing and governed by strong common core values and performance, improving the citizen's (rather than the "customer's") quality of life. The decline in the citizen's commitment and approval of the overall performance of the public sector can significantly undermine the development of a democratic system of governance. One of the leading French intellectuals, Paul Ricoeur, notes that democracy must continuously work on the legitimacy of its decisions and priorities.<sup>13</sup>

Critique of fiscal capitalism is no longer limited to left wing radicals. More and more, people like Jenkins, Chomsky, Rifkin, Galbraith, P. Self, Rocard, Ricoeur or even R. Nader<sup>14</sup> are listened to, even in corporate circles. This was perhaps one of the more important lessons learned from the Seattle summit.

A very basic question we should be asking within the public sector is whether public good can be defined exclusively in economic terms, accepting the basic role of the state as that of assisting freedom to create wealth (as so eloquently argues Milton Friedman in "Capitalism and Freedom"). This view is very strongly supported by the well-known Polish economist and politician Leszek Balcerowicz, who in *Freedom and Development*, states those community values are a threat to individual freedom, easily leading to despotism.

Another way of asking this question is whether the only answer to Homo Sovieticus is an individual who does not have, amongst his or her values, the notion of common good. If this is the case then the cry of the New School of Management for less and less government is ultimately logical.

### **Management is Management Regardless Of Sector!**

The above statement describes perfectly the basic philosophy of the New School of Management, both in terms of prescription as well as an evaluative tool. If we accept this premise, then the role of public service in general and the leaders of public agencies, should act in a manner similar to that of the CEO's and other members of corporate management.

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<sup>13</sup> P. Ricoeur in *Esprit* January 1991 Paris.

<sup>14</sup> N. Chomsky, *World Orders Old and New*. New York, N.Y.: Columbia University Press, 1994; J. K. Galbraith, *The World Economy Since the Wars*, London: Mandarin Paperbacks, 1994; S. Jenkins, *Accountable to None: The Tory Nationalisation of Britain*. Harmondsworth: Penguin, 1995; P. Self, *Government by the Market*. Houndsmill. Macmillan 1993.

Quality of public administration is more than delivery of services to citizens – who are defined as “clients”, at the lowest possible price and of sufficient quality as not to cause a decline in demand. Risk of managerial decisions in such a system is defined only (or mostly) as a variable having an impact on profits. It is evident that the public service should manage our money prudently and that services should be delivered in a timely manner, responding as much as possible to the demands of citizens. Many of the techniques and analytical tools used in the private sector can and should be utilised by the public service.

It is also true that some services are totally unnecessary, or better left to the private sector. But the same could be said about some goods and services delivered by the market place.

It should be noted that there is some evidence that such measures reducing public expenditures benefit corporations more than they do the individual taxpayers.<sup>15</sup> At this point I would like to state most emphatically that good governance is much more than a very limited set of relationships between buyer and supplier or seller of privately delivered goods and services.

We, the citizens, are much more than customers; we have rights and duties not only in legal terms but also those resulting from our membership of the community and responsibility for co-governance of our affairs. In the market place, if I do not purchase particular goods or services, then I have no relationship with the company. Such a company has no duty towards non-consumers (other than those imposed by laws). What is more, we have increasing evidence that some very successful companies are prepared, in the name of profit, to harm their own customers (Car manufacturers, tobacco industry or arms dealers).

What is more, with respect to some goods or services, companies in view of their marketing strategy, deliberately supply their products to only certain well-defined groups of potential customers excluding other groups. That, in a market society is their right, but it creates very significant differences between the private and public sector.

Good governance is a set of policies, procedures and institutional arrangements leading not only towards economic prudence, but also towards human development, increasing the well being of the members of a political community, excluding no one. Through good governance we should increase our rights and have the means of participating in the affairs of the community.

Leaders of public service have a duty to foster community development, provide universal services for all and in many instances assist us in our development or supply of goods and services which we are unable to purchase in the market

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<sup>15</sup> P. Kennedy, *Preparing for the 21<sup>st</sup> Century*. New York Anchor Press, 1999.

place. In many cases, the provision of such services should take place even if a simple economic calculation tells us that we will never recover the costs or that the risk of failure is significant.

For private companies, it is frequently a rational economic decision to significantly reduce the labour force, not only to avoid bankruptcy but also to increase profits. The public sector may not be able to successfully eliminate unemployment, gender discrimination, homelessness or other forms of human misery but it should always, without exception, have these objectives in mind.

As a member of a community, people frequently contribute to services they may never use. However the citizen considers (or should consider) that the provision of services to the sick, music lovers, people with mental or physical disabilities, users of National Parks or educational institutions is part of creating community well-being and development.

The quality of managerial decisions in the provision of public services cannot be assessed only by cost reductions but by much more difficult and intangible dimensions of their contribution to the development of social capital and adherence to democratic means by which decisions are made. This calls for managerial skills, which cannot be found in the bag of quantitative tricks by which graduates of the new school want to re-invent the government.

It is clear that in social development we have to take a long-term view. Thus, leaders must have a vision of the future and that cannot be obtained from data on the last quarter expenditures or profits. Paul Ricoeur<sup>16</sup> warns us that without a notion of public good, our future will be an “era of emptiness”. It is my view that the more we demand from the public sector managers to act in the manner in which their colleagues in the private sector (or for that matter politicians) behave, the less they are capable of planning policies aimed at our long-term well-being.

Some politicians sense this problem – President Bush’s well-known speech, known as the “Points of Light”, calls for the need to work on the development of new forms of American democracy capable of responding to social change. Yes – we provide cheaper services in a better manner and our auditing and costing skills are improving, but in terms of a contribution to the development of democratic values and governance public services, leaders are failing both the citizens and those who work in public institutions.

It is easy to see the reasons for such developments. Public finances were in a very bad shape and something had to be done in order to avoid “bankruptcy” of the public sector in practically every country. In many instances, the manner in

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<sup>16</sup> P. Ricoeur, *op.cit.*

which services were delivered did not respect even the very basic rights of citizens. In our part of the world, public service contributed to the development of a political culture in which citizens expected that the state “will take care of them” without a mutual feeling of co-responsibility for governance of communities.

Measures proposed by the New School of Management were and are, supported by very powerful business elites with easy access to politicians. On a very simplistic level we all want to pay less taxes and have first-class services. We also, on a mass attitudinal level, relate easier to short-term policies, goals and simple definitive answers.

Long-term damage to social capital and societal development and values is seldom capable of influencing voting decisions. Electoral politics become more and more superficial (the same people who market cosmetics and cars “market “ candidates for political office”). Politicians do not demand from public service leaders long-term developmental plans and policies. They want to win the next election at the lowest possible risk and cost.

These are some of the very basic explanations for the popularity of this new trend in public sector management, which offered a helping hand in solving the immediate problems.

With all those pressures, public servants are very uncertain as to what constitutes public good and reduces the scope of governance. We should also remember that frequently effectiveness and efficiency bring about a decrease in accountability and responsibility and in that way are “undemocratic”. In an environment operating with efficiency and effectiveness as basic operating norms, it is somewhat difficult for co-operation and ethical standards. Leaders of agencies, when demanding performance according to such norms, have a duty to create an environment in which other values are neither forgotten nor lost. Efficiency and effectiveness are the means and never goals in themselves. For all these reasons, leaders of public service send conflicting messages down the “stove pipe”. This causes behaviour inconsistent with the very notion of leadership. Kickert<sup>17</sup> uses a very powerful image in describing problems with present-day management of public services. He says that the state ship became a flotilla in which interagency and intergovernmental bargaining became a frequent (if not basic) policy making tool. That occurs at a time when due to globalisation, there is an ever-increasing need for leadership based on co-operation and there is a danger of distraction of many communities. If he is right, then all the tools of companies, which are well managed if they can win in the market place, are of limited use. Thus, public service must concentrate on the real qualitative improvements in democratic governance, mindful of its role in the development of social capital.

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<sup>17</sup> W.J.M. Kickert, *Managing Complex Networks: Strategies for the Public Sector*. London: Sage, 1997.

We, the people, live in real communities with real neighbours in a real environment and not in some horizontal cyber space. Leaders of public service should work on creating policies and a service environment in which we will use our skills, knowledge and energy not only for our own economic betterment, but will view as a goal of the highest order, service to our communities, mindful of our duties to future generations.

Please remember that the term “public service” means just that. Leaders of public service should aim at making all of us, at least from time to time, servants of the public rather than customers of a limited number of services without any connection to other consumers and service providers. Is this a dream? Yes! But remember that “legitimate discontent will not pass until there is an invigorating autumn of freedom and equality”.

I am not sure if Rifkin is right in declaring that we are in a period of the third industrial revolution – what I am sure of is that if he is right, then the managers and structures designed and acting within the tenants of the New School of Management are not and cannot be prepared to administer such a revolution.

## **SECTION 2**

# **Working Session on the Main Conference Theme – Delivering Public Services in Central and Eastern Europe: Trends and Developments**





## DELIVERING PUBLIC SERVICES IN CEE COUNTRIES: TRENDS AND DEVELOPMENTS

*Tamas Horvath* \*

New methods of public service delivery emerged in developed countries at the beginning of the 1980s. As a reaction to the overspending of the former welfare state, outside sources were found for managing and financing different public functions. The policy orienting on rationalisation of the public sector focuses on restriction and shifts at the same time. Involvement of the private sector increased in the provision of public services. Market and voluntary sectors took over many of the functions and managing became the government's only role. The State at local level gives incentives to develop alternative forms of service delivery. Re-inventing regionalism supports new linkages in certain areas thereby bypassing national government level. Service provision, rather than bureaucratic administration, is preferred.

A comparison of decentralisation developments in CEE and CIS with the provision of public services under the neo-liberal governments of the 1980s in the West leads to a number of important conclusions. First, whilst the reduction of public functions has been more radical in these countries, policy formulation as a reaction by public administration to the challenges of change, has been less developed. This brings about the danger that unavoidable reductions in state expenditure will not be accompanied by structural changes, but will simply lead to cutbacks in traditional provisions. This is certainly always the easier option. Despite slow progress, however, there are signs that a possible new model of governance in service management is emerging.

The initiating motivation on the renewal of public functions is linked to the system transformation as a whole in countries of the eastern region. In the 1990s, a market economy emerged after the communist era. Public functions had to be revised. Privatisation took over in both the economy and the formerly incrementally large scale of public services. Other public functions were also transformed. Transforming public management to 'New Public Management' is not an easy task under these circumstances because system transformation is needed at the same time. The private and non-profit sectors are not sufficiently developed and the state tries to monopolise public roles. New challenges are confused with conflicts of system transformation in the region. The main con-

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ference theme was devoted to discussing the issues of establishing an alternative service delivery in specific circumstances of systemic transition.

The theme consisted of 3 modules:

- i) Challenges (Theoretical aspects of transformation)
  - theories
  - new tendencies
  - the effects of European models
  - EU requirements
- ii) Conflicts of adaptation
  - economic environment
  - low effectiveness
  - corruption
- iii) Experiments
  - programs
  - surveys

Two sessions were devoted to each module and the last session was given over to feedback (free discussion). Three papers were presented in each session.

**Session 1:** Challenges (Theoretical aspects of transformation)

- theories
- new tendencies
- the effects of European models
- EU requirements

**Session 2:** Conflicts of adaptation

- economic environment
- low effectiveness
- corruption

**Session 3:** Experiments

- programs
- surveys

**Session 4:** Conclusions of the Cracow sessions of the NISPAcee Working

- Group
- Preparing the report of the Working Group

# ACCESS TO PUBLIC SERVICES – EUROPEAN EXPERIENCES TO SHARE

*Katrin Nyman Metcalf\**

## 1. Introduction

A state governed by the rule of law means much more than the mere existence of proper laws and rules – it also means more than democracy. It can mean a state in which democratically taken decisions can be implemented in such a manner that the benefits of policies decided, may be enjoyed by the citizens of the state. This may sound abstract but in its implementation means something very specific i.e. that an individual can have access to public services on reasonable, equitable and fair grounds. As a citizen of a state, you will feel that the state and the services it, in one or another way provides, are there for you, for your benefit. This should include all kinds of public services, interpreted widely and irrespective of whether the service is actually provided by the public sector or not. The provision of public services, the standard of the service and the way in which it is provided, is linked to the economy of a state. A certain economic standard – of public finances and also in the prolongation of the citizens – is necessary in order to be able to provide public services, which are often costly. This is the case whether the services are provided for free and financed through tax revenue or if they are paid for, to some extent, by the user – the money has to come from basically the same sources. But in the construction of democratic states governed by the rule of law in Central and Eastern Europe, the provision of public services and access to such services is an important and often difficult element, far beyond simply the (admittedly serious) economic issues. Public services must be accessible to citizens on a free and fair basis, without discrimination, corruption or problems caused by inefficiency or disregard to rules. Equitable and fair access to the services that exist are not directly linked with the economy: even if the level of a service is low, the access to it may be – and should be – fair.

In many areas – education, health, infrastructure, internal security as well as basic democratic institutions – the previously existing services in central and eastern European countries were inadequate and major costly reforms are needed. This includes reforms of the actual services as such, as well as of the regulatory systems governing them. The often – extreme centralisation of the old system needs to be changed to bring administration closer to the people. The private

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sector has in some cases been brought in, which highlights yet other issues from the regulatory viewpoint – primarily questions of independent control. The major underlying questions to be addressed – and this in a short period, whereas for Western European states the systems are often developed over a long period of time – are how to ensure democratic control and accountability as well as equal or equitable access for citizens and others to the public services.

The theme for this paper is not the actual provision of services, but the issue of access to public administration and public services, what principles should guide public administration and how to ensure equitable access for all. The paper talks mainly of public administration, but interprets this in a wide sense, including the provision of services as well as the decision-making and regulations, which may go with the term. The paper looks at experiences of the EU and of EU Member States to see if there are models and examples that can be applied in Central and Eastern Europe – and if so, how. This issue is particularly important because of the application of central and eastern European states to join the EU, but it is not relevant only in this context. It may be dangerous to only see the issue from an adaptation to the EU viewpoint, as the important thing is that citizens should genuinely have fair access to public services. It should not be a case of simply being seen to have it because of criteria set out in the EU membership negotiations.

This paper points to the needs and demands put on public administration in general and with it, public services and the means to achieve it. It looks at actual and equal access to services, understood as the absence of discrimination and corruption (which to some extent also includes the efficient functioning of the services). This paper analyses what is required for public administration to function well – for the benefit of the people – and if and how it is possible for EU Member States and the EU, as such, to transfer practical and beneficial knowledge which can be used to help create a good system of public services with equal access for all.

## **2. The European Union and Public Administration**

The issue of public administration and public services is not an area, which is regulated in detail by EC/EU law. There is actually hardly any *acquis communautaire* on administrative law or systems as such – they are not the same or even harmonised in existing Member States. The influence that EU membership has had on administrative and public sector services is more indirect and fluid, even if it is beyond doubt that there is an influence. What is more important is that there has developed a set of principles and rules that are recognised as being elements of well functioning administrative systems and these principles and rules act as yardsticks for countries, rather than as concrete pieces of leg-

isolation to imitate or copy. The notion of “European Administrative Space” is often used when discussing public administration in the EU and in candidate countries to illustrate the common principles, general rules and ideas in the administrative sphere.

Public administration has been more or less left out of the EC Treaty, as far as any specific provisions are concerned. This is not through an oversight but deliberate, as the manner in which a state designs its public administration is considered as belonging to the sovereignty of each Member State. There should be no interference from the EC/EU organs or any direct influence of EU membership on how administrative matters are handled in a state. Administrative law is an area of the law that traditionally is less open to internationalisation and harmonisation with that of other countries. This did not – even from the early days of the EC – mean that there was no influence whatsoever of the Community, later Union, on the public administration of the Member States. The close co-operation between the states, the fact that the administrative systems all implemented EC law and other factors contributed to an influence. A certain amount of legal uniformity is necessary in the EU and this cannot leave administrative legal uniformity to one side. Some of this influence can be seen in the Treaties, even if not directly, some is only evident in practice. When Article 10 EC (former Article 5) states that “Member States shall take all appropriate measures, whether general or particular to ensure fulfilment of the obligations coming out of the Treaty or Community institutions, this includes as an important element, that their administrative procedures must be up to the correct and fair implementation of EC law.” But there are no specific references to the efforts of national administrations in the EC treaty or in its later revisions. Member States, however, developed by necessity the administrative capacity to deal with EC law and over the years more and more co-operation has developed between Member States including on administrative matters. Article 94 EC (former Article 100) on law approximation mentions that directives on approximation may concern laws, regulations or administrative provisions in Member States. Thus if administrative provisions affect the establishment or functioning of the common market, these can also be approximated to achieve harmonisation. The situation in the field of public administration in the Member States is, however, clearly one of co-operation and striving for cohesion rather than approximation to achieve uniformity.

The EU has taken a more active role over the years in directing Member States in the implementation of EC law at the same time as the scope of EC/EU law and its field of application has grown. Although the idea of the different legal instruments available in EC law is to give Member States influence over how they implement the law, the Commission, in its proposals and directives, in fact provides much guidance to Member States on implementation, in order

to avoid harmful discrepancies. The recent proposed Directive concerning free movement of people is one such example. In the explanatory memorandum to the proposal, it is stated that although the choice of a directive was the only possible choice in this context, as it must be up to the Member States, to a certain extent, how to implement the provision in the most suitable way, certain provisions are very detailed. This is to avoid differences between administrative practices and differences in the interpretation, creating obstacles to rights being exercised in practice.

There are obviously administrative rules for the EC/EU itself – such a large and important organisation could not function without rules for decision-making, internal practical issues, liability and so on. However, it is not obvious that such rules have had any particular influence or importance for administrations in the Member States or candidate countries. The staff rules of the EU are quite encompassing and there is also a large body of case law in this field. These rules are rarely of much interest outside the exact framework in which they apply and the case law in this area is not something students of EC/EU law would normally come into contact with. The body of rules has been shaped by influences from the different Member States and by its own momentum. It is often said that French law and the French administrative system had the greatest influence in the early days of the EC, when the structures were established, and that French influences are still seen. Other influences can also be seen – the European Ombudsman, for example, is influenced by Nordic models. The relatively recently created Ombudsman (set up in 1994) is a good example of how the EU is making efforts to bring its administration closer to the people. There are simple and understandable rules and guidelines on how to complain to the Ombudsman. The procedure is not complex, the findings are published in an accessible manner and generally the Ombudsman is there to help ordinary people gain access to the Union and what it means for them. Even with the limited powers of the Ombudsman, the role is not insignificant in this context.

When it comes to a Union apparatus to implement EC/EU law, this was never foreseen as such. One of the special elements of the Community was that it would rely on the Member States for the implementation of the supranational policies and rules of the EC, later also EU, rather than build up a bureaucracy of its own for this. This is the truth with some modification, as there are also, apart from EU institutions, several different bodies at EU level that have tasks similar to that of administrative organs of states. These European agencies deal with many different matters, such as the environment, training, drugs and drug addiction, trademarks, health and safety at work, etc. The rules governing the agencies are made separately for each agency. There are several organisational similarities but no special body of rules to regulate European agencies, their functioning and standing, their hierarchy or their relationship with national bodies. Indeed, this

depends on the specific situation and tasks of each agency. Generally, the European agencies operate in co-operation with the relevant national agencies rather than in a strict hierarchical relationship with them. Although a study of these agencies will show several interesting examples of how to structure administrative agencies, there is no general body of law for such agencies for others to imitate and apply. Rather, there will be different models for how the general principles can be brought into play in the daily activities of the agencies.

Apart from EU internal rules and those of the agencies, there are also some rules of an administrative character of more general interest. One of the more important ones is the provision in Article 253 EC (former Article 190) on giving reasons for decisions. This provision has influenced administrative procedures in the Member States, as there was no universal understanding that reasons had to be given in all the Member States, (for example this was a new feature in the UK). Stating the reasons for decisions and acts is an important “service” to the public. It makes it easier for them to understand, to question and if relevant, to challenge decisions and makes decision-making clearer and more transparent.

### **3. Capacity for Implementing EC/EU law**

Even if there is not an important body of EC administrative law, the impact of the upcoming EU enlargement on administrative reform in Central and Eastern Europe is undeniably very important. The upcoming EU enlargement differs in many ways from previous enlargements. It is much larger than previous enlargements and the difference between the applicant states compared with existing member states is perhaps greater (at least in some cases). Another way in which the enlargement is different is in the long transition and preparation periods imposed on the candidate states. During this time they must already, to a large extent, harmonise their laws and systems following demands from the EU, to prove their readiness to join so that they will be more or less completely prepared to be members once they do join. Also, the fact that the EU is actively assisting the candidate states to prepare for membership is new for this enlargement. This is done through, for example, the EC Phare programme and through inviting the candidate states to take part in structural funds and other programmes prior to accession. There are active attempts at transfer of knowledge and experience from EU member states and the EU as such to the candidate countries, to assist them in reaching the high standards that the EU is imposing. The EU system is construed in many ways around the notion that member states trust one another and each other's ability to perform certain functions, so also for this reason, EU membership does require functioning administrative systems even if there is no specific *acquis communautaire* in this area. The nature of the EC/EU, with national bodies, national administrations, implementing the common body of law makes it crucial that Member States have

confidence in each other's administrations. If you relinquish the right to take a decision, control something or issue a licence, you must feel that the end result will not suffer by this being done by someone else. The citizens will be as safe, the environment as clean and trade will function as well as if you had done it yourself. The importance of trust must not be underestimated.

One of the so-called Copenhagen criteria, established at the Copenhagen European Council meeting in 1993, is that a state must have the administrative and judicial structures to implement the *acquis communautaire*. Apart from this direct requirement, it is also inherent in other criteria such as the stability of democratic institutions, which shall guarantee the rule of law (and protection of minorities) and the capacity to assume the rights and obligations of the *acquis communautaire*.

The development in the candidate countries of the administrative capacity for effective enforcement and implementation of all the requirements of the *acquis communautaire*, is maybe the most difficult of all the demands, as it is a background to all other implementation. The difficulty comes not just from the fact that it takes time and effort to create the required capacity, but also from the fact that it may be hard to measure when sufficient capacity has been built up. At conferences on this issue, the problems of measuring progress are often touched upon, as it is tempting but incorrect, to presume that spending more money and making new laws is sufficient. The empowerment and accountability of the different instances in the administrative system are indeed as important, as are incentives and control mechanisms to ensure compliance. In the sphere of general, as well as special administrative law, well-functioning institutions, which fulfil the demands of a modern democratic state based on the rule of law, are required – not only to be allowed to “join the club” and become an EU member – but more importantly a state must be able to assume the responsibilities of such membership.

In many areas covered by EC/EU law, there are technical specifications and standards, both EU and global, which states have to implement and assure if they are to take part in global society. This makes the task of evaluating the states' compliance a bit easier, as there are clear yardsticks against which to measure the states and their performance. Such clear yardsticks do not exist for the provision of administrative and other public services. Measuring against a specific EU state or against some conglomeration of states is hardly possible either, and maybe not even suitable, as national characteristics must be respected. At the same time, others' experiences in how to turn the principles into workable rules on the ground, should help those who now have to design their systems. Determining how best to transfer knowledge to other states is not an easy task. The various EU and other projects battle, not only with internal overly bureau-



cratic procedures, but also and more fundamentally with the question of how to disseminate knowledge and share experiences in a way in which it is genuinely useful for the recipient states.

#### **4. General Principles of Good Administration**

The background and rationale for the general principles of good administration are to be found in the principles of human rights. The importance of the European Convention on Human Rights (ECHR), which is in force for almost all European states, is paramount in this context. The ECHR and the system for its implementation and the relating case law mean that there is a harmonisation of the basic human rights and how they are pronounced between most European states. This has also led to a certain approximation of administrative law and related systems in the contracting states of the ECHR, even if the ECHR is not primarily an administrative law document. Rules on access to courts, on freedom of information, on protection of family life, on the right to property in Protocol 1 and other provisions, have influenced administrative systems in many states.

There are many ways of expressing what the principles of good administration are and there is no one final list. Public administration should function according to the law, under principles of legal certainty and proportionality, protection of legitimate expectations, defence of legal rights, non-discrimination, right of appeal of administrative decisions, ensuring a just treatment of all and constitutional responsibility of public administration. For regulatory authorities in different fields, the notions of objectivity, transparency and non-discrimination are very important and always stressed in EU documents related to the work of regulatory agencies. Regulatory agencies are especially important when services are carried out by the private sector, as the agency then becomes the means for the state to control the services. This list of good principles can be made longer or formulated in different ways. These different elements, if applied, contribute to giving access to administration and the tasks and services it performs on an equal basis. It is not negative but on the contrary beneficial that the list of what is good administration is open and flexible, as it can then grow and change with changes in the services provided.

Good administration is an element of a state based on the rule of law. A state based on the rule of law is a well-known notion and most commentators would know more or less what they understand by this, without necessarily having a totally clear definition of all that it includes. One key concept is that government or other organs of administration cannot interfere in administrative matters involving citizens other than based on law and in the framework given by the law. This principle is often not totally clearly stated in the Constitution or laws of a country even if it is considered an important principle – it rather

takes on the role of a guiding principle than a concrete norm as such even if it has the character of both. Other elements of the state ruled by the rule of law is the principle of legality (meaning a legal basis for legal and administrative intervention), the generality and coherence of laws and their proper promulgation, etc. The separation of powers and a control power independent from the executive one are other such elements of the rule of law. Basically, the notion consists of the various elements that characterise a functioning state based on equality and security for the citizens – something the organs of a state have to achieve even if the steps on how to do this in all situations are not something that the law can prescribe in detail.

Equality as a guiding light in the design of public administration and public services is very important. This does not intend to deny that people are not factually and actually equal in most situations – the inequalities are irrelevant for the purpose of political representation in the liberal and democratic way of looking upon things. The idea of equality may require not only rules on equal treatment, but also in some cases, one may have to go further towards rules to bring about the equality of arms; meaning that both sides should be able to have equal opportunities, which often may mean boosting the chances of the weaker party – the individual. The European Court of Human Rights focuses on the principle of equality of arms in that it looks beyond only formal rules to identify whether there is such equality, a precondition for successful implementation of provisions intended to secure the rights of individuals. This may also mean at times that there may be a need for rules to equal-up the situation, for instance different ways of positive discrimination or different benefits to weaker groups.

Among the principles agreed by most to be part of the common European principles and norms, more specifically for administration are: legal competence, professionalism, non-discrimination, fairness, proportionality, timeliness, openness and transparency, administrative discretion with accountability, efficiency and effectiveness. To this end, a good legal structure for the civil service is essential. Co-operation between different organisations and levels of an organisation are also very important for the provision of public services. All of these principles make up an intricate web, where one thing is dependent on another for the final result to be that the individual feels secure in having access to the services he or she needs, without discrimination.

Principles such as these may appear to be very general – nice words without much substance. But the importance of such principles should still not be disregarded. Of course, it is not as if public officials or other providers of service in well-functioning and developed states constantly go around consciously thinking about fine principles. However, it is probably the case that for many of them, such principles do form the background against which the work is done. This

can be achieved through training as well as through control (preferably through “soft” measures like transparency) and the use of both of these mechanisms must be proportionate. A feeling of empowerment and the possibility to affect the situation is very important. Decentralisation of services and administration as well as subsidiarity, bringing the administration as such, as well as the decisions, closer to those concerned by them, are important elements of reform in Central and Eastern Europe, with the often very centralised administrations of the Communist era.

## **5. Increasing the Status of Public Administration**

One important element when discussing the public sector and public administration in Central and Eastern Europe is the relatively low status of the sector in the eyes of the public and especially the young. This is shown, not least, in the educational choices of young people, who are very interested in the economy and especially areas such as marketing, business law for law students, and so on. If it is impossible to attract people to the sector, it is of course also very difficult to improve it.

One important tool in the struggle to make administration efficient and the fight against corruption is that the status of the public sector work is such that individuals do not have any interest in not following the rules. The remuneration of civil servants and other public functionaries is important for different reasons. Better paid jobs tend to bring a better status and attract more qualified people, not just for the money as such but also for the status of the job as illustrated by the salary in a sort of circular argument. A person in a well-paid job may have more incentives not to risk this job by accepting bribes and other illegal payments and will also presumably be in less need of such payments, if he or she can easily live on his/her regular salary. Money is however, as always, not everything. That individuals in different positions in the public administration are sufficiently empowered and accountable also increases the status of the administration. Being responsible for your work and the results of it give important and tangible reasons for individuals to assume responsibility and interest.

Training is crucial in increasing the status of public administration. The internationalisation of the profession is important to increase interest especially amongst young and qualified people. In this context, exchange with other European states and with the EU institutions can be an important element. To see examples from other states is always useful, not least because there are plenty of examples of high status and attraction of the public sector in a way that differs from most central and eastern European states. In France, the public administration has a strong position and status, historically and now. The large degree

of discretion of officials, their feeling of importance in their roles, may help to explain this and may provide ideas to implement elsewhere.

In some ways, increasing the status of the public administration is a chicken and egg situation: the administration in developing democracies is often seen with scepticism and even suspicion by people in general, which means that it is not a choice employer for the most qualified people, which in turn means that it is difficult to improve its image. The fact that it is difficult to interest young qualified people in public administration work is no reason not to attempt to do it anyway. EU membership of candidate countries may change this, as the status of EU jobs is generally high and the posts are attractive in many different ways. With more exchange with other EU states, it will also become more apparent to the citizens of central and eastern European States that public sector jobs in many countries are very prestigious. When the initial post-Communist fascination with the private sector wears off, a different perception may well appear.

## **6. The Importance of Legislation**

The issues discussed in this paper cover both legislative and regulatory activities and other elements for the functioning of the administration. Laws in themselves do not solve anything. But when criticising excessive efforts of lawmaking and law approximation one should not lose sight either of the importance of laws. For a person seeking access to a service, to be able to rely on a law clearly detailing the conditions for such access and to avoid discrimination, will be of the utmost importance. With knowledge of the law, one can refer to it in order to obtain one's rights. Over time, legal precedents will be developed to show cases of discrimination and of differences in treatment, etc. Such experience cannot be imported from outside, although in the absence of this, experiences from other states and especially the norms common to states can only help to provide guidance.

Laws banning discrimination often take on a momentum of their own eventually. The banned action becomes more and more rare, not just (as maybe at first) for fear of litigation, but as the "new model" prescribed by the law gains acceptance and becomes the norm after a certain period. In some cases new laws are needed. Making corruption a criminal offence in its different forms is an example of this. International efforts in combating corruption aim at effectively ensuring that such activities are indeed criminal at all levels. Setting out the definition of corruption is equally important.

When discussing the need for laws, constitutions should be mentioned. These must provide the appropriate setting for a good administration and outline the basic rights, even if it is unusual for a constitution to go into any detail on administrative matters. But the importance of the proper constitutional basis

cannot be forgotten even so. Issues of centralisation versus decentralisation, the administrative structures and such matters are often also directly regulated in the constitution.

Excess formality in laws and rules is not beneficial to the successful administration of public services, but at the same time some carefully managed formality may be very useful and actually reduce certain negative aspects of bureaucracy. In connection with access to documents, the formalities surrounding what a decision is, how a decision must be made, issued and published etc are rules that may, at first glance seem to be formalistic. However, they do, in fact, provide a service to individuals by making it clear what the decision is so that it may be challenged, questioned, and appealed etc. Clear and simple appeals procedures are good examples of procedural rules that have a great importance for the functioning of administration, through the control function they help ensure.

Regulatory agencies for different services (telecommunications, broadcasting, railways, other transport, etc) provide examples of how and why legislation is needed in the interplay between the private and public sectors. The regulatory agency, which should be independent from operators and which can be more or less independent from the government, is the body that the individual operators and users have contact with. This body must be able to operate in an efficient manner, specifically designed for the field it regulates with due regard to technology, specifics of the market, etc, but must at the same time provide full legal guarantees.

## **7. Transfer of Knowledge**

The administrative structures and other elements of administrative law in many cases rely on long traditions and are influenced by historical developments that may not have so much to do with only the matter at hand but rather with general historical events and national traditions. Such traditions may keep their relevance to a greater or lesser degree even when the state goes through important changes, such as the central and eastern European states at the moment. In the context of the transfer of knowledge and an incorporation of models from other countries (or from the EU) such traditions must be known and respected – even if they may in some cases have to be modified. The organisational structure in a state is one such element which is often based on old traditions and which may not at all need to change completely in order to be reformed. Respecting this is the first recipe towards the successful transfer of knowledge.

One thing to bear in mind when transferring knowledge is that exercise of authority and provision of services are carried out by people. One of the elements of a well-functioning state ruled by the rule of law is that the identity of the individual is not what determines success or failure of public administration.

This is due to various reasons: individuals are chosen so that their professionalism and competence is ensured, there are mechanisms in the system to see if any mistakes are made and corruption, as well as incompetence, are unlikely as there is transparency and accountability throughout the system. Even so, to achieve this, training of individuals and keeping those trained individuals are crucial. Strategic and managerial skills of core staff are essential and become all the more essential as the administration develops. To get good people to administrative positions, the job must be perceived to be rewarding and interesting. The line between a good functioning network of contacts and corruption or exercise of undue influence is very fine. For fear of appearing subject to corruption, there is a tendency in certain central and eastern European countries to avoid even those personal relations that may be beneficial for the job. At the same time, it may only take years of an individual's experience, but also a very well functioning organisational environment for networks and contacts to work without crossing the line to where there is the least perception of undue influence. This is extremely important for the issues of access to services and must be taken into account in the process of transfer of knowledge.

Policy transfer as a phenomenon has become increasingly common, based on many different but interlinked considerations. Globalisation and internationalisation naturally means that there will be more areas in which there is a need or at least a rationale for similar and compatible rules in different countries. This means that states that have come further in a certain field will have developed systems and structures, which may benefit and can be adapted to other states, rather than those states starting from scratch. Establishment of regulatory agencies for, for example, communications and energy are two examples. The important developments in democratisation of many states recently and the ensuing need for new democratic legislation and systems respecting the rule of law, are other examples. Policy transfer should not be a straightforward incorporation of laws of one state into another, but a way of analysing within a specific situation, how examples of others may be used to facilitate the process.

There are a number of issues of a practical nature to be considered in connection with transfer of knowledge in donor funded projects or otherwise. Even if the nature of these issues is practical-logistical, their impact may be considerable for the success of knowledge transfer. The experts who do the training and transfer the knowledge must be experts in their field. It is also important not to fall into the trap of just trying to present the model of one state and expect it to fit to the state into which it should be transferred. Rather than using specific country models, it is important to stick to fundamentals, to principles and models and to those elements that can successfully be taken over by another state with a different background and different system. Sometimes whole institutions and issues can be exported (the institution of the Ombudsman is one such example,

where the Swedish name has been incorporated into most languages). However, not even here has this happened without adaptation to the situation at hand.

An open approach to models and principles allows for these to be implemented in different legal systems and contexts. If concentrating in the transfer of knowledge on the why's rather than the wherefore's, there is a possibility that the result will be applicable to the environment it is currently in.

## **8. The Access to the Services – Some Concluding Reflections**

Even without clear rules that one might easily list as to what constitutes good administration, which is equally accessible to all and without a blueprint on how to achieve it, one can still list the various elements of such an administration and how it could be achieved. Dangers in access to services include corruption, inefficiency and discrimination. There are various means to achieve the good and avoid the bad.

The institute of the Ombudsman is one way of trying to overcome these dangers, by giving people easy access to procedures for complaints and putting forward their views, etc. The creation of a simple, understandable and transparent complaints procedure is another important element of a functioning system. The Ombudsman and the court-based system for control should complement each other. An Ombudsman behaves in an inquisitorial way rather than an adversarial way and he has the power not only to investigate on behalf of a "client" but can also decide to start an investigation of his accord. The greater flexibility of the Ombudsman, compared to the courts, is one of the important features and one of the reasons that Ombudsmen more often than not are seen to be effective and efficient, even if often lacking in strong enforcement powers.

Freedom of and access to information are other important elements for individuals in gaining access to public administration. This has a much wider implication than simply gaining access to documents. Openness also provides a means to prevent corruption and improve efficiency. Sweden is unsurprisingly cited as an example of openness – even if it is an example that is not necessarily easy to follow or transpose to other countries, as the Swedish system is so unique. The principle of public access to documents – that everything is publicly available if not otherwise decided – dates from the 18th century and has very strong constitutional guarantees. The introduction of such near-total openness to countries without this tradition may be difficult and a gradual process easier to implement. This is seen not least of all in the EU, where there has been a gradual development of a policy of openness and access to documents. Even with openness as a goal it is not wrong to give civil servants and administration the time to become accustomed to near-total openness, which in Sweden has been a regular feature of its administration for several hundred years. With openness

follows other requirements, many of which should be implemented where possible, even if total openness is introduced gradually. The importance of keeping registers is an example – again we see how a rule which may seem technical and of less general importance, in fact is a precondition for the application of an important principle. New technologies must be taken into account and electronic resources mean that access can be made simpler. New legal issues must also be taken into account. For systems now in the process of development, such new issues could be a feature from the outset.

Apart from these well-known means of providing access, various countries have also tried different, more imaginative ways, of making the public administration and public services more accessible and efficient. In Portugal, they have Citizens' Shops (Lojas dos Cidadãos), inspired by a Brazilian idea. This means that several public services are concentrated in a single building whose management follows private sector type ideas such as how the services are delivered and opening times, etc. This is a way of avoiding bureaucratisation, making services faster and more accessible and is an example of a method of improving access, which is not necessarily done primarily through legislation.

For an effective and efficient, as well as fair public administration, accessible to the people, there must be a rational division of competencies with a clear definition of responsibility and clear rules on accountability and effective coordination between different levels and different functions. A professional civil service, effective management, control and audit of public finances as well as rules on public procurement are all ingredients in the optimal public administration. Subsidiarity, the principle so popular in discussions about the EU, also has a role to play in national public administrations. Decisions should not be taken at a higher level than required – this also contributes to empowerment and accountability.

There are no Supermodels in the sphere of public administration on how to provide public services. There are many good ideas and important principles, based on human rights, general principles of law (such as proportionality, legal certainty, transparency and non-discrimination) and other important considerations. But the creation of a free, fair and accessible public sector is something which, by necessity, must consist of a combination of legislative work to provide strong legal guarantees; proper complaints and control mechanisms; the strengthening of the civil service and its status, and practical measures in the sphere of services as such. There are examples from European best practice, from other states and from the EU, that need to be adapted to each state in question.



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# THE HUNGARIAN MUNICIPAL GUARANTEE SYSTEM

*Péter Szegvári* \*

## 1. Background on the Importance of Municipal Borrowing

The forthcoming years for Hungarian municipalities could be characterised by challenges due to the growing needs of an infrastructure stemming from the under-investments of the past, when municipal investment rates sometimes did not even reach the required rate of replacement. The economic growth and also decreasing inflation rates, provide a positive environment for infrastructure development. In order to mobilise private funds for municipal investments, local governments must be able to generate local revenues and co-ordinate public and private investment funds.

The level of private fund integration into municipal financing depends on the budget characteristics of the municipality: whether it possesses own resources and is able to attract private money with its prudent behaviour, or not. In Hungary, the municipal sector's ability to mobilise the private sector is very limited because of its very fragmented system and small budget, from which it is almost impossible to finance investments in an infrastructure that usually require large amounts. The enhancement of a municipal infrastructure is also an important task for central government, as its current level does not reach the level required by the European Union and the continuous under-investments would also result in costly investments in the future.

As the municipal capital spending has a major effect on the balance of the central budget, the interest of the government is in helping to develop a system in which municipalities are able to raise money safely for infrastructural purposes without threatening the macroeconomic balance.

Potential financial sources for local investments are the EU subsidies from the Structural Funds. These are additional funds, which means that municipalities have to add their own part to the investment showing their financial strength and commitment to the investments, otherwise, these funds are available for development.

These "own parts" could also consist of central development subsidies, bank loans or private sources. In other words, the condition for accessing EU subsidies is the setting up of a municipal financing system allowing municipalities to raise funds from the credit market.

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Considering that most of the own sources would come from bank loans, further criteria for accessing EU funds is the money raising ability on the local credit market. Setting up this institution is the interest of the municipalities, the banks with municipal clients and the state itself.

### **1.1 Municipalities**

The main incentive for municipalities (i. e. to join the Guarantee System) lies in the fact that with its help, they would have access to bank loans and other private sources at lower costs and better general conditions, as the risks associated with municipal lending would be spread amongst several partners.

### **1.2 The State**

Setting up a municipal guarantee institution is good for the state as it would broaden the possibilities for financing local investments, and would decrease the pressure on the central budget.

### **1.3 The Banks**

Banks are competing for new clients. The local government sector's demand for loans will probably increase in the coming years due to the reasons mentioned above and that would mean a possible target for lending money. This opening towards local governments will not result in the decrease of the banks' profit as long as the use of market tools reducing risks is associated with municipal lending.

The most important characteristic of the guarantee institution is mutuality. This kind of co-operation of municipalities means that together they represent a stronger actor on the market than they would do if they acted individually on the market.

## **2. The Characteristics of the System**

Based on international experiences in Hungary, we are trying to set up a system that is able to assure the actors of the market, that lending to municipalities is safe and that the risks are comparable to the benefits of taking part in a municipal investment.

### **2.1 Advantages**

One advantage of creating a municipal guarantee institution is that other municipal assets that were used as a guarantee for securing municipal loans, but were not directly related to the purpose of the loans, could be used for other purposes or could be sold.

With this kind of guarantee, the administration costs of the loans would decrease, as the risks would be spread out amongst several actors on the market. As the municipalities are responsible for each other's debt (mutuality), they would force each other to be more diligent, and this in turn would lead to a safer management of municipal debt and finance.

The municipal investment plans would probably be more elaborate and the quality of debt applications would meet the requirements of the debt suppliers. This would also lead to the development of the municipal credit market.

## **2.2 Services provided by the guarantee institutions**

### *2.2.1 Consulting services*

Municipalities have to hire costly experts coming from different areas in order to plan and realise a project. If the institution provided these services, it would be profitable for the local government itself and, of course for the guarantee institution, because taking part in the preparation of the different project plans helps the institution to have a deeper understanding of the entire project. Assessing the risk would be much easier.

The guarantee fund could also take part in finding investors for the project, for it would have a broad knowledge of the market through its other partners. They would also participate in preparing applications for international loans offered, for example, by international organisations such as The World Bank.

### *2.2.2 Credit rating*

Credit rating agencies are important institutions for developing municipal credit markets. The availability of municipal budget data, strategic plans and economic and social environment is essential for rating municipalities. The services of international rating agencies are very expensive. Besides, municipalities do not yet feel their importance. The guarantee institution would have to make a credit assessment for assessing the risks it is taking when providing the guarantee. This could be an initial step for the general rating of municipalities.

### *2.2.3 International loans*

International organisations would probably prefer to allocate their money to a municipality that had been rated by the guarantee institution and is secured by it. They would also have more confidence if the experts of the guarantee institution had previously given their opinion to the project and monitored the realisation of the development to the end.

### 2.3 Financial Sources of the System

The most exciting question concerns the financial background of the municipal guarantee system. This background must be stable enough to fulfil the requirements of the safe operation and should not exceed a level that is not bearable for the municipalities, as parts of this fund would originate from municipal payments. The fulfilment of these two requirements at the same time will be a difficult task for Hungary.

The main sources for the guarantee institution could be:

- equity provided by the founders,
- the equity of the municipalities joining later
- the payments of the municipalities into the fund willing to use its services
- fees for guarantee,
- the profit, reserve fund
- refund from the collection of collateral guarantees offered as securities coverage

### 2.4 The Guarantee Institutions

One key element of the municipal guarantee funds is their reserve generating system. Municipalities wishing to enjoy the services of the fund pay into its reserve fund. It means, that as owners they have the right to the guarantee but they are responsible for its operation to the extent of loans and guarantees.

The municipality must develop a loan raising system, which will allow it to avoid the possibility of bankruptcy. It must cover every risk and minimise the *vis maior* cases in its contracts when it is impossible to determine who is responsible for the failure of the project.

The guarantee institution can operate safely if it has sufficient sources for fulfilling its obligations in the case of a pre-estimated failure rate. Based on EU and other international experience, the maximum obligation undertaken by the institution cannot exceed 10 to 12 times the value of its assets.

Banks may ask why they would add sources for a guarantee system. One incentive for them would be if the guarantee only applied to those that are owners of the institutions. As lending out money into a system with state counter guarantee is highly in the interest of the bank, this would enhance their willingness to own a part of it.

The operation of the system is also in the interest of the Municipal Associations and this could also be manifested in their ownership. The interest of the municipality is to raise loans with lower costs; the banks would have a stage to lobby for regulations that are more suitable for their own business policies and

the interest of the state would be to minimise the costs related to municipal bankruptcies.

## **2.5 The State Counter Guarantee Fund**

Sources of the state counter guarantee fund should be separate from the central budget. Founders of the municipal guarantee institutions should include the municipalities, banks with municipal clients and the state itself (with a participation of approximately 25%).

The state counter guarantee fund would be owned by the state. Other owners could become part of the system only in an indirect way; e.g. the World Bank with a partial counter guarantee would support its operation.

The guarantee taken by the fund should be up to 70%. This would meet EU requirements as risks being spread among several partners and would ensure the acceptance of the fund by other lending institutions.

The guarantee institutions must have the revenue to cover their operation costs. We can set as a requirement that this must be covered from the profit of the organisations.

## **2.6 The Legal Form**

One basis of the system is a loan guarantee institution with the legal form of a shared corporation due to the fact that Hungarian laws without amendments do not allow guarantee institutions to have the legal form of a partnership or a co-operation (i. e. these institutions cannot offer the guarantee service). The other possibility is a foundation that gives a state guarantee in specified cases of defaults.

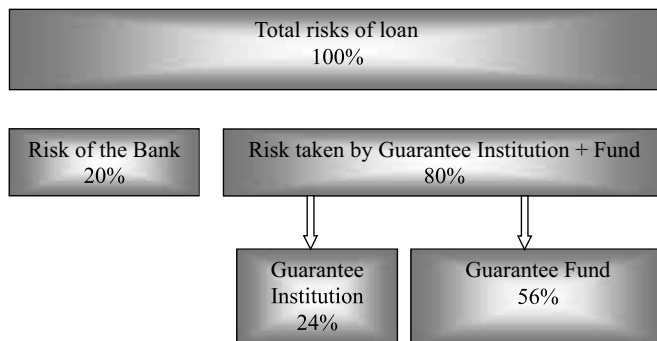
The legal forms of the state guarantee institution would be the foundation.

## **3. The Operation of the Guarantee System**

We suggest the guarantee taken by the guarantee institutions should be 80% and the counter guarantee by the state fund to be 70%. In this way the risk would be shared by the lending bank (20%), the Guarantee institutions and the Guarantee Fund (80%).

Part of the risk must be held by the municipality itself, so the local government must provide its own share to the development, but the amount of this share is obviously lower than it would be without the intervening guarantee institutions. The previous practice – mortgaging municipal assets – could be changed by securing loans with income from fees and local taxes. (See Figure 1).

**Figure 1**  
**Risk sharing in the Municipal Guarantee system**



#### **4. Financing need**

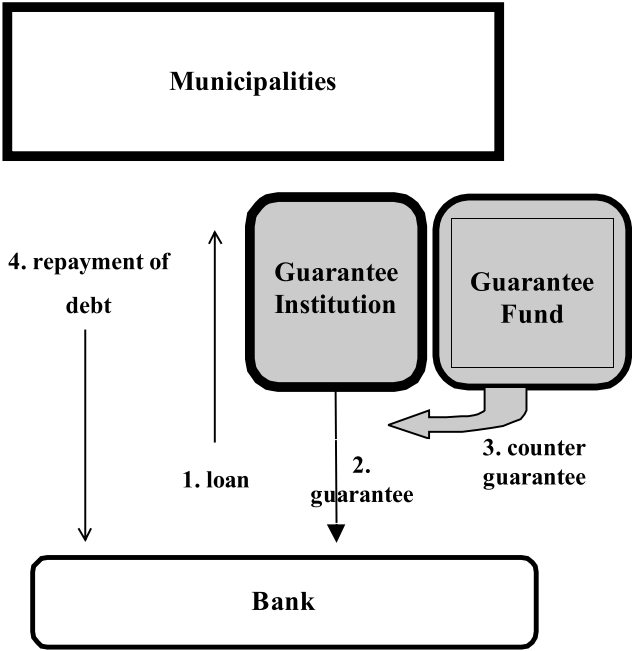
Sources required for setting up the guarantee system depend on the loan demand of Hungarian municipalities. If we assess that the municipality will need approximately 10 billion HUF loan, then the municipal guarantee institutions will require a capacity of 8 billion HUF guarantee.

This means that the institutions must possess at least 300 million HUF sources (assets), and the Counter Guarantee Fund must have 700 million HUF. In this case, the guarantee institutions provide 80% guarantee for 10 billion HUF loans, and their assets cover 12.5% of the guarantee taken.

With the required changes in Hungarian law the above Hungarian Guarantee System could be set up within a year. (See Figure 2)



**Figure 2**  
**The Process of Risk Allocation in the Municipal Guarantee System**



# EVALUATION OF THE EFFECTIVENESS OF TAX COLLECTION – THE CASE OF THE CZECH CENTRAL AND LOCAL GOVERNMENTS <sup>1</sup>

*Leos Vitek \**, *Karel Pubal \**

## **Introduction**

The measurement of the administrative cost associated with the tax system is part of the theory and policy of taxation and enables us to see public finance from the angle of a positive economy. It makes the decision concerning taxation policy at both central and local level less difficult for economists. Theoretically, the measurement of the administrative costs is not too difficult – the main issue lies in the determination of a particular type of taxation costs and their proper measurement.

The evaluation of the efficiency of tax collecting in the Czech Republic is suffering from a lack of support data. The data is available at an aggregate level, but for measurement of administrative costs and analysis of costs for particular taxes this is not the case.

## **Present structure of Tax revenue in the Czech Republic**

The fundamental legal rule determining the following list of taxes that may be collected in the territory of the Czech Republic is the Act approved by the Federal Assembly of the former Czech and Slovak Federal Republic:

- indirect taxes
- value added tax
- selective consumption excise taxes
- tax on hydrocarbon fuel and lubricants
- tax on spirit and spirits
- tax on wine
- tax on beer
- tax on tobacco products
- customs
- direct taxes
- income taxes
- individual income tax
- corporate income tax (legal entity income tax)

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- health insurance contributions
- social security contributions
- property taxes
- real estate tax
- land tax
- tax on constructions
- road tax
- inheritance tax
- gift tax
- real estate-transfer tax
- local taxes
- environmental taxes (special Act was not passed so far).

In addition to the above structure there are also health insurance contributions and social insurance contributions specified by special Acts. Municipalities at the present time may collect local taxes for the following:

- dogs
- accommodation capacity, spa capacity, recreation capacity
- municipal free space
- admission
- price playing slot machines

For these local taxes the Czech laws use the synonym *local fees*. Local (and central) governments also collect *administrative fees*. Since the latter are not taxes they are not analysed in this paper.

From the point of view of fiscal federalism, health insurance contributions are not revenues assigned to either the central or local government budget, but go to extra budgetary public funds. Social security contributions are revenues of the central budget. Allocation of tax revenue between central and local governments is shown in the following table:

### **Tax Reform in the Czech Republic in 1993**

The basic Acts creating the tax law in the Czech Republic came into force on the same day as an independent Czech Republic was established – 1st of January 1993. The new tax law represents one of the basic components of the transition of the Czech economy.

Until the “Velvet Revolution” in November 1989 the system of budgetary revenues was mainly based on the transfers of state enterprises to the national budget, but centrally planned investments were (to a considerable extent) covered by budgetary subsidies. The income taxes were combined with payroll taxes. For

<b>Allocation of the Tax Revenue between Central and Local Governments since 2000</b>		
<b>Revenue Of The Central Government (Including Central Funds)</b>	<b>Revenue Of Local Governments</b>	<b>Revenue Of Regional Governments</b>
VAT (except revenues allocated to local and regional governments)	Real estate tax	3,1% of the total VAT revenue
PIT (except revenues allocated to local and regional governments)	20,59% of the total VAT revenue	3,1% of the total personal income tax (PIT) revenue from employees
CIT (except revenues allocated to local and regional governments)	20,59% of the total personal income tax (PIT) revenue from employees	3,1% of the withholding PIT revenue
Social insurance contributions	20,59% of the withholding PIT revenue	3,1% of the total corporate income tax (CIT) revenue
Health insurance contributions (revenue of the health insurance companies)	20,59% of the total corporate income tax (CIT) revenue	3,1%*0,6 of the total advances for PIT
Road tax (revenue of the Fund of transport infrastructure)	20,59% 0,6 of the total advances for PIT	
Excise taxes (20% revenue of the tax on hydrocarbon fuel and lubricants goes to the Fund of transport infrastructure)	30% of the PIT revenue from self-employed incomes	
Inheritance tax		
Gift tax		
Real estate-transfer tax		

*Source: Act 243/2000 Sb.*

non-governmental organisations, the common income taxes were replaced with special income taxes with a rather complicated structure.

The taxes paid by citizens formed only a complementary part of the revenue of the government budget. The most important was a tax on salaries, the structure of which was different from the standard individual income tax. Its progression finished far below the level of the average salary and for this reason, the average tax rate was, in view of the taxpayer's age and the number of dependants, reliant on the social position of the taxpayer rather than on the level of his income. Salaries were taxed separately which resulted in the fact that several parallel smaller incomes were taxed less than one income equal to the sum of the smaller incomes. Tax payments were the responsibility of the employer.

Different kinds of incomes were subjected to further taxes but their total revenue was very low. Indirect taxation was extremely confusing, represented above all, by turnover tax which had thousands of different tax rates and which should have ensured the separate existence of wholesale and retail prices rather than a budgetary revenue. The tariff of the turnover tax rates was, even with a

reduction in the number of rates that had been carried out since the sixties, a fairly thick book. The tax was collected in a lump sum only on the prices of consumer goods. This was further complicated by the existence of the so-called 'negative turnover tax' which was a form of subsidy on selected products such as basic foodstuffs, energy for households, and, for many years, also on clothing and footwear for children, etc.).

The tax reform was divided into three consecutive stages. In the first stage the reform concentrated on basically "cosmetic" alterations to the existing system of budgetary revenues, in order to better meet the changing conditions in the economy. At the beginning of 1991, the turnover tax rates were unified by the introduction of three basic rates. The second stage was actually the preparation for the new tax system. When developing this tax, several principal goals were set for the new tax system (Kubatova, 2000):

- Improvement in the level of tax fairness, expressed by the same approach to all taxpayers regardless of their legal status and the source of their incomes.
- Increase in the proportion of consumer tax (whilst simultaneously decreasing the proportion of products with higher consumer taxation). The consumer taxation instrument was value-added tax, common in the countries of the European Union.
- Increase in the significance of individual income taxation, while simultaneously unifying the taxation of the overwhelming majority of taxable incomes, as well as unifying (and gradually decreasing) the legal entity income taxation. This process should result in a significant decrease in the legal entity income taxation.
- Creation of space for the utilisation of the fiscal system as an instrument for macroeconomic regulation.
- Preparation for the integration of our tax system with the tax systems of European countries and for our joining the European Union in the future.
- Division of the insurance system into general health insurance and social security insurance and a contribution to the government employment policy so that individuals realise their responsibility for their social security and their rate of effort to ensure this security.

Introducing a newly outlined tax system in the year 1993 launched the third stage of the tax reform. It should be noted that the new system was not only represented by new names and conceptions of taxes, but also by a brand new tax administration. It was necessary to train thousands of new financial and tax clerks in many tax offices and to ensure their material and technical equipment.

## Effectiveness of the Tax Collection – Administrative Costs of Taxation

The idea of “tax effectiveness” very often has several meanings. Firstly, effectiveness can be considered as the government’s ability to collect taxes with low costs. These costs – administrative costs of the tax system (AC) are the sum of all government level costs attached to the tax system.

We can assume that the criteria of the effectiveness of taxation is the total burden ( $E_T$ ), which is the sum of all administrative costs (AC), compliance costs (SCC) and dead weight loss (DWL).

There are several techniques that can be used for data collection. Vaillancourt (1987) in the following table (for compliance cost data collection) shows that each method has its advantages and disadvantages.

### Data Collection Techniques

Characteristics	Survey Types		
	Face to Face	Telephone	Mail
Costs	High	Medium	Low
Response Rate	High	High	Low
Feasible Questionnaire	High	Medium	Low
Data Quality	High	Medium	Low
Bias of Respondents	Low	Medium	High

*Source: Vaillancourt (1987)*

Most approaches are based on simplification. They merely take into account the costs associated with direct tax collecting, without calculating any other administrative costs associated with this. Costs connected with central and sub central levels of government, are affected especially by:

- Activities of Parliaments’ chambers that have a bearing on public funds revenues (e.g. discussing about new “earnings” laws, control of budgets filling).
- Activities of Cabinet cohere with revenue earnings.
- Total administrative agenda “earnings” ministries or other central government agencies, which directly or indirectly cohere with public funds revenues.
- Activities of policy, courts or others cohere with tax criminality.
- Activities of sub-central governments and their administration, which are directly or indirectly, cohering with sub-central public funds revenues.

The first equation shows that the total administrative costs of taxation are equal to the sum of all administrative costs for each level of government in a chosen country.

The second equation specifies the administrative costs for a particular government level. The total sum of administrative costs for a particular level is equal to

$$AC_T = \sum_i^n AC_i, \text{ } AC \text{ is a government level, } i \in (1,2,\dots,n).$$

$$AC_1 = \sum_{j=1}^m AC_i^j, \text{ } AC_i^j \text{ is a sum of AC for each government level, } j \in (1,2,\dots,m).$$

the sum of all administrative costs for each activity of the level of government.

The model does not deal with cash flow costs and benefits that are produced during the process of tax collection.

The questions related to administrative costs and compliance costs of taxation costs have belonged, for several decades, to the basic areas of interest among fiscal economists and even to governments of developed countries (Sandford 1989) and consumer taxation Sandford (1981). In the Czech Republic, little attention was paid to the effectiveness of taxation, even if we find partial research focusing on this problem (Dostálek (1999); Voříšková (1998)). Unfortunately the Czech Republic governments had no unitary measurement methods for calculating administrative costs based on international studies but at the same time taking into account the Czech circumstances, until now. The overview of measurement methods and contemporary results achieved in foreign countries is involved only in articles published by Vitek (2000); Vitek (2000a); Vitek (2000b).

There are empirical studies of administrative costs focusing on economically developed countries. Most attention is paid to the USA and the UK. For example Aaron and Gale (1993) focused on the economic effects of fundamental tax reforms, presenting the fact that administrative and compliance costs of taxation in the United States are 75m USD – approximately 10% of all tax revenues – (data is only available for federal government; for governments of particular states the estimates are not available). Similar outcomes were presented by Slemrod and Sorum (1984), who estimate the administrative costs of federal tax offices at 1% of all tax revenues and compliance costs of personal tax at 7% of its yield. The estimates of administrative and compliance costs for taxation of retail selling in the USA oscillate, according to (Slemrod, 1984) at intervals from 2 – 4% of its yield. The different estimates of administrative and compliance costs of VAT for EU countries is 5 – 6 % of their tax revenue. The study published by Armey (1996) states that all *social losses costs* cohere with taxation (i.e. sum of administrative and compliance costs and excessive burden) – society losses – together with the collection of federal taxes in the USA creates more than 33% of total federal tax revenue. M. Godwin (1995) states that the sum of administration and compliance costs of the British tax system is approximately

4 % of tax revenue – 1.5 percent of GDP. Pope (1995) published an estimation of costs for the Australian tax system.

**Administrative Costs for Taxes in the UK (% of tax revenue)**

<b>Tax</b>	<b>Administrative costs as a % of tax revenue</b>
Personal income tax and contributions	1,53
VAT	1,03
Corporation income tax	0,52
Taxes on fuel	0,12
Excise duties (fuel, tobacco, alcohol)	0,25
Other small fees and taxes	0,85
<b>Total (central and local governments)</b>	<b>1,16</b>

*Source: Godwin (1995)*

**Administrative Costs for Taxes in Australia (% of tax revenue)**

<b>Tax</b>	<b>Administrative costs as a % of tax revenue</b>
Personal income tax	1,2
Sale tax	0,6
<b>Total</b>	<b>1,1</b>

*Source: Pope, 1995.*

From previous data it is apparent that even although measured values for different authors are varied (especially compliance costs), a basic consensus on the significance and size of costs exists.

The answer to the question, how relatively correctly quantified costs cohered with the above-mentioned activities for every level of government, was not convincingly answered (complete list Vaillancourt (1987) or Sandford (1981) a (1989)). The reason for this is the imperfection of government accounting, which prohibits an aggregation of costs for particular activities of government coherent with public revenue. The lack of data is very often complemented by expert estimations of government share on costs associated with tax collection. The estimation is based on indirect indicators (e.g. share of employees dealing with tax problems, share of working time devoted to tax problems).

The administrative costs very often are not included in measurements, which focus on the efficiency of a tax system and are probably lower than “direct” administrative costs of government connected with tax collecting.

The remaining question is how correct are the measures and how much time do tax administrators spend on tax collecting?



For example, in the Czech Republic revenue authorities, a quantification of total administrative costs will not be difficult. However we will meet two crucial problems:

- First, offices which have many different activities (typical example is the Czech Office for Social Security or Health Insurance companies), and do not have clear evidence of the percentage share devoted to tax collecting;
- Second complication is that the government does not keep an accounting system, which enables a way of clearly identifying costs of government administration. Therefore we cannot split costs for each subject. A possible way to manage this problem is a construction of help indexes.

In this situation, when we are unable to measure administrative costs directly from government statistics, it is useful to apply a method based on expert estimations for particular administrative costs.

We can either use methods based on questionnaires or extrapolation of particular/total administrative costs according to the values gained from a few government agencies.

### **Central Government Administrative Costs of Taxation in the Czech Republic**

The central government does not measure the overall size of administrative costs of taxation. This is why it is very difficult to find data, which allows an analysis of the administrative costs for each tax or whole tax system.

The first research of the cost of the tax revenue collection in the area of the present Czech Republic is shown in the following table:

**Administrative Costs of the Tax Service as % of the Total Tax Revenue (1930 – 1934)**

<b>Year</b>	<b>Administrative cost (mil. Kčs)</b>	<b>Tax and fee revenues</b>	<b>Administrative costs as a % of the total revenue</b>
1930	498	11 096	4,4
1931	514	10 935	4,7
1932	537	10 651	5,0
1933	514	10 017	5,1
1934	513	10 043	5,1

*Source: Vybrál (1936)*

The analytical studies focusing on the problems of administration and compliance costs are not available in the Czech Republic. A very rough estimation of the administrative costs of taxation is available for the former Czechoslovakia (between 1932 – 1936) at Vybrál (1936). Voříšková (1998) and Dostálek (1999) present the first preliminary results (concerning measurement of administrative

costs of taxation for social insurance contributions) in the Czech Republic. These estimations come from central government statistics where it is possible to find out administrative costs for taxes governed by tax offices. We have at our disposal data for government expenditure and tax collecting in the Czech Republic since 1993.

The lack of data constrains authors to solve the problem by using indirect indexes. These indirect indexes of administrative costs will be applied to the sum of administrative costs of government offices.

Even if we simplify models, the paper will face two main problems:

- First, some offices work not only on tax collecting (ČSSZ or health insurance office).
- The second problem results from government accounting. We cannot identify costs associated with particular operations of the government administration. This means the impossibility of cost dividing amongst tax authorities and other government offices.

The next table shows the results of research on effective tax collection for social security and health contributions. The data was discussed with experts from the Czech Office for Social Security and the General Health Insurance Company. The research was based on a detailed timely study on the headquarters of these institutions and also on estimations of the number of employees that work there through collection of the contributions in each institution.

### **Administrative Costs of Health and Social Security Contributions (1998 – 1999), CR**

	<b>Administrative costs as % of revenue</b>
Health contributions	0.96
Social security contributions	0,41

*Source: Voříšková (1998); Dostálek (1999)*

The administrative costs of social security contributions are relatively lower because the amount of revenue is more than twice as high as in the case of health insurance contributions. The result of this difference is less significant influence of the fixed costs for social security contributions.

Administrative costs as percentage of revenue are probably lower for contributions than for personal income tax. It could be argued that the tax base for social security contributions and also for health insurance contributions is derived from the tax base for personal income tax and therefore the collection and control for contributions is easier and cheaper than for personal income tax.

### Administrative Costs of the Tax Service in ČR as % its Collected Revenue

	1993	1994	1995	1996	1997	1998	1999	2000
Cost as % of revenue	1,51	2,25	2,71	2,96	2,73	2,68	2,67	3,47

Source: Ministry of Finance CR, 2002.

The next table shows administrative costs for Customs and excise duties and VAT. Decrease in the ratio is primarily caused by increase in revenue (from 177 241 mil. Kč in 1996 to 264 038 mil. Kč in 2000). The amount of the expenditure as a nominal sum is stable (from 4 337 mil. Kč in 1996 to 3 958 mil. Kč in 2000) but decreases in real value.

### Administrative Costs of the Customs Service in ČR as % its Collected Revenue

	1996	1997	1998	1999	2000
Cost as % of revenue	2,45	2,17	1,89	1,83	1,51

Source: Ministry of Finance CR, 2002.

The overall administrative cost of central government in the Czech Republic for the year 2000 can be estimated as the sum of the administrative cost of:

- Tax service
- Customs service
- Czech Office for Social Security
- General Health Insurance Company

### Total Administrative Costs for the Central Government (Tax System In ČR) as % of its Collected Revenue, 2000

	Tax service	Customs service	Czech Office for Social Security	Health Insurance Companies	Total
Cost (mil. Kč)	5 234	3 985	900	800	10 919
Revenue (mil. Kč)	151 000	264 038	208 900	89 000	712 938
Costs as % of total revenue	3,47	1,51	0,43	0,90	1,53

Source: Previous tables and own calculations

### Local Governments and Administrative Costs of Taxation – some examples

The system of fiscal federalism in the Czech Republic has often changed. Municipalities presently collect only several local taxes (fee for dogs, fee for accommodation capacity, fee for spa stay, recreation fee, fee for special way to

use free/municipal space, admission fee, fee for operation and playing of slot machines. Municipalities may decide to impose these taxes, or not.<sup>2</sup>.

The next table describes the structure of the Czech municipalities:

### Structure of the Czech Municipalities (1999)

Size of municipalities (number of inhabitants)	Number of municipalities	Share of the total number of municipalities (%)	Share of inhabitants for the size of municipalities (%)
Less than 199	1 608	27,2	1,99
200-499	2 063	33,9	6,6
500-999	1 217	19,5	8,47
1 000-4 999	99	15,9	18,92
5 000-9 999	135	2,2	8,75
10 000-49 999	108	1,7	20,57
50 000-99 999	17	0,3	12,3
100 000-499 999	6	0,1	10,61
More than 500 000	1	0,01	11,79
<b>Total</b>	<b>6 236</b>	<b>100,00</b>	<b>100,00</b>

Source: *Ochrana (2001)*

The research project that began in January 2002 attempts to analyse the effectiveness of the collection of local taxes in selected municipalities. We have estimated the amount of the administrative costs for several small and medium municipalities. We used face-to-face interviews that allowed the collection of more accurate data. On the other hand, this method is extremely costly vis-à-vis the research team's time. Unfortunately mailing of questionnaires still does not work in transitional economies. Some data are also available from the websites of the municipalities or <http://www.info.mfer.cz/aris/>.

The measurements do not include real estate tax and shared taxes that are collected by the Tax services that are managed and financed by central authorities – these data are not relevant to the analysis of effectiveness at the local level.

Two methods are used for the data collection:

- estimate of the municipal employees (esp. estimates of the time consumption for the administration of each local tax);
- calculation of volume of time that is necessary for the administration of each local tax by researchers (frequency of operations multiple time for each operation).

The following table shows some of the results:

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<sup>2</sup> See Act No.565/1990 Sb. and Act No. 337/1992 Sb.

## Administrative Costs of Local Taxes in some Municipalities, CR, 2000

Municipality	Number of inhabitants	Revenue form local taxes (thousand Kč)	Administrative costs (thousand Kč)	Administrative costs as % of revenue
<b>A</b>	150	3	6	<b>200</b>
<b>B</b>	400	7,5	8,1	<b>107,5</b>
<b>C</b>	6 400	1 313	182	<b>13,9</b>
<b>D</b>	9 800	970	307	<b>31,6</b>
<b>E</b>	23 000	1 365	243	<b>17,8</b>
<b>F</b>	33 100	7 750	243	<b>3,13</b>
<b>G</b>	72 000	15 207	486	<b>3,2</b>

Source: municipalities and <http://www.info.mfcr.cz/aris/>

The numbers show that the incidence of administrative costs is extremely regressive and that for small villages it would be more effective to abolish these local taxes. Detailed analyses of each local tax that will be published during this year probably show that there are huge differences between individual local taxes.

### Conclusions

The administrative costs of taxation at the central level in the Czech Republic correspond to the results of similar researches in developed countries. The comparison of costs with transitional countries is however very difficult – there is no available data for other CEECs that allow comparing these costs.

The most effective administration at the central level is indicated as being social security contributions and customs and excise duties. The highest administrative cost has been in identifying the administration of income taxes, VAT and small property taxes.

The measurements for chosen municipalities were not yet complete and therefore it does not make sense to introduce definite values of costs for particular municipalities and analyse dependencies of cost rates from a different angle. Preliminary results show that the relative rate of administrative costs will be, in principle, influenced by total nominal size of the chosen tax (fee) and secondly by construction of the relevant tax. The rates of administrative costs for different local taxes are oscillating from 5% to 80%.

The lowest cost is that of the collection of a fee for the operation of slot machines and the highest are equal to that of the fee for dogs, accommodation capacity, for a spa stay and recreation fee. The research also shows that the size of administrative costs for local taxes rapidly decreases depending on the size of a municipality.

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# COST EFFICIENCY IN BULGARIAN MUNICIPALITIES

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## 1. Introduction

Since the start of the transition process and with the progress of public sector modernisation, increasing attention is being paid to the decentralisation of services and responsibilities from government to local authorities. In the case of Bulgaria, in addition to the various forms of civil administration, local governments also have commitments in the delivery of administrative services, education, health care and maintenance of municipal roads and infrastructure. With respect to the increasing debates regarding the quality of provision of these services, as well as the relative size and distribution of powers between the central government and municipalities, the question of their functioning efficiency is acquiring a growing importance.

This study is aimed at analysing the operational efficiency of Bulgarian local governments represented by the Sofia municipality 24 districts and investigates the relations between the aggregate costs and the size of services provided. The relation is analysed via non-parametric (data envelopment analysis) methodology. Specific attention is paid to obtaining indicators on the nature of returns – to – scale in communal activities.

The present study sheds some light on the efficiency in public services delivery by the local governments in Bulgaria. The level of service provision and activities varies greatly between Bulgarian municipalities. Thus the information for their relative cost efficiency and the identification of the best practices are of great importance for the distribution of the scarce centralised funds as well as for the consumers of these services – the local citizens.

The public needs information on the relative operational efficiency of local governments in order to be able to request and enforce a better central and local authorities accountability and services delivery quality while spending tax revenues and making their consumer choice in a more efficient way.

The local and central authorities could use the information on public sector cost efficiency in order to:

- Promote a policy that would be beneficial for the consumer choice and competition;

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- Improve the monitoring and control over the local governments activities;
- Strengthen the relative competition between the local governments in service delivery.

The importance of measuring the cost efficiency and productivity of local governments is due to the fact that:

- They are success indicators and performance measures, by which production and administrative units are evaluated;
- Only by measuring efficiency and productivity and separating their effect from the production environment, can we explore the hypotheses concerning the sources of efficiency or productivity differentials. Identification of these sources is essential to the institutions of public and private policies designed to improve performance. Moreover, macro performance depends on micro performance, and so the same reasoning applies to the study of the growth of nations.

During the last decade, the question of the efficiency of the municipalities in the provision of public goods and services has been especially important. The degree of fiscal decentralisation in the country is not great and the local authorities do not have the power to independently select the services that should be delivered to citizens. The public control over the efficiency of the public management is still weak, primarily because of the lack of information for the local citizens of the municipalities. Whereas some studies of the financial power and condition of the municipalities in Bulgaria have already been undertaken (Stefan Iliev, 1998), studies on cost efficiency are virtually non-existent.

## **2. Sofia Municipality Structure and Responsibilities for Public Services Delivery**

In every country, local governments deliver a vast range of services to their region. In Bulgaria the competencies of local authorities are set out in article 11 of The Act of Self-governance and Local Administration. They encompass the delivery of services in the field of education, culture, health care, social security, infrastructure and others.

The main objective of the study is to investigate the differences between the cost efficiency of the 24 Sofia municipality administrative districts. The selection of the Sofia municipality is based on its special place in local self-governance as an administrative unit having the status of both a region and municipality. Its policy is a mixture of local population self-governance and the government policy for the development of Sofia as the capital of the country.

According to the Law on the Regional Constitution of the Republic of Bulgaria the capital and cities with a population greater than 300,000 have to be

divided into districts under the governing municipality. The districts represent separate administrative units. They can be constituted when:

1. The district population is greater than 25,000;
2. The existence of the possibility for division of the relevant cities, according to the ruling town constitution and enduring natural or infrastructure dividers;
3. The presence of build infrastructure with local importance for the delivery of administrative, social and sanitary or hygienic needs.

Consequently, the establishment of districts is based on the goal to deliver better services to the local population rather than economic reasons or efficiency considerations. The provision of administrative services is one of the main responsibilities of the local administration. In a narrow sense, it represents every administrative service delivered by the executive power. In a broader sense, the delivery of services to the local population is a realisation of the governmental and local policy for regional development. With respect to this, the local administration is responsible for the implementation of all activities of local authorities' competence. Here, the process of distribution of local resources is intertwined with that of the control over their use and the relationship between the amount of funds and the quality and quantity of the services delivered. The division of responsibilities for the provision of public services between the local and central authorities can be made using two approaches:

1. By distributing the activities as is the case with services in the field of culture and public utilities for which the municipalities are separately responsible;
2. By sharing the functions for the delivery of certain activities in the provision of these services and having shared responsibility between the government and local authorities.

The second approach does not permit full realisation of the principle of fiscal decentralisation and leads to a mixture in the division of responsibilities and financial resources in the provision of these services. In the field of education, health care and social security for instance, the government appoints the managers, designates the salaries and provides methodological support. At the same time, the local authorities fund the activities and capital expenditures in these fields.

As subordinated administrative units, Sofia municipality districts do not have independent budgets – their expenses are part of the general budget of the municipality. In the revenue portion, the municipality is required to show the entire budget forecast for the Sofia Regional Tax Office, while the expense portion reflects the priority objectives on which the financial resources are spent. Over the last years there have been no government transfers for the Sofia mu-

nicipality. The relationship between the Central Government Budget and the budget of the Sofia municipality is set as payments to the Republican Budget and subsidies for social security and capital expenditures. In this respect, the Sofia municipality is probably the local authority with the greatest independence in decision-making regarding the spending of its financial resources of course according to the legal rules.

The highest portion of the expenses is salaries, including fringe benefits and this is one of the controversies of the budget process. Even though the municipal budget provides resources for high-priority expenses for salaries, the number of staff in health care, social security and education is determined by the relevant branch ministries.

### **3. Methodology**

Effective government services provision benefits from the support of rigorous measurement techniques. Data Envelopment Analysis (DEA) is an analytical tool that can assist in the identification of best practices in the use of resources amongst a group of organisations. Such identification can highlight possible efficiency improvements that may help administrative units achieve their potential.

DEA is a mathematical programming approach for the construction of production frontiers and the measurement of efficiency relative to the constructed frontiers. DEA is based on a concept of efficiency very similar to the microeconomic one; the main difference being that the DEA production frontier is formed as the piecewise linear combination that connects the set of “best-practice observations” in the data set under analysis, yielding a convex Production Possibilities Set (PPS). As a consequence, the DEA efficiency score for a specific Decision-Making Unit (DMU) is not defined by an absolute standard, but is defined relative to the other DMUs in the specific data set under consideration. This feature differentiates DEA from the parametric approaches, which require a specific pre-specified functional form of the modelled production or cost function.

The nonparametric data envelopment (DEA) method of Charnes, Cooper and Rhodes (1978), following Farrell (1957) is used to assess the relative efficiency of local governments and to provide a ranking of the municipalities according to the level of observed inefficiencies. The efficiency study is based on an input-oriented, constant returns-to-scale and variable returns-to-scale DEA model.

In other studies of the municipalities for expenditure patterns such as Adnet, De Bucquois, Gevers and Meunier (1987) the demand estimation approach is adopted and the local spending figures are interpreted as expressions of the response of municipalities to the demand for local public services by the citizens. According to this approach the municipality’s expenses are related to variables such as income, prices and various characteristics of the population. In this cost

analysis the alternative approach is adopted – the amount of services provided is taken as given and the efficiency is estimated according to the total costs they induce.

The explanatory power of the selected output indicators is evaluated by ordinary least squares from a Cobb-Douglas-type cost function. The sum of the estimated coefficients of the variables provides additional measure of the returns-to-scale giving additional insights on whether an administrative division reform may be deemed necessary or not.

#### **4. Data and Variables**

##### **4.1. Definition of the Sample and Data Sources**

The geographical coverage of this study encompasses a cross-section of the 24 Sofia municipality districts. The choice of the above municipality is based as much on its relative economic weight within the Bulgarian economy as on the size of its districts. The time span considered is from 1999 to March 2002. There are 25 districts in the Sofia municipality for which aggregate data is derived from the local government's budgets. In order to obtain a homogenous data set, the 25<sup>th</sup> district representing the Sofia municipality itself and its own resources is not included.

##### **4.2. Input and Output Definition**

The input variables are the aggregate total costs (IRO) induced by the municipal services delivery. In order to measure the total costs, we will take the operating costs for each district. The investment outlays will not be considered because they are too irregular for a single cross-section to be homogeneous.

The output variables should provide an indirect measure to quantify the local public services delivery in each district. As a direct measure cannot be derived, some observable output indicators are chosen in order to give as close as possible an approximation for the principal services provision with respect to the data availability.

For each district, the selected output indicators are the following:

- The total population (TP) is chosen as a proxy indicator for the amount of administrative services (maintaining the registers of births, marriages and deaths; issuing certificates for property, business activity permissions and others) delivery. These services constitute the prevailing commitments of the local governments regarding the public services delivery and we expect that the observed inefficiencies will be strongly influenced and explained by that indicator;

- The length of roads (LR) to be maintained by the district represents an indicator for the commitment of the local governments to maintain the infrastructure;
- The area of lawns, parks and gardens (LPG) is a measure for the efforts of Sofia districts to maintain them and preserve the environment;
- The number of students (ST) enrolled in local primary and secondary schools should reflect the responsibilities of the local governments in the field of education;
- The number of children (CHD) in day care facilities is meant to be a proxy for the responsibilities of the local governments in the field of childcare;
- The number of beds (HCB) in health care establishments is an indicator of the services delivered in health care;
- The number of libraries and concert halls (CUL) is an indicator of the local governments' commitments to finance and support culture activities;
- The living area (LA) representing the total surface of housing in the districts and is an indicator for the services for private and public buildings – the initial approval of the architecture plans, their improvements and repairs.

## 5. Empirical Results

### 5.1. DEA Constant Returns to Scale Model

Table 5.1. summarises the results obtained from applying data envelopment analysis constant returns to scale models to all 24 Sofia municipality districts. In the table, results are ranked in increasing order of municipal spending. Column (7) indicates the percentage of inefficient districts in each expenditure class. Finally, column (8) gives the sum of excess spending for the inefficient districts in each expenditure class.

**Table 5.1**  
**Summary Results of DEA Constant Returns**  
**to Scale Efficiency Computations**

District Expenses (lv. 000s)	Obs. in this category	Total Spending (lv. 000s)	Efficient Districts		Inefficient Districts		Excess Spending of Inefficient Districts.	
				% [=(4)/(2)]		% [=(6)/(2)]	lv. 000s	% [=(8)/(3)]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
299 - 399.9	16	5725.6	5	0.31	11	0.69	647.069	0.11
400 - 499.9	5	2238.2	2	0.40	3	0.60	250.942	0.11
500 - 599.9	3	1635.3	2	0.67	1	0.33	49.583	0.03
Total	24	9599.1	9	0.38	15	0.62	947.594	0.099

From these results we observe:

1. That 62% of the total number of districts are declared inefficient, i.e. are dominated by one or several other(s).
2. That the grand total of excess spending amounts to 947594 lv., i.e. approximately 10 percent of the total operating expenditure of the districts in the data set.
3. That over the three expenditure classes, the excess spending is fairly unequally distributed: 11% for the first two expenditure classes and 3% for the third.
4. That the greatest number of inefficient districts – 11, is in the first expenditure range 299 to 399.9 thousand lv.
5. That over the range 0 to 499.9 thousand lv., the proportion of inefficient districts (column (7) of Table 5.1.) is fairly constant, around 60%.
6. That over the range 0 to 499.9 thousand lv., the proportion of inefficient districts' excess spending (column (9) of Table 5.1.) is the same, 11%.
7. That the lowest percent of excess spending – 3% can be observed for the three largest districts in the third bracket ranging from 500 to 599.9 thousand Lv. operating expenses.
8. That for the largest districts (according to the level of operating expenditures) the number of efficient municipalities is the greatest – 67% and the amount of excess spending – the lowest.

Efficiency of large units and sparsity bias:

We can see from column (5) of Table 5.1. that the proportion of efficient units is noticeably higher for district classes with larger spending (400000 lv and more) than for those with lower spending. This is due to the so called “sparsity bias”. With DEA methodology and the accepted assumptions, “efficiency” simply means absence of observed better performance with *at least as large outputs*. In the data set, the number of large districts is small compared to the number of small ones (for instance on the third expenditure class there are only 3 observations); hence, for large districts, one simply lacks the possibility to make many comparisons with similar ones. This induces a higher proportion of efficient units in this class. There is thus a bias in the method not in favour of large units per se, but rather in favour of those units that lie in a range where other observations are scarce.

Efficiency by default:

An extreme form of the sparsity bias is the so-called “efficiency by default”. It refers to the following possible situations:

1. The district with the lowest level of spending and those with the highest value for at least one output by construction of the model will be declared efficient.
2. Some districts, while being “un-dominated” and thus efficient, also do not dominate any other district. Their efficiency is due to the absence of other districts with which the required comparison can be made.

From columns (6) and (7) in Table 5.2. we can see the number and proportions of districts, which are efficient by default. The districts Poduiane from the second expenditure class and Lulin from the third bracket are efficient but do not dominate any other district or their efficiency is due to their proportions, which have no comparison in the data set. Consequently, while the districts with high expenses seem to be more efficient, a higher proportion of these is, in fact, efficient only by lack of comparison with similar ones. If there were more observations in the relevant ranges, results for these districts might have been quite different.

**Table 5.2**  
**Number and Proportion of Districts Efficient by Default**

<i>District Expenses</i> (Thousands lv.)	<b>Obs. in this category</b>	<b>Efficient Observation</b>	<b>Efficient and Dominating</b>		<b>Efficient by Default</b>	
				<b>%</b> [=(4)/(3)]		<b>%</b> [=(6)/(3)]
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
299 - 399.9	16	5	5	1.00	0	0.00
400 - 499.9	5	2	1	0.50	1	0.50
500 - 599.9	3	2	1	0.50	1	0.50
Total	24	9	7	0.78	2	0.22

**Outliers:**

With DEA we can identify two categories of outliers: on the one hand, those observations that systematically appear as the most dominating one, and on the other hand, those observations that are dominated by many other ones. The results presented in Appendix 2 permit the identification of outliers of both types. As for the first, Slatina, for instance, it is reported to be the “most dominating” in three cases, whilst Vazragdane, Iskar and Oborishte are found to be “most dominating” in two cases. This is a sign that those districts have an important influence on efficiency.

By contrast, the most inefficient district – Izgrev with an efficiency score of 0.642 is dominated by 3 other districts, while Vitosha, for instance, is dominated by 5 other districts. “Outlying” here has, however, another significance: on the one hand, the result can be treated from the policymakers related with these districts as to being a reason to try to identify the causes for such domination and low

efficiency scores. On the other hand, removing these districts from the data set would not cause changes in the efficiency scores of the other districts (as would have been the case if the most dominating districts had been discarded).

### 5.2. Returns to scale

The use of the DEA constant returns to scale model when all units are not operating at optimal scale may result in efficiency scores confounded by scale efficiency. Using the variable returns to scale (VRS) specification, it is possible to calculate the technical efficiency measures devoid of scale efficiency and to observe its influence over the excess spending.

Tables 5.3 and 5.4 present a comparison of the results of constant and variable returns to scale DEA models. The results concerning the measurement and influence of returns to scale can be summarised as follows:

1. The application of the variable returns to scale DEA model makes 5 more districts efficient which implies that for them the scale “inefficiency component” prevailed.

**Table 5.3**  
**Number of efficient Districts under Constant and Variable Returns to Scale DEA Models**

<i>District Expenses</i> (lv. 000s)	Efficient with CRSTE		Efficient with VRSTE		Districts with efficient scale (8)	Districts with increasing returns to scale (9)	Districts with decreasing returns to scale (10)	Average Scale Efficiency (11)
	(4)	% [=(4)/(2)] (5)	(6)	% [=(6)/(2)] (7)				
299 - 399.9	5	0.31	8	0.50	5	11	0	0.92
400 - 499.9	2	0.40	3	0.60	3	2	0	0.99
500 - 599.9	2	0.67	3	1.00	2	0	1	0.97
<b>Total</b>	<b>9</b>	<b>0.38</b>	<b>14</b>	<b>0.58</b>	<b>10</b>	<b>13</b>	<b>1</b>	<b>0.96</b>

**Table 5.4**  
**Excess Spending of inefficient Districts under Constant and Variable Returns to Scale DEA Models**

<i>Municipality Expenses</i> (lv. 000s)	Obs. in this category (1)	Total Spending (lv. 000s) (2)	Excess Spending with CRSTE		Excess Spending with VRSTE	
			(th.lv.) (3)	% [=(3)/(2)] (4)	(th.lv.) (5)	% [=(5)/(2)] (6)
299 - 399.9	16	5725.6	647.069	0.11	193.440	0.03
400 - 499.9	5	2238.2	250.942	0.11	124.546	0.06
500 - 599.9	3	1635.3	49.583	0.03	0.000	0
<b>Total</b>	<b>24</b>	<b>9599.1</b>	<b>947.594</b>	<b>0.099</b>	<b>317.986</b>	<b>0.03</b>



2. The scale inefficiency is the greatest for the first expenditure class encompassing the smallest districts.
3. The same result is confirmed by the fact that all inefficient districts, except one in the highest expenditure class, are having increasing returns to scale implying that an increase in their scale may be related with efficiency improvements.

## **6. Conclusions**

The administrative structure of the Sofia municipality and the responsibilities' division between local and central municipal authorities create an appropriate environment for cost efficiency studies. Valuable insights on districts cost efficiency and returns to scale can be obtained using a non-parametric (DEA) approach. With this technique, a best-practice function is built empirically from observed inputs and outputs.

The analysis of the Sofia municipality districts suggests that efficiency improvements can be achieved mainly for the smallest districts in the first expenditure class. At the same time, for these districts, the scale inefficiency is the greatest and all inefficient districts have increasing returns to scale patterns.

Studies on public sector performance and technical efficiency have been scarce in Bulgaria. Their conduct can both provoke and be supported by the modernisation of public sector accounting methodologies and development of performance indicators measuring the output of public activities.

**Appendix 1**  
**Sofia Districts Input and Output Variables, March 2002**

	District	(I) IRO	(O) ST	(O) CHD	(O) TP	(O) LR	(O) LPG	(O) CUL	(O) HCB	(O) LA
1	Sredec	377314	6042	588	31400	310	1	10	30	15341
2	Krasno selo	362221	5697	2124	72773	320	265	6	35	34123
3	Vazragdane	326989	6501	1261	35044	288	56	6	40	16628
4	Oborishte	362221	5663	1012	28905	460	15	14	30	14219
5	Serdika	377359	3796	1245	45918	344	104	9	55	18792
6	Poduiane	414775	7503	2329	75312	502	154	12	50	30503
7	Slatina	337174	6590	1470	58637	504	160	4	30	24475
8	Izgrev	362452	2821	1111	28784	230	19	8	0	12838
9	Lozenec	351942	4947	975	40692	490	73	4	35	19481
10	Triadica	372221	6605	1609	55889	480	34	2	0	25716
11	Krasna Poliana	368267	6107	1272	55156	270	98	3	20	22375
12	Ilinden	346989	3321	845	33764	126	124	10	0	14081
13	Nadegda	427213	6963	2311	68124	460	35	2	45	27373
14	Iskar	377929	5274	2324	64367	399	160	6	100	24268
15	Mladost	441918	8964	2739	95877	1000	373	3	40	39263
16	Studentski	323082	2121	891	50761	372	244	7	0	22307
17	Vitosha	484483	3682	1041	43374	560	230	11	0	22818
18	Ovcha Kupel	388221	4902	1172	47755	360	58	4	75	20178
19	Lulin	560412	12292	3256	110117	1256	149	5	40	43632
20	Vrabnica	376452	3697	1116	47658	129	106	18	0	17622
21	Novi Iskar	550917	2074	630	26775	392	476	21	38	14238
22	Kremikovci	524015	2334	1790	23937	500	879	20	75	10051
23	Pancharevo	469783	2129	537	24043	480	252	12	0	16483
24	Bankia	314774	794	233	9369	220	490	1	0	6259
	<b>Average</b>	<b>9599123</b>	<b>5034,125</b>	<b>1411,708</b>	<b>48934,63</b>	<b>435,5</b>	<b>189,7917</b>	<b>8,25</b>	<b>30,75</b>	<b>21377,67</b>

**Appendix 1a**  
**Statistic on Input/ Output Data**

	(I) IRO	(O) ST	(O) CHD	(O) TP	(O) LR	(O) LPG	(O) CUL	(O) HCB	(O) HA
Max	560412	12292	3256	110117	1256	879	21	100	43632
Name	Lulin	Lulin	Lulin	Lulin	Lulin	Kremikovci	Novi Iskar	Iskar	Lulin
Min	314774	794	233	9369	126	1	1	0	6259
Name	Bankia	Bankia	Bankia	Bankia	Ilinden	Sredec	Bankia	many	Bankia
Average	399964	5034	1412	48935	436	190	8	31	21378
SD	103539,5	2655,781	776,6882	24698,49	252,0976	195,30858	5,670414	27,42863	9057,536

## Appendix 1a Correlation

	(I) IRO	(O) ST	(O) CHD	(O) TP	(O) LR	(O) LPG	(O) CUL	(O) HCB	(O) HA
(I) IRO	1	0,395298	0,486242	0,438908	0,630922	0,4440311	0,509248	0,314548	0,416262
(O) Uch	0,395298	1	0,818729	0,866533	0,737538	-0,271963	-0,25058	0,347815	0,84572
(O) Chil	0,486242	0,818729	1	0,909951	0,729241	0,0794505	-0,12207	0,532284	0,863907
(O) Pop	0,438908	0,866533	0,909951	1	0,737976	-0,099779	-0,22722	0,342622	0,977112
(O) Road	0,630922	0,737538	0,729241	0,737976	1	0,1991271	-0,06419	0,284629	0,762107
(O) Grass	0,444031	-0,27196	0,07945	-0,09978	0,199127	1	0,429891	0,202234	-0,10903
(O) Cultur	0,509248	-0,25058	-0,12207	-0,22722	-0,06419	0,4298911	1	0,08951	-0,2629
(O) Beds	0,314548	0,347815	0,532284	0,342622	0,284629	0,2022338	0,08951	1	0,260946
(O) House	0,416262	0,84572	0,863907	0,977112	0,762107	-0,109033	-0,2629	0,260946	1

## Appendix 2

### Dominating Inefficient Districts ranked according to degree of Efficiency

District	Current Spending	Efficiency Score (%)	Excess Spending	No of dominant districts	Most-dominant district
<b>Slatina</b>	337174	96	323687	0	
<b>Studentski</b>	323082	94	303697	0	
<b>Bankia</b>	314774	94	295888	0	
<b>Novi Iskar</b>	550917	91	501334	0	
<b>Sredec</b>	377314	89	335809	3	Vazragdane
<b>Serdika</b>	377359	87	328302	4	Iskar
<b>Nadegda</b>	427213	87	371675	4	Krasno selo
<b>Triadica</b>	372221	84	312666	3	Slatina
<b>Ovcha Kupel</b>	388221	83	322223	3	Iskar
<b>Vitosha</b>	484483	81	392431	5	Oborishte
<b>Krasna Poliana</b>	368267	78	287248	3	Slatina
<b>Pancharevo</b>	469783	78	366431	4	Oborishte
<b>Lozнец</b>	351942	77	270995	3	Slatina
<b>Ilinden</b>	346989	75	260242	3	Studentski
<b>Izgreв</b>	362452	64	231969	3	Vazragdane
<b>Total</b>	5852191		4904597		

### Appendix 3 Efficiency Scores

District	Score (%) CRSTE	Score (%) VRSTE	Scale	Returns to scale
Sredec	89	91	98	irs
Krasno selo	100	100	100	
Vazragdane	100	100	100	
Oborishte	100	100	100	
Serdika	87	95	91	irs
Poduiane	100	100	100	
Slatina	96	100	96	irs
Izgrev	64	92	70	irs
Lozenec	77	97	80	irs
Triadica	84	93	90	irs
Krasna Poliana	78	91	85	irs
Ilinden	75	98	77	irs
Nadegda	87	92	95	irs
Iskar	100	100	100	
Mladost	100	100	100	
Studentski	94	100	94	irs
Vitosha	81	82	99	irs
Ovcha Kupel	83	92	90	irs
Lulin	100	100	100	
Vrabnica	100	100	100	
Novi Iskar	91	100	91	drs
Kremikovci	100	100	100	
Pancharevo	78	81	96	irs
Bankia	94	100	94	irs
<i>Average</i>	<b>89.9</b>	<b>95.9</b>	<b>93.6</b>	

**Note:** crste = technical efficiency from CRS DEA  
vrste = technical efficiency from VRS DEA  
scale = scale efficiency = crste/vrste  
irs = increasing returns to scale  
drs = decreasing returns to scale

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# BRCKO DISTRICT: EXPERIMENT TO EXPERIENCE

*William Sommers* \*

## 1. Introduction

This paper addresses the Conference's general theme – Delivering Public Services in CEE Countries: Trends and Developments – from the viewpoint of actions and activities undertaken since the founding of the Brcko District Government of Bosnia i Herzegovina on March 8, 2000. The general theme is explored via the Brcko District Government “experiment” by focusing on three of the six thematic sub-themes, namely, Structural Innovation(C), Service Delivery Systems (A) and Access & Equity (E). I have re-arranged the order to fit the sequence of activity more suited to the Brcko District's progression in the development of a reorganised and reformed local government.

Most of the presentation on what has happened – and is happening – in the Brcko District Experiment is based on the documentation underlying the active involvement of the District Management Team (DMT) which, this coming September, will conclude a three-year advisory association with Brcko District. The DMT is funded by USAID/Sarajevo under a contract with Development Alternatives International, a private consulting firm located in Bethesda, Maryland. The DMT contractual mandate respecting the Brcko District Government is to supply technical advisory assistance in the “start-up” phase of the District, September 20, 1999 and to continue its work to the end of the three-year contract period, September 20, 2002.

As detailed in the Background section of this paper, an Arbitrator's finding, taken from the Dayton Peace Accord, was issued on March 5, 1999 which established the Brcko District, formed from three smaller municipalities with pronounced ethnic identification: Brcko Town (Serbian), Brcko Brka (Bosnian) and Brcko Ravna (Croatian). The resultant District has an estimated population of 85,000 in an area of 493 hectares. The District Government initially involved almost 3,000 employees from the three previous municipalities who were apportioned over 50 departments, sub-units and independent agencies.

Brcko District began as a tenuous experiment with a host of known – and unknown – difficulties of a magnitude that became evident as it moved from promulgation to implementation. But the experimental stage has, in fact, turned into an experience of substantial accomplishment. Many of its most important accomplishments can be replicated and used in other CEE communities as we

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advocate in what follows. We believe the Brcko Experience is of singular importance in the development of “a new approach to public administration with flexible models and a new public management culture.” To emphasise this we have included a Commentary after each of the activities that can be replicated or transferred for use by CEE local and regional units of governance.

The Brcko District Government, the District Management Team, the Office of the High Representative/Brcko and USAID/Sarajevo appreciate NISPAcee’s invitation to participate in this Conference. We trust this paper will be of value to the participants as it has already been to those who have helped to organise the activities related in this paper.

## **2. Background**

Before we begin a discussion of the Brcko Experience, it is well to understand the background by which Brcko District was formed under the Dayton Peace Accords.

The territorial resolution of the Brcko area, situated in the north-eastern corner of Bosnia and Herzegovina (BiH), became a serious problem during the Dayton peace talks, so serious that in order to push ahead with the agreement, the issue of Brcko was postponed and its final resolution placed in the hands of an arbitration tribunal, to be decided later. As an interim result, the Dayton Peace Accord included a boundary line dividing the Brcko area between the Republika Srpska (“RS”) and the Federation of BiH (“Federation”). One-third of the area, including Brcko town, was placed under the RS jurisdiction while two-thirds was controlled by the Federation.

The Brcko Arbitral Tribunal’s decision was scheduled for December 14, 1996 – one year after the Peace Accords went into effect. However, the Tribunal was unable to reach a final decision but issued an interim decision on February 14, 1997. The decision kept the boundaries intact and established an Office of the High Representative for the area, which became known as OHR/North. It also provided for a Supervisor position to head the operation and this was filled the following month. In subsequent interim findings, the Brcko Supervisor’s authority was expanded.

On March 5, 1999, the Tribunal issued the Final Award, calling for the Brcko area to be established as an autonomous district deriving its power by virtue of the RS and the Federation, holding the entire Brcko area simultaneously in “condominium.” By this act, the two Entities had thus delegated all of their powers of governance to “a new institution, a new multi-ethnic democratic government to be known as The Brcko District of Bosnia and Herzegovina”. The Final Award vested power and responsibility for the general governance of the District in the Supervisor who was empowered to establish the District and to

eliminate the District's inter-entity borderline. The Brcko District was officially designated as a governmental entity on March 8, 2000.

### **3. Structural Innovations**

When Brcko District was formed out of three separate municipalities – Brcko Town, Brcko Brko and Brcko Ravna – the new District officials faced an unparalleled array of problems. Not a few of these were structural problems, calling for immediate effective innovations. While we cannot examine all the problems faced and the solutions sought during the course of this paper, six examples of actions illustrate the magnitude of the problems faced by the District and the innovative responses by which the problems were either solved or ameliorated. The six examples are: Departmental organisation; Personnel Consolidation and Reassignment; Budget Operation; District Revenue Agency & Single Fund Structure and creation of an Independent Judiciary. Each will be summarised in what follows. We have also added a short paragraph on the applicability of these innovations to local governance in general and replication in particular.

#### **3.1 Departmental Organisation**

When the new Brcko District came into being on March 8, 2000, it inherited 50 diverse and loosely organised service units populated by 3000 employees. The short-term goal of its young life was the creation of a modern, service oriented, efficiently operating local government. The initial, transforming tasks focused on reorganising essential functions, re-distributing personnel to fit the new organisation and reducing surplus staffing.

After a careful analysis of the prior organisational set-up, the District was revamped, based on an American-style concept of municipal organisation operating under a Chief Executive (Mayor) with an appointed twenty-nine member District Assembly. Ten departments were created: Administrative Support, Budget & Finance, Public Records, Health (including Health Care, Emergency Protection and Community Services), Agriculture & Forestry, Urbanism (including urban planning, public real estate and economic development), Public Works, Education, Utilities (electric, water & waste water, sanitation) and Police. Each department was organised under a single Department Head who, in turn, reported directly to the Mayor. One other organisation, a District Revenue Agency, combined the functions of treasury, tax administration, and audit. Although the Director is appointed by the Mayor, with the approval of the District Assembly, the Agency reports directly to the District Assembly. This arrangement provides a financial check-and-balance for the legislative arm against the strong executive operation of the Mayor and the latter's ten administrative departments.



**Commentary:** The District’s organisation imparts a service-oriented, direct action operation under the direction of a strong executive, an organisational pattern which can be transferred to many other municipalities whose operation is fragmentary and organisation ineffective or without a good co-ordinating mechanism. The combination of the major “utility” functions under one head makes it possible to concentrate on “fee for service” applications; this arrangement also invites privatisation potential, once the its daily operation is supported by fees. The Revenue Agency concept is an innovation that can easily be transplanted since it is based on acceptable logic by which tax administration and revenue collection functions provide a good balance for a strong administrative operation. Additional discussion on the Revenue Agency is contained in 3.4 below.

Another of the District’s far-reaching innovations occurred with the establishment of an Independent Judiciary, separate from the District administrative organisations, enjoying an organised autonomy consistent with its needs. This innovation is detailed in 3.5 below.

### 3.2 Personnel Consolidation and Realignment:

Once the organisation was set up, personnel consolidation and realignment began. The departments were assigned detailed functional descriptions from which personnel needs – both positions and numbers – were determined. An evaluation of personnel assignments in the former organisations helped to balance the estimated needs in the new departments.

With the personnel needs established, the next step involved setting up a procedure to fill the positions established in the District’s developing organisational structure. But before the procedure could be established, the position descriptions were written and through this, the work level, educational and service requirement and pay standards were identified. As the descriptions were completed for each department, the recruiting, interviewing and appointment process began.

The process followed a nine step procedure: a) advertisement of vacancy, b) receipt of applications on a standard format, c) review of applications to identify those meeting minimum requirements, d) appointment of interviewing panels, e) arranging for interviews, f) holding interviews g) determining the top three candidates, g) sending recommendations to the Mayor and the OHR/Supervisor h) making appointments and notifying appointees of their status, i) assigning appointees to their department and division. The OHR Supervisor, by the Final Award, was the appointing authority and exercised this power only after receiving the recommendations of the Mayor and the interviewing panels. If the Supervisor disagreed with the recommendations, they would be returned to the Mayor and usually the whole process would have to be repeated.

Initial recruitment focused on Department and Division heads. Here the selection process was more detailed and because of the status of the position, more qualified people were available to the interviewing panels. The latter also included members of the OHR staff. Once these appointments were made, the Department and Division heads then took leading roles in the subsequent interviewing and appointment process for positions below the level of division head.

Although initial plans were based on an interview process of two to four months, the magnitude of the task together with the difficulties of developing fully dependable job descriptions and the problem of instituting a kind of “civil service system” in a milieu with little or no experience in this new approach, slowed down the process. More time was devoted to the establishment of a Personnel Office, which gradually took over the administration of the process. In addition, disagreement about the organisation of key departments of Health, Education and Utilities, for example, slowed the recruitment activity. The process was not completed until January of 2002.

Three departments were exempt from this approach. The Administrative Support Department was established almost immediately after the District Government was formed, based on a consolidation of several support units from the prior municipalities. This was necessary, since without operating support to the Mayor and the Deputy Mayor – appointed by the OHR Supervisor – the whole process of re-organisation and personnel restructuring could not have been undertaken. In addition, the Police Department was, under the Arbitrator’s Award, to be supervised by the United Nations International Police Training Force (IPTF), including organisational set-up and recruitment. However, the Department was considered to be part of the District Government, particularly in the matter of budgeting, purchasing and expenditure controls.

Finally, the Independent District Court System was established through a specially organised Judicial Commission whose members were appointed by the OHR Supervisor. The Judicial Commission organised the Courts and implemented the recruitment and appointment process for the court system. All appointments were initially approved by the Supervisor. However, this authority was eventually turned over to the Judicial Commission once the process became accepted as a regular routine.

The results, in the face of the turmoil and upheavals generated by the formation of a new District Government, were, nevertheless, remarkable. The District Government inherited nearly 3000 employees scattered in 50 or more separate governmental institutions. Twenty-nine separate vacancy notices were advertised to fill 2,605 positions in 10 newly organised departments as well as the District Revenue Agency. In answer to these vacancy announcements, 8,118 applications were submitted and approximately 7400 were interviewed and 2,456 positions

were filled. Of the original 2992 inherited employees, 716 were made redundant. These employees were, however, carried on the Department payrolls at a minimum monthly wage until October 31, 2001 when the new Administrative Code was adopted, formally confirming the District's new organisational framework. This action confirmed the permanent appointments made since the beginning of the District. The redundant employees were paid two months' severance pay and on January 1, 2002 were switched to their retirement funds for payment of an additional six months' severance pay.

**Commentary:** The personnel system described above, especially the recruitment, interview and appointment of personnel from approved lists was an innovation in Brcko and for most of Bosnia i Herzegovina. Though mistakes were made whilst implementing the new system, the results were remarkable and, eventually, accepted. Brcko still uses this system in filling regular vacancies as they occur and by using lessons learned has modified the system to be more direct and useful. The system is not difficult to understand and easily transferable for use by local governments in the region. Moreover, it can be adapted for use by individual departments, utilities and regional governments.

### 3.3 The Budget Process

A singular, innovative accomplishment – summing up a number of management improvement efforts – is the District's annual budget. The Budget was first issued in April 2001, reflecting a four-month process of training and implementation both for the Budget and Finance Department and for all the Departments funded in the budget. . This balanced budget – the first in living memory – summarised all the efforts on financial restructuring, departmental reorganisation, personnel operations as well as tax and revenue improvements; it totalled 93 million KM (\$ 46 million USD) with an additional 10 million KM (\$ 5 million) for specified capital expenditures. Presenting significant operating details for every department, the budget details including personnel expenditures, contract funding, goods and services are all clearly shown. Moreover, every department is shown with a set of goals and objectives thus relating purpose to expenditures. The budget's construction, passage and implementation marked a highpoint in local management improvement with distinction in the transparency of its formulation, particularly in the use of public hearings through which citizen input was encouraged and acted upon.

Because the 2001 Budget was passed in the second quarter of the fiscal year, adjustments were required. The Budget Department, working with Department Heads and with revised income estimates, produced a Budget Rebalance (Amended Budget) passed by the District Assembly in October 2001.

At the same time, under the Mayor's instructions, the Budget Department began preparations for the 2002 Budget under a regularised budget preparation process. The District's goal was to improve its budget procedures, stress budget discipline and pass the budget before the beginning of the new fiscal year, i.e. on January 1, 2002. The process began on August 1<sup>st</sup> when the Mayor issued a set of budget instructions and a budget calendar along with expenditure limitations in certain areas, e.g. personnel costs. All Departments sent in their budget requests by September 15 to be carefully reviewed and put together in a rough draft budget. After a final revision by the Mayor and his department heads, the proposal was sent to the District Assembly. The latter organised six public hearings, three of which were held outside of Brcko Town, covering rural and small urbanised areas in the District. Many suggestions proposed as a result of the hearings were incorporated in the final Budget. The District Assembly approved the budget on December 29, 2001. Brcko District was the only governmental unit in all of BiH to have its approved budget in place before the beginning of the fiscal year.

In parallel with the construction of the 2002 Budget, the District Government also concentrated on the development of a model local budget law. The prior budgets – the 2001 Budget and the 2001 Rebalanced (Amended) Budget – were based on the general budget framework contained in the District's Basic Statute. A fully detailed budget law was needed to clarify the District's annual budget process.

The drafting process was not easy. The Brcko Law Revision Commission (BLRC) submitted a draft based on an out-of-date Entity Budget law, which was also unrelated to the budget process already in force. Moreover, the BLRC was concerned that a new budget law recognised the independence of the newly formed Judiciary. These somewhat conflicting viewpoints were worked out through a joint review panel that represented the BLRC, the District Budget Department, the Revenue Agency and the District Management Advisory Team. After many hours of discussion and at least four complete revisions, a modern, workable local budget law emerged which satisfied the needs of the independent judiciary and yet provided for a unified budget process. The District Assembly, with minor changes, passed the law on November 29, 2001, a week before the proposed 2002 budget was sent to the Assembly!

Key innovative elements in the new budget law are: a) clear budget process for both proposal and implementation, b) authorisation for the Mayor to issue a budget manual and a new purchasing regulation, c) authorisation for a 5-year Capital Needs Budget, d) saving clause that gives annual capital needs appropriations a three year life, e) rules for the transfer of funds between accounts

within the same department and f) a budgetary presentation which reflects the Judiciary's fiscal independence.

Finally, in a very important budget innovation, the District Government produced a Five-year Capital Needs Budget (2003 – 2007) which lists 245 individual projects in detail and identifies potential funding sources for the projects: regular budget appropriations, contributions from international donors, credits and borrowing. The District Assembly, upon receiving the government's proposed 5-Year Capital Needs Budget, authorised nine public hearings for March and April 2002. The Assembly ordered the printing of 400 copies of a budget summary to be distributed to citizen groups before the budget hearings in order to promote informed discussions at the hearings. The District Assembly plans to hold two radio/TV budget hearings in order to solicit additional comments from the public. Once this budget is passed, the 2003 portion will be included in the proposed 2003 operating budget while an additional year (2008) will be added to maintain the five-year spread for the capital needs budget.

**Commentary:** The District Budget System holds the lead as an innovative answer to a pressing need: an open, transparent and defined budgetary process. The System operates in sharp contrast to the "budgetary systems" used by its predecessors – and is well ahead of comparable local budget systems in Bosnia i Herzegovina. But most important is the fact that the System is available for use by other CEE municipalities and regional governments. The process can be easily adapted and the budget law itself can be rearranged to fit national, regional and local needs. Moreover, the Five Year Capital Needs Budget can become a community planning tool by which priority capital projects can be identified, estimated and put into a year-by-year perspective, initiating a commitment to the community that something will be done.

### 3.4 The District Revenue Agency & the Single Revenue Fund Account

Another newly and innovative unit of the Brcko District Government is the District Revenue Agency (DRA). The Agency combines the functions of treasury, accounting, auditing and tax administration but is placed as a quasi-independent agency reporting directly to the District Assembly. The Agency, however, participates in regular government operations relating to all revenue and tax collections, makes forecasts of revenues for budget purposes and performs post-audits of governmental expenditure; it may do random audits of proposed expenditures as warranted. The DRA pays all the District bills upon orders and substantiation by the operating departments.

Crucial to its functioning is the District's operation of a Single Revenue Fund Account. Under this system, all revenues, taxes, fees and fines and other governmental receipts are received by the DRA into one single account. This has

eliminated special purpose accounts, selected departmental accounts and other budgetary accounts which, in prior times, were the scourge of financial accountability. Moreover, insistence on its continued working operation has discouraged special account seekers who must learn to conform to expenditures from a unified budget instead of earmarked funds.

In 2002 a further variation on the DRA's operational placement will be implemented with the establishment of a parallel – but separate – Tax Administration Agency. While this Agency will perform the same functions as it did under the District Revenue Agency, separation of tax administration from the Revenue's Agency's purview is to assure that tax administration is carried on as a single activity and is not influenced in assessment, valuation or administration by the needs and pressures of increasing or re-directing revenues. Impetus for this separation has come from international finance agencies giving assistance to the national and entity governments in the BiH in order that throughout the country this separation will become a uniform fact of financial life. However, the DRA, with its Single Revenue Fund Account will continue to collect tax revenues.

**Commentary:** Brcko District gains operating strength through the discipline of having a “watchdog” agency built into its structure. Purchase orders are often returned to the originating office because they are vague or not in line with either the Budget Law or purchasing procedures; payments can be held up because discrepancies between the original purchase order and the vouchers received do not match. Moreover, the budget process gains credibility when revenue and other income projections are made by an independent agency. Such actions impress upon department heads, including the Budget and Finance Department personnel, that accuracy, attention to detail and application of the regulations are important parts of a transparent system. As such the Agency is an important part of the Brcko Experience; and its replication – in a format consistent with its administrative setting – will add significantly to effective and disciplined action in fiscal management. In the same vein, the Single Revenue Account is a device whose transfer to other local governments would make a similar contribution to fiscal integrity.

### 3.5 Creation of an Independent Judiciary

Under the Brcko Statute an independent Judicial Commission was required and is now functioning. The Brcko Law Revision Commission (BLRC) drafted a Law on the Judicial Commission calling for a Seven-Member Judicial Commission where two of its members were Brcko residents with no connection to the court system. The law, now in full effect, ensures the independence and impartiality of the judiciary so that all judicial organs function within the law, free from outside pressures and influence. The Judicial Commission appoints the

Court's personnel, including judges, prosecutors and support staff. The Commission must also promote ethical conduct and professionalism in the performance of the Court's staff. A key element of the law requires that no commissioner can be a member of a political party or participate in political party activities or endorse party candidates or party platforms. The law also established an Agency for Legal Aid to assist citizens whose income does not allow them to consult or hire an attorney for court appearances

**Commentary:** The independent court system is one of the most significant accomplishments of the Brcko Experiment. It works well and is supported by the District government and the District Assembly. The Court has sponsored a number of information seminars for court officers throughout Bosnia i Herze-govina where the participants have carefully examined its basic laws, processes and operations. However, its replication is not an easy matter since it calls for a drastic realignment of traditional ways of organising the courts and appointing its staff. But the Brcko's experience with the independent judiciary defines the future by showing how this model system can work towards the improvement of the justice climate in CEE countries. It should not be overlooked.

#### **4. Improved Service Delivery**

##### 4.1. Introduction

After the damaging effects of the 1992 – 1995 War, Brcko's public services facilities were in a state of near-ruin. Water service was sporadic while electric generation and distribution was irregular and in many places completely curtailed. The revival of these services required substantial repairs, capital investment in new plants and restoration of regular public services in garbage collection, road and bridge repair and housing reconstruction. Brcko received considerable assistance in capital funding and technical advice from International Donors: USAID, GTZ, the European Union, the European Commission, the United Nations Development Program and a host of individual programs from many countries throughout the world. For the most part, the repairs and reconstruction involved traditional service improvements. However, Brcko District Government contributed innovative arrangements through which services were restored and improved. The establishment of a Utilities Department, bringing together Electric Distribution, Water & Waste Water and Sanitation, has made it possible to focus on the revival of both the services and service-fee collection. At the same time, utility management has been integrated with the District's newly established budgeting and revenue procedures for both operating needs and capital expenditures. These improvements make a future of "stand-alone" funding possible for Brcko utilities. Improving utility operations is a long and difficult task; progress will be made based on judicious capital investment for

priority needs directly related to service improvement backed by increased efficiency in rate collections.

Alongside capital reconstruction and the improvement of service delivery, a basic improvement has come about in the area of personal documentation. People were driven from their homes, overnight in some cases, while documents, stored in vulnerable places, were lost, destroyed or so mangled when finally retrieved that they were of no use. Yet documentation – after the war was over – became an essential fact of life. Brcko District put great emphasis on this phase of post-war reconstruction. As a first step, the District established a well-organised Public Records Department and, by providing easily accessible services, has improved service delivery in this most crucial function.

In this section we shall present three cases, illustrating innovative improvements in potable water delivery, passport issuance, and vital statistics registration.

#### 4.2. Potable Water Delivery

While the District Government has made substantial improvements in stabilising the regular water supply, especially with capital assistance from USAID's reconstruction fund, the District is not yet delivering potable water directly to the houses in its most populated areas. Potable water is supplied in Brcko Town, for example, through strategically placed wells where water can be had via spigots, but which must be carried by hand or by car in ubiquitous plastic containers. Brcko residents can also purchase potable water in relatively expensive containers sold in local markets. To begin a capital intensive re-direction of this situation, the Brcko District developed an innovative public "design and build" offering which outlined the potable water situation and asked for proposals on the initial installation of a water purification system, to serve that part of Brcko centre where water mains are in good shape and where houses have working connections.

Five viable bids were received in July, 2001, opened and examined by a carefully selected bid committee which included a District Management Team technical representative, head of the Utility Division of the Water & Waste Water sub-sector, a representative from the Budget and Finance Department together with a qualified engineer-resident of Brcko District. Once the bids were opened and reviewed, two public hearings were held so that the District's efforts could be publicised while close public scrutiny could be applied to the proposals. In addition, field visits were made by the Bid Committee to view similar installations from each of the bidders, showing how the proposed systems operated, particularly regarding treatment operations and plant maintenance. Once the winning bidder was chosen, two important activities occurred. First, the District legal team, together with assisting attorneys from the Office of the High Representative



(OHR), negotiated a detailed, well-constructed contract between the District Government and the treatment plant contractor. Preliminary arrangements were made to explore credit possibilities so that, once the plant was built and put in operation, an add-on capacity would be constructed to both extend potable water to the remaining urban area and to service rejuvenated commercial and industrial users anticipated under the District's active privatisation program.

The water treatment example features three related innovations. First, using the "design and build" request for proposals, the District did not have to indulge in a costly pre-bid design exercise, but let the bidders detail their proposals within the general boundaries of a carefully written bid document; secondly, because of the District's upgraded budget system, including a capital needs budget, the water treatment plant received budgeted funds sufficient to implement the first stage. The credit worthiness of the District's budget, tax collection and auditing format makes low interest credit a good financing possibility for water treatment expansion. Third, the District Government operated through a fully transparent purchasing and bidding system, relying on open meetings and public discussion to receive both input and acceptance.

**Commentary:** The Brcko Experience illustrated in this case study relies on an integrated approach and uses improvements in other areas to focus application on one particular need. Replication of this approach requires replication of each part of the integrated approach. Most CEE communities are familiar with the "design and build" concept and need only add the results of careful budgeting and finance management along with a consistent reliance on public hearings and public interchange to transfer for their continued benefit the good results demonstrated by this experience

#### 4.3 Passport Issuance

Brcko citizens are in dire need of passports for personal identification as well as for passage between the new countries formed from the federal states of former Yugoslavia. However, at the inception of the District, passports, in the style of years gone by, were managed by the Police Department; issuance was a long, involved and discouraging process. After making a preliminary study of the passport issuance system, the Brcko District government, through its Public Records Department took over the issuing of passports. With the assistance of the District Management Team and the German Development Office, an electronic passport issuance unit was installed using a computerised program, by which picture, passport and detailed application information were joined together. As a result, passports are now issued the day after application, while full reports to the Bosnian Ministry of Foreign Affairs in Sarajevo are delivered weekly. Since the establishment of the Passport Unit in early 2001 under the Department of

Public Records, 6,177 passports have been issued. The system has worked so well that the Department is planning to issue personal identification cards and driving licenses before the end of 2002.

**Commentary:** Modern techniques in passport issuance are, of course, readily available to most CEE communities. The innovation comes from within the local government's organisation and management capacity and informed by careful analysis of existing processes: in this case, passport issuance. The process is easily replicated once the community identifies the problem and organises itself to solve it. The resulting improvements in service delivery far outweigh the effort needed in overcoming obstacles to effecting a sometimes difficult decision.

#### 4.4. Recording of Vital Statistics

Immediately after the establishment of the District's organisation, the Department of Public Records organised 13 field offices to receive the registration of marriages, birth and deaths. Each office is manned by a registrar who records the vital statistics, issues documents and then, once a month, travels to the District central office to file the registrations and receive others that may have been registered at the centre. Many damaged records were restored while the missing entries were noted and a system developed to supply certified documents for those missing, as far as possible. Working with the District Management Team and the United Nations Development Program, the Department will shortly install a computerised network, connecting the centre with all field offices. Vital statistics data will be inserted into the common data base so that by next year, the field offices will be able to issue back records for residents in its area and record incoming data; the field offices will then transmit records to the centre so that back-up records can be maintained.

The magnitude of this proposed improvement can be gauged when one realises that in 2001, the Registry Service issued over 149,000 documents ranging from birth registration certificates to certification of lost but reconstructed personal papers. When the improved activity is in full operation, the District's citizen complaint procedure will be reorganised into the Registrar's database so that complaints from citizens in the 13 field office areas can be received and relayed directly to the identified service unit for action; the local office will monitor the original complaint until the responsible Department gives an answer or responds with specific action.

**Commentary:** The value of this improvement is almost beyond estimation. Because Brcko District is both urban and rural, the tendency is to favour urban improvements to the more demanding requirements of rural service, i.e. distances, sparse population and difficulties in rural travel. But the need for reliable recording of vital statistics transcends the urban-rural dichotomy and

Brcko's Public Records operations is moving toward a most beneficial solution. The approach is one that can be replicated by other CEE communities who are organised to do this and can find the funding for the computer driven system. What is important in this context, however, is to have a developed plan that can be implemented in stages, which is shown by the Brcko Experience. Funding tends to be available if the plan is clear and already in operation, if only at the first or second stage. The Brcko experience thus becomes readily available for adaptation to fit individual circumstances in the CEE communities

## **5. Access & Equity**

### **Introduction**

Before the 1992 – 1995 War, Brcko was a relatively prosperous and settled area based on agriculture, related agro-business operations and its central location for transportation. The war drastically changed people's lives; many fled Brcko for "safe" areas while others moved into abandoned and bombed homes. Thousands of lives were upset and many changed forever. The establishment of the Brcko District over this area, made both access and equity vital to the District's survival as a community and an organised local government. Access has taken many forms, including petitioning operating departments for action, seeing the Mayor or visiting one of the 29 appointed District Assembly members. In Brcko, two innovative actions have greatly contributed to the development of an accessible and transparent government: the expanded use of public hearings and the establishment of an operational citizens' complaints conduit. These are discussed in 5.2 and 5.3 below.

The issue of equity as applied to Brcko District is pervasive and would need to be examined in a paper twice as long as this one. Brcko District was formed as a "new multi-ethnic government." In many respects, if not all, the maintenance of a multi-ethnic balance became the basis for the determination of equity. This was certainly true in working out the appointments of members of the District Assembly as well as in the careful balance between the District's three top officials: Mayor (Serb), Deputy Mayor (Croat) and President of the District Assembly (Bosnian.). This was also true in determining equity in the appointment of District employees from Department Heads to janitors. But the District also needed an able, skilled and experienced work force. The key was to arrive at a working balance of these two requirements. The details are explored in 5.4.

#### **5.1 Use of Public Hearings as a Form of Access**

The Brcko District Assembly has relied heavily on public hearings to give citizens and representative groups (Chamber of Commerce, Youth Groups, Unions, Political Parties, Retirees, NGOs and local communities) access during the budget

making process. When the first District Budget was proposed in April 2001, the District Assembly scheduled six public hearings over a period of two weeks. Three of the hearings were in local communities representing the multi-ethnic character of the District: Serb, Bosnian and Croat. The other public hearings were held in Brcko Town at the spacious Dom Cultura for special interest groups: Chamber of Commerce, labour unions, retirees, etc – and the public at large. The Budget & Finance Department provides attendees with a well-designed summary of the proposed budget. Attendance has been active with substantial discussions and critical analysis of budget formation. A surprising number of attendees have carefully reviewed the summary material and have based their questions on the material provided. The 2002 Budget also was vetted through public hearings with the summary material provided by Budget & Finance

Currently, the District Assembly is considering the Five-Year Capital Needs Budget covering 244 projects spread over the 2003 – 2007 period. Because of the complexity of the proposed budget and the importance in receiving input on the planning and scheduling of public projects, the District Assembly scheduled nine public hearings throughout March and April. Two additional public hearings will be held for radio and television. The Assembly ordered the printing of 400 copies of the Capital Needs Budget summary and has instructed the Budget & Finance Department to have the copies distributed before the public meetings.

The hearings are not perfunctory. The District Assembly has made substantial changes in the submitted budget, responding to public requests. In the 2002 hearings, for example, after listening to continued complaints that funding for small projects for local communities were not included, the District Assembly amended the budget to include a “community development project fund” by which local communities could apply for small project funding. The Assembly also re-arranged the road improvement program directing the Government to pay more attention to village road networks. But the District Assembly has not raised overall totals and has thus not put the budget in deficit nor attempted to tinker with the Government’s well-founded revenue projections.

**Commentary:** Brcko’s reliance on public hearings, especially for its budget presentations, is a most singular contribution to opening up the government to its citizens. It is also one of the most productive of the District’s long list of innovative changes introduced in the last two years. Citizens have gradually grown to expect the hearings and because of this, the number and coverage have been expanded to accommodate public interest. And the increased use of public hearings is an innovation that can be easily replicated. The rewards are significant. In Brcko, omissions by departmental officers of critical budget inputs have been corrected by a show of public concern. Moreover, the hearings make District

bureaucrats more conscious of the need for transparency and clear explanations of budgeted items, contributing to great discipline in budget formation.

## 5.2 Citizen's Complaint System: An Access Procedure

The Citizens Complaint System was activated in November 2000 within the Administrative Support Department, headed by the Deputy Mayor. In 2001 – the first full year of activity – the system received and logged over 1,883: 743 were written and 1,140 were verbal. In both cases, the complaint is written up on a standard form. On complaints directly concerned with government service, the response rate is about 50% with many of the responses carried into the next year.

Complaints have steadily increased, as citizens become more familiar with the system. In many cases, complaints about a variety of difficulties – outside of the District's purview – are also received since people see the complaint system as their hope of getting some response to the problems that beset them. Whenever possible, the complaints are sent to private and public organisations asking for a response. Citizen complaint activity is reported quarterly and annually to the Mayor and the District Assembly who use this as a barometer of the positive activity of departments as well as an indicator of the problems uppermost in the minds of Brcko District Citizens.

In addition, citizens requesting specific governmental approvals, also have access to a hearing if their application is turned down or is held too long before a decision is made. Under the District's Law on Administrative Procedure, applicants who are turned down or whose application is withheld for other reasons, may appeal these decisions – or non-decisions – through a quasi-legal appellate procedure operated within the District's Administrative Support Department. Upon receipt of the complaint, an Appellate Board holds informal hearings, resulting in a decision of action on the part of the governmental entity involved. In 2001, the Board reviewed 1,211 cases including 69 carried over from the previous year, held 59 sessions and resolved 1,058 cases. Whilst almost half of the appeals did not have factual support, the Board also overruled 306 governmental actions and ruled in favour of the citizens in 317 cases in which government action was not timely. As in the case of the Citizens Complaint System, the Appellate Board is new, innovative and is only gradually being understood – and used – by Brcko residents.

**Commentary:** Of the two “access” procedures, the Citizen's Complaint System is the most easily transferred to other communities. It requires a staff, a format and diligent follow-up to see that complaints result in a timely response and, where necessary, immediate action. As noted, the regular use of the system and its periodic analysis gives the government a good indication of problems,

providing also a kind of “self-assessment” of the government’s ability to respond to the citizens that it is sworn to serve. The Appellate Procedure, whilst equally important, is rather more difficult to install. It requires a law or operating order by the administrative or legislative authority in the local municipality – and needs a good staff to hear appeals and make legally viable decisions. Nevertheless, its replication is very important since it enables the citizen, involved in the more complicated processes of local bureaucracy, to appeal decisions which the former may feel were made incorrectly or were biased without justification or were lax and poorly made.

### 5.3 Multi-Ethnic Balance As A Form of Equity

The District was founded as a multi-ethnic community. In fact, this meant an overall balance in many things but none more so than in unifying the newly formed District Government and reducing the staff of the three former municipalities to fit the re-organised administration. When the District was formed, the balance between ethnic groups was estimated as follows: Serbs – 49%, Bosnians – 35% and Croats – 15%.

While all efforts were focused on recruiting well-qualified candidates, ethnic balance was a thread running through the whole effort. The District Assembly kept close track of the multi-ethnic balance as a form of equity in employment. The Personnel Office made monthly reports on new employment showing how well the balance between the three ethnic groups was being maintained.

These efforts are highlighted by a recent report from the District Personnel Officer. Of the 2,456 positions filled during the re-organisation period, 47% were Serbs, 38% were Bosnians and 14 % were Croats and 1% others. This was, in many respects remarkable since it followed closely the estimated ethnic balance when the District was formed. Moreover, an interesting result – a statement of balance between equity and personnel needs – exists within the various departments from which the overall figures were taken. The Administrative Support Department, for example, shows an equal percentage of Serbs and Bosnians (37.5%) followed closely by the Croats with 25%. Budget and Finance is nearly 47% Bosnian while Public Records and Health Care are 47.2 and 50.4% Serbian. Bosnian and Serbs switch off the top spots between other Departments. The Croat percentage hits highs of 25% (Administrative Support), 20.8 % (Displaced Persons & Refugees) and 18.7 % (Agriculture and Forestry.) Of interest, too, is the fact that of the 8118 job applications received, 40.5% were Bosnians, 40.43 % were Serbian and 14.2% were Croatian with nearly 5% classified as “Others”.

**Commentary:** Clearly the harmony sought between personnel needs and ethnic balance is particular to Brcko’s situation. As the same time, where ethnic

balance is a key factor in appointing local government personnel aimed at securing equity, the Brcko experience has much to offer in harmonising personnel needs with equity.

## **6. Summary**

While the Brcko District experiment has a unique quality that, in itself, is not likely to be repeated, many of its experiences explored in this paper are important because they can be transferred and put into practice – in whole, in part or in adaptations to fit specific circumstances. The budget process, for example, is relatively direct, transparent and understandable as is the budget law that sets out the process; this is also true of a current “experiment,” the Five-Year Capital Needs Budget. The Single Revenue Fund Account is not new to local government finance – but its full implementation and widespread usage in the Brcko District may be seen, not as a unique feature, but rather as a model which many local governments can use in achieving an improved, controlled and accountable receipt and expenditure system.

Another feature of the Brcko District experience is often overlooked in discussions of the “experimental” nature of its many innovations. This feature is the nearly complete decentralisation of a local government in concept and operation. Students of local government and practitioners alike have discussed the pros and cons of decentralisation as an important property necessary to the survival of local government, both as an operating feature and as a theoretical construct. But few, if any local governments have attained the decentralised status which permeates the Brcko District Government: it makes its own laws, raises its own revenues, promulgates its own budget without review from above, receives no central fund grants with the usual debilitating requirements and employs its own forces within a personnel system that answers only to its own laws. Consequently, the Brcko Experience becomes more relevant since, under a decentralised system, the activities and cases presented in this paper are harbingers of a decentralised potential. Taken in whole or in part, the activities discussed in the previous pages offer a unique opportunity for study and – we believe – for results-oriented replication.

## References

Data used in the text along with other project-oriented references are to be found in the District Management Team's project documents as well as in the Brcko District Governments departmental material. General references are listed here.

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# COMMUNITY INVOLVEMENT IN PUBLIC SERVICE DELIVERY, A CHALLENGE FOR BOTH LOCAL AUTHORITIES AND CITIZENS: THE ROMANIAN EXPERIENCE

*Daniel Serban* \*

## 1. Introduction

The essence of democracy is that it is a system of governing that is “*of the people, by the people, for the people*”. These words are as true now as when they were first spoken in 1863 by the American President, Abraham Lincoln. This concept of democracy is as valid for Romania as it was and still is for the United States, the United Kingdom and virtually any modern democracy. There is no reason to believe that this basic essence of democratic governance will change in the foreseeable future.

The implications of this truism are that democracy is more than free elections, though this is the essential starting point. Government of, by and for the people has to become and remain a partnership – a partnership between the people and their elected officials in whom they have invested their trust. This trust must also extend to all officials and institutions of government. In democratic countries all over the world, this trust is established through honesty and transparency on the part of officials and through people being given an opportunity to play a role in government, even on a day-to-day basis. The responsibility of the people is to take advantage of this opportunity, and government, both national and local, should encourage citizens to participate in day-to-day governance. Today, in Romania, this process is well underway, but there is much yet to be accomplished. Both government and citizens are rapidly increasing their understanding of the power and potential of democracy in Romania.

Partnership between the people and government depends upon citizens having access to information that affects their lives. For instance, citizens should be involved in the local budgeting process. They should be made aware of what the budget is and have an opportunity to influence it through public meetings, debates, hearings and citizen advisory committees. Government should learn about people’s satisfaction with essential local government services and public service delivery through surveys, interviews, focus groups, public meetings and other techniques of citizen participation.

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Local council meetings should be open to citizens and their proceedings should be made a matter of public record. Citizens should be invited to participate as volunteer representatives on different task forces, commissions and advisory committees designed to help government fulfil its responsibilities more effectively, especially on the issue of specific public service delivery. Citizens performing in this manner can be very creative and helpful in finding solutions to problems and assisting with the everyday tasks of government operations and management. Some mayors of Romanian cities and local government councils have already started the practice of using citizens' advisory groups to help them in the governing process, and one of these examples is cited herein.

In conclusion, citizen participation, while essential to democracy, is not always easy to achieve. Sometimes public services tariffs are too high, quality is questionable and the beneficiaries have no input either in debating the service provider strategy or in monitoring the clients' satisfaction. Sometimes it takes political will, persistence and a disposition to educate both officials and citizens about their responsibilities in a democracy to make it happen. This paper provides concepts, insights, tools and one example – Brasov – which should be helpful to both practitioners and theoreticians, as they advance the principles of democracy in Romania.

## **2. Why Community Involvement in Public Service Delivery?**

In a broad sense, a public service deals with such things as roads, heat, water, sanitation, parks and schools. In short, public services are at the heart of basic human needs, together with food and shelter. It stands to reason that in planning for the future improvement or expansion of these services, the will of the people should be taken into account.

However, there is much about the public services that is very technical and that requires expert judgement and political will. Consequently, strong public demand for a project does not mean that it *must* immediately be included in the local government development plans. Sometimes there are complex engineering issues to resolve, legal issues that must be dealt with, and finance issues that involve detailed negotiations, either with banks or other lending institutions, or hard political fights in the local council on public services restructuring. Certainly, there is much about the public services delivery process that must be left to the experts and professionals.

However, citizens can help define needs, set priorities, and endorse changes that may be needed as a plan is carried out. If the people are excluded from the process, government will not fulfil its responsibility as a partner with the citizens in democracy and this brings with it some serious consequences. Excluding citi-

zens from the public services delivery process – which often happens in central and eastern European countries – is a mistake. It will:

- Undermine the trust in government that is so essential in a democracy;
- Intensify the objections of those who oppose the projects included in the service development;
- Create political problems for elected officials; and
- Aggravate possible resistance to any increased tariffs, taxes, fees or rates that might need to be levied to pay for the project or plan.

So, the prudent course for local government to take in delivering public services is to make the process as transparent as possible, by

- Informing and educating the citizens as to what decisions are being made and why;
- Explaining what financing is being considered and what financial constraints exist;
- Involving citizens in the process where it makes sense to do so; and
- Proactively seeking public interest and support.

A public service development plan supported by the public is likely to be easier to implement, achieve more satisfactory results and enhance the democratic process.

Also, the community should assist local officials in assessing needs and preparing project proposals. For investments that concern community services, each city hall department should seek and solicit citizen input in developing its proposals. Such input will almost certainly improve the proposal by making it more realistic. As in the following examples, such input may even create savings for the local budget by showing that it is possible to delay capital investment:

- For instance, the solid waste division might conduct focus groups to determine whether it might be possible to gain public acceptance for measures (such as selective separation of waste) that will reduce the volume of solid waste. Public acceptance of such measures might extend the life of the present landfill, delaying the need for investment in a new landfill.
- Or, a public meeting to discuss options for improved solid waste collection might suggest that better traffic and parking enforcement would improve access to waste collection points at apartment buildings, making collection faster and more efficient and avoiding the need for investment in additional trucks.
- Or, a survey of users of public transportation might show options (such as revising routes or integrating private van transportation) that delay the need for purchasing new buses.

This whole process is close to the heart of democracy. Democracy is more than simply elections: it is a partnership between the people, who provide the government with resources, and the government, which uses those resources to meet people's needs. In democracies all over the world, the people play a part in deciding how money is spent, and local governments need to welcome, encourage and facilitate that role.

### **3. Romania's Background**

For almost 50 years, up to 1990, Romania (22 mil. inhabitants) was administered at the central level. The new Constitution of 1991 includes provisions for devolving powers and responsibilities to local government. Subsequent laws<sup>1</sup> have further developed these initiatives. The Law on Local Public Finance was approved by Parliament in 1998 and came into effect on 1st January 2000. A new Law on Local Public Administration was approved in March 2001. Together, these new laws will reinforce the independence of local authorities and necessitate considerable organisational changes and staff development and change.

According to Romanian legislation, the local government units are legal entities, have full capacity, own a patrimony, and hold the initiative in everything related to the administration of local public interests, exercising authority within their established territorial-administrative units. For the purpose of ensuring local autonomy, the public administration authorities of communes, towns and counties elaborate and approve the revenue and expenditure budgets, and are entitled to institute and collect local duties and taxes.

#### **3.1 Program background**

Much has been accomplished over the past few years in the area of local government strengthening in Romania through the United States Agency for International Development and other donor programs aimed at decentralisation and local government improvement. Romania Local Government Assistance Program (LGAP) implemented by Research Triangle Institute (RTI) since 1999, directly supports USAID's Strategic Objective 2.3: "More effective, responsive and accountable local government". The underlying objective of the RTI's Citizen Participation was to work to strengthen civil society by enhancing the ability of citizens to participate in local decision-making and civic activity. Effective Citizen Participation (CP) requires that both the Local Government Units (LGU) and local citizens value and promote participatory activities. The RTI succeeded in working with both sides: with LGUs – encouraging proactive outreach to inter-

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<sup>1</sup> The Law on Local Public Administration, No 69. November 26, 1991, as amended by Law No. 24, April 12, 1996, and the Law on Local Elections, No. 70. November 26, 1991, as amended by Law No. 25, April 12, 1996.

ested citizens and citizen groups, and with citizens directly (through Romanian experts and Romanian civil society NGOs) to educate citizens as to the purposes and rewards of CP and to encourage informed and constructive citizen response to LGU outreach activities (such as public hearings).

After two years of intensive work and commitment, the citizen participation/citizen information projects revealed some experiences that can lead an external auditor to believe that this country is on the right path to democracy. Briefly presented below are the soundest results collected in Brasov, a 350,000 inhabitants community, well known in the world for its tourist attractions.

### 3.2 Brief description of the Brasov experience

For Brasov, the year 2001 brought the second sequential budget public hearing. The first (in 2000) was held without technical assistance and was regarded by the city as a failure, since only about 30 people attended. The second, with LGA/CP technical assistance, attracted almost 600 attendees and triggered a wave of CP responses from the city, including establishment of a Citizens' Advisory Committee on Transport to assist the city in making decisions on public transportation. A second important outcome of the hearing was the creation of an Education Advisory Group to evaluate the needs of the schools for repair, rehabilitation and capital improvement. A third, and highly significant outcome, was the creation by the CIC of 35 neighbourhood citizen committees to monitor neighbourhood priority needs, including capital improvement.

Specific objectives of the Program in Brasov were:

- To elaborate the budget on programs for 2001 according to Law no. 189/1998 (as another expression of the actual budget, containing the economic classification) ;
- Community Program development, evaluation and assessment (for each specific program);
- Increasing citizen awareness and involvement in working out the budget on programs;
- To develop specific citizen participation tools to improve public service delivery.

#### 3.2.1 Outcomes on the last listed objective

##### Citizens' Advisory Committee on Public Transport

As mentioned above, Brasov conducted a very successful Public Budget Hearing this year, attended by 578 people. A full report is available on the hearing. It was conducted with technical assistance offered by the RTI. This was the second year in succession that Brasov ran a public hearing on its budget, but sought

RTI assistance this time to improve the quality and impact of the hearing – last year only 35 people attended and the meeting was of little consequence. This year questions from the public were relevant and strong.

One important innovation that flowed from the meeting was the creation of the Citizens' Advisory Committee on Public Transportation. This 16-member group of volunteers from various fields and professions was selected to serve an indefinite term following their own rules and procedures. The group comprises: 6 employees of state-owned and private companies located in Brasov, 1 unemployed person, 4 retirees, 4 high school students, 2 university students, all living/working in different districts of the city and daily customers of the local public transportation company, a city hall owned company. The selection process may be described as follows.

On April 27, 2001 the Citizen Information Centre (CIC) of the City Hall prepared a press release and sent it to the local media of Brasov (mainly to local newspapers), in which it was stated that the citizens of Brasov were invited to become members of the CCC that would analyse the quality of the transportation services and the affordability of the tickets and subscriptions.

Criteria for selection were:

- Various ages (teens, youth, adults and elder people); different professions (pupils, students, employees, unemployed, retired persons); geographical distribution of candidates within the boundary of the city;
- Definition of transportation facilities used (long distance to school/office – intensive use of public transport, very short distance to school/office and – no need for bus transportation, daily use of transport – kindergarten, occasional use of transport – shopping, visits, doctor, etc.).

The group was created. Its main purpose is to help the city and its public transport utilities to make funding decisions on transport, which had been voted the third priority in the budget public hearing. The Citizen Advisory Committee usually met on a monthly basis or more frequently if required. The first task of the group was to fill out a questionnaire on preferences regarding various options on transport fees, subsidies, taxes and bus purchase. A series of meetings with city hall departments, local councillors and transportation regia followed.

During this process, the members of the public transportation committee became aware of their responsibilities concerning the evaluation and monitoring of the public transport services, became educated on technical and financial issues concerning this service and proposed concrete actions for improvement.

They are all volunteers and are committed to supporting both local government initiatives and the service provider to achieve better performance and provide feedback at the meetings.

Even though the transportation company representatives doubted the usefulness of such a committee in the beginning, the service provider is now more open and attentive to clients' suggestions. City Hall departments have found co-operation with the committee extremely useful and intend to use this CP instrument on other sensitive problems in the community.

### Education Advisory Group

A second important outcome of the hearing was the result of two focus groups held on education funding priorities held prior to the budget hearing. The results of those focus groups, involving principals, teachers, administrators and accountants, together with public discussions in the budget hearing, was the creation of an Education Advisory Group to evaluate the needs of schools for such matters as repair, rehabilitation and capital improvement. A decision by the mayor made this group legal and its members quickly set about making rules and establishing an agenda. To date, the group has assessed 80% of the city's schools. This is a group of education officials similar to the focus groups, and not a citizens' group like the Transport Committee.

### Citizens' Information Committees

A third and highly significant outcome of the public hearing was the creation by the Citizens' Information Centre of 35 neighbourhood organisations to monitor neighbourhood priority needs, including capital improvements. The city's eight districts consisted of anywhere from 1 to 5 neighbourhoods. These were broken down into 35 component neighbourhoods. In each neighbourhood, a volunteer Citizens' Information Committee of 8 to 10 people was established. These committees include leadership of the local schools, a family doctor, representatives of major companies, representatives of small companies, food stores and the housing owners' associations. A maximum 350 are involved which is approximately one person per 1,000 of the population. Teams of two people from the CIC work with each committee.

Members of the City Council are invited to the meetings of the committees and when the council has a full understanding of the value of these committees, the Council is then asked for a general City Council decision to ratify the committees. We would like to cite the Dayton, Ohio and Puerto Alegre, Brazil experiences – these cities have long-standing neighbourhood-planning committees similar to the ones just established by Brasov.

### Conclusions

It is obvious that these matters might easily lead an external auditor to think that Brasov is on the right path to democracy. However, there are still a lot of

directions to be undertaken in order to consolidate the process, and the on-going activities promise that.

On a general basis, the following are some practical suggestions on increasing citizen participation at the local level in this field of expertise.

Each LGU must put together its own unique strategy for public participation in the area of public services delivery, reflecting local opportunities and realities. Here are some examples of elements that might be a part of that participation strategy.

- A budget for each local public service that is in a format the public can understand, showing the relationship between expenditures and programs. If possible, make the format such that comparison with past years is possible;
- A press briefing on last year's report;
- A public announcement, in public places and through the media, about the calendar of events for planning the various activities that are part of the specific public service development strategy;
- A community involvement calendar, identifying the points where citizens should be informed about specific activities or where their participation is possible or advisable;
- Announcements of city council meetings when a public service is going to be debated;
- Invitations to the press to come to the city hall and learn more about the public services strategy, to be followed by a series of press articles on the financial and technical details;
- Establishment of citizens' advisory committees by city departments or divisions that deal with public facilities such as streets, transportation, parks and recreation to determine people's attitudes, expectations and priorities with respect to services provided by the department;
- Use of focus groups to explore attitudes, expectations and priorities as above;
- A web site for the public service company, which includes all types of information (budget included);
- Making brochures available through the CIC or public relations office;
- Keeping the public well informed about the process, taking special care to educate and inform the public prior to a participation event such as a public hearing or meeting;
- Feedback to the public to let them know how their input is being used in the development public service strategy;
- Evaluation of the overall experience for lessons that can be learned and applied to next year's strategy for citizen participation in the public service development process.



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## Annex

### Involving Citizens in Planning for Capital Investment in the Water Utility in Khmelnytsky, Ukraine

The City of Khmelnytsky, Ukraine, had to make immediate improvements to its water utility. The city wanted to find out whether citizens approved of the idea of taking a hard currency loan from an international lender to make the required capital improvements and whether citizens would support metering of the water supply. Focus groups were conducted using the following questions:

1. What do you know about the water supply system in Khmelnytsky?
2. What is the degree of your satisfaction with the present status of the water service and its regularity? Please explain.
3. What can you say about the quality of tap water?
4. What alternative sources of potable water do you use, if any, and why?
5. What, and from whom, have you heard about the plans to improve the city water supply system? *Probe: What is your attitude towards a possibility of providing a loan for such a project by international donor organisations? How realistic and promising could such plans be?*
6. How do you think the city could repay the loan? *Probe: Could implementation of the project result in higher water prices? To what extent are the citizens of Khmelnytsky prepared to pay a higher price for continuous supply of quality water?*
7. What is your attitude to the idea of installing water meters in apartments? Please explain.

From conducting focus groups, the city discovered:

- People were unhappy, even desperate, about the poor quality of the water supply. Although you might say “everyone knows this already,” in the context of applying for a loan, it is useful to have some proof and some examples.
- Opinion was split on whether the city should take a loan, and the main reason against such a loan was scepticism about whether the city would use the loan responsibly.
- Participants were realistic about the fact that for better service, they would probably have to pay more.
- Participants supported metering.

**SECTION 3**

**Politico-Administrative  
Relations**



## POLITICO-ADMINISTRATIVE RELATIONS

*Alexandra Rabrenovic* \*

The fifth annual meeting of the working group on politico-administrative relations focused on the two main issues: role perceptions of senior officials and politico-administrative relations under a coalition Government. The objective of the group was to gain insight into role perceptions of senior officials in transition countries, as a valuable means for a deeper understanding of the governance processes in CEECs. The submitted papers, followed by discussions, have provided a basis for conducting an empirical research on this subject, which the group intends to commence by the end of the summer of 2002. The second central theme of the meeting was a discussion on the impact of coalition government on politico-administrative relations. Seven country studies, prepared according to Professor Vass's protocol, were presented and analysed by the members of the group. In this way, the group has completed the main preparations for its second major academic output, a book on politico-administrative relations under a coalition government, which should be published by the end of the year.

The first session of the meeting was devoted to the role perception approach in analysing politico-administrative relations. The objective of this approach is to enable understanding of generic behaviour patterns of senior officials through insight into their perception of roles in the policy process. Although contextual factors often inhibit a direct translation of policy-makers beliefs into behaviour, there is a proven assumption of consistency between officials' abstract values and their operational application. The focus on beliefs should therefore provide the broadest view from which the contemporary changing roles of senior bureaucrats in transitional countries can be assessed. In this context, equally important, has been how other strategic actors in the policy process conceive these changing roles and what kind of reassessment of roles in relation to top officials is made.

Senior officials are performing a number of roles - "political" and "managerial" often being stressed as the principal ones. The session was very productive in terms of the operationalisation of the concept of "roles and role perceptions" as well as the possible categorisation of senior officials' roles, suitable for research in transition states. Four papers were presented.

The paper by Robert Kramer set out a number of issues regarding the managerial and leadership role of senior officials. The author pointed out the lack of leadership skills of senior officials in CEECs, who are still focused on performing their traditionally narrow administrative roles. He therefore called for a develop-

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ment of their leadership role, as a precondition for governance reform in transition countries. The author's analysis of distinct senior officials roles provided a welcome addition to the Aberbach and Rockman roles classifications, which are not fully applicable in the context of Central and Eastern Europe. Discussion of the paper has helped the group to re-think some of the core concepts, in particular the development of the most useful categories of 'model roles' for senior officials in a transitional context.

Maciej Bartkowski's paper analyses the administrative and political roles of Directorship General of the International Labour Organisation. The paper explores a peculiarity of the Directorship General's status, which institutionally embraces two distinct roles: managerial and policy-maker's. The author demonstrated a high level of convergence of the respective roles at the intergovernmental level and their institutionalisation into a "pure hybrid" image, initially found in national governments. The paper and the discussion on it have further contributed to the groups' understanding of bureaucrats' role perceptions at both intergovernmental and national level.

Finding the role perception methodology as the most promising approach for further in-depth study of politico-administrative relations, the group intends to undertake a large three-year research project on the self-perception of senior officials in CEE states and the NIS, with the first pilot studies to be launched by the end of the summer of 2002. An interim report on the study, with its first findings, is expected to be presented at next year's NISPAcee conference.

The discussion on politico-administrative relations under coalition governments was the second central theme of the meeting. Seven country studies papers (Estonia, Ireland, Hungary, Lithuania, Romania, Serbia and Slovakia), were prepared according to the framework set by Professor Vass, and presented and discussed. Country experts presented the basic data and made the first analysis and evaluation of their country's experiences of coalition government and its impact on the public administration. Various aspects of the development of a better working interface between politicians and civil servants in a coalition government were further discussed by the members of the group.

The conclusions of the group were that a coalition form of government, due to its strong internal dynamics, might involve serious consequences on the administration (confusion or discontinuity in personnel, break in the policy-process, instability, loss in efficiency etc.) The coalition, as such, can also be a driving force for the politicisation of the administrative institutions. Complicated organisational and personal relations in the coalition can further slow down the decision-making process and threaten the effectiveness of the governance. The assumption that majority governments are more unified and have less obstacles which slow them down was well illustrated by the Romanian case. The discussion also revealed

that an Eastern-Western comparison is very useful for a better understanding of the politico-administrative relations under a coalition Government.

Finally, the structure and approach to the development of the book on politico-administrative relations under a coalition government were discussed. The authors of the country studies were asked to revise their papers according to the amended protocol, to be produced by Professor Vass in accordance with working group conclusions from the conference. In addition to the country chapters discussed, the group is hoping to receive several other coalition government country study contributions, primarily from Western Europe, to be included in the book. The draft chapters should be submitted to the editors, Professor Laszlo Vass and Tony Verheijen, by the end of September 2002, so that the book can be published by the end of the year.

The last session of the meeting was dedicated to summarising the results of the Working group to date and setting the course for future work. The next phase of the working group activities will be led by a new team, consisting of Professor George Sootla (Institute of International and Social Studies, Tallinn Pedagogical University, Estonia) and Bernadette Connaughton (University of Limerick, Ireland), who have kindly accepted the role of co-ordinators of the Working Group.

# BEYOND MAX WEBER: EMOTIONAL INTELLIGENCE AND PUBLIC LEADERSHIP

*Robert Kramer* \*

“We’re always talking about efficiency, productivity, restructuring and accountability. And to the ordinary citizen this means little. What the citizens want to hear is honesty, service ... You have to communicate with people at an emotional level – the issues that are confronting them as ordinary citizens” (Delegate to OECD Symposium, cited in Lau, 2000, p.59).

All governance is people governance. All public service is people service. It’s all people. Relationships are the DNA of governance. Without people who can develop trusting relationships with other people there is no governance. Governance is more than the machinery of public administration and more than impartial cost-benefit analysis. At the 1996 OECD Ministerial Symposium on the Future of Public Services, governance was defined entirely in terms of relationships. Governance, concluded the OECD ministers, “encompasses *the set of relationships* between governments and citizens, acting as both individuals and as part of or through institutions, e.g., political parties, productive enterprises, special interest groups and the media” (Lau, 2000, p. 112). Relationships are at the heart of governance. To the extent that public administration mirrors the hearts and minds of people, it is governance. To the extent that public administration is disconnected from people, it is not governance. Public administrators are much more simply human than otherwise. Like the rest of us, public administrators are people, too.

## 1. Relationships are the DNA of Governance

If relationships are the DNA of governance, I want to pose a question that is rarely asked in schools of public administration in Central and Eastern Europe: what, exactly, would be the value *for governance* of public administrators who can build relationships of mutual understanding and trust with:

- people who are peers in their own ministries?
- people who are peers in other ministries?
- people who are political superiors?
- people who are lower-level civil servants?
- people who are heads of parliamentary committees?
- people in business firms?
- people in special interest groups?

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- people in media?
- people who are academicians?
- people who are NATO and European Union officials?
- people in the civic sector, non-profits and NGOs?
- people who are ordinary citizens?

Trust is a precious commodity. It is virtually impossible for any human being to build trusting relationships with so many people at once. So, let's pose a more modest question: What, I wonder, would be the value of public administrators who can build relationships of mutual understanding and trust *merely with people who are peers in their own ministries?*

Public administrators all over the world hold on, with amazing rigidity, to "turf", "stovepipes" or "silos." In my 25 years of experience in the U.S. government, including a stint on vice-president Al Gore's task force to reinvent government, I often saw the harmful effects of this problem on American governance. Even after September 11, Governor Tom Ridge, who was appointed by President Bush to co-ordinate "homeland security" for the United States, cannot gain the Cupertino of people in the two dozen Federal agencies whose mission is connected to homeland security. There are many reasons for the insidious durability of "silos," one of which I will touch upon later in this paper, when I explore the unexamined assumptions of Max Weber's theory of bureaucracy. But, in the simplest sense, what a metaphor like "silo" signifies in CEE and NIS governments is that – even in the same ministry, even in the same department of the same ministry, even on the same floor of the same department of the same ministry public administrators *do not see a need to build relationships with each other*. If they do not see a need to cooperate with each other in the same ministry, if they do not see a need to build relationships of trust with the people they work with on a daily basis, why on earth would they see any need to cooperate with people in other ministries? Or with political superiors? Or with EU officials? Or with the media? Or with citizens? *Or with anyone?*

I suspect that these questions are so rarely asked in schools of public administration because of the tendency toward isolation and "silos" in academic departments themselves. Few professors see any need to cooperate with colleagues. But, even with their devotion to individualism, professors usually respect the intellectual merit of the major disciplines of the field of public administration. The discipline of economics, for example, is highly valued for its intellectual rigor. So, if you have not yet fully understood the implications of my original question, let me now rephrase it, but this time strictly in economic terms: What would be the value for governance of public administrators who see the need for building stocks of social capital in administrative space? Mutual respect is a prerequisite for building understanding and trust in the space between people.

In the public sphere, “administrative space” is merely the name that political scientists give to the “space between people” -- the space that economists have shown can be filled with “social capital.”

## 2. Social Capital

What, exactly is social capital? For CEE states, especially those about to enter the EU, building social capital may be even more valuable than investing merely in physical, financial and human capital. Physical capital comprises the machinery, tools and technology of production. Financial capital refers to money. The people who produce goods and services are human capital. Social capital refers to the bonds of mutual respect and care among members of a collective. Social capital allows for reducing the transaction costs of economic exchange (Wiegel, 1997).

Human capital is invested in people. Social capital is invested in *relationships* among people. When public administrators invest in social capital, government earns a big return on investment. Public administrators earn currency in the form of increased trust in governance:

We can think of it as money in the “relationship bank.” As we work with people over time, deposits are made. We learn when someone gives us their word that we can count on it or that when they make commitment, these commitments are kept. We learn through working with them that we can count on them for straight talk and reliable action. When we have worked with someone over time and they have built up a trust account with us, if they are suddenly less than candid or they do not meet a commitment, we are likely to give them the benefit of the doubt. However, there is a point at which the balance in the relationship bank becomes depleted and trust changes to mistrust. That is the point at which people begin to disengage from the relationship (Axelrod, 2000, p. 168).

When public administrators fail to invest in social capital, they lose legitimacy, add to cynicism, and reduce the willingness of citizens, businesses and interest groups to bear the costs of painful reforms.

Without large investments in social capital, the tens of billions of dollars of World Bank and other local taxpayer monies allocated to modernise the economies of CEE and NIS states are liable to be wasted, deepening the chasm of mistrust and cynicism, fostering more corruption and increasing citizen apathy. The currency of social capital is trust (Rose, 1996; Fukuyama, 1995). The “cash value” of this currency is real. As trust in government continues to plummet, CEE and NIS states will need a new Marshall Plan to increase investment in social capital even more than they need infusions of World Bank and other financial capital.

Economists have compiled 30 years of multivariate statistical analysis to demonstrate that earnings from social capital help lift trust in governance (Putnam, 1999). Likewise, psychologists have compiled 30 years of multivariate statistical analysis to demonstrate that the level of social capital in any human system is dependent on its collective level of emotional intelligence (Goleman, 1997). The higher the level of group emotional intelligence, the higher the level of social capital. Would it be too far-fetched, therefore, to conclude that “social capital” is nothing more than an abstract name that the discipline of economics gives to what neuroscientists call “emotional intelligence”?

### 3. The Intelligence of Emotions

What, exactly, is emotional intelligence? Doesn't IQ cover all we acknowledge and mean by the word intelligence? According to Douglas Hofstadter (1980, p. 26), Pulitzer-prize winning author of the brilliant book *Godel, Escher, Bach*, intelligence can be defined in terms of the following eight abilities:

1. To respond to situations very flexibly.
2. To take advantage of the right time and right place.
3. To make sense of ambiguous or contradictory messages.
4. To recognise the importance of different elements of a situation.
5. To find similarities between situations despite differences that may separate them.
6. To draw distinctions between situations despite similarities that may link them.
7. To synthesise new concepts by taking old concepts and combining them in new ways.
8. To develop ideas that are novel.

Are emotions “intelligent”? Evidence from evolutionary biology and neuroscience is overwhelming that emotions are, in fact, highly intelligent, and that they have primacy over IQ for building group intelligence and social capital:

In meetings and other group settings where people come together to collaborate, there is a strong sense of group IQ, the sum total of intellectual knowledge and skills in the room. However it turns out that the single most important element in group intelligence is not the average, or highest, IQ, but emotional intelligence. *A single participant who is low in emotional intelligence can lower the collective IQ of the entire group.* Chris Argyris, from Harvard, asks. “How can a group where everyone has an individual IQ of 130 together and collectively end up with an IQ of 60?” (Cooper and Sawaf, 1997, p. xxxiv)

IQ alone cannot build group intelligence. IQ has no heartbeat. Emotional intelligence, on the other hand, focuses like a laser beam what is important to us. Without the signals communicated by emotions, life would be drab, colourless

and meaningless. I would care no more what happens to me or to you than does a machine. I would be interested in nothing. Without emotions we could not attach meaning to the word “interest” in the term “public interest.” Organised society could not function without emotional intelligence. Without emotions we could not attach meaning to the word “organised” in the term “organised society.” Emotions can certainly be harmful to governance, especially the emotions of hatred, greed, vengeance and lust. “There has never been any doubt that, under certain circumstances, emotion can disrupt reason,” says Antonio Damasio, professor of neurology at the Medical School of the University of Iowa. “yet research shows that reduction in emotion may constitute an equally important source of irrational behaviour” (*ibid.*, p. xxxiii).

Without the intelligent guidance of emotions, human beings cannot respond to situations very flexibly, take advantage of the right time and right place, make sense of ambiguous or contradictory messages, recognise the importance of different elements of a situation, find similarities between situations despite differences that may separate them, draw distinctions between situations despite similarities that may link them, synthesise new concepts by taking old concepts and combining in new ways, or develop ideas that are novel. Without the guidance of emotions we cannot be intelligent. Without the guidance of emotions we cannot be rational.

Emotional intelligence is registered through *deep listening* – listening to oneself and listening to others (Kramer 1995, 1999). People who are high in emotional intelligence know how to listen to their emotions and regulate their intensity so they are not hijacked by them. Emotionally intelligent people know how to keep disruptive emotions in check. Emotionally intelligent people sense the effect their emotions have on others. Emotionally intelligent people can laugh at themselves. Emotionally intelligent people know how to deploy their strengths and compensate for their weaknesses. Emotionally intelligent people listen to other people’s emotions and can empathise with them. Emotionally intelligent people act ethically and build trust through integrity and reliability. Emotionally intelligent people admit their own mistakes and learn from them. Emotionally intelligent people are comfortable with new ideas and new information. Emotionally intelligent people are skilled at listening to a group’s emotional currents and discerning the power relationships. Emotionally intelligent people can negotiate and resolve disagreements. Emotionally intelligent people listen to other people and know how to communicate effectively (Goleman 1997).

Emotionally intelligent behaviour is a prerequisite for building bridges of mutual understanding and trust in the space between people – in “administrative space.” To promote effective and efficient governance, large stocks of social capital

are needed to fill the gaps of mistrust in every ministry, in every department, in every office, and in every nook and cranny in administrative space.

#### 4. Leading by Listening

To build stocks of social capital, one of the most important skills a public administrator needs is the ability to listen – to self and others. The Chinese characters that make up the verb “to listen” tell us something significant about this skill. Chinese characters are really picturegrams. “When in stillness,” reads this picturegram, “a king listens with the heart.



The ear is worth ten eyes.” In order to be a good king, one must listen with ears, eyes, and heart, giving undivided attention to the people. In the philosophy of Taoism, a king is defined as a servant-leader who is a mindful listener. In a sense, the Chinese pictogram suggests an ancient wisdom: “leadership” is a metaphor for being integrated, focused, and centred, a metaphor for

emotional and intellectual balance in all aspects of life. Leadership is connecting mindfully and feelingly to what moves in one’s soul – and makes one come alive – and to what moves in the souls of others and makes them come alive. Public service leadership is soulwork.

Traditionally, leadership has been seen as a mysterious, lofty quality granted only to a few privileged people, and if one is not born with that quality, one cannot acquire it. Not so. Leadership is a composite of listening and speaking skills that can be learned, developed, and exercised by anyone in working with others to carry out a task. An outstanding public servant, according to the Chinese pictogram is a leader who:

- Listens to the whole message – not only the words, but the “music”: the tone of voice, the facial expressions, the gestures, the emotions and the silences between the words.
- Allows the speaker to feel fully valued and deeply respected.
- Is able to sustain concentration, focus intently and recall the speaker’s message – the words, emotions and the “music” – many days later.
- Listens to one’s own thoughts and emotions as he or she speaks – carefully choosing words and non-verbal ways of expression (the “music”) that match one’s intended meaning.

As the last point suggests, leading is about speaking persuasively just as much as it is about listening deeply. By tapping emotional energies, leaders move themselves and others to committed action. Leaders know how to draw out

enthusiasm in others not merely compliance. Authenticity – *listening to oneself* – is the most important prerequisite for public service.

Public service leaders know their deepest convictions, are true to them, and act with empathic understanding and positive regard for others' differences, without demanding that everyone else feel, think or act the same way that they do (Kramer, 1995). Public service leaders listen deeply as a way to find common ground for action and results. Public service leaders hold their ground and stay connected. Public service leaders are ethical. Public service leaders who have the capacity to listen deeply to themselves and others know five things. They:

- Know, deep down, what their values are and what other peoples' values are;
- Know how to communicate what they need in order to get cooperation from peers, political superiors and others;
- Know how to build coalitions to support the needs of peers, political superiors and others;
- Know how to say no to illegal or unethical acts of government;
- Know how to build social capital.

## **5. Do Public Administrators have a Right to Lead?**

Public administrators are accountable to political superiors. Doesn't this imply that they are responsible solely for following mandates granted from those who are elected to represent the "will of the people"? Public administrators are followers not leaders. Public administrators follow laws and regulations. Public administrators follow the will of elected chief executives and elected legislators. Public administrators follow the election returns. Public administrators are cogs in the machinery of government. Public administrators are mechanical transmission belts. Public administrators merely transmit the emotional energy imparted to them from above, making no additional contribution to the total effort. What they see, hear and feel is irrelevant to implementing the "will of the people." Only elected political officials have the right to lead. Public administrators are not the equivalent of Chinese kings. What right, you might ask, do unelected public administrators have to lead? Wouldn't this open the door to administrative tyranny and arbitrariness? Is it ethical for public administrators to see themselves as "leaders" in governance? According to Harvard professor Robert Behn (1998), leadership is not merely a right of public administrators. It is a necessity:

Leadership from [public administrators] is necessary because without leadership public organisations will never mobilise themselves to accomplish their mandated purposes. Leadership from [public administrators] is necessary because the elected chief executive can provide leadership for only a few of the many agencies and programs

for which he or she is responsible. Leadership from [public administrators] is necessary because the legislative branch of government gives public agencies missions that are vague and conflicting and often fails to provide enough resources to pursue seriously all of these missions. Leadership from [public administrators] is necessary because a narrow interest can easily capture a public agency and redirect government programs for their own gain. Leadership from [public administrators] is necessary because the citizenry often lacks the knowledge and information (or will) necessary to perform its responsibilities. (p. 209)

Because neither chief executives nor legislators are perfect, governance cannot exist without public administrators who are also leaders. Because chief executives and legislators are fallible humans, who often give inconsistent or incomplete directions, public administrators must help them lead. Elected officials represent the will of the people. But public administrators in democracies may be even more representative of ordinary citizens than elected officials (Krislov and Rosenbloom, 1981). When elected officials attempt illegal or unethical acts only public administrators can block the implementation of these acts. All governance is people governance. Elected chief executives and legislators are much more simply human than otherwise. Like the rest of us, they are people, too. If leadership is manifested in relations between people, then, in economic terms, the most important contribution of public administrators to governance may be to work purposefully and ethically with elected officials to *increase stocks of social capital in administrative space*. Only leaders who know how to listen deeply – to themselves and others – have the capacity to increase social capital.

## **6. Leadership is a Relationship, not a Position in a Hierarchy**

Leadership is more than a formal position in a hierarchy. It often starts as a formal position, but it is always more, much more, than merely a position. Leadership is an encounter – a listening relationship – between human beings. Leadership is a *relationship* not an individual (Kramer, 1995).

While traditional conceptions of leadership tend to be dominated by images of a single person such as a President, Prime Minister, Member of Parliament, or business CEO speaking to the masses and directing them from “on high,” leadership has little to do with domination. Although people can be threatened or rewarded to do what others want them to do, that is not leadership. Leadership does not occur when people obey commands or comply based primarily on threats or promises of reward. Leadership does not occur when people respond to a situation based primarily on direction by someone else. Leadership does not occur merely when you get other people to do what you want them to do.

Today, leadership in democracies is no longer seen as a single person who occupies a position at the top of a hierarchy and issues commands. Leadership is not an attribute of a position. Leadership is not an attribute of status, either in business or government. We must not confuse leadership with the top-ranking person in a hierarchy. Many a “No. 1” in politics or public administration could not lead a squad of ducks across the street. Likewise, we should not confuse leadership with power. Military dictators like Saddam Hussein wield power. The al-Quaida terrorist who lays a knife on the neck of an airline pilot has power. Leadership is more than power. Leadership is also more than legitimate authority. The police officer who issues you a speeding ticket has legitimate authority, as does the Motor Vehicles Bureau clerk who tests your vision before granting you a license to drive. “Corporations and government agencies everywhere have executives who imagine that their place on the organisation chart has given them a body of followers,” writes John Gardner (1990), a former U.S. cabinet secretary. “And of course it has not. They have been given subordinates. Whether the subordinates become followers depends on whether the executives act like leaders” (p. 3).

## **7. Followers can be Leaders and Leaders can be Followers**

“The only definition of a leader,” according to Peter Drucker (1999), “is someone who has followers” (p. xii). In other words, without willing, active, and committed followers, there are no leaders. Since leadership is a relationship of deep listening, any person in the “administrative space” of governance can “take the lead” and any person can “follow the lead.” These roles are not fixed. They can alternate. We shift frequently in ordinary group relationships from one role to the other without even thinking about it. In my Sunday morning prayer circle I can be a leader. In my Sunday night bowling club I can be a follower. A new view of “followers,” first articulated by Joseph Rost (1991, p. 109), is now emerging in the context of governance relationships:

- *One person does not make a relationship.* If leadership is a relationship, then it is not possible for leadership to equal a single person.
- *Only active people are followers.* Only people who engage with others in the leadership relationship should be called followers. Passive people have chosen not to participate in a relationship. Passive people are not followers. Passive people are non-players. Passive people have chosen to withdraw their social capital from public life and invest it in their private life.
- *Followers can be transformed into leaders and leaders into followers.* Sometimes we choose to lead and other times we choose to follow. People are not stuck in the same role all the time. In one meeting on Monday morning I can be a leader, and in another meeting on Monday afternoon I can be a follower. Few people have interest in leading 24 hours a day, 7 days a week. In public



life, some people choose to be followers much of the time and some people choose never to participate in any leadership relationships.

- *Followers are not doing followership, they are doing leadership.* Both leaders and followers co-create one relationship that is “leadership.” If a leader’s influence is based more on persuasion than on authority, position or status, then followers actively and deliberately choose when, where, why and how they allow themselves to be influenced. Followers and leaders continually influence each other. If they did not influence each other, they would not be in leadership relationship.

Public leadership, therefore, is a relationship between leaders and followers who develop mutual understanding and trust by repeated experiences of deep listening. People who participate in this relationship are the stakeholders in governance.

Stakeholders are the DNA of governance. These stakeholders have different names. Depending on the situation, time and place, we may call these stakeholders “leaders,” “followers,” “elected officials,” “public administrators,” “government employees,” “constituents,” “citizens,” “customers,” “interest groups,” “NGOs,” “academicians,” “media” or any other name for a human being that designates an active and willing partner in governance.

## 8. “360-degree” Leadership

By definition leadership is about leading change. To maintain the status quo there is no need for leadership. There can be no reform of CEE governance without the emergence of many people who are willing to be leaders. A handful of officials at the top of a hierarchy in the Prime Minister’s office or the Parliament is not enough. To implement reform of governance, elected political leaders are necessary but not sufficient. Career public administrators must also lead. In a report entitled “Developing Public Service Leaders for the Future,” the July 2000 *HRM Working Party Meeting* in Paris concluded that:

... leadership plays an important role in the implementation of reform because it involves two of the most important aspects of reform: *change* and *people*. Leadership is manifested in relations between people. Good leaders inspire people. Changing organisations is really about changing people’s behaviour, so organisations undergoing reform need leadership. Leaders, spread throughout an organisation, can help diffuse and maintain the new values necessary for public sector reform. (OECD, 2000, p. 3)

Just as governance is a relationship, so, too, is leadership. *Leadership is not a single person.* In CEE states, “The relationship between citizens and their public administration is a central issue of strategic importance to improving governance,” writes Joanne Caddy, administrator of SIGMA’s Public Administration

Development Strategies Unit. “Better channels of communication and greater citizen engagement increase both the effectiveness and legitimacy of public administration – and hence its capacity to deliver results” (Caddy, 1999, p. 1). All public service is people service. It’s all people and relationships. For governance to mean anything, it must mirror the souls of people.

Actions such as constructing better channels of communication and inspiring greater citizen engagement call for more than just public administrators. They call for *public leaders*. More precisely, they call for public administrators who know how to lead by listening – which means they know how to touch the souls of people, their own souls and those of others. They know how to listen to their own heartbeat and to the heartbeat of others.

Few public administrators in CEE states possess the leadership skills necessary to serve in senior civil service positions. In almost all CEE states, mid-level communist bureaucrats have been retained because there are no readily available alternatives. Many of the best public administrators have left government for the private sector. Under communism, civil servants listened to the Party but not to the broader population of stakeholders they were supposed to serve. As a result, since 1989, citizens of CEE states have become increasingly disillusioned with the rhetoric of “democracy” and “free markets.” Both elected and career officials often appear to be deaf to the everyday concerns of ordinary citizens. This is a failure in leadership and a failure in listening. As a result, many CEE states are creating a massive deficit in social capital.

This has untold economic consequences. A deficit in social capital means that the allocation of financial capital will be inefficient, wasteful and unproductive. A recent survey of more than 3,000 CEE companies by the World Bank and the European Bank for Reconstruction and Development (EBRD) reveals that bribery and corruption are widespread in the region. “A small group of firms exercises influence over state policies that affect the activities of many firms across the economy,” according to the EBRD survey (*The Wall Street Journal Europe*, November 9, 1999, p. 2). In many CEE and NIS states, trust in government has plummeted to pre-1989 levels (Rose, 1996). As former U.S. vice-president Al Gore observed in Washington, DC, at the January 1999 *International Conference on Reinventing Government*, “Ensuring the integrity and efficiency of government will strengthen democracy and help it accelerate, instead of suffocate, the entrepreneurial initiative of its private sector” (U.S. Department of State web site). Investing in social capital is good business – it is an investment in good governance and, even more, a prerequisite for efficient allocation of financial capital.

If social unrest in CEE states is to be forestalled, participation in policy-making, especially as it relates to meeting the requirements of EU accession, needs to

be expanded to the widest possible spectrum of public administrators, citizens, business firms, professional associations, NGOs and interest groups.

In the long run, ensuring widespread collaboration by all stakeholders in the EU accession process will allow for big savings in the regulatory apparatus of government, given that successful implementation of the *acquis* laws and regulations across Central and Eastern Europe relies heavily on voluntary compliance by citizens and businesses. Even in the short run, coercion is neither practical nor effective.

Promoting democratic governance in CEE states demands developing a cadre of public administrators who can “lead by listening” to stakeholders. This involves what can only be described as “360 degree leadership” – public administrators with high enough levels of emotional intelligence to:

- Lead up – build social capital with political superiors and elected officials;
- Lead down – build social capital with lower-level staff;
- Lead across – build social capital with peers;
- Lead out – build social capital with stakeholders outside their ministry – MPs, interest groups, NGOs, EU officials, academics, media, citizens, etc.

## 9. Max Weber and Beyond

Currently, the vast majority of public administrators in CEE states lack the understanding and behavioural skills necessary to build social capital. Even those public administrators who are excellent administrators of laws and regulations lack the leadership skills to bring their citizens into a more mutually beneficial partnership with government officials.

Why, one wonders, is it so hard for public administrators to know when to *administer* and when to *lead*? Why is it so hard for public administrators to know when – in the daily process of working with their political superiors, staff, peers, interest groups, MPs, media, NGOs, EU officials or ordinary citizens – it is necessary for them to behave as *leaders* and when to behave as *administrators*? Why is it so hard for high-level civil servants to see that, to administer laws and regulations, to implement public policy, to build trust in governance, they must learn how to blend, on a day-to-day basis, the law-based knowledge of an *administrator* with the equally vital listening skills of a *leader*? Why is it so hard for high-level civil servants to see that they must, in fact, combine both the skills of an administrator and the skills of a leader in *one and the same person*? Neither the responsibilities of administration nor those of leadership can be ignored, yet most public administrators, in CEE states and elsewhere, focus narrowly only on their administrative roles. Why? To be honest, I’m not sure but I have a hunch.

A major reason may be the continuing acceptance, by scholars and public administrators alike, of certain unexamined assumptions of Max Weber's model of bureaucracy. Based on my long experience in the U.S. Government, where I met few senior public administrators who were genuinely interested in or capable of "taking the lead" in governance, I have come to suspect that the unexamined assumptions of the Weberian model of "man as machine" contributes, to a large extent, to the absence of a leadership mindset in career civil servants.

According to Weber (1922), bureaucracy compares with other organisations exactly as does a machine: "The more perfectly the bureaucracy is dehumanised, the more completely it succeed in eliminating from official business love, hatred, and purely personal, irrational and emotional elements which escape calculation" (p. 15). Weber's model of human nature assumes that efficiency and effectiveness are harmed if human emotions influence the rational actions of public administrators. *Emotions are not intelligent*. Emotions are opposed to reason. Emotions are irrational. Emotions are unproductive. Emotions are subjective. Emotions should never guide administrative actions. The purpose of bureaucratic hierarchies, division of labour, classification of positions, standard operating procedures and pay grades is to *legislate against intrusive and irrational emotions*. To end nepotism, prevent capricious or subjective administration, and promote equal justice under law emotions must be eradicated. For reason to rule, public administrators are to become souls on ice.

## 10. Souls on Ice

In the classic formulation of Max Weber (1922), public administrators must be without affection or enthusiasm – *ohne Zorn und Eingenommenheit*:

Bureaucratic administration means fundamentally the exercise of control on the basis of knowledge. This is the feature of it which makes it specifically rational ... The dominance of a spirit of formalistic impersonality, "*Sine ira et studio*," without hatred or passion, and hence without affection or enthusiasm .. This is the spirit in which an official conducts his office ... Otherwise the door would be open to arbitrariness. (pp. 15 – 16).

Weber's lifelong project was to conquer the world of administration for rationality (Diggins, 1996). Excellent administration is "control on the basis of knowledge." *Administration, therefore, is about control*. Excellent administration is about limiting discretion. Excellent administration is about preventing arbitrariness and tyranny. For this reason, public officials do not establish relationships to persons. Governance is impersonal. Relationships are positively harmful for excellent administration. Once the boxes on the organisational chart are drawn, once the responsibilities of positions are delineated, once the irrationality of human emotion is eliminated, the organisation will be a smooth running, lean and

efficient machine, easily able to follow orders and implement public policy. Public organisations must be cool arenas for dispassionate reason, clear-headed analysis. Administration without people is the most efficient and effective governance. Administration without people, by definition, is excellent administration. Unless public administrators eradicate emotions that interfere with decision-making:

1. They cannot respond to situations very flexibly.
2. They cannot take advantage of the right time and right place.
3. They cannot make sense of ambiguous or contradictory messages.
4. They cannot recognise the importance of different elements of a situation.
5. They cannot find similarities between situations despite differences that may separate them.
6. They cannot draw distinctions between situations despite similarities that may link them.
7. They cannot synthesise new concepts by taking old concepts and combining them in new ways.
8. They cannot develop ideas that are novel.

Under the guidance of emotions public administrators cannot be intelligent. Under the guidance of emotions public administrators cannot be rational.

This is a prescription, of course, for transforming people into machines. But machines cannot build the trusting relationships needed to govern. Only people can govern. Yet, for those immersed in the culture of bureaucracy, the prescription against relationship virtually mandates that the daily actions of public administrators – namely, encounters with political superiors, staff, peers, interest groups, media, members of parliaments, NGOs, or ordinary citizens – all relationships with all stakeholders be conducted *Without Sympathy or Enthusiasm* as Victor Thomson once suggested in the title of a 1975 book.

At the time impersonal public administration was proposed it was a necessary and essential corrective for nepotism. Standardised rules and procedures were revolutionary breakthroughs in administrative thinking and retain value as a safeguard against corruption even today. We must never let down our guard against administrative or political tyranny. The separation of executive, legislative and judicial powers, with each power being able to check and balance the others, is the best antidote to tyranny. However, I do not think that an assumption of “man as machine” is compatible with late 20<sup>th</sup> century discoveries in evolutionary biology and neuroscience. The classical bureaucratic assumption of “man as a machine” is, on the contrary, perhaps the single biggest contributor to the “occupational psychosis,” (John Dewey), “professional deformation” (Thorstein Veblen) and “bureaupathology” (Robert Merton) so often observed in the behaviour of high-level civil servants, not just in CEE states, but all over the world, including the U.S. Government.

The assumption of “man as machine” has induced in public administrators a state of unconscious incompetence and trained incapacity for leadership, according to the sociologist Phillip Selznick (1976):

Mechanical metaphors – the organisation as a “smooth running machine” – suggest an overemphasis on neat organisation and on efficient techniques of administration. It is probable that these emphases induce in the administrator a trained incapacity to observe the inter-relationship of policy and administration, with the result that the really critical experience of organisational leadership is largely overlooked. (p. 3)

In his famous 1937 Brownlow Commission Report, Luther Gulick argued that efficiency must be built into the structure of government just as it is built into a “piece of machinery.” Following Weber’s assumption about the harmful effect of emotion, public administrators, asserted Gulick, are supposed to be smooth running machines – transmission belts – for carrying out the will of the people as expressed by elected officials. In 1976 Gulick, one of the most influential framers of orthodox American public administration, examined and, for the first time, regretted his assumptions four decades earlier about the merits of a mechanistic, de-humanised and emotionless model of administration:

There is good reason for dropping the idea that government is a *machine*. We should never have abandoned the notion that any team of people working together for a purpose is an “organism” not a machine ... If we think of government as an organism, a living organism, we have a totally different and more accurate and constructive understanding of a government organisation. [Public administrators] are no longer cogs, they are suborgans ... They do not merely transmit the energy imparted to them from above, they each make an added contribution to the total effort, influenced by what they see, feel and are doing” (cited in Gawthrop, 2002, p. 85).

So why does it remain so hard for high-level civil servants to see that that they must blend, on a day-to-day basis, the essential skills of an efficient *administrator* with the equally vital skills of a *leader*? I can’t be certain, but I suspect that it is a problem of unexamined assumptions. It is extremely painful and anxiety-provoking to examine deeply ingrained tried-and-true assumptions. But isn’t examining assumptions the very definition of learning? The unexamined life, as Aristotle said somewhere, is not worth living.

## 11. Excellent Management is not Leadership

Let me now turn to a related problem. We have just learned how extraordinarily difficult it is to see the difference between *administration* and *leadership*. The question I want now to explore is what, exactly, is the difference between *management* and *leadership*? While related, management and leadership are not the

same – even in the private sector – and must be sharply distinguished. I believe that excellent managerial skills are necessary but not sufficient for CEE public administrators. For good governance, leadership skills are also required. Only leading by listening, in my experience, can increase social capital. We know that excellent administration alone is not capable of increasing social capital. I want now to show that excellent management *also* is not capable of increasing social capital. But why? Why is management a misleading path if we are concerned about developing the governance skills of public administrators?

Is excellent management *necessary* for public administration? – absolutely yes. Is excellent management *sufficient* for building social capital? – absolutely not.

The word “manage” derives from the Italian word, *maneggiare* – which means “the handling of horses.” In American sign language, the sign for “manage” is to hold the reins of a horse. *Like administration, management is essentially about control.* Management is about restraining energies. Management is about limiting discretion. In public administration, control and restraint – especially in the expenditure of taxes collected from citizens and businesses – is a prerequisite to demonstrate accountability to elected officials, Parliaments and citizens. In a democracy, law-based public administration is essential. Therefore, control of financial resources is absolutely necessary for public managers. *All public administrators must also be good managers.* All public servants – whether they are elected politicians, appointed political executives or career civil servants – must take an oath to protect monies in the public treasury from being spent illegally, imprudently or unethically. The behaviour of all public managers – elected, appointed or otherwise – must be monitored and “controlled.” It is impossible to argue this truth away even by the strenuous advocates of the entrepreneurial philosophy of New Public Management.

*Leadership, however, is not about control.* For decades, many scholars have assumed that leadership is excellent management (Rost, 1991). This is wrong. Leadership is not about restraining energies. Just the opposite. Leaders move themselves and others to committed action. The word “lead” derives from Old English, *leden*, which means “to go before as a guide; to take a journey.” The word “motivate” derives from the Latin, *motere*, which means “to move.” The word “emotion” also derives from *motere*, to move. By drawing on emotional energies, leaders take us on a journey. Leadership = emotion. Leaders begin initiatives. Leaders challenge the process. Leaders inspire a shared vision. Leaders enable others to act. Leaders model the way. Leaders encourage the heart (Kouzes and Posner, 1997). Leadership is not about control. *Leadership is about releasing human energies.* Leaders lead by tapping their emotional intelligence and the emotional intelligence of others (Goleman, Boyatzis, and McKee, 2002). Lead-

ership is about influencing stakeholders in society to work together to achieve higher, more ethical goals.

According to the Pulitzer-prize winning political scientist James McGregor Burns, who founded the field of leadership studies, the leader's fundamental act is to lead "people to be aware or conscious of what they feel to be their true needs so strongly, to define their values so meaningfully, that they can move to purposeful action" (1978, p. 44). In other words, leaders listen so deeply to the emotional messages of their constituents that, sometimes, they have the capacity to register needs not even fully conscious to their constituents.

Leadership is the major contributor to social capital. Leadership, says Burns, "raises the level of human conduct and ethical aspiration of *both leader and led*, and thus has a transforming effect on both" (p. 20). Building social capital, therefore, depends on leaders not managers.

To be an excellent manager or administrator, one does not need to tap the emotional energies and creative will of subordinates, citizens, business firms, interest groups and other stakeholders in society. Moving others to committed action is not a necessary skill for managers. Building social capital is not in the position description of any manager. Listening to others is not what they do best. Highly motivated or inspired behaviour may even be counter-productive. According to Harvard professor John Kotter (cited in Behn, 1998, p. 212):

For some of the same reasons that control is so central to management, highly motivated or inspired behaviour is almost irrelevant. Managerial processes must be as close as possible to fail-safe and risk-free. That means they cannot be dependent on the unusual or hard to obtain. The whole purpose of systems and structures is to help normal people who behave in normal ways complete routine jobs successfully, day after day.

Completing routine jobs successfully – delivering social security payments on time; implementing computer systems for E-government, filling potholes; keeping nuclear power plants safe – is a worthy task. Excellent management is the exercise of control. The focus is to strengthen or correct what already exists in the organisation. Excellent managers look for exceptions and fix them. Building social capital, or raising people to higher ethical standards of behaviour, plays no role in excellent management. Managing budgets means "controlling public monies to prevent financial waste." Managing information technology means "controlling what kinds of information computers release." Managing nuclear power plants means "controlling accidents." People, however, cannot be managed. They can only be led.



## 12. A Cure for Occupational Psychosis

While we still appreciate Weber's genius as the premier sociologist of his generation, his model of "man as a machine" has had unintentionally perverse effects on modern, post-industrial public administration and in navigating the permanent white water of change. "Man as machine" continues to serve as a major barrier to building trust in 21<sup>st</sup> century government. The fall of communism, if nothing else, demonstrates that rigid, inhumane Kafkaesque bureaucracy is not superior to other forms of organisation. Moreover, it is not even true that "impersonality" is the best guide to rational decision-making. Charles Darwin showed as early as the 19<sup>th</sup> century that emotions were adaptive in the evolution of human beings, but there is no evidence in Weber's writings that he understood the implications of Darwin's revolution in biological science (Weber 1978). "Many emotions are products of evolutionary wisdom, which probably has more intelligence than all human minds together," according to Joseph Ledoux (1996, p. 36), professor of science in the Centre for Neural Science at New York University. Neuroscientific discoveries in the last decade show that rationality and emotions are not separate compartments in the brain. Rather they are inextricably woven into all cognition.

Recent work in psychology by scholars such as Martin Seligman, Richard Lazarus, Anthony Ortony, and Keith Oatley, and research in neuroscience by Joseph Ledoux and Anthony Damasio show conclusively that emotions are a form of intelligent awareness. Emotions are intelligent. Emotions are what make us human. Emotions tell us what is valuable and important to us and to others. They signal the meaning of events. Emotions are just as "cognitive" as other perceptions. They serve as essential guides for humans to make rational choices. Emotions are a form of thinking as well as a form of feeling. All thinking is infused with the intelligence of emotions. Without the guidance of emotions, one becomes irrational, detached from reality. Is not this detachment from reality the very definition of "occupational psychosis" (John Dewey), "professional deformation" (Thorstein Veblen), "trained incapacity" (Philip Selznick), and "bureaupathology" (Robert Merton)?

We now have conclusive biological evidence that *decision-making is neurologically impossible without being informed by emotions*. Contrary to the classical model, decision-making is arbitrary when it is *not* infused with the intelligence of emotions. Empirical research by organisational scholars on three continents shows that "emotional intelligence" is the very marker that distinguishes routine management from outstanding leadership and the marker that distinguishes dead organisations from living organisations (Ashkanasy, Hartel, Zerbe, 2000).

Neuroscientific research shows some stunning differences between the classical bureaucratic assessment of emotions and current scientific understanding (Cooper and Sawaf, 1997, pp. xxxii – xxxiii):

For public administrators, management and leadership skills are not mutually exclusive (Kovriga, 1998). We should not make the mistake of stigmatising management and glorifying leadership. They are complementary. Managers lead and leaders manage; however, the two functions reflect different – at times overlapping – sets of skills. *Both are essential*. Public administrators need to expand

**Bureaucracy on emotions**

- Make us inefficient
- Sign of weakness
- Interfere with good judgement
- Distract us
- Obstruct, or slow down, reasoning
- Arbitrary and tyrannical
- Weaken neutrality
- Inhibit the flow of objective data
- Complicate planning
- Undermine management

**Modern neuroscience on emotions**

- Make us effective
- Sign of strength
- Essential to good judgement
- Motivate us
- Enhance, or speed up, reasoning
- Build trust and connection
- Activate ethical values
- Provide vital information and feedback
- Spark creativity and innovation
- Enhance leadership

their repertoire of skills to include both functions, without minimising one at the expense of the other. “What is needed are both managers and leaders (ideally, both in the same body)”, according to a recent panel of the U.S. National Academy of Public Administration (1997) “with the need for leaders growing immensely as predictability and order give way to change and ambiguity”(p. 5). A genuinely democratic and ethical civil society in CEE and NIS states demands the development of a cadre of public administrators skilled in leadership not just administration and management. *Civil servants at times administer laws, at times manage budgets, and at other times lead people and change*. Civil servants are not just administrators and they are not just managers. They are also leaders who have a responsibility to share democratic values, represent a broad range of social groups, and view themselves as accountable to much broader constituencies than before.

“We need a government,” writes Peter Drucker, the father of modern management, “which knows how to govern and does so. Not a government which ‘administers,’ but a government which truly governs” (cited in Potucek, 1999, p. 28). All governance is people governance. All public service is people service. It’s all people.

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## **IMAGE IV INSTITUTIONALIZED IN A LEADERSHIP STRUCTURE OF INTERNATIONAL ADMINISTRATION. ADMINISTRATIVE AND POLITICAL ROLES OF DIRECTORSHIP GENERAL OF THE INTERNATIONAL LABOUR ORGANIZATION.**

*Maciej Bartkowski* \*

This paper analyses the roles performed by international entrepreneurship. It specifically looks at Directorship General, which is the definition of a particular type of international leadership carried out by the heads of international administrations of inter-governmental organisations. This paper analytically assesses a peculiarity of the Directorship General's status, which institutionally embeds two functional roles: that of a manager and that of a policy-maker. More precisely, this study conceptualises the roles of Directorship General in reference to the case study of Directors General of the International Labour Organisation (hence the ILO or the Organisation).

Determining a multiplicity of different administrative and political roles, which are institutionally-derived from Directorship General will show that "the pure hybrid" of Image IV (Aberbach, Putman and Rockman 1981), or the idea of convergence of political and administrative roles applied in the studies of national governments, is not only present in intergovernmental organisations but has been strongly embedded in the nature of Directorship General of international administrations and institutionalised within the post of a Director General.

This paper, although having less modest goals than other international studies, which utilise roles to conduct analysis of complex socialisation processes or to examine the influence of actors and institutions, makes, nevertheless, a humble claim to its own originality. Roles are studied here as an independent variable. They are seen as important explanatory variables, which can shed greater light on the nature of a specific type of international leadership: Directorship General. While applying a cross-disciplinary approach, this paper intends to show that what political science literature understands by Image IV in the studies of a national (American) government is actually a well-established international phenomena reflected in the institutionalised form of a leadership of international administrations.

In the first two sections, the paper will review, respectively, literature on the study of the roles in international relations and on the concept of Image IV. Then, whilst differentiating between the impacts of institutions, on the one hand, and

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actors and environment, on the other, in connection with roles of international leadership, the research will be firmly set to examine an institution of Directorship General, which is built into the post of a leader of international administration. A brief look at the position of a Director General within a framework of an inter-governmental organisation will allow us to determine his ambiguous status between the political-diplomatic and international administrative worlds. Subsequently, a case study of the roles of the ILO Directors General will follow. It will demonstrate various role foci of the ILO chief executives, which, in turn, will serve as empirical evidence of the embeddness of Image IV in the leadership structure of international administrations.

### **The Study of Roles from the International Point of View**

As Michael Bennett admits, the theories of international relations have been “relatively negligent of roles” and only “the foreign policy (...), American politics (...) and comparative politics (...) literatures have been more attentive to their research value” (Bennett 1993: 272, footnote 2). At the end of the 1990s, the study of a role in the international relations scholarship was mainly linked to the burgeoning body of constructivist and institutionalist literature on the (EU) European Union. (For a notable “rationalist” exception, see the accounts of different roles performed by the Presidents of the European Commission in Moravcsik 1999). The analyses of a role in the EU context generally focus on examining a process of socialisation or Europeanisation of national and supranational political and bureaucratic elites in order to evaluate the progress of deeper politico-administrative integration (Egeberg 1999; Trondal 2001a; Trondal 2001b); or to elaborate on a position of influence and autonomy of a supranational institution such as the Commission (Laffan 1997, Moravcsik 1999). The notion of a role is often analysed as an intervening variable, important for understanding how a casual mechanism is established and operates between independent and dependent variables. Thus, considering a role as “central to the development of social identities” (Pratt 1998:196), which, in turn, is important to determine the impact of socialisation process, implies, even unintentionally, that an identity, not a role, is a crucial “end-variable” or an independent variable in explaining a given (socialisation) process. Trondal (1999:10) makes a similar point in connection with the EU by arguing that identity understood as a “feeling of belonging” to a national government or to the EU-system *determines* particular roles of politico-administrative elites, who may act either as national representatives or independent EU experts. In this way, a role is considered as an intervening, rather than independent, variable. Thus, what ultimately a role (and other intervening variables such as norms, rules, bureaucratic ideology or organisational culture), is utilised for, is to explain actors’ behaviour, choices they made and preferences they hold (dependent variables), while determining actors’ identities, loyalties,

the various logics of their actions (logic of appropriateness vis-à-vis logic of consequentiality) or the extent, to which certain values and goals have become internalised by particular persons (independent variables).

This research moves away from the mainstream international relations and the European Union literature and treats roles as an independent variable while transposing Image IV into the study on international entrepreneurship. This is done in order to broaden the understanding of the international executive leadership in general and the ILO Directorship-General in particular.

### **Image IV in the Political Science Literature**

Image IV was derived from a motivational approach, which is found in empirical studies of politicians' and civil servants' behaviour as well as in the minds of politicians and civil servants themselves. In the motivational approach, roles are understood as politicians or civil servants see or understand them (Searing 1994:10 – 11). This, in turn, has an impact on the methodology employed by the researchers, which is based on “semistructural interviews with moderate-sized samples” (Searing 1994:8, particularly Table 1.2). Regardless of how Image IV was methodologically generated, the most relevant issue to this study is the content of Image IV itself. And, in order to understand it, one needs to discuss briefly three other images.

Image IV represented the end of an on-going process of development in government and public administration and has been preceded by three other conceptual images. Image I represents the Weberian distinction between politicians and bureaucrats, where the latter perform technical and legalist functions based on expert considerations, whereas the former formulate policies in response to the interests he/she represents. Thus, Image I captures a dichotomy: “bureaucrats ought to manage, and politicians ought to make policy” (Aberbach *et al* 1981: 84). Image I was subsequently substituted by Image II, which indicates that growing responsibilities may have compelled “administrators to forge consent for concrete policies, to represent interests, and to reconcile or broker conflicting claims—all activities, which (...) had been thought to lie in the sphere of political rather than administrative activity” (Aberbach *et al* 1981:85). Thus, Image II represents “a more complex view where both politicians and bureaucrats were seen to exert political influence” (Jacobsen 1996:50). In turn, Image III takes on board the Image II assumption about the involvement of both, bureaucrats and politicians, in policy-making activities and further problematises their activities by claiming that bureaucrats and politicians “are engaged in policy-making in different settings linked to different constituencies—one relatively narrow and more concretely specified (e.g. concrete interest groups-M.B.); the other broader and less easily defined (e.g. electorate-M.B.)” (Aberbach *et al* 1981:85).

Finally, Image IV refers equally to politicians and bureaucrats, by making an assumption that “bureaucrats in the industrial democracies (became) more sensitised to political concerns (whereas) political leaders (became) increasingly familiar with administrative and technical aspects of policy problems” (Aberbach *et al* 1981:85). This image denotes an ongoing process, whose end-point is a complete convergence of political and administrative roles, according to which the roles of elected politicians and recruited civil servants may eventually overlap, creating “the pure hybrid” (Aberbach, Putman and Rockman 1981; Aberbach and Rockman 1997). In 1981, Aberbach *et al* made a strong claim about the possible convergence of public administrator and politician’s roles, whereas in their later publications in 1988 and in 1997, Aberbach and Rockman became more sceptical about the role change in the direction of the pure hybrid of Image IV (“The Image IV type is less at centre stage now than we thought it might become”, Aberbach and Rockman 1988:22). Therefore, Image IV in the analysis of national governments is treated as an “ideal type construction” (Aberbach and Rockman 1997:325).

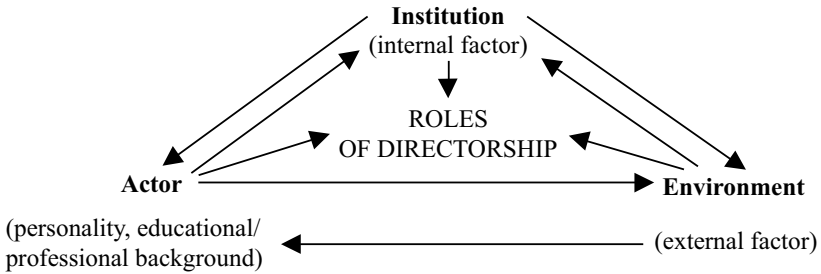
However, in the studies of Directorship General of international administrations, this “ideal type construction” of Image IV transpires to be part of the reality of intergovernmental organisation. Based on the situational rather than motivational analysis, the later sections will show that the idea, which is represented by Image IV in political-science studies, has actually for a long time, been well institutionalised in the work of a chief executive of international administration.

### **Understanding the Impact of Three Variables: Institution, Actor, Environment on the Study of Roles of Directorship General**

Expanding on Hollis and Smith’s argument that “roles are a two-way process between structure and actor”. (cited by Barnett 1993: 272, footnote 3), this study adds a new variable: (international) environment, in order to complement the analysis of roles of international leadership. Figure 1 shows that roles are still understood as a two-way process, which, however, takes place between three variables: institution (internal factor), actor (idiosyncratic features, or professional and educational experience) and (international) environment (external factor).

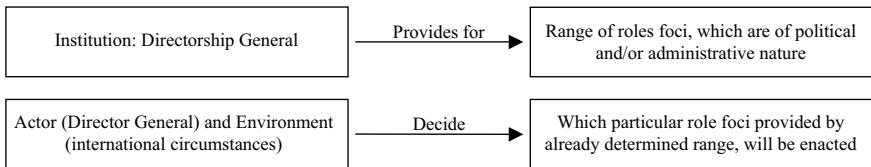


**Figure 1**



Despite the fact that interrelations between these three variables are of equal importance, the variables themselves generate different effects in connection with roles of Directorship General. On the one hand, an institution or, in other words, an institutionalised position of Directorship General in the structures of intergovernmental organisation, creates the possibility of having various administrative or/and political roles. Thus, the institutional variable sets the range and variety of administrative or/and political roles, which can be invoked when required. In other words, an institutional variable provides a kaleidoscope or a menu of political or/and administrative roles, from which a concrete role foci can be chosen. On the other hand, an actor's (Directors General) personality, his educational and professional background as well as the given international circumstances determine what sort and when, a specific role foci is invoked or enacted. See Fig. 2.

**Figure 2.**



In brief, a possible range or scope of roles is embedded within a given institution (e.g. Directorship General within intergovernmental structures) and the role or roles one enacts in a given situation, depends on personality, experience and external factors. Understanding this differentiation is important, since it indicates that the institutional variable is a key element for determining whether it is justified to claim that the institution of Directorship General embeds Image

IV (which is generally about the range of administrative and political roles and not about a particular role foci).

### **Analytical Positioning of Director General: “Neither...Nor...” Dichotomy**

The position of a Director General (as well as other heads of international administrations) is a peculiar one. He functions on the verge of politico-diplomatic and administrative worlds. This would imply that he is neither a “fully-established” civil servant nor a “fully-fledged” politician-diplomat. He cannot be easily compared with a head (or for that matter with any minister) of a government. It is true that both are elected in a politicised process and both hold political offices/positions. However, the similarities end there. The Director General is supposed to maintain neutrality and impartiality in conducting his duties, whereas a head of a government is actually required to have and to express certain ideological biases and political commitments. The Director-General’s powers are very much confined: he does not have his own political constituent and is surrounded by the most powerful entities present in the international system: the nation-states, towards which he needs to keep an equal distance, showing no favouritism. The Head of a government usually has his own political organisation to rely on, deals with political parties and explicitly favours certain of them in order to ensure the majority in parliament necessary to maintain support for his government.

Although exercising the functions of “the chief administrative officer”, a Director General does not belong to the corpus of (international) civil servants. He is elected, often through tough political bargaining, rather than recruited via the merit system of examinations as is the case of other civil servants. He holds a position on a fixed, relatively short-term basis, which cannot be compared with the employment conditions of civil servants, who enjoy much greater permanency. Thus, he is more of a “parachuted” official rather than a career civil servant.

### **The ILO Directorship General in Practice: “Either...Or...” Duality or even a Singular-ness**

The analytical distinction of the position of Director-General based on “neither... nor...” dichotomy; neither a politician nor a civil servant; does not seem to hold ground as far as empirical observations of the ILO Directorship General are concerned. These observations transpose the above-mentioned dichotomy to yield “either...or...” duality of Directorship General. The findings even suggest that Directorship General may generate roles, which integrate both administrative and political features.

The source of this duality is rooted in the institution of Directorship General, which, in turn, originates in the post of the Director General. Like any other institutions, the post of Director-General consists of characteristic sets of rules and

practices (both formal and informal), which prescribe certain behavioural roles (for the definition of an institution see Keohane 1989:3). The ILO Constitution does not precisely define a formal set of rules and practices associated with the post of Director-General. According to Article 8 (1) of the ILO Constitution only “a Director-General of the International Labour Office shall be responsible for the efficient conduct of the International Labour Office and for such other duties as may be assigned to him”. The mandate of the ILO Director-General is broad and leaves much leeway for a person in office in choosing such (informal) rules, practices and implement specific tasks and activities, which would ensure the “efficient conduct” of the ILO Bureau (Office) and the Organisation in general. As Ghabli argues, the ILO Director General’s formal and informal competencies enable him to “go far beyond the limits of secretariat tasks” (Ghebali 1989:159). Discretionary power, which is a result of the specific position of the Director General within the ILO structure and vagueness of legal provisions, enables him to invoke roles, which can have either political or administrative characters or would likely include both, while he pursues various goals within the Organisation and outside of it.

Thus, the roles of the Directorship General show that the Director General has a “Janus” face, that of an international administrator, and that of an international political representative (diplomat). Directorship General can embrace the features of either a bureaucratised politician or a politicised bureaucrat or both simultaneously. Consequently, the Director General is an example of institutionalised duality or even institutionalised singular-ness: he can act either as an administrator with professional cues or he may become an international diplomat with political cues, or, finally, he may invoke roles, which include both cues.

### **Administrative and Political Roles of Directorship-General.**

In order to determine different roles performed within the institutionalised framework of Directorship General, this paper will apply situational analysis in order to account for the role playing of particular leaders of the ILO Bureau (Office) in specific situations. Thus, empirical observations of the work of the ILO Directors General will serve as a tool to distinguish different roles embedded in the concept of Directorship General.

It is not the intention of the author to provide a complete list of all the roles (having either a positive or negative impact on the Organisation), which are associated with Directorship General and which could have been carried out by various ILO Directors General during more than 80 years of the ILO’s history. What, however, the analysis aims at, is to distinguish several different roles performed by various ILO Directors General (some of the roles will overlap) and to show that these empirically-derived roles can have either administrative and

political natures, or both. This, in turn, would serve as an important indication that Directorship-General is an institution, which reflects the administrative-political convergence represented by Image IV.

*Albert Thomas 1919 – 1932:* When he became the first ILO Director General, he had behind him a career of government minister and that of a member of the French parliament. In the “heroic” early days of the ILO, Thomas earned a reputation for “electric leadership” (Goodrich cited by Langrod 1963: 311). As administrator, Thomas focused on strengthening the international civil service within his Office. He led the policy, which excluded career diplomats from posts within the Bureau and promoted permanent appointments based on the functional specialisation’s. In order to maintain contact with the ILO constituents, the Director reorganised the Bureau, set up diplomatic and research departments, opened a new information and communication unit and pushed for the establishment of the national correspondents and the ILO administrative offices within particular states. As boundary guardian, the ILO Director-General was entrusted with the power to appoint the ILO staff and Thomas was “jealously defending his prerogative” (Langrod 1963:145). He vigorously defended the “Balfour” principle, successfully resisting the pressure of those governments that wished to see the expansion of the rule of geographical distribution of seats rather than a competitive examination system. Regarding the legal boundary stretcher, from the early years of the ILO existence, Thomas and the Bureau he was heading, acquired (or actually usurped) the rights, which were neither explicitly nor implicitly given to the ILO international administration by the ILO Constitution or other documents. Despite the lack of the right to have legislative initiative, the ILO Director General frequently presented to the Governing Body and to the ILO Conference his own policy proposals (Paździor 1975: 24 and 155). As an advocate, Thomas continually looked for public support for the work of the ILO. “The strength of the ILO lay, he was never tired of insisting, in public support” (Phelan cited in Langrod 1963:148). He made sure that the staff-members “visited different countries, had interviews with persons in leading positions, attended important conferences, examined and discussed on-the-spot the questions and tendencies of the day” (Gheballi 1989:13). Thus, the Director General and his Bureau were constantly engaged in open public debates to promote concrete ILO conventions or, more generally, the Organisation’s objectives.

*Harold Butler 1932 – 1938:* Having been a close associate of the former Director General, Butler was “brought up” within the bureaucratic structure of the ILO Bureau. He “approached his job more as a civil servant and economist than Thomas had done with his emphasis on political dynamism (Lubin and Winslow 1990: 43). As Administrator and geographical boundary stretcher, Butler focused the work of the ILO on more technical advisory meetings involving the ILO constituents’ experts. He opened the ILO Bureau to other non-European states

in the sense that under his supervision, the Bureau designed special measure to recruit personnel from overseas states and further extend the role of the correspondence offices. Butler intensified contacts between the Office and overseas countries by establishing the Overseas Section within the Bureau, dispatching the ILO Office officials on various missions to Latin America, Asia and the Middle East and by supporting the concept of ILO regional conferences.

*John Winant 1939 – 1941:* A former Republican state legislator and a governor of New Hampshire. During his directorship, Winant made clear what the ILO stance was during the war. He placed the ILO firmly on the side of the democracies (Lubin and Winslow 1990: 54). Regarding the ILO trustee and executor of the Organisation's external relations, as Haas noted "the major organisational need of the ILO leadership (is) survival in a new and potentially hostile environment" (Hass 1964:158). This statement was particularly true and accurate as far as Winant directorship was concerned. When the war broke out in Europe, Winant became the one who was entrusted with the "ILO survival mission". Winant, as the representative of the ILO (its trustee) led a series of negotiations with British, American and Canadian government officials on a possible new location of the ILO's headquarters. Finally, he managed to conclude an agreement with the Canadian government. Thus, the most important achievement of Winant in his short cadence was to ensure the ILO survival during the war. He moved the ILO from Geneva to Montreal and maintained the continuity of the work of the Bureau.

*Edward Phelan 1941 – 1948:* He had worked as an international civil servant in the ILO since 1920. As a policy drafter/maker, during his first years in office, Phelan was more concerned with the ILO's future survival after the war, rather than with its day-to-day role of providing direct advice and other services to the member-states (Lubin and Winslow 1990: 59 – 60). He worked intensively on the ILO program for the post-war period and pushed for a new, "global social reconstruction mandate" (Hass 1964: 155) to be a guiding principle for drafting a declaration (the famous Philadelphia Declaration), in which human rights, in the context of social policy, were to become a major post war issue. The Declaration, prepared by the Bureau and presented during the ILO Conference in 1944, if it had been taken literally, would have transformed the ILO "into a master agency among the emerging family of functional international bodies" (Haas 1964: 156). Phelan was an international negotiator and competence boundary setter: In 1946, he led negotiations between the ILO and the United Nations (UN). He reached an agreement with the UN, which ensured the recognition of the ILO's competence in the labour field and secured non-intervention in its internal-financial and administrative-affairs. Thus, on the international fora of intergovernmental organisations, the Director General managed to legitimise the

organisational ideology of the ILO “as a generally expansive doctrine of welfare under international auspices” (Reinalda in Reinalda and Verbeek 1998:52).

*David Morse 1948 – 1970:* He was a former Assistant Secretary of Labour in the Truman Administration. As he later recalled, his task “was to rebuild an organisation which had run down during the Second World War. It had survived, which was a feat, but it had not yet found a firm footing in the post-war world”. As Administrator, in 1964, Morse undertook serious reorganisational steps in order to “facilitate the national allocation of resources to the various major programmes” (Ghebali 1989:68). He refocused the work of the ILO Bureau towards more operational activities connected with providing technical advice to developing countries. Morse merged several departments and created three large administrative units providing the ILO with more effective tools to implement its programs. At the same time, the areas of the ILO Bureau’s focus were prioritised and programme budgeting was introduced. The issue of Soviet Union membership of the ILO was debated in 195 and the controversy raised in connection with the autonomy and independence of the worker and employer representations in the Soviet Union. Since the issues required certain constitutional interpretations as well as legal fact finding, the involvement of the ILO Bureau in general and the Director-General in particular were considerable. Eventually, the ILO constituents accepted the Director General’s opinion that the autonomy of trade unions and employer organisations should be a goal rather than a condition of membership and that the ILO should be guided by the objective of universality of membership in admitting the Soviet Union to the Organisation (Cox and Jacobson 1974: 107).

As a coalition builder in the ILO, Morse succeeded in the implementation of certain projects because he was able to employ effective “behind the curtain” diplomacy, which ensured a successful method of coalition-support building. For example, in order to win the support of the ILO constituents to establish an educational institution (later known as the International Institute for Labour Studies), which would enjoy an autonomous status within the ILO, the Director General first ensured the full support of the workers’ group, then he privately discussed the matter with the governments and employers. Only after gaining (informally) enough support, did he publicly present the proposal for the establishment of the Institute to the ILO Governing Body, which won the constituents’ formal acceptance (Haas 1964:188; Reinalda in Reinalda and Verbeek 1998:55). He was a domestic support winner/lobbyist. In the mid-1950s, in the United States, the anti-ILO campaign gained considerable pace. Right-wing business leaders in the United States were actively lobbying for the reduction of the US payment to the ILO and eventually for US withdrawal from the Organisation. The fact of the Soviet Union’s joining the ILO in 1954 only strengthened criticism of the Organisation in the United States. However,

Morse kept good relations with the Dwight Eisenhower Administration and moreover, managed to mobilise the support of certain domestic groups within the United States such as liberal businessmen, the Catholic groups and, most importantly, the powerful and influential American Federation of Labour-Congress of Industrial Organisations. This support enabled the Director General “to counter the threat of reduced participation or even withdrawal of the United States from the Organisation” (Cox 1969: 224) in the 1950s. In other words, Morse was successful in playing the domestic pressure groups’ card in order to secure the position of the ILO.

*Wilfred Jenks 1970 – 1973:* He was “exclusively an international civil servant” (Ghebali 1989:160), working for the ILO Bureau since 1931. He was a boundary guardian. Jenks did not bow to the pressure of the United States to compromise the independence of the Director General’s decisions related to personnel and employment issues. In 1970, he appointed a Soviet citizen to the post of Assistant Director-General, which was met with both a US stiff response and the withholding of funds to the ILO budget. The Director General, however, did not reverse his decision. Jenks was a lobbyist. The absence of the United States in the ILO from 1977 till 1980, meant that the Director General was placed in the position of introducing “immediate and unprecedented Draconian cuts” (Ghebali 1985:327). These cuts affected budget expenditures, staff employment and the ILO program activities. However, the ILO Director General led successful lobbying for additional funding from other governments and private sources (amounting to \$ 7 million), which covered all the remaining (after the introduction of the budgetary cuts) shortfalls for the 1978 – 1979 budget (Ghebali 1989:170 – 171).

*Francis Blanchard 1974 – 1989:* He was trained as a French civil servant and worked as an international civil servant in the International Refugee Organisation until 1951 when he joined the ILO. He brought a more “bureaucratic approach to the position of Director General than that of his predecessors and seldom challenged the Governing Body of the ILO” (Lubin and Winslow 1990: 200). As Director-General, Blanchard expanded ILO technical cooperation programs and effectively dealt with the financial difficulties, which the Organisation faced after the US withdrawal. In that situation, when the ILO lost a quarter of its budget, Blanchard successfully managed to “avert major damage to the (ILO)”. He became executor of ILO external relations. Blanchard sought to maintain the ILO influence by establishing a closer cooperation with other UN agencies and the Bretton Wood institutions. He also established contacts with the European Communities, which resulted in the signing of the agreement on cooperation between the European Commission and the ILO in 1989.

*Michel Hansenne 1989 – 1999:* His previous career was that of a politician and a minister in the Belgian government. As administrator, with support coming particularly from the developing states, the Director General pushed for the Active Partnership Policy, which aimed at deconcentration of the ILO functions via the establishment of Multidisciplinary Teams (MdTs). Thus, the Director General supported the transfer of responsibilities from the ILO Bureau to MdTs whilst, at the same time, retaining direct control on and overseeing the MdTs. Faced with the decline in the conventions' ratification rate, the Director General reviewed the methods of work and pushed for the use of other (non-binding) instruments (e.g. codes of practices, resolutions, guidelines and a declaration), whose impact gave the Organisation a necessary impetus for revitalising the ILO labour standards.

*Juan Somavia 1999 – present.* His career was that of a politician and a diplomat in GATT and in the United Nations. As a Chilean, he is the first ILO Director General from a non-western nation. As administrator and manager, Somavia began his term in office from re-engineering bureaucratic structures of the ILO Bureau. Simultaneously with the introduction of the Decent Work concept, the ILO Bureau and its Multidisciplinary Teams were structured according to four strategic objectives, which had a significant impact on the visibility of the ILO mandate and its effectiveness (measured by the growth of ratification rates of the core ILO conventions). Somavia embarked upon strengthening staff cohesion by introducing certain incentives for the specialists and experts working on short-term contracts for ILO to become permanent employees of the ILO Bureau. The idea behind this was to reinforce the experts' attachment to the Organisation's tradition, thinking and its distinctive approach to specific labour issues. As an enforcer of the Organisation's values and principles: The Director General did not hesitate to use newly available tools given by the 1998 Declaration on Fundamental Principles and Rights at Work, in order to promote certain core values of the Organisation. In its first global report, the Director General named 12 countries in which violations of freedom of association were occurring. Many of the same states criticised Somavia for "naming names", and this was viewed as the Director General's attempt to go beyond the letter of the Declaration, seen as a promotional, rather than a complaint-based document (Tim De Meyer 2000: 8, particularly footnote 23). The Director General energetically rejected the criticism and defended himself and the Bureau by saying: "it is difficult to see how the Office can do credible reporting unless countries are identified and facts are stated" (Elliott 2000:4).

### **The ILO Directorship General Roles: Institutionalised Image IV**

As was already mentioned, Image IV is based on the expected convergence of roles, which have specific administrative or political cues. In this context,



Aberbach and Rockman (1997) highlighted seven different “role foci”: technician, legalist, broker, facilitator, partisan, advocate and trustee. Earlier, in 1981, Aberbach *et al* also included policy-maker and ombudsman. In general, role foci of technician and a legalist are the closest to be associated with the work of bureaucrats (Aberbach and Rockman 1997:336), whereas the others are more of a political nature.

The above case-study of the ILO Directorship General distinguished several roles, which were performed by various executives of the ILO Bureau in relation to specific issues, which were raised in given situations. Some of the same roles were performed by different ILO Directors General and some roles were enacted only by a particular Director General. Yet, all of these roles clearly illustrate that Directorship General has as much an administrative as a political character, or even both. This can be “catalogued” as follows. Administrative roles include role foci of administrator and manager. Political roles include role foci of advocate, policy drafter/maker, domestic support winner/lobbyist and coalition builder. Finally there are politico-administrative roles, which may include role foci such as: broker, boundary definer: boundary guardian, legal boundary stretcher, competence boundary setter, geographical boundary stretcher and trustee: international negotiator and executor of the Organisation’s external relations.

Regardless of a possible controversy regarding which foci-role is more or less political or administrative in its nature or the fact that the list of different roles performed by various ILO Directors General is, by no means, exhaustive, the case-study does show that the ILO Directorship General includes the range of specific foci-roles, which have either political or administrative character or often both simultaneously. This, in turn, serves as an important indication that the claim re having an institutionalised Image IV embedded within the institution of Directorship-General is, by all means, a valid one.

### **As a Conclusion: Is Generalisation Possible?**

Having demonstrated the case for the institutionalisation of Image IV within the ILO Directorship General, the question arises whether Image IV is a common feature for all leaderships of international administrations. The easiest way to address this is by separating changeable variables such as informal (discretionary) power of chiefs executive of different international administrations or the different personalities of the leaders and different externalities they face, which, in turn, affect variations in role foci enactment, from a constant institutional variable of international administration leadership. This variable shows that the heads of international administrations continually oscillate between administrative and (international) political arenas, which also indicate that Image IV might be a generally embedded feature in all types of leaderships of international administra-

tions. Having this determined might help us better understand an international leadership, which, as any other leadership, “is one of the most observed and least understood phenomena on earth” (Burns quoted by Jönsson 1993:472).

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## **SECTION 4**

# **Better Quality Administration for the Public**



# BETTER QUALITY ADMINISTRATION FOR THE PUBLIC

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## 1. Topics and Goals of the Cracow meeting of the Working Group

The NISPAcee Working Group on Better Quality Administration for the Public met in Cracow for the third time. The Working Group had chosen “Improving the Quality of Public Services” as the overall theme. This choice took account of the conference theme – Delivering Public Services in CEE countries – and also marked a progression from the previous meetings which had focused more on concepts (2000 meeting) and the initiation of quality improvement projects in the public sector (2001 meeting).

In Cracow, we looked at:

- How quality is put into practice (first session)
- How quality is measured (second session)
- How citizens and other stakeholders may be involved in quality (third session)

The co-ordinators had four objectives:

- To ensure a high quality of papers through a two-stage review process: as a first stage, the co-ordinators reviewed the abstracts and gave feedback on each abstract. As a second stage, the first draft versions were submitted to a double blind review process. This meant that the papers submitted to the Working Group for the Cracow meeting were already improved versions.
- To ensure a high quality of presentations through asking each presenter to use visual aids for the presentation as well as a rigid time management of the presentations during the conference. The slides have been made available on the website of the Working Group.
- To activate all participants through working group sessions which would also allow participants who had not prepared a paper to contribute towards the structured discussion.
- To sensitise and inform participants about existing good practices in improving the quality of public services in CEE countries by focussing on solutions rather than problems.

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## 2. The Programme of the Study Group

The programme featured:

- Keynote speeches which provided a conceptual framework and gave an overview of recent developments in each of the subtopics;
- Brief presentations on selected quality issues which complemented the keynote speeches
- Interactive group work which asked participants to identify good practices to improve the quality of public services in their country; and
- A panel with distinguished speakers from CEE countries who discussed the progress made in improving the quality of public services but also problems, which still have to be overcome.

## 3. The Results of the Cracow meeting

The first session focused on how quality is put into practice in the public sector. Discussions on the implementation of quality in public service delivery began with the presentation of the “Irish case” by *Peter Humphreys* (from the Institute for Public Administration in Ireland) who stressed guidance and support from the centre, as opposed to the UK top-down control approach as the main driving force of country success in this field. Other positive factors facilitating the implementation of public service quality in Ireland are: effective use of ICT; internal/external consultation; organisational restructuring/decentralisation. A major emphasis on external consultation through national and regional surveys and customer panels provided desired feedback.

The Estonian case highlighted additional success factors for implementing quality management in public service delivery, namely organisational redesign and the implementation of customer orientation in public agencies, which often requires changes in organisational culture. Furthermore, the expectations of citizens have to be raised since many citizens in CEE countries put up with bad service quality. The presentation from Russia on competitive procurement of social services in Russia pointed out to the importance of effective competition when contracting out social services to NGOs.

The experiences presented from Hungary, Albania and Georgia as well as from Spain showed that it does not take a sophisticated quality management system to improve public service quality. The project work of the Urban Institute in the United States has showed that performance measurement may motivate citizens to get involved and to improve public services (as well as their quality of life). In Spain, pilot projects with quality improvement teams in different public agencies had also shown beneficial effects on public service quality.



At the end of the first session, we carried out a group exercise asking each participant to answer the following questions:

- What do you think triggers quality improvement in the public sector?
- What were the main reasons it was successful?
- What do you think are the lessons about how other quality initiatives might be made more successful in your country?

The responses (written on cards) were collected by the moderators and posted on the wall, clustered into themes and patterns identified by the participants, and discussed by them.

Although at first many participants had difficulty in identifying positive examples of quality improvements in the public sector in their country, we ended up with many concrete examples. In particular, participants suggested that private sector management methods and, in addition, the involvement and activation of citizens were key to improve the quality of public services. The main recommendations for successful quality management in the public sector that came out of this group exercise were as follows:

- Keep it simple
- Publish the results – so the media need to be involved
- Give some rewards (material rewards, but also immaterial, like recognition)
- Find ways to activate citizens and other stakeholders to take part in the evaluation of public service quality

The second session began with two keynote speeches comparing experiences made with quality accreditation systems in the ‘East’ and in the ‘West’. As György Jenei (from the Budapest University of Economic Sciences) pointed out, the improvement of public service quality is not only a managerial issue in CEE countries but it is also part of the establishment of a “Rechtsstaat”, i.e. the rule of law. Even though public agencies experiment with many Western quality accreditation systems the (old) ISO 9000 series is currently the most popular system in CEE countries. Unfortunately, the widespread ISO certification of public agencies in CEE does not necessarily lead to higher public service quality. György Jenei stressed that accreditation standards are very low due to high competition among accreditation companies and that most public agencies lack the necessary financial resources and commitment for the requisite staff training.

Geert Bouckaert (from the Catholic University of Leuven) showed that quality accreditation systems in Western Europe have been changing their focus and locus of attention over time. In particular, citizens and other stakeholders have become important co-producers of public service quality. He also stressed that higher satisfaction with public services is not necessarily correlated with higher levels of trust in government.

A series of brief presentations gave a good overview of experiences with quality accreditation systems in the public sectors of CEE and Western European countries as well as in the US. A more unusual approach towards improving public service quality was presented by Richard L. Milford (Carl Vinson Institute of Government, University of Georgia, United States), who reported on experiments with mystery shoppers at local level in the US. Some participants thought that this mechanism could trigger 'voice' in the public sectors of CEE countries where citizens often do not behave as 'demanding consumers' and complain when necessary. Again, we ended this session with a group exercise. This time the participants were divided into three groups which had to address one of the following questions:

- 1) Give at least one major achievement resulting from the use of instruments such as ISO 9000, EFQM, CAF, etc. in your country/case study.
- 2) Was the quality accreditation system necessary, or would that achievement have occurred anyway?
- 3) What do you think are the lessons about how the use of that quality instrument could be made more successful in your country?

The results of the group discussions can be summarised as follows:

- 1) Major achievements of quality accreditation systems:
  - In the case of a public agency in Poland, the implementation of ISO 9000 in 1997 led to two positive changes in government-to-public relations. First, inquiries by the public were answered by the respective civil servants in charge. Secondly, the response time was shortened to two weeks from the day of depositing an inquiry to the day of receiving a reply by the authorities. Before that, inquiries by the public were often not answered at all.
  - The nation-wide implementation of a particular quality management system such as EFQM could also hamper innovation as public employees may only perceive and pay attention to phenomena that fit into the 9-box framework and the respective set of the criteria of the EFQM Model.
- 2) Are quality accreditation systems necessary for quality improvement?:
  - The participants of this group answered this question by "in principle yes, but in practice no".
  - Improvements in public service quality come mainly about through internal or external pressures – quality models are only a tool but not a trigger.
  - A single accreditation system does not work in practice – what is needed is a mix of models which are adapted to the needs of the public agency.

- 3) Lessons from the use of quality accreditation systems:
  1. ISO 9000 clarifies processes but does not necessarily lead to improved quality
  2. Certification provides an external ‘stamp of approval’ but may not be relevant to what internal stakeholders are trying to achieve
  3. Quality models should be expanded to include judgements by external stakeholders

Session 3 was devoted to the topic “Involving citizens in measuring and monitoring the quality of public services”. It started with a keynote presentation by Tony Bovaird (Bristol Business School, United Kingdom). Tony stressed that citizen consultation does not have to be representative, since representative democracies have other bodies such as parliaments which have represent all societal groups. Therefore, the key issue is not so much how to make the silent majority more active (although that remains important) but rather how to reach and to activate the many people (users) who do know and who do care about the services on which public agencies wish to consult.

Two brief presentations from CEE countries showed that citizen involvement is not just a fashionable topic in the ‘West’ but that there are already a number of promising practices in CEE countries. Marcin Sakowicz (Warsaw School of Economics, Poland) presented the website of the city of Szczecin in Poland as a good practice example in increasing the transparency of local budgets. Claudia Pamfil (Partners Romania Foundation for Local Development, Romania), presented a database which contains case studies and other information on citizen involvement in 60 countries, including CEE countries ([www.toolkitparticipation.com](http://www.toolkitparticipation.com)).

The session concluded with a high-level panel of practitioners and academics from CEE countries on the topic “Improving the quality of public services in CEE countries – from analysis to action”. The panel included the following participants:

Jasminka Novak, Ministry of European Integration, Croatia  
Francisco Cardona, SIGMA/OECD, France  
Witold Mikulowski, Academy of Entrepreneurship and Management  
Mirko Vintar, University of Ljubljana, Slovenia

It was moderated by Raymond Saner (from the Centre for Socio-Economic Development (CSEND) in Switzerland) who asked the panellists a set of three questions:

1. What has been happening to the quality of public services in CEE countries in the last three years?
2. What were the main triggers of quality improvement?

3. What lessons have emerged from your work with public agencies in CEE countries in terms of how quality can be improved?

The panellists agreed that there was no obvious answer to the first question since we do not yet have good evidence. There is an acknowledged lack of quality measurement systems in CEE countries. In this situation, we only know that the quality for some citizens, in particular the better off, has improved. Some panellists thought that the expectations of citizens have risen, which creates pressures for public agencies to do something about public services with bad quality. Also local self-government has proved to be very innovative.

However, according to the panellists, many unresolved problems remain in the improvement of public service quality in CEE countries:

- There is still a high degree of politicisation of civil servants.
- Financial control is weak.
- Even though many projects have been carried out successfully there is no overall strategy and guidance being given by central government.

It is clear that there are no simple solutions to these problems. Nevertheless, most participants thought that the solutions have to be sought in:

- education and training,
- activating stakeholders, including citizens, media, business, etc.
- obtaining and using feedback from stakeholders,
- and potentially, in decentralising service delivery to local levels of government.

At the end of the lively panel and plenary discussion, we invited participants to engage in a general critique of the seminar and to suggest improvements for next year, before closing the Cracow meeting of the NISPAcee Working Group on Better Quality Administration for the Public.

#### **4. The Outputs of the Cracow meeting**

Altogether, we received 20 papers from European countries for the Cracow meeting. However, there was not a single case where the papers had been co-authored by a practitioner and an academic working in “tandem”, an approach that the co-ordinators had strongly encouraged. All papers can be accessed from the Meetings section of the Working Group website at: <http://www.vus.uni-lj.si/nispa/>

The best papers of the Cracow meeting will be published by either a UK or German publishing house in a stand-alone publication.

## **5. Planned Activities for 2002 and 2003**

At this stage, we have drawn the following conclusions and made the following decisions, based on feedback received from participants:

- In 2003 we will carry out a detailed evaluation of the Working Group, separate from the overall NISPAcee conference evaluation, in order to have more comprehensive feedback from participants.
- In order to plan the 2003 meeting of the Working Group in Bucharest, Romania, we have established an advisory committee with a good mix of academics and practitioners from CEE countries.
- For the 2003 meeting of the Working Group we will give a high priority to papers produced by an academic and practitioner working in “tandem”, and these papers will be more likely to be published in the book arising from the conference.
- The topic we have chosen for 2003 is “assessing the quality of governance”. This topic for the Working Group will fit well into the overall conference theme.
- In between the meetings of the Working Group at the NISPAcee Conference, we intend to build up a glossary of quality concepts in the public sector.
- Provided there is interest and available funding, we also intend to run a small-scale seminar on a current quality topic, in addition to the annual meeting of the Working Group.

# MEASURING CUSTOMER SERVICE IN GEORGIA'S LOCAL GOVERNMENTS: THE MYSTERY SHOPPER PROGRAM

Mark D. Bradbury\*, Richard L. Milford\*

## Introduction

### The Importance of Customer Service in the Public Sector

Spearheaded by former Vice President Al Gore, the National Performance Review (NPR) ushered in the latest round of administrative reform in the federal government in 1993. *From Red Tape to Results: Creating a Government that Works Better and Costs Less* (1993), commonly known as the Gore Report, sought to re-invent the federal bureaucracy by instigating “a cultural and behavioural shift in the management of government away from... bureaucratic government toward an entrepreneurial government” (Moe, 1994, 111). The Gore Report rests on four common characteristics of governments which have been successfully re-invented: cutting red tape; empowering employees to get results; producing better government for less; and putting customers first (6 – 7). The last of these principles, customer service, is the focus of this paper.

While the Gore Report brought much needed attention to the issue of customer service in the public sector, it is certainly not a new concept in the field of public administration. In 1981, Charles Goodsell edited *The Public Encounter*, which sought to respond in a constructive way to the growing importance of issues, which arise from citizen-administrator interactions (4). By 1991, the leading journal in the field, *Public Administration Review*, published an article by Wagenheim and Reurink which argued that customer service management would “provide the organising and operating strategy for the coming decade” (263). The following year saw the publication of *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector from Schoolhouse to State House, City Hall to Pentagon* by David Osborne and Ted Gaebler. The book consists of a series of success stories from governments, which were able to transform service delivery systems from hierarchical to entrepreneurial ones. The authors are generally credited with providing the theoretical, or at least rhetorical, foundation for the Gore Report (Moe, 1994, 111).

As is the case with many emerging topics in public administration, the literature on customer service is disproportionately focused on the federal government. In recent years, this bias is partially due to the high-profile nature of NPR's

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proposals. However, Carroll (1995) argues that “conceptually and analytically the NPR’s emphasis on customer satisfaction through service provision as the objective of administration fails because this measure does not apply to most federal responsibilities and functions, is unclear in definition and application, and diminishes the meaning of governance and citizenship in a democratic, constitutional system” (309). This conclusion is echoed by Kettl (1998) in his fifth-year report card on NPR. He identifies a number of conceptual problems that “make it difficult to use customer service as a touchstone for management reform” (25).

While the appropriateness of the NPR’s focus on customer service for the federal government is an open question, Carroll observes that the study of customer service has suffered from the lack of clear, theoretical or practical, definition. It is a concept with which every consumer is familiar, yet it defies ready definition. One is reminded of Supreme Court Justice Potter Stewart’s definition of obscenity in *Jacobellis v. Ohio* (1964) , “I know it when I see it,” except that customer service is usually more noticeable when it is absent or lacking.

Given the relative elasticity of the concept, it is necessary to be explicit about what one means by “customer service.” For the purposes here, Wagenheim and Reurink’s definition will suffice: “customer service is a management strategy that focuses on meeting customer expectations... [and] is based on the concept that the organisation will reach its goals effectively and efficiently through satisfaction of the customer” (1991, 263).

With Wagenheim and Reurink’s definition as a guide, this paper will focus on an innovative program designed to systematically measure customer service for local governments in Georgia. Co-ordinated by the Carl Vinson Institute of Government (CVIIOG) at the University of Georgia, the Mystery Shopper Program offered local governments a third party evaluation of the level of customer service in participating departments. The program attempted to replicate a typical citizen – service administrator interaction by using scenarios that were specific to the functions of local government. As the foregoing study shows, the Mystery Shopper Program provided ongoing customer service evaluation data which can be used by participating local governments to tailor customer service training for their employees.

Before discussing the specifics of the Mystery Shopper Program, it is important to provide the context for the types of citizen – service administrator interactions that the program replicated. Based on Goodsell’s (1981, 4 – 7) discussion, the core elements of the interaction are as follows. The interaction was between two people, the service administrator and the mystery shopper, and was purposive, rather than random or by accident. The interaction replicated one between the public and administrative personnel, rather than between two administrators

or with elected officials. The encounter was initiated by a citizen, rather than by the government as in a code violation, arrest, or other official inquiry. The scenarios used by the mystery shoppers were meant to initiate an exchange of information, rather than the delivery of actual services. All of the encounters occurred at government offices, rather than at citizens' residences or in a public place. The scenarios were designed to create interactions that are routine, brief, and one-shot in nature. Lastly, two mediums were used: walk-in, or face-to-face, and telephone. Overall, these characteristics were meant to approximate the majority of citizen – service administrator interactions.

## **Mystery Shopping**

Managers always expect their employees to treat customers with respect and professional courtesy. Even if time permitted, however, managers cannot personally measure the quality of customer service within their organisations since their employees are likely to treat customers differently when their bosses are present. Managers' perceptions of customer service are often shaped by listening to customer complaints or praise after interaction with employees.

Mystery shopping is one way to help evaluate and improve customer service as it unfolds (Grove and Fisk, 1992). It focuses on the process of service delivery rather than on the outcome of a service encounter (Wilson, 2001). The process of service delivery is as important to customer satisfaction as the outcome or benefit of the service (Bateson, 1992). Thus, "courtesy and friendliness become important not as ends in themselves, but because customers partially conflate delight at courteous and friendly treatment with the actual quality of service" (Fountain, 2001, 58).

Mystery shopping is a type of participant observation which deceives front-line personnel into believing that they are serving a real customer, when in fact the shopper is a trained evaluator who rates the quality of service based on a pre-determined set of criteria. This approach captures behaviours that are best observed in the natural setting, as opposed to after-the-fact interviews or surveys (see Friedrichs and Ludtke, 1975). Mystery shopping focuses on "activities and procedures that do or do not occur rather than gathering opinions about the service experience" (Wilson, 2001, 725).

## **Objectives**

One objective of this paper is to describe the successes and pitfalls experienced with the Georgia Local Government Mystery Shopper Program. This Mystery Shopper Program allowed government administrators to get a reasonable sample of how an average citizen is treated by their employees. The initial attempts, without expert assistance or advice, revealed many consequences one might expect when



training and standardised measures are lacking. Additional challenges emerged as the program was fully implemented. Second, analysis of the data collected by the shoppers reveals some interesting suggestions regarding local government service provision, and the providers of that service. Finally, changes in program design and implementation are needed for Georgia's Local Government Mystery Shopper Program to be replicated. The paper concludes with a discussion of the program's shortcomings, and possible ways they can be overcome.

## **The Program**

### Historical Overview: The First Attempts

The desire for a customer service measurement program came from discussions among faculty at CVIOG and city and county managers throughout Georgia. These local government leaders wanted to know how average citizens are treated when they come into contact with local government service administrators. Service delivery organisations of all sizes recognise the value of up-to-date information detailing what actually occurs at the key moment of customer interaction, and this is precisely the type of information that mystery shopping can provide.

Georgia's Local Government Mystery Shopper Program began in 1997 as part of city and county department head retreats. Representatives of "retreating" governments shopped other consenting governments and reported on their experiences as customers in an attempt to rate the quality of customer service received. Some of the problems with this approach were:

- lack of knowledge or consistent agreement on what "good customer service" is;
- inconsistent evaluations and ratings of the customer service experiences due to lack of training and standard evaluation measures;
- non-objective shopper evaluations due to familiarity with local government operations;
- local government employees recognising the "shoppers" due to professional and/or business associations.

In an effort to address the shortcomings of the early experiences, CVIOG sought out experts in customer service evaluation. It was discovered that most mystery shopper programs use a mystery shopping agency to "shop" participating organisations. CVIOG became familiar with Shop'n Chek, Inc., of Atlanta in the fall of 1997. Shop'n Chek has provided mystery shopping services for restaurants, retail companies, manufacturing, utilities, and, to a lesser extent, government since 1972. They assist local, national, and international clients in the design and execution of mystery shopper programs.

Representatives of the Vinson Institute began conversations with Shop'n Chek in early 1998. Shop'n Chek's initial response was one of reluctance. The company had worked with a few individual local governments in the past and did not see the financial benefit of administering so many relatively "small" contracts for the number of participants potentially representing Georgia's local governments. This concern was alleviated by having the Institute of Government act as the "home office," or middleman, contracting with Shop'n Chek to provide the mystery shopping services to local governments in Georgia. Interested local governments, in turn, contracted with CVIOG to have certain identified departments and offices shopped within their jurisdictions. Shop'n Chek then co-ordinated the shops for each site using their trained, objective shoppers who either visited or telephoned the identified government offices and "graded" the service they received.

In order to develop a standard instrument for measuring customer service for local governments, a steering committee consisting of local government officials, CVIOG faculty and staff, and Shop'n Chek's customer service experts worked together on questionnaires for both walk-in and telephone shops. Many of the questions were adapted from customer service experiences in the private sector. A standard series of questions were adopted for each "shopping" interaction, with some aspects of the interaction given greater weight than others. Shoppers used these instruments when evaluating government office visits. The maximum score for each mystery shop was 100.

### **The Pilot**

The improved Mystery Shopper Program was presented to the Georgia City-County Management Association (GCCMA) as a pilot program in the fall of 1998. Twenty-one (21) governments participated in the pilot. Posing as typical citizens, mystery shoppers visited and/or called each of the offices using a generic scenario. Among other measures, shoppers assessed the speed of service, employee attitude and knowledge, site appearance and cleanliness. Following each visit or call, a questionnaire was completed and evaluated by Shop'n Chek's quality control program. Each site was shopped twice during the two-month pilot.

Following the introductory shopping period, tabulated results and copies of the completed questionnaires were distributed to the local governments and CVIOG. Those results were used in the identification of those customer service areas needing improvement, in the development of standards of customer service, and in the tailoring of customer service training to address improvement areas. Also the experiences of the pilot were used to make improvements to the program, such as adjusting weights for many of the evaluation criteria, and, more importantly, to identify further implementation challenges.

## Implementation Challenges

The most serious challenges experienced during the pilot phase were:

- educating shoppers and Shop'n Chek staff regarding the distinction between city and county government;
- familiarising shoppers and Shop'n Chek staff with local government functions;
- distinguishing the importance of shopping departments vs. individual personnel with local government administrators; and
- developing reasonable scenarios for a wide variety of departments.

The nature of mystery shopping requires shoppers who are “objective, smart, and able to think on their feet” (Leeds, 1995). For the Mystery Shopper Program, this meant educating both the contact people at Shop'n Chek and the actual shoppers about the difference between county and city government responsibilities, as well as the function of individual departments therein.

The need to educate Shop'n Chek and its shoppers regarding local government functions emphasises an important point about public sector service delivery. Citizens who contact government with a question or problem often do not know how to communicate their needs in a clear, concise manner, or know which department they need to contact. This point highlights the need for courteous and patient customer service on the part of governmental personnel.

While it is tempting for managers to use mystery shopping as a device for assessing the performance of individual staff members, it is best used strictly as a research tool. In fact, the European Society for Opinion and Marketing Research cautions that “researchers must not undertake Mystery Shopping studies which would be used for non-research purposes, such as checking the performance of specific identified individuals for possible disciplinary action” (ESOMAR, 2002). Furthermore, individual staff members should not be identified by name in any report, and data should only be reported in the aggregate. The Georgia Mystery Shopper Program adhered to these guidelines.

The most difficult challenge was the development of reasonable scenarios. During the pilot and the first shopping period of the ongoing program, shoppers used the same generic scenario for every department/office that was shopped. For example, shoppers approached a city manager's office and a public works department under the pretence of representing a business that was interested in a local presence and asked questions about how that office or department might help. Using these scenarios multiple times, and often in inappropriate settings, increased the chance of mystery shoppers being identified by employees. Furthermore, the generic scenarios did not approximate common interactions between citizens and local government offices.

Experience showed that a quality scenario requires several characteristics. First, the scenario must approximate a common interaction between a citizen and a government employee, not only for validity purposes, but also to protect the anonymity of the shopper. Second, the scenario must not be a question requiring only a “yes” or “no” answer. That is, the government employee must be prompted to provide some sort of information to the shopper. Additionally, the scenario must present a question that can be answered reasonably by the employee that the shopper encounters, and not result in an automatic referral to another department or office. Most importantly, the scenario should engage the employee in some interaction with the shopper.

The steering committee of local government officials, together with CVIOG and Shop’n Chek representatives, reconvened and attempted to address this problem by amending the program so that shoppers operated with more reasonable scenarios. The steering committee identified similar *functions* of departments and provided examples of questions related to *functional categories*. The questions were similar to those regularly presented by citizens to local government employees. Shoppers were given multiple scenarios within each functional category from which to choose. These new, functionally specific scenarios resulted in a better approximation of the ordinary citizen – employee interaction.

### **The Fully Operating Program**

Georgia’s Local Government Mystery Shopper Program operated from the pilot in the fall of 1998 through the shopping period ending December, 2001. Thirty cities and twelve counties participated in the program (Table 1), and a total of 4,018 shops were completed.

A description of how the program worked follows. Function-specific scenarios were developed that provided plausible interactions between the shopper and the governmental employee, and thus protected the shopper’s anonymity. Over a dozen separate functional categories were identified (Table 2), with at least two different scenarios for each function.

City and county participants signed up for the program every six months. For each telephone and walk-in account, a total of ten shops were conducted during each six-month shopping period. Each six-month period was broken down into two three-month “sub-periods,” with five shops per account occurring in each “sub-period.” These “sub-periods” ensured that the ten shops were somewhat spread out over the course of the six months. This prevented all shops from occurring during a particularly hectic or slow period for the department being shopped, and thus provided a more balanced evaluation of customer service.

Walk-in shoppers collected data for a number of standard customer service measures, including the ease of finding the appropriate office, whether their

questions were answered fully, if they were referred to the correct department, and whether the employee was courteous and/or genuinely helpful. Telephone shops included some of the same measures, plus data on how many times the telephone rang before being answered and how long the shopper was put on hold. While the measures may seem simplistic, these are the types of interactions citizens are most likely to have with their local government and from which impressions are made.

## **Data**

From July 1999 through December 2001, 1,649 walk-in shops and 2,369 telephone shops were completed. The quality of customer service was determined by assessing whether the employee satisfactorily exhibited a series of 15 characteristics or behaviours thought to be essential to high-quality customer service. The score for each shop was calculated as a percentage, thus the maximum score was 100 for each evaluation. The average score was 84% for walk-in shops and 75% for telephone shops. This aggregate-level data suggest that, in the absence of training specifically designed to improve customer service, local government employees tend to provide better customer service to citizens in face-to-face interactions than is demonstrated over the telephone.

The scores on 15 key elements of quality customer service show the behaviours that employees exhibit in the absence of training. Due to the contextual differences between walk-in and telephone interactions, the evaluation instrument is different for the two types of shops. Thus, the results from walk-in shops are analysed separately from the telephone data.

Analysis of the scores for behaviour observed for walk-in shops reveals many interesting findings. Generally, local government buildings were easily located (93%) and offices were well-identified (90%). Overall, employees were helpful (93%) and pleasant and friendly (92%). Employees appeared to be neat and well groomed (98%), made eye contact (98%), and, to a slightly lesser extent, smiled (87%) during the transaction. Employees were somewhat less likely to ask questions to clarify the shopper's needs (74%), to seem genuinely concerned with providing an answer to the inquiry (89%), or to fully answer the question (85%). Employees were even less likely to thank the shopper (76%) or offer to help with anything else (52%). The lowest average relates to whether the employee used the shopper's name at any point during the interaction (36%).

Similar variations were found in the results from telephone shops. The phone rang an average of 1.86 times before it was answered, and 25 percent of calls were placed on hold. Overall, local government employees were helpful (90%) and pleasant and friendly (91%). Although employees consistently identified the department (91%) and seemed genuinely concerned with the inquiry (87%), they

were much less likely to identify themselves (60%) or to use the caller's name at any point during the transaction (18%). Employees were somewhat unlikely to offer to help the caller (80%), to ask questions to clarify the caller's needs (62%), or to fully answer the question (78%). Even fewer employees thanked the caller (71%) or offered to help with anything else (39%).

Behaviour was varied for both walk-in and telephone shops. A comparison of the scores on these common measures confirms the observed difference in the average score for walk-in shops and telephone shops. The average score on the following behaviour was notably higher for walk-in shops when compared to the average for telephone shops: stating the customer's name at any point during the transaction (36% to 18%), asking questions to clarify the customer's needs (74% to 62%), and fully answering the question at hand (85% to 78%). Furthermore, employees were more likely to say thank you (76% to 71%) and to offer to help with something else (52% to 39%) to a customer who is standing before them than to one who is on the phone.

A series of special questions were added to the evaluation instrument in July 2000 to capture additional behaviour associated with quality customer service. This was rated in the same manner as originally. However the scores for special questions were not included in the overall score for the shop. During walk-in evaluations, 83 percent of mystery shoppers indicated that the waiting area was clean and there was enough available seating. The special questions added to the telephone evaluation were answered if the employee in the original department being shopped offered to transfer the call. Overall, the scores were relatively high for the employee having correctly transferred the call (94%) and for the second employee's ability to answer the question (85%). However, 82 percent of shoppers reported having to repeat their question to the employee to whom they were transferred.

This data leads to a number of interesting conclusions. Local government employees tend to provide higher quality customer service in face-to-face interactions with citizens than they do over the telephone. Scores were high relating to appearance and pleasantness, but relatively lower for thanking the citizen and offering to help with any other issues. These results suggest that expectations related to appropriate dress and demeanour be adhered to, while training may be necessary to instil specific behaviours commonly associated with excellent customer service.

### **How Some Governments are using the Data to Improve Quality in Customer Service**

Some local governments have attempted to "raise the bar" in the provision of good customer service. Spalding County and the City of Americus had retreats

with their department heads in order to analyse the results of the mystery shops and to determine ways to address the problems associated with their customer service. As a result of the retreat, Spalding County created a new position of Director of Customer Service to continuously follow up on government-wide efforts to improve customer service. Spalding County also had customised customer service training provided by the Governmental Training Division of the Institute based on the customer service measures utilised by the Program.

During the retreat, the City of Americus established standards of customer service based on the program's measures. The department heads communicated the newly established standards to their staff and established expectations for employees of how their citizens and customers should be treated. Both Spalding County and the City of Americus received awards for Excellence in Customer Service from the Institute of Government in 1999.

One of Georgia's local governments showed dedication to improved customer service by using multiple programs. The City of Covington combined two of CVIOG's programs to improve their customer service. As part of a comprehensive strategic planning effort, Covington conducted citizen surveys in 1998 in order to measure customer satisfaction with their four utilities and general services. Utilising the survey results, Covington established base lines from which to measure customer service improvements. Covington then participated in the Mystery Shopper Program in order to collect ongoing data to guide their training and improvement efforts.

The importance of quality customer service in the public sector cannot be overstated. Because any given citizen only periodically comes into contact with government personnel, those few experiences are greatly influential on that citizen's perception of the quality of local government services. For this reason, the Mystery Shopper Program served as a valuable measurement tool for constantly assessing employee – customer interactions. As seen in the above examples, local government participants in the program were encouraged to take responsibility for seeking ways to use the data produced by the shops in order to address areas requiring improvement.

### **Further Improvements to the Program**

Due in part to the relatively unique nature of the Georgia Local Government Mystery Shopper Program, continual re-evaluation and modification of the program was a primary concern for the program's managers. As was discussed, a number of significant changes were adopted while the program was operational. If the program were to be replicated, additional modifications should be considered. A discussion of possible adjustments follows.

There is a recent trend in local governments to establish call centres, which receive all incoming calls for the government. Operators then transfer the caller to the correct department or agency. This intermediate step can disorient or confuse mystery shoppers who are expecting to directly reach the department to be shopped. After all, shoppers need to be trained to think on their feet and deal with such unexpected circumstances (Leeds, 1995).

The scoring system used for both walk-in and telephone shops in the Mystery Shopper Program was designed to award all or no points for a given characteristic. For example, shoppers were instructed to award 10 points if the employee was pleasant and friendly and no points if the employee was not. Given the inherent subjectivity of such a measure, this point system could be modified to allow for a range or scale of points to be awarded. On a scale for politeness, for example, a shopper could award 10 points for excellent, 8 points for good, 5 points for acceptable, 2 points for poor, and 0 points for unacceptable (Wilson, 2001, 726 – 727). Such a scale could help compensate for much of the subjectivity of using third party evaluators.

Acting as a middleman, the Institute of Government contracted with Shop'n Chek to provide mystery shopping services, while also managing numerous contracts with participating local governments. One consequence of this arrangement was the need to use a uniform evaluation instrument for all walk-in and telephone shops. Over time, participating governments expressed interest in modifying the instrument to emphasise behaviours that were of greater importance, and remove those deemed less important to quality customer service. The problem was that different governments wanted to modify the instrument in different ways. For example, one government didn't want its employees scored on whether they identified the name of the department because of a unique feature of their telephone system. Ideally, such modifications would be possible, resulting in an evaluation instrument that is uniquely tailored to the customer service priorities of each participating government. For an example of a slate of measures specifically designed for a client, see the discussion of the London Underground public transport network in Wilson and Gutmann (1998).

One of the key changes made to the Mystery Shopper Program during its operation was the replacement of generic, all-purpose scenarios with functionally specific scenarios. Governments participating in the Mystery Shopper Program nevertheless began requesting that the scenarios be further modified to specifically replicate the services delivered by their departments. Similar to the problem of having uniquely tailored evaluation instruments, the contractual structure of the program did not allow for a different slate of scenarios to be used for each participating government.



While mystery shopping is a valuable tool for assessing the quality of customer service, its influence can be short-lived. Without an on-going commitment from management to reinforce service standards, “the novelty of being shopped can wear off, leaving personnel complacent about their service and lacking motivation to take steps to improve it further” (Wilson, 2001, 732). Thus, a concentrated training component for management and staff alike should be a part of any comprehensive approach to customer service measurement and improvement.

**Table 1**  
**Governments that Participated in the Mystery Shopper Program**

<b>Cities</b>	<b>Counties</b>
Acworth	LaGrange Athens-Clarke (consolidated)
Americus	Metter Bulloch
College Park	Monticello Cherokee
Commerce	Rome Columbia
Conyers	Savannah Dougherty
Covington	Smyrna Fayette
Decatur	Statesboro Floyd
Douglasville	Sylvania Glynn
Elberton	Thomasville Gwinnett
Fitzgerald	Tifton Oconee
Gainesville	Toccoa Spalding
Griffin	Tyrone Ware
Hinesville	Union City
Kennesaw	Valdosta
Kingsland	Waycross

**Table 2**  
**Functional Service Categories**

A:	Building Inspection/ Zoning & Planning Departments
B:	Animal Control or Animal Shelters
C:	Utilities Departments (water, cable, electricity, gas or sewer)
D:	Administration
E:	Finance
F:	Purchasing
G:	Human Resources
H:	Public Works/ Roads and/ or Solid Waste
I:	Tax Assessor or Tax Commissioner
J:	Police/ Fire Departments
K:	Courts
L:	Recreation/ Community Centre/ Community Services/ Community Service Extension
M:	Voter Registration
N:	Libraries/ Conventions Centre Services
O:	Downtown Development
P:	Golf
Q:	Parking/ Transit
R:	Government Information Systems
S:	Emergency Management

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# STRENGTHENING LOCAL ADMINISTRATION OF SOCIAL ASSISTANCE IN RUSSIA<sup>1</sup>

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## Introduction

Analysts of social assistance in the Russian Federation have consistently documented the poor targeting of benefits delivered by these programs. (Braithwaite, 1997; Connor, 1997; Foley and Klugman, 1997; McAuley, 1994; World Bank, 1994, 1999a, 1999b). The housing allowance program, initiated in 1994, was the country's first explicitly means-tested program (Struyk, Lee & Puzanov, 1997). Means testing for a second national program—Child Allowances—did not occur until 1999 (Gallagher and Liborakina, 2001). But these two programs still represent a minority of benefits allocated under the rules set by the national government. So targeting remains spotty at best.

Moreover, other analysts have recently documented significant shortcomings with social assistance programs administration at the local level. There is a low level of co-ordination among programs, meaning, for example, that would-be participants must apply separately for each program from which they seek assistance and provide fresh documentation of eligibility each time; quality control is low and basic office procedures rudimentary (Richman and Struyk, 2000). Such findings are important because local agencies administer the vast majority of social assistance in the country. In short, there is no disputing the pervasive problems in Russia's social assistance programs.

The question addressed in this paper is how amenable local program administration is to improvement. We look at this question using the results of assessments of two pilot programs implemented in two Russian cities in 2000 – 2001 and assessed in 2001. The first program, the “school lunch pilot,” introduced means testing in the school lunch program on a city-wide basis; eligible families received cash payments and all children paid the same price for their lunches

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in cash. The second, the “jobs pilot,” is a new, local, means-tested program that provides cash support to families while unemployed workers search for work; continued receipt of funds is conditional on a minimum job search effort.

One can view the pilots as experiments. The broad objective of the experiments is to determine if reforms made to increase targeting or to improve the efficiency of program administration will be well-implemented, when they are properly designed from a technical perspective in cooperation with the local agency. Importantly, the experiments hold constant the quite difficult operating environment in which these agencies operate, as described below.

The results suggest that local social assistance administration is indeed amenable to improvement and that reforms to increase targeting and improve efficiency of program operations can be well-implemented; both the jobs pilot and the school lunch pilot were implemented in accordance with program goals and produced promising initial results. Nonetheless considerable obstacles to the implementation of reforms at the local level remain, particularly the lack of exposure to thoroughly documented and standardised program procedures. Unless adequately addressed prior to and during program implementation, such obstacles may significantly undermine reform goals.

The paper is organised as follows. The initial section notes the factors related to successful program implementation as described in the literature. The next section outlines the pilot programs and describes the assessment methodology. The third section presents the findings of the assessment with a focus on the factors of successful program implementation described earlier. The paper finishes with some tentative conclusions.

### **Successful Program Implementation**

The literature on program implementation identifies several factors that are associated with successful program operations. But there are typically multiple viewpoints on how each factor actually may affect implementation (O’Toole, 1986; Pindus et al., 2000). Below we provide an overview of the more prominent factors:

- *Characteristics of the policy being implemented.* The greater the clarity and specificity of goals and procedures, the greater the likelihood of the program achieving its objectives. Still, some flexibility is necessary to deal with unforeseen obstacles.
- *Availability of resources.* Did program implementers have sufficient resources with which to work? While the literature often refers to financial resources, other inputs can be important as well.
- *Number of implementing actors.* It is often held that the more actors involved in implementing a program, the greater the chance that implementation will

be retarded or be less successful if full implementation proceeds (Pressman and Wildavsky, 1984).

- *Attitude of implementing personnel.* Another factor is the support for the innovation among the staff, i.e., are the changes being viewed as reasonable? Acceptance of new procedures depends implicitly on the establishment of new acceptable norms in the relevant policy community.
- *Alignment of clients.* Particularly those favouring the “bottom-up” lessons from project implementation, where success is seen as depending on involvement of all stakeholders, responding to client concerns is essential. Support can result from consultation with clients in the design stage or the willingness of agency staff to negotiate changes in procedures during implementation (Berman, 1978, 1980).
- *Opportunity for learning among implementers.* Each of the pilots proceeded independently and there were no other agencies implementing similar initiatives. On the other hand, the local agencies had access to consultants experienced with these programs, and this probably was an efficient substitute for interaction with other implementers.
- *Past experience.* Previous experience with implementing similar programs may have a significant impact on implementing new programs, particularly if the earlier programs were successful and if the knowledge gained from previous experience has been institutionalised.
- *Local environment.* Factors external to the program, such as the local economy and characteristics of the target population will likely influence client responses to the program, depending on the services being offered.

### **Pilot Programs and Assessment Method**

The two pilot initiatives were implemented in Arzamas and Perm, emerging from discussions between program administrators in each city and consultants from the Urban Institute (Washington) and Institute of Urban Economics (Russia) under the USAID-supported program. While the project team helped the city administrators formulate strategies for addressing social policy goals, specific pilot initiatives were chosen and implemented by the cities themselves.

The introduction of a new means-tested benefit was at the core of both initiatives, although the specific goals of the pilots differed. In Arzamas, the school lunch pilot replaced a citywide subsidy for school lunches with a means-tested benefit targeted at the poorest families with children. Prior to the pilot, all children received free lunches, although the quality of school lunches was considered poor by parents and administrators alike. Following the introduction of the pilot, a price of four rubles was introduced citywide for school lunches.

Low-income families with children were eligible for a cash benefit covering all or part of the cost of the school lunches (See Table 1.)

**Table 1**  
**Characteristics of Targeting Initiatives**

	<b>Perm: Jobs Pilot</b>	<b>Arzamas: School Lunch Pilot</b>
Objective	Provide support to those not traditionally receiving assistance and stimulate unemployed members of poor households to find work	Improve quality of food provided to children and improve the targeting of expenditures on school lunches
Target Population	Families with at least one child under 16, at least one able-bodied adult unemployed member, and family per capita income less than 65% of the subsistence level.	Families with at least one child in municipal schools and per capita income below 50% of the subsistence level.
Benefits	Quarterly cash benefit determined as follows. Per capita benefit equals 60% of subsistence minus the sum of monthly per capita unearned income plus 75% of monthly per capita earned income. The per capita benefit is multiplied by an equivalence scale to determine monthly benefit and then by three for quarterly benefit.	Monthly Cash benefit determined as follows: Families with monthly per capita incomes below 25% of subsistence: benefit equal to the total monthly cost of school meals per child. Families with monthly per capita incomes from 25-50% of subsistence: benefit equal to half the total monthly cost of school meals per child.
Maximum Benefit	1,746 rubles per capita per quarter	84 rubles per child per month
Benefit Maintenance Requirements	The unemployed member of the family must participate in employment services.	Children receiving the benefit must purchase a lunch from the school each day.
Penalties for non-compliance	Termination of the benefit, and possible loss of other municipal social assistance for up to 6 months.	Recipient children continue to receive school lunches, but the benefit is paid directly to the municipal school
Coverage	Maximum of 100 families at any point in time in 3 contiguous micro-districts	Citywide. 14,000 in 17 municipal schools; in steady state there were about 4,700 children in 3,700 families receiving a benefit
<b>Dates of Implementation</b>	November 2000 – November 2001	February 2001 – indefinite

In Perm, the jobs pilot introduced a new means-tested benefit in three micro-districts available to low-income families with an able-bodied unemployed

adult member. Unemployed members of participating families were required to meet employment-focused service requirements, such as job search, in order to continue benefit receipt. For participating families, the benefit replaced a poorly targeted semi-annual poverty benefit.

In addition to the introduction of a new means-tested benefit, both pilots involved new forms of cooperation among social protection agencies and considerable administrative reforms. Most notably, the benefits were offered through new offices and each city developed a new benefit application form.

The assessments were designed to measure if the new programs were successfully implemented. Activities common to both initiatives were examined as they developed during the implementation stage to determine if the program was operating in accordance with the attainment of program goals and to discover where implementation challenges occurred. Main program activities examined included the development of program documentation, implementation preparations, benefit office operations, application data collection and verification procedures, benefit delivery, and monitoring procedures. Broader issues were examined as well, including the attitude of implementing personnel and clients, the attainment of program outcomes, inter-agency co-ordination efforts, and program sustainability.

The plan of assessment in each city was developed in cooperation with local administrators. Prior to implementation, the project team was frequently in each city and in close contact with city officials; so there was a good deal of on-site observation during the implementation process. Once the implementation process began, team members collected data during for the first four months of program implementation. Data collection efforts included:

- *Review of program statistics;*
- *Review of key policy documents,* including policy regulations, personnel instructions, and other documents;
- *Interviews with key personnel* in all implementing agencies, including front-line caseworkers;
- *Review of client case records* (fifty-four in Perm, fifty-one in Arzamas), including application forms and verification documents; and
- *Several group interviews with beneficiaries* (ten clients in Perm, twenty-eight in Arzamas), and, in the case of school lunch pilot, parents not eligible for benefits (nineteen).

## **Findings**

We begin with an overview of the degree to which the programs succeeded in accomplishing their goals and the likelihood that they are sustainable. Second,



we summarise how well administrative tasks were executed. Third, we examine the outcomes with respect to the “implementation factors” discussed above.

*Overall implementation.* Overall, both pilot initiatives appear to be working toward the intended goals, particularly the school lunch pilot, slightly less so with the jobs pilot. A summary of achievements and limitations is provided in Table 2. In Arzamas, parents are now paying for school lunches, food quality has improved, and the lowest income households are receiving the targeted school lunch benefit. In Perm, eligible unemployed parent households are receiving the targeted benefits, but the link between benefits and employment requirements is somewhat fragile – a majority of clients who have sought the employment services have been rewarded with jobs; but the enforcement mechanism for the employment search requirement is vague. Both initiatives are characterised by the participation of many enthusiastic personnel; reliance is on flexible, informal arrangements and previous experience rather than detailed standardised procedures; and there is considerable involvement by many implementing agencies.

*Outcomes.* Within the short time frame of this evaluation, initial results of both targeting initiatives are remarkably positive. In Arzamas, the introduction of prices to school meals, competition among providers of food, and the means-tested benefit has dramatically limited the portion of school meals subsidised by municipal administration and targeted that subsidy to the poorest families. In Perm, in the first four months of program implementation, of the 38 unemployed program beneficiaries who sought employment services, 23 have been successfully placed in jobs after receiving job search assistance or training coupled with job search assistance. However, twenty-eight unemployed program beneficiaries did not seek the required unemployment services at all, but as of the end of the evaluation period, only one participant was in the process of being sanctioned.

*Sustainability.* Program sustainability is questionable in Perm, but much less so in Arzamas. In Perm, the jobs pilot was designed much more as a pilot, i.e., a program for testing new ideas in social assistance, rather than an on-going reform. As such, it is not well integrated with the rest of the social benefit system, somewhat undermining support for its operations. In addition, program administrators consider the benefit payments to be high given current budget constraints and its client-to-caseworker ratio to be too costly. In fact, few administrators initially thought about sustainability or envisioned the program expanding beyond the initial pilot.

In Arzamas, in contrast, sustainability was considered from the beginning; and there are already plans to expand school lunch pilot-type reforms to include other food subsidies. The cost savings noted by program administrators of the targeting pilot have been the major impetus for expansion of the targeting pilot,

although the positive reactions of client and non-client parents alike has also encouraged expansion.

**Table 2**  
**Achievements and Limitations of Targeting Initiatives**

	<b>Objectives</b>	<b>Initial Results</b>
<b>Jobs pilot (Perm)</b>	1. Provide support to those not traditionally receiving assistance	1. 64 households with working age adults paid a quarterly benefit averaging about 690 rubles.
	2. Stimulate unemployed members of poor households to find work	2. 66 unemployed beneficiaries were referred to employment services. Of the 38 that participated in the employment services, three-fifths (23 clients) obtained employment during the evaluation period. 28 unemployed clients did not participate in employment services; they either had a “good excuse”, were in the process of being sanctioned, or left the program (possibly due to obtaining employment on their own).
	3. Client satisfaction with pilot	3. High, among clients interviewed, particularly with treatment by staff. Less satisfaction with employment services.
	4. Sustainability	4. Limited, due to high benefit and administrative costs
<b>School lunch pilot (Arzamas)</b>	1. Improve quality of food provided to children	1. Beneficiary and non-beneficiary parents interviewed unanimously noted improvements in both quality and variety of school meals
	2. Improve the targeting of expenditures on school lunches	2. New prices for school lunch cover the total food costs (but not administrative costs) of school lunches. By the end of the school year, 3,695 low-income households (including about one-third of all school children) were receiving the targeted school lunch benefit.
	3. Client satisfaction with pilot	3. High, among clients interviewed, particularly with improvements in school lunches, convenience of the location and operating hours of the benefit offices, and efficiency of benefit office operations
	4. Sustainability	4. Strong, since program cost savings pay for the provision of the benefit

*Quality of Administration.* The implicit standard employed in making judgments on the quality of administration is that of good administrative practices in the West. Given space limitations, we can only highlight a few points.

*Start-Up Phase.* Implementing agencies of both pilots made numerous preparations for the launch of their programs in a short amount of time. Program outreach activities are particularly noteworthy. Both cities used a variety of methods to inform potential beneficiaries about the program. In addition to disseminating information, implementing agencies in both cities took a number of other steps to prepare staff and offices, and to set procedures for dealing with clients. The most severe weakness of the start-up phase was program documentation. The program regulations for both pilots lacked specific, concrete policies for dealing with the wide range of the activities of the programs, such as caseworker procedures and client monitoring. Despite this, few additional documents were created to standardised procedures. Although applications were created for both pilots, program manuals never were.

*Ongoing Operations.* The execution of ongoing operations of the pilot initiatives includes significant strengths. In both cities procedures were adopted for interacting with and moving clients through the all stages of applying for, receiving, and maintaining benefits were adequate. In addition, despite the lack of written procedures for directing client flow, front-line staff were generally consistent in describing such procedures. Most importantly, benefits were actually delivered. Considering the difficulties of many municipalities have in providing social assistance payments, this is not an insignificant point.

Weaknesses were also apparent in ongoing operations. Although client flow procedures were adequate and consistent among front-line staff in both cities, some aspects of these procedures appeared quite arbitrary and a drain on program administration. Although benefits were delivered, as noted above, delays in providing them were common for the jobs pilot. Delays in benefit provision were due, in part, to the time required for cases to be reviewed three or four times by different individuals, including a commission of upper level administrators, before benefits were authorised. In general, both pilots are characterised by excessive involvement of upper level administrators in decisions on benefit provision. Finally, program monitoring in both cities was generally poor.

Overall, ongoing operations were generally in-line with the program goals of each program, even if the poor execution of specific tasks limited the effectiveness of the program administration.

*Eligibility and Benefit Determination.* For both the jobs pilot and the school lunch pilot, new applications were used to access the benefits. Reviews of benefit case records revealed generally high quality work by caseworkers and supervisors in adopting the new applications. While there were a few calculation errors,

none of them affected the eligibility or benefit amount of any of the applicants sampled.

The most significant weakness of the case records was the lack of accurate and complete verification documentation. In Perm, less than half of the case records reviewed included a complete and accurate set of verification documents. In Arzamas, verification documents were not collected at all in the cases reviewed since each applicant was already receiving child allowances. In these cases, case-workers referred to the child allowance database to verify income data submitted by the applicant. However, according to program administrators much of the data was out-of-date. Considering the short timeline between the launch of the school lunch benefit and the introduction of price increases for school lunches, a lenient initial verification process is understandable although not ideal. Later verification checks resulted in a substantial number of households being removed from the program.

*Outcomes and Implementation Factors.* Having reviewed program outcomes and the manner in which many administrative tasks were executed, we now examine how program performance relates to the factors associated with successful program implementation listed earlier.

*Characteristics of the policy being implemented.* The goals of both initiatives were clearly defined. On the other hand, both initiatives were somewhat complex, requiring new regulations to provide the details in areas such as eligibility rules, benefit computation formulas, methods for monitoring clients across multiple agencies.

Despite clear goals, specific strategies as embodied in the program regulations did not meet the challenge of the complexity of these initiatives, although there is some variation in this respect. Where the municipalities had previous experience or could draw on relevant and high quality federal government regulations, the policies drafted into regulations were often clear and well defined. For instance, since both cities had previous experience with means-testing, rules defining the necessary verification documents benefit applicants were required to produce were sufficiently detailed. Where the municipalities lacked past experience, such as requiring beneficiaries to participate in employment services in Perm, regulations were conspicuously lacking in details. In short, program performance was limited by their complexities but only in the areas where the agencies were inexperienced.

*Availability of resources.* Generally, social assistance program administration in Russian municipalities is under-resourced. The pilots generally operated under similar straitened circumstances. However, physical infrastructure, i.e., municipal office space, was readily available in both cities for establishing neighbourhood level benefit offices close to the target population. Although the office in Perm

was too small to provide private interview spaces, the offices in Arzamas did permit private interviews in addition to being spacious and generally inviting.

In Perm, the jobs pilot enjoyed a much higher ratio of staff-to-clients than other programs. Four dedicated caseworkers were served a total of 100 clients, practically ensuring the caseworkers would have time to monitor the employment progress of program recipients. In contrast, in Arzamas, staff-to-client ratios for the school lunch pilot were about one-tenth those of the jobs pilot program. However, office equipment, particularly a computer and copy machine, were conspicuously lacking for the office in Perm. In Arzamas, each of the two neighbourhood benefit offices included a networked computer donated by an international donor. Overall, although the lack of certain administrative resources decreased administrative efficiency, resources seem not to have materially affected outcomes.

*Number of implementing actors.* Multiple agencies were involved in both pilot projects, and some were not under the jurisdiction of the social protection committee potentially making co-ordination difficult.

In Perm, agencies participating in the implementation of the project include the municipal and district social protection departments and the federal employment centre. Generally, cooperation among the various agencies involved in the Perm project relied heavily on a single administrator's prestige among the agencies, rather than on formal regulations. While working relations were effective in most areas of program administration, the reliance on personal relations rather than specific responsibilities between agencies hindered implementation somewhat. In particular, deteriorating relations between the municipal and district social protection departments in Perm hindered program-monitoring efforts.

The number of implementing actors for the school lunch pilot was even greater. Since the pilot was implemented citywide, all 17 municipal schools were involved. In addition, the municipal Education Department and multiple agencies under the Social Protection Department participated in the project implementation. Here, as in Perm, personal relations played a much greater role than formal agreements. Still, despite the multiplicity of agencies and the lack of formal agreements, working relations were positive and effective.

*Attitude of implementing personnel.* An important fact for the pilots is that the local agencies worked with staff from the Institute of Urban Economics (Moscow) and the Urban Institute (Washington) on preparing and implementing the changes. IUE is a highly respected Russian think tank that is viewed as being a consistent source of ideas for program reform and administrative improvements for local governments; it can thought of as a key player in defining cutting edge professional practice.

Still, the potential for negative attitudes among implementing personnel was present in both initiatives, particularly since multiple agencies were involved in implementation. In terms of program policies, the potentially most controversial was the school lunch pilot because it resulted in taking free lunches away from non-poor households. Indeed, some implementing personnel, especially those from the Education Department, were sceptical about program goals.

Nonetheless, support among key staff in Arzamas was overwhelmingly positive. The clear trend in Russia is to income-testing in social assistance as witnessed by the national housing allowance and child allowance programs. This may suggest why this initiative was less resented by the staff, particularly social protection staff, than one might have thought initially.

Support among staff may erode, though, if implementation is too demanding. Caseworkers in Arzamas, although extremely positive toward the goals of the project, felt somewhat overburdened during the initial weeks of implementation due to a combination of the unanticipated overwhelming response—several thousand families applied in the initial weeks—and an unwieldy set of responsibilities placed on program caseworkers.

In Perm the program goals of the jobs pilot were universally supported, particularly the emphasis on encouraging increased labour market participation among poor households. Caseworkers, hired explicitly for the program, were particularly enthusiastic. However, some disagreements regarding program strategies and distrust among administrators of implementing agencies somewhat dampened program support.

Overall, the programs enjoyed solid support, despite reservations and lack of enthusiasm by some staff involved and significant challenges in program start-up.

*Alignment of clients.* Between the two initiatives the school lunch pilot had the greater potential for support among clients, as it required less from clients to maintain benefits. However, it also had the potential to alienate those parents not eligible for the benefit. Interestingly, the school lunch pilot received considerable support from both benefit clients and non-client parents, primarily because, as revealed in the interviews, many non-client parents did not consider the price increase to be excessive. Both sets of parents stated the desire for improved quality and variety in school lunches.

Although the Perm jobs pilot set job search or training requirements on unemployed beneficiaries, support for the goals of the project were high among those clients interviewed. Most stated the financial assistance provided by the program as the main reason they applied. In addition, many interviewed respondents expressed interest in the employment services, viewing them more as an opportunity than a requirement. But since a significant portion of the program

recipients did not participate in the employment services, this view may not be representative of all participants.

*Opportunity for learning among implementers.* Since the programs under consideration are pilots limited to a single site each, the scope for implementers to exchange experiences is indeed limited. However, there was the opportunity for exchange between the implementers and the technical assistance team. Some team members had substantial experience with similar programs in other contexts and this experience was drawn upon as new problems were encountered. So in this sense some opportunity was present for confronting challenges with help.

For instance, team members worked with administrators to improve benefit calculation methodologies in Perm and the application form in Arzamas. The team had worked on similar tasks in implementing the housing allowance program with local administrations over the past few years.

*Past experience.* The past experience of implementers in each pilot city was both positive and negative. On one hand, many of the past practices of program administrators in the cities are inconsistent with strong management. For instance, neither Perm nor Arzamas had a tradition of producing program manuals for local social benefits.

On the other hand, both sites had previous experience in administering means-tested social assistance from the housing allowance program, local social benefits, and the recent switch to means testing for the child allowance program. Despite poor procedures in some areas of the programs, this past experience was a considerable asset to implementing the jobs pilot and school lunch pilot.

Program administrators were particularly challenged where they had little-to-no experience with a task. As previously noted, the lack of previous experience in some areas often resulted in poor specification of program strategies and procedures that hindered program implementation. In such program policy areas, the opportunity for learning from technical advisors played a considerably more important role. In short, past experience with programs with a similar philosophy and tasks positively affected implementation.

*Local environment.* The success of the jobs pilot in Perm relied on the possibility that unemployed beneficiaries could find jobs. As with most municipalities in Russia, the economy of Perm has suffered considerable difficulties in recent years; but, overall, the local economy was slightly better than average in Russia. Local administrators also report that the district in which the program was implemented did not lack in available jobs and that opportunities were available to the unemployed.

Other factors beyond the control of the implementing agencies in Perm, however, did hinder program administration. Delays in providing benefits to

new clients in Perm were due to a slow municipal budget process. Although the availability of funds for the program was never in question, funds could not be released until the entire budget process was completed. Despite this single problem, the overall environment for implementation was conducive for program success.

The local economy of Arzamas is more depressed than Perm's, but implementation of the school lunch pilot was less reliant on the local economy than the jobs pilot. Still, implementation of the introduction of prices for school lunches was calibrated to the ability of parents to pay with the price set at four rubles per day. Overall, despite a poor economy, the local environment in Arzamas did not limit program success, due, in part, to consideration of the local environment by policy makers and implementing personnel.

## **Conclusions**

The results of the two pilot projects provide a (limited) basis for addressing the two questions that are the focus of this article. Our conclusions follow. The first question was, "How amenable is local social assistance program administration in Russia to improvement?" Our response is quite positive, but the lack of exposure of municipalities to progressive policies and administration makes progress slow. The second question was, "Will reforms made to increase targeting or to improve the efficiency of program administration be well-implemented, when they are properly designed from a technical perspective in cooperation with the local agency?" Here, too, the answer is positive. Local staff for both programs, and clients in the case of school lunches, did not oppose a sharper targeting of assistance to lower income households. This suggests considerable scope for further improving targeting in a large number of federal and local social assistance programs, both cash benefit and in-kind subsidies.

There were nevertheless considerable difficulties encountered in program implementation. Below we use the "implementation factors" discussion to identify where greater problems emerged.

A common thread running through the program implementation problems is the lack of specific detailed documentation setting clear standards for program operations. As noted where the pilot municipalities had little prior experience official regulations tended to be vague. This in turn, led to the development of vague procedures, at a minimum, and, at worst, no procedures at all or ones that undermined program goals.

However, even where official regulations were thorough, further elaboration in operational instructions was missing. Clearly, timing was a factor. Had official regulations been issued sooner, implementers of the pilot initiatives, particularly in Perm, would have had a greater opportunity to develop further documentation.



An even more important factor was the lack of previous experience in developing comprehensive program documentation and the general reliance on upper level administrators to intervene in matters of policy and procedures.

One result of this is that the attitude of implementing personnel took on an even greater role as a factor determining program success. Without clear and detailed regulations the potential for successful program implementation would have been extremely limited without the positive attitude and *effort* of key personnel toward making the program work. The importance of implementing administrators exploiting the opportunities for learning new administrative techniques is also elevated by the lack of program documentation.

As in programs everywhere, outcomes were sensitive to the local environments, even the political and bureaucratic environments external to the implementing agencies as the delay in benefit delivery in Perm shows. Conflict among implementing agencies, particularly when numerous agencies are involved in implementation, is also a common problem of implementation everywhere. The jobs and school lunch pilots were able to rely on generally positive co-ordination efforts. But some of the difficulties experienced in the pilots in monitoring, a process that often relies heavily on the cooperation of multiple implementing agencies, hint at the possible problems that conflicts among implementing agencies could mean for municipalities.

In conclusion, the pilot programs succeeded in spite of some clear problems that are likely to emerge in the implementation of similar targeting reforms in Russian municipalities. Overcoming many of these obstacles can likely be accomplished in large part through more thorough program documentation of operating rules and working relations—and a greater reliance on them in actual administration. To a considerable extent, this may be accomplished simply by thoughtfully building on the recent program experiences of municipalities in implementing means-tested housing and child allowances. However, it will also require opportunities for reform-oriented municipal social program administrators to learn from the administrative practices of countries with greater experience in efficiently administering these types of programs.

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# A COMPREHENSIVE EVALUATION OF LOCAL GOVERNMENT PERFORMANCE IN UKRAINIAN AND RUSSIAN CITIES \*

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## 1. Introduction

In designing this work we looked at Russian and Ukrainian administrative reforms as special social innovative projects. An important condition of such projects' success consists of involving not only central, but also regional and municipal authorities in the formation of a public administration institutional basis. Their participation in administrative reforms demands, in particular, a clear understanding of the formation of professional municipal management concepts and its organisation in the reform frameworks. One of the key issues consists of the formation and understanding of the ideas of effectiveness and the quality of municipal management. Presence of clear concepts of municipal management effectiveness gives the possibility to compare work of different governance bodies in various settlements; judge its quality; find out and describe best practice experiences; design training programs for educating municipal managers and increase their qualifications. However, the progress in receiving joint and clear concepts of municipal management effectiveness is confronted with the understanding of the effectiveness by the different stakeholders. Not only their interests and legal frameworks determine this, but also uncodified norms of behaviour (attitudes, beliefs, societal norms and expectations). That is why the perception and comprehension of the effectiveness problems by the various stakeholders and existing organisational culture must be taken into account during the determination and evaluation of public governance effectiveness.

Two main approaches are used in evaluation studies – results-oriented and process-oriented examinations (Patton, 1997). The former evaluation is based upon the regular measurement, and reporting, of the performance of public agency programs, organisations, or individuals. It is connected to the clear definition of the program's outputs and outcomes with an ensuing comparison of actual results with initial objectives, resources and costs. As a rule, such evaluations are focused on evaluation's expected role in guiding funding decisions and

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differentiating the wheat from the chafe (Patton, 1997: 12). Another approach is focused on helping to improve programs as they were and are implemented. Evaluation should not only offer final judgements about the overall effectiveness of programs, but should gather process data and provide feedback to help solve programming problems along the way (Wholey and Newcomer, 1994). There is a dominance of the administrative approach in the field of municipal governance over the results or goal-oriented management in the New Independent States. Discussing professional activity, people speak more often and naturally about its process than about goals and results. That is why the development of the techniques for assessment of municipal management effectiveness should be based upon discussions of the process of municipal management and its staff activity and oriented on its perfection.

### **Top-down and bottom-up Approaches.**

The development of management assessment schemes using the “top-down” approach – “from theory to practice” – is appropriate for West European countries, because the background theoretical concepts were formulated on the basis of western managerial experience. But practitioners and scholars are aware that management traditions and the organisational culture of the New Independent States are significantly different from the Western management style. In the past, decision-makers in the former Soviet Union were generally unable to act independently of their superiors or of prescriptions provided by the party. Rewards and punishments were more frequently due to their political behaviour than their effectiveness (Gregory and Kohlase, 1988). Often, managers could not make decisions until they received instructions from the Centre, even under emergency conditions (Lowenhardt and van den Berg, 1989). Whether in industry or government, decision-makers experienced stable, relatively predictable and centrally planned environments. In many cases, decisions required simple, almost mechanical responses (Shama, 1993). This style of management is still alive, especially in public government bodies. But, due to the huge shift in social-economical and political life from “command economies” to “market based demand economies” some managers in the New Independent States did not have sufficient dynamic managerial styles to survive in an ambiguous, sometimes decentralised, turbulent environment. The number of cross-cultural studies has shown the vast difference between national frames in organisational culture and leadership (Cooper and Payne, 1992; Alimo-Metcalfe, 1999). Experience of western managers working in Russia (Shmarov and Auzan, 2001) and the analysis of the UN Centre for Human Settlements (Habitat) (Tosics, 2001) also proves such differences to be of great importance. That is why it is advisable to use the “bottom-up” approach as a first stage with a follow-up analysis of received conceptual models on the

basis of modern managerial theories to develop techniques for management effectiveness evaluation for the New Independent States.

The starting point of our study looked at the methods for judging municipal managers' professional activity that would then allow us to compare the activity of managers from different municipalities and to separate the main and the minor tasks in their particular activity. Such techniques are a necessary part of the evaluation process because only with their help can we objectively speak about the professional level of individuals and organisations, estimate perspectives of their development and set tasks for professional retraining and qualification growing.

An important foothold for moving towards this goal was "Practices for Effective Local Government Management" developed by the International City/County Management Association (ICMA) (ICMA Practices, 2001). These Practices identified the competencies and skills required of an effective local government manager. The merits of this list consist in its elaboration and in the authorities of the Association of Professional Municipal Managers. The use of these Practices to develop a training manual for training practice in Central and Eastern Europe was an additional advantage (Strengthening, 1996). It allowed, from the beginning, to be oriented towards a comparative investigation of municipal governance effectiveness in different countries on the basis of one methodical technique. Such an investigation could lead to interesting results considering the characteristics of municipal governance in different countries. On the other hand, its elaboration could make an investment in bridging the gap between young municipal governance of post-socialist countries in Central and Eastern Europe and the former USSR and mature western municipal governance. Therefore, the work from the beginning was organised as international and we intended to start with a Russia-Ukraine collaboration and then broaden the framework involving other countries.

Our other benchmark representing western experience of municipal governance was the Common Assessment Framework (CAF) developed by the European Institute of Public Administration (EIPA), which we came upon during the work (EIPA CAF, 2001). This well elaborated self-assessment instrument for public sector organisations presented "European Frameworks" of municipal governance. The main difference between this and our work was the fact that it is based on some initial concepts of effective municipal governance offering it as a starting point (Löffler, Elke, 2001). However, our goal was to discover a concept of effectiveness already existing in current apprehensions of real municipal managers and citizens.

Another interesting model in response to the question of municipal governance effectiveness and its comparative measurement was found in G. Soós'

work (Tocqueville Research Centre – T-RC, Budapest) (Soós, 2001). This work applies a similar approach to ours: the author did not try to formulate a “true answer” to what an effective municipal governance is, but discussed the means for comparing situations in different settlements. Our means, however, were notably different.

Our work hypothesis proposed that it is necessary to develop an instrument for measuring municipal management effectiveness, which would best suit the characteristics of the social, cultural, and professional surroundings where it is supposed to be used. Our first attempts to use the questionnaire constructed on the basis of the ICMA Practices (Strengthening ..., 1999) showed low effectiveness of “the direct translation way”: there were problems with the accuracy of the translation and transfer of management theory concepts which were the basis for Practices Statements as well as with choosing the position which would adequately match the ICMA approach. The analysis had shown that Practices Statements often included more than one notional unit, so it is impossible to have an accurate correlation between the questionnaire statement and drawn estimation. We therefore decided to combine the Practices Statements and characteristics of effective municipal governance drawn from our interviews in our designed questionnaire.

## **2. Task and Objectives**

The task of our study was to extract a set of concepts (cognitive dimensions) on the effectiveness of Local Government activity and employees, based on accounts given by native municipal government staff, and local deputies and citizens/customers. We then constructed measurement scales based on an empirical concept of public governance effectiveness.

The objectives were:

- to find out notions of factors, resources and conditions of effective municipal management as perceived by appointed officials, local deputies, and citizens of Russian and Ukrainian cities,
- to elaborate, on that basis, a questionnaire for the measurement of municipal management effectiveness and training needs’ assessment and to use it for conducting a survey of municipal management effectiveness in Russian and Ukrainian cities,
- to construct a factor-analytical model and technique (test) for a quantitative estimation of subjective notions of factors of municipal management effectiveness and conduct a psychometric investigation,
- to study the relations between indicators of municipal management effectiveness and some social-economy and social-demography characteristics of respondents.

### 3. Methods and Sample

A two-stage study of local government effectiveness was used to develop the method for assessment of municipal management effectiveness.

As a first stage we used the version of Repertory Grid Technique proposed by Kelly (Francella and Bannister, 1987) to extract the main constructs of effective management and leadership skills in local government practice. With the help of this technique 60 interviews were conducted (30 in Russia and 30 in Ukraine) with the Mayors of cities, vice mayors, local deputies, municipal administration department heads, municipality staff and citizens. Approximately 2000 statements concerning the factors of overall performance of the various services and different issues of municipal management were extracted from the data received.

The list of statements received was combined with the ICMA list of Practices for effective local government management. As a result of several further modifications, the common list of effectiveness factors was reduced by 3 experts to 261 statements through the removal of semantic duplications and some general statements.

On the basis of the final list, the questionnaire was developed. It represented the semantic model of the understanding of the municipal management effectiveness parameters by the main actors of regional social economic life. The questionnaire was used for the quantitative study of municipal management effectiveness. It was divided through expert classification into four sections:

- Quality of relations between the local authority and citizens.
- Quality of the internal management of the local authority (HRM, financial management, ICT, etc.).
- Professionalism and integrity (accordance between personal and organisational values and behaviour) of the managers of the local authority.
- Quality of relations between the local authority and other external stakeholders (private sector, non-profit sector, media, bodies of Central/Federal Government etc.).

The respondents were asked to estimate the extent of the possibility of using every statement to characterise their city's municipal management bodies' activity and the state of municipal management. The estimations were made using the seven-point scale from -3 (absolutely not expressed in municipal management bodies' activity) to +3 (apparently expressed). Besides the list of effectiveness characteristics, the questionnaire had a biographical section containing 12 questions.

The processing of the data received was based on the presupposition that there are stable semantic frames in respondents' consciousness, which form their notions of the municipal management effectiveness. Factor analysis al-



lowed grouping of the questionnaire statements on the basis of the estimates received from the respondents, combining maximally correlating statements into the groups (factors).

In line with the procedure, the factor content is revealed through the questionnaire statement formulations (the statements find their way to one or another factor without reference to their place in the questionnaire). Therefore the factor is the hidden (latent) characteristic of the municipal management effectiveness received from analysis of the respondents' notions.

The principal components technique was used for factor drawing with varimax rotation. The number of significant factors was matched empirically so that the reliability coefficient (Cronbach alpha) for the least charged factor was over 0.5. The questionnaire statements with the factor loading absolute values over 0.5 were accepted as significant characteristics. These were then used for scales values calculation, i.e. for drawing the quantitative rating of the factors' representing the municipal management practice.

The survey was conducted in 5 cities of Russia and Ukraine. We received and processed 158 completed questionnaires both from municipal management staff and citizens in Russia (75 respondents, 47,5 % of total) and Ukraine (83 respondents or 52,5 % of total).

There were municipal officials, local deputies, business and NGO representatives and citizens among the respondents:

<b>Groups</b>	<b>Russia</b>		<b>Ukraine</b>	
	<i>number</i>	<i>%</i>	<i>number</i>	<i>%</i>
Municipal staff	36	48	52	62,7
Local deputies	14	18,7	8	9,6
Private businessmen	8	10,6	7	8,4
NGO representatives	5	6,7	5	6
Citizens	12	16	11	13,3
<b>Total</b>	<b>75</b>	<b>100</b>	<b>83</b>	<b>100</b>

An assessment of the influence of “environmental social economic factors” on the municipal management effectiveness was also conducted. Collected data was processed with the help of multidimensional statistical analysis.

#### **4. Cognitive Models of Municipal Management Effectiveness**

Two types of cognitive models of municipal management effectiveness were developed as a result of the study. They reflect the understanding of the effectiveness of municipal management (governance) activity by municipal authorities

and by citizens of the cities. The first type is a qualitative model and the second is a factor-analytical model.

#### 4.1. Qualitative Model of Municipal Management Effectiveness

The resulting set of statements represents the content of notions of actual municipal governance effectiveness in Russian and Ukrainian cities. This empirical qualitative model is naturally a combination of very different statements reflecting the factors and conditions of effective municipal management.

We did not organise a large variety of classifying statements on the basis of one paradigm. It would have meant obtruding the paradigm to the next step of the survey.

The primary comparison of the received classification with ICMA “Practices” showed that this is constructed on a different basis. The ICMA list is the classification of characteristics, rules and principles of professional activity referred to in the municipal managers’ professional occupation. It refers to the subject of activity and contains statements referring to the successful experience of professional occupation and its values and norms. Many positions in our set refer to the municipal governance object and context, to the municipal managers’ day-to-day practice and different kinds of professional behaviour in specific situations. Therefore all sections of our classification have components from different groups of ICMA “Practices” and our classification’s clusters appear to be constructed from different groups of the ICMA list. On the other hand, the ICMA “Practices” do not reflect all characteristics of the municipal governance effectiveness drawn from our interviews: it does not contain, for example, positions connected with the motivation to work in the municipal governance system; the meaning of the hierarchic structures and the chiefs in the municipal governance organisation; the importance of the “elemental” professionalism in the municipal managers’ work and the influence of macro-system factors.

The data received reveals certain distinctions in the understanding of the municipal governance effectiveness factors connected to different cultural environments. Our respondents generally paid great attention to the “human factor”: personal relations and features, informal rules. Much less attention was paid to the “organisational factor”, i.e. principles, requirements, rules, norms and laws, which prescribe the manners of behaviour and activity without reference to the specific person’s features. On the contrary, there is a clear accent on the “organisational factor” in the western management tradition represented by ICMA “Practices”: system, rules for work, co-ordination of activity of different branches of authority.

The data received denotes the preservation of the rigid hierarchy tradition in the municipal governance system of post-socialist countries. The leading role

in municipal governments' activity belongs to the top officials and their team's activity provided by the ruling power. It was permanently specified that innovation activity makes no sense without first including people.

At the same time certain democracy manifestations in the municipal governance were stated. This was expressed in the recognition of the necessity to display initiative, not only by top municipal officials, but also by municipal government employees as well as the population at large. The necessity of considering people's needs and requests in planning and organisation of the executive authority activity and protection of the various layers of the population's interests were recognised. The municipal authorities' contacts with people are considered to be an essential condition of substantial adequacy of local government's activity as well as the provision of quality of the municipal governance under the conditions of democratic elections.

Problems of administrative reform were also mentioned. The gap between the Country Centre and the Regions was marked, as well as the discrepancy in the consequences of the local government and the state service reforms.

The received qualitative model was described in more detail in the Proceedings from the 9th NISPAcee Annual Conference (Salamatov, Balobanov, 2001).

#### 4.2. Factor-Analytical Model of Municipal Management Effectiveness

The second version of the received cognitive model is a factor-analytical model of the comprehension of municipal management effectiveness (FAEM 1).

**Table 1**  
**Main Factors Representing the First Level of Cognitive Model of Municipal Management Effectiveness (FAEM-1)**

Factors	Volume (number of statements included)	Percent of explained variance
Factor 1 - Municipal managers' professionalism	64	16,5
Factor 2 - System approach to the city handling	40	12,1
Factor 3 - System organisation of the municipal management system performance	11	6,8
Factor 4 - The specifics of organisation of municipal management bodies' performance	7	6,6
Factor 5 - Maintenance of the municipal managers' activity	5	3,0

The data allowed us to reconstruct several versions of factor analytical models of municipal management effectiveness. One of these is presented in the paper.

This model has a two-level structure. The first level was received as a result of applying an exploratory factor analysis (principal components technique with varimax rotation) to the entire volume of initial statements and cases. We received a 7-factors solution explaining 49.4 percent of Total Variance. But each of the last two factors had no more than one variable with factor loads more than 0.5. The scales constructed on the basis of the last two factors had very low internal consistency. That is why we decided to use only the 5 first factors for future analysis (Table 1).

FAEM-1 represents the most stereotyped cognitive constructs of effectiveness comprehension. It accounts for 45% of the total variance. The FAEM-1 can be regarded as an initial version of the cognitive model of municipal management effectiveness. The following part of the paper is devoted to the description of FAEM-1 and analysis of its dependence upon two factors – city and social status of respondents.

The rather low level of variance explained by FAEM-1 indicates that a substantial portion of the initial statements that had not been included in this model, reflect less stereotyped cognitive constructs and ideas concerning public governance effectiveness. So, there is a basis for the development and verification of empirical model of municipal management effectiveness. First of all it will be to spread the sample. Another possibility consists of the additional analysis of the statements that were not included in FAEM-1. However, this will be the subject of another study.

The general content of the first level factors of FAEM-1 is presented by their names. However, because they are quite complicated, a second step of the factor analysis was conducted to extract the internal structure of each of the 1<sup>st</sup> level factors. It was made separately on the data comprised in each of the first level factors. The procedure led to the 21 factors on the 2<sup>nd</sup> level combining 126 initial characteristics (Table 2). Some examples of the composition of the second level factors are presented in the Annex 1.

**Table 2**  
**The Lists of the Second-level Factors of FAEM-1.**

Indices	Factors
<b>FACTOR 1:</b> <b>MUNICIPAL MANAGERS' PROFESSIONALISM</b>	
F11	1.1. Socially guided independence and responsibility
F12	1.2. Effective organisational behaviour
F13	1.3. Social-Intellectual capability of municipal officials
F14	1.4. Result orientation and working ethics
F15	1.5. Co-operative mental approach

<b>FACTOR 2: SYSTEM APPROACH TO CITY HANDLING</b>	
F21	2.1. Leading role of the city chiefs guided by citizens' interests
F22	2.2. Stakeholders cooperation
F23	2.3. Realistic budget-financial policy
F24	2.4. Political maintenance of the governance
F25	2.5. City's potential as base for municipal management
F26	2.6. Effective work contacts
F27	2.7. Love of the city

<b>FACTOR 3: SYSTEM ORGANISATION OF THE MUNICIPAL MANAGEMENT SYSTEM PERFORMANCE</b>	
F31	3.1. Stimulating organisational culture
F32	3.2. Effective strategic planning

<b>FACTOR 4: THE SPECIFICS OF ORGANISATION OF MUNICIPAL MANAGEMENT BODIES PERFORMANCE</b>	
F41PL	4.1plus: Strict hierarchical administrative structure
F41MI	4.1minus: Fairness, legality and openness of professional relations
F42	4.2. No double standards in organisational relations
F43	4.3. Orientation onto citizens' interests and work with citizens

<b>FACTOR 5: MAINTENANCE OF THE MUNICIPAL MANAGERS ACTIVITY</b>	
F51	5.1. Maintenance of the municipal staff's position activity
F52	5.2. External maintenance of municipal managers' activity
F53	5.3. Stability of municipal manager position

The factors given in Figure 1 and hereinafter are presented as indices as for F11. This designation corresponds to the factor 1.1 in Table 1.

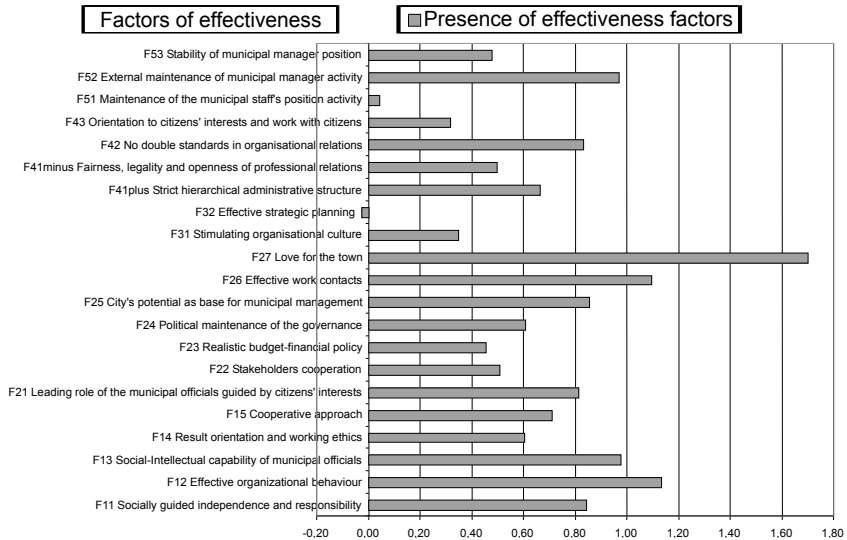
The assessment of internal consistency of the diagnostic scales constructed on the basis of the exploratory factor analysis results showed that most of them have good or excellent internal consistency. The received factor-analytical model of ideas concerning the resources and conditions of municipal management effectiveness allows us to conduct a quantitative assessment by the factor scales.

## **5. The Profile of Municipal Management Effectiveness**

The generalised profile of municipal management effectiveness was produced using the mean estimations of the second level factors based on the whole sample data (Figure 1). It represents the common trend of perception of municipal management effectiveness in Russian and Ukrainian cities.

The data show that subfactors of Factor 1 “Municipal managers’ professionalism” have a more stable mean level. All of them are ‘more or less expressed’. There are more discrepancies among the subfactors of factors 2, 3 and 5.

**Figure 1**  
**Generalised Means of the Estimations of Municipal Management Effectiveness**



The diagram shows that only one factor (the factor 2.7: “love for the town”) is definitely represented (the mean estimations level is over 1.5) in the municipal management practice of cities effectiveness by the respondents. Thirteen other characteristics of governance effectiveness are “more or less present” (estimates are from 0.5 to 1.5). They represent the professionalism of municipal managers (factors 1.1, 1.2, 1.3, 1,4, 1.5); system approach to city handling (factors 2.1, 2.2, 2.4, 2.5, 2.6); organisational relations based on strict hierarchical administrative structure (factor 4.1PL); an absence of double standards in organisational relations (factor 4.2) and outside provision of municipal manager activity (factor 5.2).

Quite vaguely expressed (estimated below 0,5) are the following: realistic budget-financial policy (factor 2.3); stimulated organisational culture (factor 3.1); effective strategic planning (factor 3.2); fairness, legality and openness of professional relations (factor 4.1min); orientation to citizens’ interests and work with citizens (factor 4.3); provision of operator’s position activity (factor 5.1) and the stability of the municipal manager position (factor 5.3).

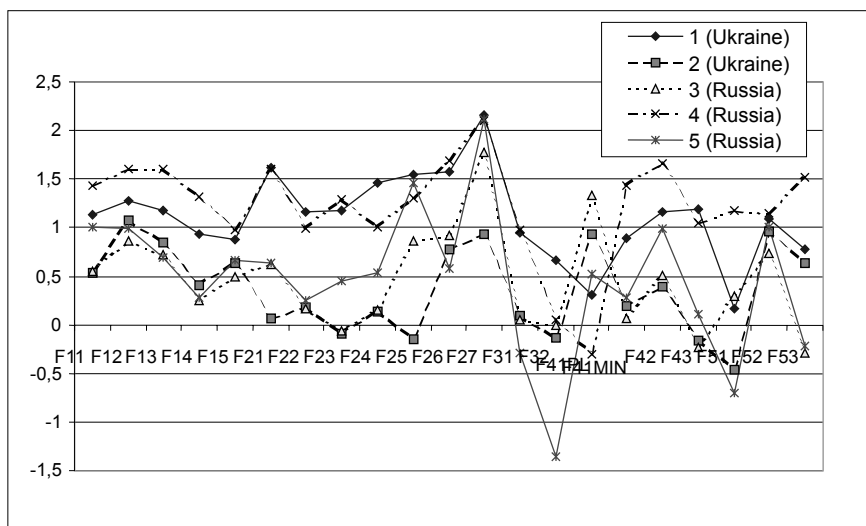
The mean levels of all factors vary significantly. This is the result of the influence of the number of internal and external variables. The role of the city itself and social status of respondents in the perception of municipal management effectiveness are explored in the following part of the paper.

## 6. Comparative Assessment of Municipal Management Effectiveness between Cities.

Each city is a unique combination comprising geographical position, human and cultural – historical, economic potential and existing traditions and modern practice of the city management. It can be reflected in the specific features of municipal management of each city.

The generalised profiles of municipal management effectiveness in 5 different cities of Russia and Ukraine are presented in Figure 2 as mean values of FAEM-1 factors. The results of one-way analysis-of-variance ANOVA show that statistically significant differences between the cities are not observed for only two of the 21 effectiveness factors. The factors that are not significantly different between cities are factor 1.5 (“Co-operative approach”) and factor 5.2 (“External maintenance of municipal manager activity”). The average levels of all other factors have statistically significant differences (fig. 2).

**Figure 2**  
Profiles of Municipal Government Effectiveness in different Cities.



Note: The names of effectiveness factors (F11, F12 etc) are contained in Table 2 and Figure 1.

The data on the two cities (1 and 4) demonstrates the stable manifestation of almost all parameters of effective practice in municipal management. The average level in the majority of scales is in the range from 0.7 to 1.7. It indicates a rather high level of municipal management effectiveness in these cities. It is interesting that the traditional style of management based on the rigid administrative relations (the factor 4.1PL) is noticeably less expressed in both these cities than in the others. On the contrary, more advanced democratic professional relations (“fair, legal, open”) (factor 4.1min) are more widely expressed in cities 1 and 4 than in the others. A significantly lower level of municipal government effectiveness is characteristic for three other cities. The distinctions between “effective” and “ineffective” cities are expressed especially distinctly on several factors. We may assume that these very factors are of key significance for the successful work of municipal authorities in modern conditions of post-socialist society.

The list of these factors includes:

- Factor 2 – System approach to city handling (including all subfactors).
- Factor 3.2 – Effective strategic planning.
- Factor 4 – The specifics of organisation of municipal management bodies’ performance (including all subfactors).
- Factor 5.1 – Maintenance of the operator position activity.
- Factor 5.3 – Stability of municipal manager position.

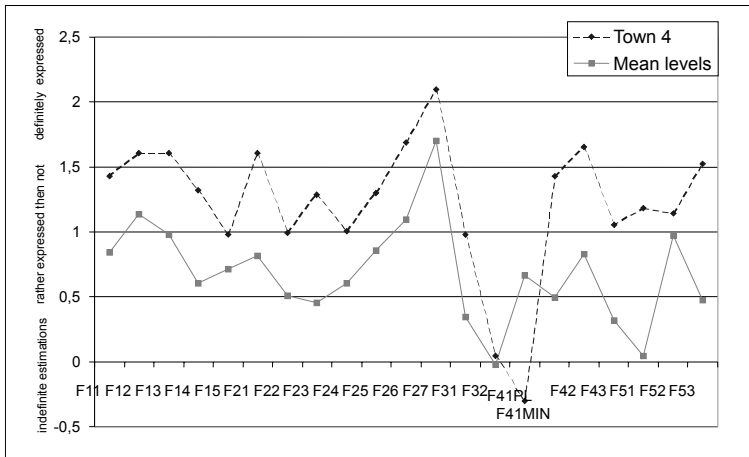
The assessment of influence of distinctions between the cities in the parameters of municipal government effectiveness (by squared Eta coefficient) shows that the appropriate differences are in the range from 2 to 30 % of parameter variance. It is the highest level of influence in all sets of independent variables.

The data received allows us to conduct an analysis on effectiveness profiles for separate cities. The situation in a city relative to all other cities is evidently shown through the comparison of the city profile to the average effectiveness profile received on the basis of all available data. The comparison of «effective» and «ineffective» cities with the “average effectiveness profile” is shown on Figure 3 and Figure 4. The analysis of the concrete effectiveness profile for each of the cities can indicate their specific achievement and «failures».

The results prove a significant differentiating power of municipal government effectiveness estimation in various cities with the help of the developed technique. The assessment method used can be considered as the draft tool for the comparative description of a municipal management state in different cities or in municipal government divisions and organisations.

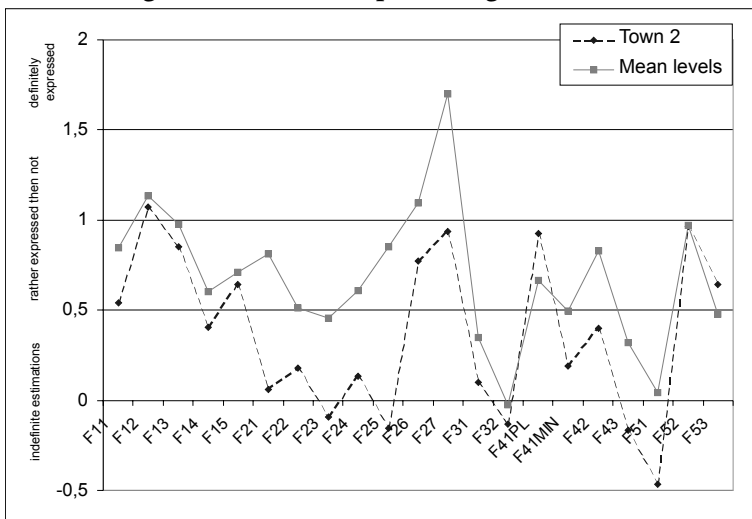


**Figure 3**  
**The Profile of rather effective Municipal Management in comparison with Average Profile of Municipal Management Effectiveness.**



*Note: The names of the effectiveness factors (F11, F12 etc) are contained in Table 2.*

**Figure 4**  
**The Profile of Rather Ineffective Municipal Management in comparison with Average Profile of Municipal Management Effectiveness.**



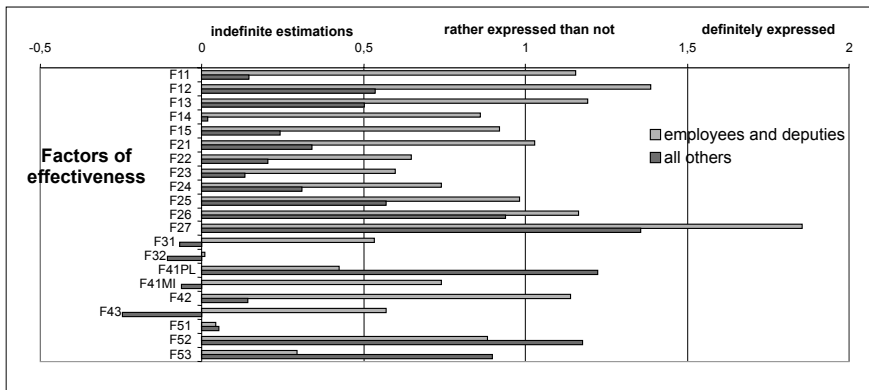
*Note: The names of effectiveness factors (F11, F12 etc) are contained in Table 2.*

## 7. Municipal Management Effectiveness – For Whom?

The perception of municipal government effectiveness is dependent upon the professional status of the person estimating the work of government bodies. Sphere of interests, professional responsibilities and opportunities should significantly determine the criteria of vision and valuation of the handling of the city where he/she lives. One of basic dimensions is the belonging or not belonging to, participating or not participating in the government bodies' work. It means the perception of municipal management work “from inside” or “from outside” the municipal government system.

The sample of the given research allows comparison of “internal” and “external” views on effectiveness of municipal government (Fig. 5). The municipal employees and deputies of representative bodies (Local deputies) represent the internal position of the local government. Other groups of respondents represent the “view from the outside” of municipal system.

**Figure 5**  
**Comparison of the Estimates of Municipal Government Effectiveness made by the Representatives of a Municipal Authority and by other Citizens.**



*Note: The names of effectiveness factors (F11, F12 etc) are contained in Table 2.*

The comparison of mean values of the effectiveness factors between these groups with the help of one-way analysis of variance demonstrates essential distinctions between all factors of effectiveness except for five (2.5. City's potential as base for municipal management; 2.6. Effective work contacts; 3.2. Effective strategic planning; 5.1. Maintenance of the municipal staff's position activity; 5.2. External maintenance of municipal manager activity). Both groups regard that City's potential as a base for municipal management. Effective work con-

tacts and external maintenance of municipal manager activity are represented to some extent in the practice of municipal management. The mean level of the two other factors is in the zone of uncertainty because approximately half of the respondents consider the given factors submitted or absent.

The differences in the expression of effectiveness factors are most significant for perception of specifics of organisation of municipal management bodies' performance (all subfactors of factor 4) and of municipal managers' professionalism (all subfactors of factor 1). The significant flavour of Factor 4 concerns ethical issues of public governance. The data shows quite a different position between municipality employees and citizens in the perception of municipal management activity concerning power distance, fairness and openness of professional relations, double standards and regard of citizens' interests. Citizens see the system of municipal management as a more hierarchically strict structure than municipal employees and local deputies. It shows the conservation of tradition of hard hierarchy in the system of municipal management in post soviet countries. Municipal employees are significantly less critical in comparison to citizens on the fairness, legality, and absence of double standards in the practice of municipalities, and orientation on the citizens' needs.

Vast differences between the perception of municipal management effectiveness by municipal officials and citizens indicate the need for development of managerial professionalism, a deeper involvement of citizens in municipal affairs, more openness in municipal bodies' activities and the development of public relations in the practice of municipal governance.

There are fewer differences in the perception of maintenance of professional activity, but the citizens evaluate the municipal managers' financial state and their employment stability significantly higher than municipal employees and local deputies. Together with the uncertainty of the municipal employees' estimates it shows the need for crucial changes in the organisation of municipal management.

## **8. Conclusions**

The structures of concepts of factors of municipal management effectiveness received with the help of the exploratory factor analysis are significantly different from the direct classifications of initial statements made by the experts.

The comprehension of municipal management effectiveness in post socialistic consciousness is more focused on the process and different human factor obstacles of public governance than on the concrete results of managerial activity. Management of effectiveness of public governance needs the formation of the "native portrait" of this type of activity.

The factor analytical cognitive model (FAEM-1) represents the most typical dimensions of municipal management effectiveness in Russian and Ukrainian cities. It reflects less than 50 percent of the entire semantic space described in the qualitative model of municipal management effectiveness. That is why there is a need for further exploration of the other factor models because different models reflect different contexts of the effectiveness evaluation.

The generalised profile of municipal management effectiveness based on FAEM-1 strongly depends upon city and status groups of respondents. It shows the possibility of using FAEM-1 scales as an instrument for a comparative study of municipal management effectiveness.

The lowest mean level in the generalised effectiveness profile have the following subfactors: realistic budget-financial policy (factor 2.3); stimulated organisational culture (factor 3.1); effective strategic planning (factor 3.2); fairness, legality and openness of professional relations (factor 4.1min); orientation to citizens interests and work with citizens (factor 4.3); provision of operator's position activity (factor 5.1) and the stability of the municipal manager position (factor 5.3). Therefore, these factors accurately indicate the primary needs for training to develop the effectiveness of municipal management. At the same time the professionalisation of municipal management is the key condition for municipal management development.

Vast differences between the perception of municipal management effectiveness by municipal officials and citizens indicate the need for increased managerial professionalism, a deeper involvement of citizens in municipal affairs, more openness in municipal bodies activity and development of public relations in the practice of municipal governance. At the same time there is evidence of a need for principal changes in the internal organisation of municipal management.

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**SECTION 5**  
**Systems of Social Security**





# SYSTEMS OF SOCIAL SECURITY: IMPACT OF GLOBALISATION ON SOCIAL SECURITY SCHEMES

*Marketa Vylitova* \*, *János Hoós* \*\*

## Introduction

The future of old age pensions, health care and other areas of social protection is today a subject of debate in many countries. Although their social protection systems may differ, the problems faced and the range of solutions proposed are similar: pay-as-you-go or funded financing; universal and compulsory insurance or optional cover; managed care or free provision of services. Western countries have mostly arrived at the point where various bodies are able to combine to provide flexible but complementary cover because they all share the same underlying principles of solidarity, subsidiarity and diversity. The CEE countries are also facing the challenge of establishing or deepening partnerships in this sphere.

Social policy is no exception amongst all the policy challenges that globally the world is facing. At first sight, people tend to understand globalisation only in a “global market” sense. However, global aspects have also started influencing national social policies, with different direct and visible effects in various countries. Central and Eastern Europe is a part of the global world and thus the countries in the region are facing the same processes as Western Europe or the U.S.A. When we talk about global aspects in social security, we talk about the influence of international standards, supranational organisations and last, but not least, Europeanisation.

While during the last few years, the Social Security WG opened up space for discussions on systems, this time it set down several objectives to focus on the processes of social policy making. The target was shifted from a description of systems to issues of development of these systems and to questions “Why? How? Who? With what effects?” with the underlying question “who from the supra- and inter-national actors?”

Moving from general to concrete, social security is a very important part of public services. It can be classed as the most important, as it often deals with the most vulnerable groups of citizens – those who are not accustomed to taking part in policy making, in policy delivering, or who are strong in lobbying their own interests.

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In general, social security would need more involvement and commitment of the various actors in society. Citizens need to join together with elected representatives in order to deliver better public services. More attention is now being paid to performance and costs of public services, including social services. Some countries, such as Latvia, have introduced the first step of performance appraisal in its public administration. This is in accordance with the New Public Management, where there is a movement towards not only input/output oriented policies, but towards efficiency and citizen (customer) oriented public policies, including social policy. Many scholars have identified new roles to be met by civil servants, new sets of deliverables that the governments shall be able to deliver and new types of leadership that have emerged. All these theories support the empirical findings of the WG discussion that there is a need for dialogue and partnership in social security policies creation.

## **Objectives**

The first objective, which we tried to focus on, was a very simple one and served as a tool for transition from the past approach (description of the system) to the new one (analysis and description of processes). Firstly we wanted to find and identify differences and similarities within the policies development in individual countries.

The second goal was to identify the roles of the different actors. In the case of social security, we had to make a distinction between pensions and social services (services such as residential homes etc.). Although some actors overlap, most of them are either relevant to one or the other sphere.

The next objective of the working group was to focus on the centralisation/decentralisation aspects of social security delivery and to identify regional aspects of social security policies. Again, as the WG is very much related to practical aspects – if we also consider the area of social security as being a very practical and specific sphere of public services – we opted for a different approach to social services and to pensions.

Processes of responsibility distribution within social protection of different groups were examined. In social security in general and in social services in particular, the distribution of responsibilities is extremely important.

One of the last points was the discussion of methods and tools of implementation of social security concepts. The very last one was the identification of challenges for the future and for reforms in this area.

## **Findings**

Having focused on the outlined questions, we found similarities and arrived at common recommendations for very different countries.

Differences are vast when we describe the systems and their environment. However, when we focus on processes, we actually find some strong similarities. The first similarity among most of the CEE countries is the World Bank's influence on pension scheme reforms. But let us ask the question, in line with T. Verheijen – “Who rules in pension reforms?” Very often those who do rule, are those who are adept in political bargaining and who gain the support of strong lobby groups (such as the banking sector) and not the citizens. As far as reforms of pension schemes are concerned, another common point is the involvement of financial lobby groups in the reform process (bearing in mind that lobby groups are stronger than citizens are). The involvement of citizens is still not a pattern of social services delivery in the Czech Republic. There is too much bureaucracy in social security – it copies the general pattern of public services and still has not been able to cope with the heritage of past paternalistic approaches, where citizens were neither involved, nor informed. This fact brings us to both the conclusion and recommendation at the same time, that there is a need to educate citizens to be willing and able to make choices and decisions on their social protection.

Distribution of responsibilities in social services desperately needs decentralisation. The process of decentralisation and implementation of the subsidiarity principle has to be accomplished by decentralisation of financial resources as well. However, central governments often tend to pass only the duties to municipalities and not the budgets to meet these duties. This is, for example, the case in Russia.

When we talk about distribution of responsibilities in pensions, we will mainly focus on the importance of individual responsibility in the choice of the diversification of sources of pension income. Responsibility of choice is very often left to the individual with no proper education or information campaign. The only active party in this respect are the financial institutions, whose advertising activities are not supervised or controlled and which follow ordinary advertisement techniques. As far as processes of pension reforms are concerned, citizens are generally not included. The trade unions' role is interesting, in that in many post-communist countries they have lost their previous glory and overwhelming power and are often perceived as being discredited.

### **Methods of Involvement of Citizens in Policy Delivery**

We attempted to come to a common recommendation regarding the methods of involvement of citizens in the delivery of public services in the sphere of social security. These methods and tools are needed to avoid decision-making at the central governmental political level, which might be dangerous for the reform of those schemes with a long-term impact, such as pension schemes. In

some areas, tools are limited. This is certainly true for pension reforms, where involvement of the general public, i.e. all citizens, is only possible when reaching a general consensus on reforms. Activity does not belong to the public but the public must be kept informed about the various possibilities, their probable effects and consequences – both positive and negative – and they must be educated so that citizens are able to make their own choices. All these activities are, however, top-down.

The media of course can play a crucial role in keeping citizens informed and in educating the public. In this aspect, emphasis on public broadcasting, which is objective and does not serve as an advertisement tool for private providers of social security, is at most a shared responsibility of the “top” and the “bottom”. In well-functioning societies this is mediated via the elected representatives in parliament.

One of the strong actors that are internationally recognised as partners in creating social policies, are trade unions. However, in some CEE countries the T.U.s are often discredited because of the past communist regime. Thus, they may not be in as strong a position as they would wish, to be able to act as an equal partner in reforms of individual segments of social policies.

The method of community planning is, for the area of social services delivery, one of the most rational. It brings together citizens with the elected representatives in order to deliver services that are needed at places that are earmarked as preferred by providers and that in turn are deemed to be best serving the needs and the will of citizens. “How do we get citizens interested in becoming involved in community affairs and participation in the citizen side of local governance” was a question raised not only by the WG, but also by A.M. Kulakow and B. Kudrycka in the article “Building Citizen Participation through Dialog”. They conclude that “the most important first step is to research the community ... to find out what the priority concerns of the citizens are...”. Kudrycka and Kulakow highlight the need for on-going research carried out at the local level and the need for the openness of local governments to dialogue. The well-informed citizens should be appointed to the advisory committees so that all parties can benefit from the exchange of knowledge. However, a problem of a different kind may arise in some transitional countries in that when the public knows that there will be no financial resources to cover the costs of desired and planned services, it loses interest very easily in taking part. An example of this is community planning. Citizens in CEE countries are very often highly flexible in terms of finding their own last-resort subsistence means (when they receive either no or a very low pension) and they manage to be adaptive and innovative in this situation. However, this is only seen at the individual, family or neighbourhood base, not

at the upper levels. Those citizens who help themselves, have no incentive in taking part in even local policy making.

Citizens are, however, unaccustomed to participating. As Kudrycka and Kulakow point out, “it will take time to educate citizens to a level of knowledge at which they feel comfortable to discuss an issue in any depth and be motivated to participate in its solution”. J. Hoos highlights that “to realise something and to implement it, are two different things”.

## **Challenges**

We may make use of the globalised knowledge that has arisen and been spread widely amongst the CEE countries. However, as Stone proposes, “think local, act global”.

There is an identified need in a strong state (government) position in pension reforms, when the state shall first carefully examine its current position, its projections, the positive and negative aspects of international recommendations and only after that, prepare and widely discuss the national reform. A supervision in pension funds that helps to avoid big lobby groups is essential when the country privatises some parts of its pension scheme.

In other words, supranational recommendations should be implemented with high sensitivity. – not copied – but adapted according to national traditions in a given scheme. In this respect countries would need to find good independent experts with whom they could engage in an evaluation of possible reforms and their consequences. It is preferable that these experts do not come from groups, which may have a vested interest in pension reform.

The very first challenge for coping with globalisation, with transition as well as with unavoidable reforms of social security schemes, is transparency in social policy-making in general and reforms of social security schemes in particular.

Performance appraisal, introduced in some countries, might serve as the first step in a shift towards “new public management” in social security as well. This is the place where standards of quality of both services and also of work with citizens and clients, topped-up with evaluation of the feedback from citizens themselves, deserves strong attention as – as was previously mentioned – clients are usually recruited from vulnerable groups. This is especially true in the case of social services. Performance appraisal in the social security sphere should not be reduced to an appraisal of technicalities.

The partnership with the non-profit non-government sector is vicious, especially in those spheres that were under-developed or even suppressed during the communist regime. For example, there are the areas of social assistance and social services, which maintain the social inclusion of vulnerable groups of citizens.

Prevailing bureaucracy at both the state and local self-administration levels often ends up in a paternalistic, directive approach that CEE countries can remember from the past. All parties shall be taught and led to partnership. The active involvement of NGOs supported by a targeted state support, amongst others, also means that the non-governmental organisations can afford to be involved (and for example, hire experts). We also perceive T.U.s as a non-governmental organisation. However, in several countries, trade unions are not involved in social issues. They deal only with labour topics (labour code) and matters that are directly linked to the workplace. Europeanisation can actually help in countries that would like to reintroduce or improve trade unions' involvement: the EU proposes social dialogue.

Partnership with the NGO sector occurs most often, is most visible and most directly helpful at the local level. The last challenge identified by the WG on Social Security at the NISPAcee 2002 Annual Conference was the challenge of improving public, namely social services, with the support of decentralisation accomplished by an educated public.

Zedillo thinks there are massive inequalities, but in order to fight them we need more (and not less) globalisation and interdependence. The real enemy is not globalisation, but inequality, in the access to opportunities. Providing opportunities is the key as far as Zedillo is concerned. If we perceive the education of public and partnership as providing opportunities, then we cannot but agree with his statement.

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# IMPACT OF GLOBALISATION ON SOCIAL SECURITY SYSTEMS IN HUNGARY

*János Hoós* \*

## 1. Globalisation and Social Security

Globalisation forces countries to compete for investment with lower taxes, lower social security contributions and a favourable climate for enterprises. As a consequence, globalisation has a growing impact on welfare policies, forces them to reform themselves faster and head towards a market economy. These tendencies can be experienced not only in developed countries, (such as Germany as we see in the case of its pension reform) but also in the transitional countries of Central and Eastern Europe. CEE countries require foreign direct investment, which amongst other things, contributes to a stable position and balance of payments. However, it also sets requirements for social security schemes. It influences countries to implement welfare system reforms – especially pension and (un)employment schemes, but also health and education schemes – which reduce the fiscal burden of state budgets and at the same time provide opportunities to cut tax rates.

Besides this, international organisations have set a number of standards, conventions, recommendations, guidelines etc. over the last decades. CEE countries have had a much shorter time to adapt to the situation and to the development path so far. For the last ten years, this has represented both a major task and a massive challenge for CEE countries to cope with.

All of these impacts are mediated and transferred towards the transitional central and eastern European countries through international organisations and also through multinational companies, banks and other financial institutions. The European Commission, the International Monetary Fund, the World Bank, the International Labour Organisation and the United Nations etc. have been particularly involved. For example, in the Hungarian case the World Bank stated: “ ... Hungary’s very large fiscal expenditures have resulted not only in a large deficit, but also in very high and distorting tax rates. ...the required reduction in the deficit and in the ratio of tax revenue to GDP defines a broad envelope for reduction in expenditure. To implement these expenditures reductions, the Government will have to restructure the paternalistic, cradle-to-grave web of household benefits inherited from the former regime.” (1)

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While on the one hand, international organisations set down standards which are to be met and which help countries to participate in the global economy, there is also a negative side. These global forces can influence – and they have already influenced – transitional countries to introduce reforms, which were not completely appropriate i.e. which do not suit their given development level. Such reforms do not improve the efficiency of social security systems in the particular country, in fact the opposite – they can cause economic and social losses. (For example, this was the case of Poland and in some respects, Hungary too, regarding pension reform. These pension reforms did not take into consideration the relatively under-developed capital markets existing in these countries. In addition, pension reforms have been used as rent-seeking opportunities for special interest groups, especially pension funds.)

It is therefore very important that the requirements for globalisation are implemented in line with existing national conditions. The national governments have an important responsibility to implement these policies and to carry out real reform and minimise the rent-seeking opportunities.

The paper presents the impacts of globalisation on the Hungarian social policy reforms, which have been implemented during the last ten years. In Hungary the impacts of globalisation have been mainly transmitted by the World Bank. It is for this reason that the paper refers so often to the World Bank. (2)

## **2. The Role of the World Bank in Hungary's Reform**

Hungary joined the World Bank and the IMF in 1982 and signed its first World Bank loan agreement in 1983. Up until 1999, 40 loan and program funding agreements were signed. The total funding is valued at \$3.7 billion of which \$1.3 billion was spent on Structural Adjustment Loans (SALs) and reform programs. In the eighties, loans from the World Bank mainly provided for the modernisation of Hungary's production potential. Agriculture, energy, and transportation investment programs were targeted for financing.

The Bretton Woods institutions supported market economy transformation by structural adjustment loans. Loans aimed at assisting full-scale liberalisation, accelerating privatisation and deregulation. Following the political transition, large loan packages were provided to support restructuring of the financial sector, boost agricultural exports, develop telecommunications, commodity markets, human resources and for enterprise restructuring in key industries. In the second half of the nineties, the World Bank strongly influenced the reform of Hungary's large social systems.(2)

During transition, the recommendations of the World Bank and the IMF, and conditions attached to World Bank loans, as well as analyses carried out by



the World Bank on Hungary, provided an intellectual framework for economic policy.

In the World Bank's recommendations, the notion of social policy was confined to a narrow concept, which was limited to the assistance of the poor. The Bank proposed efficient and effective means to alleviate the problem.

The international financial institutions influence the economic policy of the countries primarily not by their real, direct recommendations, but by developing an international atmosphere in which their views become the generally accepted basis of economic thinking. In the period under examination, the general basis was the so-called Washington consensus, the spirit of which first inspired the economic policy of developed countries, but was haphazardly overtaken by other countries of the world too. "The success of the Washington consensus as an intellectual doctrine rests on its simplicity: its policy recommendations could be administered by economists using little more than simple accounting frameworks. A few economic indicators – inflation, money supply growth, interest rates, budget and trade deficits – could serve as the basis for a set of policy recommendations"(1).

The Washington consensus is an agreement between the economic leaders of the U.S.A., the IMF and the World Bank on the implementation of concerted economic policies and on the recommendation of these policies to other countries. The consensus originated at the beginning of the eighties under the influence of the failures of state intervention policies in Latin America and in the socialist countries, as well as the costs and losses of high inflation rates.

The consensus applies the neo-liberal economic theory in practice. The substance of the concept says: if the governments cease the direct economic interventions of the state, private markets will distribute economic resources efficiently, dynamic economic growth will begin and each member of society will profit.

The first blueprints of the reform of Hungary's public finances were outlined in the second half of the 1980s. However, the early phase of transition concentrated its efforts on restructuring the enterprise sector, and the reform of social systems was brought onto the agenda only later, when the financing of the country's social institutions ran into major difficulties. In the strained situation of the mid-'90s, the World Bank proposed a detailed concept of the reform of the large social systems. At that time, the notion of a "premature welfare state", coined by János Kornai,(4) spread widely amongst policy makers and the public. This characterisation of the situation supported initiatives that caused the decrease of the scope and value of social provisions, the expansion of private financing and the deterioration of social care.

During the years of transition, the reform of public finances was never outlined as a complex program; even individual parts of public finances (municipali-

ties, social insurance, aid, etc.) were not presented in the form of concretised reform programs to the public. In most cases, instead of reform we can only speak about adjustments within certain segments of the social systems. One of the most characteristic paradoxes of government policies was that, although all governments stressed the extreme importance of education, health and the support of families, these areas typically and continually suffered from the decrease of state expenditures.

An axiom of the economic philosophy of transition (the equivalent of the “Washington consensus”) was that the redistributive role of the state should be reduced. No scientific formula could have been given to the extent of the diminution, but economic policy-thinking usually said that the original 60+ percent redistribution (i.e., state expenditure as a percentage of GDP) should be decreased to close to 40 percent. Consequently, to mention any social area as a strategic aim or national priority was meaningless, since it ran up against an opposing dominant economic notion. In the seven years that followed 1989, state expenditures on education, health, culture and social provisions decreased by 25 percent in real terms (see Table 1.)

**Table 1.**  
**Social Expenditures 1991–1999**  
**(Percentage of GDP)**

	1991	1995	1998	1999 modified estimates
Education	5,6	5,2	4,8	4,4
Health	5,5	4,4	4,6	4,3
Social insurance, social and welfare services	20,7	17,4	15,2	14,9
Housing, settlements and regions	4,0	1,9	1,4	1,1
Leisure, culture	1,7	1,7	1,2	1,2
Environmental protection	0,7	0,8	1,0	1,0
<b>Social expenditures total</b>	<b>38,2</b>	<b>31,2</b>	<b>28,1</b>	<b>27,0</b>

*Source: Ministry of Finance, AHIR database, consolidated data*

Let us turn to the major fields of social security policy. (2)

### **Pension Reform**

Hungary’s pension reform marked a turning point in the transformation of the welfare system. Experts recognised the inevitability of reform early in the

1980s when the financing of pensions became more and more difficult, and the diminution of the real value of pensions became an element of stabilisation policies. Transparency of the system worsened, and the system was fully exposed to the policies of changing governments. Different options or modifications were not professionally elaborated and actuarial estimates were not prepared on the long-term relationship between contributions and pensions since the 1940s. During the transition, the number of pensioners rocketed, financing difficulties increased, and demographic changes projected a long-term structural crisis. Reform could not be postponed any longer, but its tendency changed several times during the decade.

Principles of the pension reform as drafted in 1991 implied (a) a pension system of three basic elements, (b) a gradually rising pension age-centre, and (c) a clear and transparent relationship between contributors' contributions and their pensions. Implementation began sluggishly. Between 1990 and 1994, the laws on social insurance, self-governments and voluntary pension funds and, in 1996, the law on raising retirement age were passed. The raising of retirement age was also supported by studies carried out by the World Bank.

The need for pension reform appeared in loan agreements and other studies of the Bank at an early stage. In the first period, goals were established to reduce the ratio of pensions in social expenditures, to decrease the number of pensioners and to correct certain deficiencies in the existing system. After 1992, the reduction of expenditures continued to be found in loan agreements, though in other Bank documents there also appeared the idea of privatisation. In 1994, the World Bank published and widely publicised the great monograph entitled "Averting the Old Age Crisis," which set forth in detail the multi-pillar proposal. The suggested three pillars of the system were: 1) a civic pension minimum (more an aid than a basic pension); 2) a voluntary insurance and 3) a wage and salary-related provision split into two parts. One part of the last pillar was a minimised, pay-as-you-go social-security system, and the other was a compulsory and privately operated pension system, mainly in the form of individual savings accounts. The first two pillars were elements of the Hungarian concepts, too.

The World Bank study encouraged those experts, interest groups and political forces that stood for privatisation or were directly interested in it (e.g. the private insurance institutions). The fight between the Ministry of Finance, which turned into a devoted advocate of liberalisation, and the other government offices and civil actors went on for three years. Finally, the Ministry of Finance, enjoying the support of the financial sphere, won. The socialist-liberal coalition government accepted the reform recommendations of the World Bank, and Parliament passed legislation creating the three-pillar pension system in 1997.

In examining the social impact of the new pension system, there is no doubt that it favours the higher-income strata of the population. The adoption of the law can be explained by the fact that this stratum of the population (often called the winner of the systemic change) could better assert its interests within the political elite than could the average citizen.

Following the adoption of the law, the government and interested financial institutions initiated a large-scale campaign to make known the advantages of the system and to gain clients. This was so successful that many more people joined the private pension funds than had been foreseen. As a consequence, the budget deficit increased more than had been planned. In 1998, the new government taking office made *ad hoc* arrangements to diminish the deficit, in a significant part by decreasing the real value of pensions. Thus, as a consequence of the pension reform, pensioners suffered a further decrease in the real value of their pensions. Future pensioners had to pay a larger proportion of their income into pension funds, but they could expect – with the exception of the high-income strata – lower pensions than before.

On the matter of private pension funds, many rather irresponsible and tempting promises were made. Private pensions depend partly on the performance of institutions (which themselves depend on the calculated costs that are seldom mentioned) and partly on the development of the economy over the next 20 – 50 years. Of course, the state of the economy also influences public pensions, but in a less irreversible manner. Private pensions bear accumulated risks. Therefore, we know less about the future of these private pensions than about public pensions. It can be stated with near certainty that the chances for the degradation of the relative (and perhaps also of the absolute) level of pensions are greater than for its improvement. Such intuitions might influence the present malaise of pensioners.

The situation of the pensioners and its changes can be summarised as follows.

The number of pensioners soared under the threat of unemployment. At the same time, in the economic-crisis situation, total expenditures on pensions declined slightly and individual pensions significantly decreased. The real value of average pensions decreased more than that of wages and salaries. To make matters worse, those pensioners who previously were employed were forced out of the labour market.

Pensions declined more than the family income of pensioners, i.e. on average, they do not live as badly as could be justified by the decrease of pensions, due to changes in the number, composition and family structure of pensioners.

The situation of pensioners and the elderly, which had been tragic in the 1950s, later gradually improved due to the widening of pension entitlement and

to improving replacement rates. The income gap between pensioners (and family members) living in households where the head is active and those with an inactive head of household had substantially decreased by the end of the 1970s and stabilised in the early or middle 1980s. After the systemic change, the pensioners' situation worsened once again in comparison to active people.

An assessment of the situation of pensioners and the elderly also depends on with whom we make the comparison. The picture is worse with a comparison of pensioners to active people than if a parallel is drawn between all people above sixty and the younger portion of the population. Considering that pensioners usually live in smaller families and thus comparing, for example, a single active person to a single pensioner, the bad situation of the pensioner looks even worse.

The proportion of the poor and very poor is smaller amongst pensioners than in other groups of the population, since the pension minimum – as low as it is – is still more than other social provisions. Its amount is higher than that of aid, family allowances, income replacement allowances – or nothing. Moreover, it is more secure than social assistance. However, the proportion of wealthy pensioners is also low.

Since pensions have a minimum and their top level is also strictly limited from above, they are much less differentiated than are salaries or total incomes, and that also influences the family income of pensioners. That is the explanation for the much smaller inequalities inside the group of pensioners than inside other groups of the population, which is a proven fact by all surveys.

Besides the income level, the price system also influences the situation of pensioners. Price proportions changed for the elderly and families with children in an unfavourable direction. Prices endanger the satisfaction of certain needs of the elderly and pensioners (e.g., buying medicines and household heating) to a larger extent than do decreases in income.

Finally, however bad a situation is, much can be endured if there is hope for improvement. Through the uncertainty in the pension system, as well as the malicious inter-generational rivalry with an overtone against the elderly and those with political assistance, pensioners feel more and more that their situation is deteriorating. Therefore, their general feelings may be worse than justified by objective facts.

### **Public Health Reform**

The public-health strategy of the World Bank was built around three elements: cost efficiency, access and quality. However, as regards the practical proposals, the first element proved much heavier than the others did. The requirement of universal access to health care was mentioned as a priority, but it is regarded feasible only if the realisation of this aim does not exceed the limits of economic

performance and does not clash with the interests of sustainability and the labour market. These conditions could be met if the state would provide only a “basic package”, which means that health services would also fall victim to the reduction of the redistributive role of the state.

In the perception of World Bank experts, health is not a social value, but the subject of individual responsibility. This approach met with the support of influential Hungarian economists and politicians and served the strong and growing interests of the insurance companies too. However, this one-sided perception of public health is not accepted in Western European societies (see as an example how far British society insists on keeping its National Health Service). Even less relevant is the application of such an approach in the situation of transition economies, in which the general state of health deteriorated, income levels strongly differentiated and state control over social processes weakened. With the uncontrolled functioning of markets, the mass of market failures requires much more assistance from existing collective structures and their internal reforms than does an individualised system built on market forces and individual responsibility. In central and eastern European countries, required state intervention cannot be reduced to a basic package, the limits of which are determined by cost efficiency without serious social consequences.

Although basic principles are not yet clarified, for several years the reform of public health has proceeded with very few results and more and more perceptible disadvantages. One of the main reasons for the deficiencies is the significant reduction of resources in the process of transformation. The real value of budget expenditures on health has decreased by at least 15 – 20 percent since 1991, and the ratio of health expenditures to GDP declined from 5.5 percent in 1991 to 4.3 percent in 1998. Budget estimates project a further decline to 4.2 percent in 2002. The reduction of state expenditures and resources affected changes in the opposite direction from those reflected in strategic and professional views. In the prevailing atmosphere of economic necessities and compulsions, the quality of health care was unable to receive any political attention. The “mercantile epidemiology”, as developed under the influence of performance financing was neither a subject of scientific research nor of discussion on the public-health policy.

In spite of resource reduction and contradictions, health care still functioned and provided universal access to almost everyone. It also more or less kept its integrative role, which is so important for sustaining the physical and social opportunities of life. The sense of vocation in the medical and nursing profession can be praised and credited for the continuation of medical treatment of the sick under deteriorating and uncertain circumstances. The doctors and nurses bridged – as far as they were able – through their own sense of responsibility, honesty and

intensity of work despite the organisational perturbations of the public-health system. But this sustaining force is also increasingly weakening.

According to the opinion of Hungarian civil societies, – supported also by international experiences – the commonly (by charges and/or taxes) financed, attainable for all citizens and the highest possible care can provide the most efficiently the best state of health for the population. However, the reform programs of partial but significant privatisation of health services and financing, as well as the idea of competing private insurance companies still remained on the political agenda, and these programs are drafted in more and more detail.

The notion of an integrative, non-market reform of public health recently received some enforcement. OECD recommendations, several Hungarian experts and politicians, and a group of World Bank experts argue for keeping a high level public financing on health. The World Bank proposed on several occasions not to impose excessively high health charges on employers and employees and also to involve taxes in the financing of public health. (This proposal has not yet received a hearing). Public financing does not exclude changes in ownership and reorganisation. It assumes, however, a control stronger than today, first on behalf of social institutions, and that voluntary insurance will enter into the system not as a substitution, but simply in a complementary role.

The contradictions of reforms coming from the unfounded, inadequate market models and the increasing difficulties of daily operations all roll down to the patients at the very bottom. Sick people are the primary victims of the liberalised market of pharmaceuticals, the reduced subsidies on therapeutical equipment, increasing costs and gratuities, and the forced economies of indebted hospitals. Similarly, it was the patients who suffered from the reform of the sickness benefit system during and after 1995. The danger of discrimination by employers grew and, afraid of losing their jobs, the number of employees who continued to work even when they were sick, increased.

## **Education**

The educational system has been greatly transformed in the nineties. Modernisation, joining Europe, adjusting to the requirements of a market economy, freedom of choice, improving the level of education and cost economies were the basis for the direction of changes.

The role of state decreased in favour of local self-governments. The decentralisation to municipalities devolved the responsibility for education to the local level. At the end of the decade the majority of schools became embedded in local societies with the many advantages and disadvantages of that situation. Schools began to play an integrating role in the villages, but it also became

more and more difficult to maintain the kindergarten or the school where the municipalities were poor.

Besides state institutions, new sectors appeared at all levels: ecclesiastic, foundations and private schools. The multi-sectoral school system increased the freedom of choices for parents, but the return of some of the schools to the church caused tensions at the beginning. Foundations and private schools often segmented the system and increased the inequalities of opportunities, though the ratio of paying schools increased slowly.

The World Bank played an initiating role in Hungarian education reform and continuously urged its implementation. In fact, two loans served educational aims. The first – Human Resources Project – signed in 1991 produced very positive results. The loan contributed to the building of labour market organisations, to the development of adult education and retraining, and to qualitative changes in middle and higher education. The second loan – Higher Education Reform Loan – signed in 1998 – aimed at assisting the development of the technical, organisational and substantial conditions of a modern higher education with some positive and several questionable and discussed elements. The recommendations on education made valuable contributions to improve technical, organisational and substantial conditions, but caused several problems too, since the implementation of the experiences of developed countries should not mean copying them. The reforms encountered opposition not only because of backwardness and the defence of vested interests, but also for the retention and development of the values of the Hungarian education system which were overshadowed during the elaboration of reforms.

The recommendations of the World Bank over-emphasised cost saving, though economising on education brought little economic benefits. It caused the decline of quality and delayed the development of the level of education for a long time. During the first years of system change, the real value of expenditures on education diminished gradually. Later, with the introduction of the stabilisation package, the government claimed large economies in education. The result was a steep fall in the real value of expenditures on education, which was one-third less in 1998 than in 1990. The state support for higher education decreased from 1.3 percent of GDP in 1994 to 1 percent in 1997, when the OECD countries' average of 1.6 percent was in relation to a much higher GDP.

Education faced serious problems due to demographic changes during this decade: the second demographic wave culminated in the higher grades of primary schools at the beginning of the nineties, then moved to the secondary schools and at the end of the decade reached higher education. In kindergartens and primary education the number of children decreased more rapidly than the number of teachers, which improved the child per teacher ratio. In secondary



schools the number of pupils greatly increased, but the number of teachers grew at a somewhat higher rate. Thus, using an international comparison, too few pupils were left per teacher in primary and secondary schools. The “low efficiency” of education became a target of international (World Bank, OECD) criticism. Class and school fusions were often motivated by interest in the sale of the building or because of financial economies and the aims to improve the quality of education and the aims of the local communities were pushed aside. The dismissal of a portion of the teachers created pedagogue unemployment. Recently, according to some indicators, there has been a gradual improvement, but in the transformation, some of the values were lost. The recently learned Irish example proves that a good pupil per teacher ratio might be turned into a rewarding advantage in the long run.

Following the advice of the World Bank and the European Union, the number of students more than doubled in high schools and universities. The burden of teachers and the number of students per employed teacher grew significantly, but following the dismissals, the number of teachers has again increased. The growing number of high school and university students is an important contribution to the future and a particularly positive feature in the context of the country's accession to the European Union. The last loan from the World Bank supports only higher education reform. However, higher education will be unsuccessful if the level of education declines in the primary and secondary schools and, as was experienced in recent admission examinations, students beginning high school and university studies are less prepared.

The pedagogues are suffering most from the restrictions – the schools which have no possibility of finding complementary resources, linked with an education infrastructure that is generally deteriorating or being slowly modernised. Nowadays, the teachers' particularly bad salaries are an obstacle to improving education.

The central player in education is the teacher; in western countries the teachers' salaries reflect their important role. According to OECD data in all western countries, i. e. also in poor countries such as Greece or Turkey, teachers' salaries are 1.1 to 1.7 times higher than per capita GDP. In Hungary, primary school teachers' salaries were 68 percent of per capita GDP in 1993; that of secondary school teachers 72 percent and since then the situation has worsened as GDP increased while the real value of teachers' salary declined. Only health and social services employees are in a worse position amongst intellectuals and branches of the economy (see Table 2.).

**Table 2.**  
**Net Salaries of Employed Intellectuals in 1998**

	National Economy Total	Within the National Economy:		Mostly within the Budget:		
		Competitive Sphere	Budget	Administration Defence etc.	Education	Health and Social Services
<b>Average net monthly salary HUF</b>	58 072	66 587	49 435	61 934	44 542	40 776
National economy average=100	100	115	85	107	76	70

*Source: Monthly Statistical Bulletin, KSH, 1999. N<sup>o</sup>10.*

Costs of education increased greatly in the nineties, a fact that diminishes the chances of children living in poor families. Despite the increasing number of pupils in secondary and higher schools, the chances for continuing studies and learning a profession are minimal and worsening for children coming from unskilled, unemployed, poor or gypsy families and for those who live in crisis districts. The ever-existing settlement slope is becoming steeper. The gap between elite schools and those of poor settlements and districts is increasing.

A factor strengthening the differentiation between families and schools is the increase of education costs that are not compensated for in the education norms and calculations. The education of children has become very expensive and imposes a heavy, sometimes unsupportable high burden on poor families. The same factor differs between settlements, for schools of poorer settlements do not receive the much-needed financial support.

### **Family Allowances**

The guiding principle of the reform of family allowances was also the cost-economy that seemed reasonable, as the proportion of these allowances (family allowance, child-care benefit, cheap child-care institutions etc.) was high in comparison to western standards. However, that comparison gave a false impression as the allowances had functioned in the past as “indirect wages”. In spite of the relatively low wages at the time, families could live on their wages because price and other subventions diminished the costs of bringing up children. In the nineties all these wage supplements were abolished without compensation at the wage level.

Concerning children and families, the World Bank recommendations emphasised two contradictory aims. The first put forward decreasing family allowances, which were deemed too high in relation to the western European average. The other was the prevention and reduction of child poverty by means of well-targeted subventions. The proposal implied not necessarily individual, but also group

targeting. The two aims contradict each other, not only for child subventions, which in the previous system were wage supplements, but also because of other aggravating factors coming into force, e.g. unemployment, which befell families and children. The circumstances, aggravated by unemployment, were somewhat alleviated by changing the conditions of aid for education. Since 1990 education allowances are not tied to employment, hence unemployed families are also entitled to the allowances, although they are low and their real value is decreasing.

The uncertainty of child-care adversely affects the family's situation and negatively influences a couple's decision to have children, especially in those families where long-term family planning existed and the care for a child's future is still a priority.

Another contradiction between the two aims was that the World Bank – similar to its other practices in the case of family allowances – either raised its conditions of loan agreements or called in a *tranche* meaning restrictions and reductions. The proposals on improvement were at best recommendations that governments could disregard.

The *first government* in 1992 transformed the earlier maternity aid into a maternity allowance provided during the entire pregnancy period in order to encourage childbirth. In 1993, a new provision was introduced, the child education support (GYET) for mothers educating three or more children. From the beginning, this support was due to families below a certain income level and until 1996 a condition was also that the mother had had earlier employment. There is no information that the IMF or the World Bank would criticise the new provisions directly, though these extra budget expenditures could also play a role in the negative evaluation of the government cycle's financial policy. At the same time, between 1990 and 1994, the real value of family allowance decreased by 30 – 35 percent, there was a reduction in the number of crèches (the normative support ceased), and the costs of child meals were increased in child care institutions and schools.

The *second government* introduced the stabilisation package in March 1995. Its draft proposed, as an element of the reform of public finances, not as a temporary measure but as a final change, “to reduce the scope of free-of-charge provisions, the partial privatisation of non-basic elements of the provisions”. The package and the follow-up measures were based on the principles and strict requirements of the IMF and the World Bank. The Act on Stabilisation decreased family allowances (family allowance, childcare benefit, child education support, maternity allowance) and tightened the entitlement conditions. The Constitutional Court objected mainly to the speed of introduction, most elements of the package remained and only validation was delayed. At the end of the day only a few families (6 – 7 percent) were excluded from the family allowances as a conse-

quence of the introduction of the income certification since the income ceiling was determined at a relatively high level. Significant cost savings were achieved by decreasing the real value of provisions, but costs of administration increased and the measures exerted a negative influence on taking employment and created tensions among families. Economic measures of the stabilisation package might have been successful, but the impact of the social policy elements was damaging to society and demographic development, while they brought about only a few savings in public finances.

Re-introducing the normative support of crèches was one of the second government's good measures, which aimed at female emancipation, but its effects have not yet been felt.

The adoption of the Act on Child Protection was a landmark in 1997. The law represents a new approach to caring for "children in danger": it attempts to prevent children leaving their families and to accelerate the return to the family by using new instruments, creating new institutions and applying new methods. A broad and important function is placed upon the modern social services. The law regulates child assistance for the first time at an almost European level. Unlike the earlier education aid, the new child protection allowance is not a grace, it is not discretionary, but it is strictly placed on a legal basis. However, in the technique and methods of regulation, many anachronisms remained. The fixed allowance that neglects the differences between the families' circumstances is unfair and has a contradictory effect. The assistance of families is based upon two (or more) laws and is not concentrated on the family, but supports separately the child, the unemployed and the elderly. This deficiency contributes to the lack of guarantees that the aid is really sufficient for solving the most serious problems, for example, keeping a roof over families with children.

The *third government* in 1998 made family allowance, childcare benefit and child education support universal. This change simplified and reduced the administration costs and stopped the wrong stimulating effect of the previous regulation. Family allowances became more transparent and centralisation of allowance claims (in part relieving local governments and smaller enterprises from their administration) might mean a step forward towards a better organisation of the rather chaotic welfare system. However, claiming became more complicated, the administrative tasks of schools increased, and furthermore, institutions deal with family support.

It is noteworthy that besides the "responsibility for the well-being of children", the new legislation indicates two other aims: the care for social equality of opportunities and the demographic policy aim (i.e. the increase the birth rate). Unfortunately, these aims are accomplished in practice only partially, contradictorily, or not at all.

Disintegration is a serious problem of the family provisions' operating system. Only children provide rights on three – four different allowances. Besides, the rules often change whilst the real value of allowances further declines. The majority living in relatively better circumstances is able to utilise the conditional allowances, weakening the rightfulness. The policy of the third government supports the middle class (and high income) families; the conservative oriented family policy is applied rigorously against the poor and those living in the worst possible conditions.

Concerning families with children, the results ten years after the system change are disturbing. The reduction in the main family allowances (see Table 2.) demonstrates this conclusion, since tax exemptions only partially compensate the losses.

The many kinds of changes – labour market, legal, budgetary changes together – have helped deteriorate the circumstances of those families with children. Regarding the poverty of children and families with children there exists strongly differing data. From information on civil societies, a dramatic picture emerges about children who are under-nourished, suffer from the cold and who do not receive medicine. According to the data of the Central Statistical Office (KSH) derived from a broad sample in 1987, families with one child could live slightly above the national average, whilst families with three or more children only reached 65 percent of the national average. In 1995 the figures were 97 percent and 58 percent respectively.

**Table 3.**  
**Change of the Principal Family Allowances 1990 – 1998**

	1990	1998	1990	1998
	Family Allowance		Child Care Benefit and Child Education Support Merged	
The number of beneficiaries, thousands	2498	2041	240	244
Per head average, forints in current prices	2144	4908	4660	14305
Real value, 1990=100*	100	44	100	59
In percentages to GDP	2,5	1,2	0,53	0,38

*Source: Statistical Yearbook 1998, KSH — Review of social circumstances 1999, KSH, 2000*

*\*/ Note: The consumer price index 1998/ 1990 is 517,7*

### 3. Conclusion and Policy Proposals

#### Concluding Remarks

In general, the World Bank did not intervene in the decisions on economic policy and social life in Hungary. However, the conditions of the loans, conclusions of analyses on Hungary and the intellectual and financial influence by which the Bank assisted the Hungarian neo-liberal economists, played an important role in the solution of the transformation problems. Notably, the government in power rigorously applied the neo-liberal economic and social policy and imposed on the country free market rules, when the Hungarian economy and society were not prepared for such a change.

A more intensive examination of the social dimensions of economic and public financial reforms and a more determined attempt to prevent the negative social impacts could have helped to avoid unfavourable public opinion. With more transparency, the analyses and recommendations of the World Bank, which endeavoured to direct transition economies towards a more rational economy, stability and development, would have received more attention.

The criticism of the World Bank stems from the adopted economic philosophy (namely: the Washington consensus). An essential element of the difference of views lies in the social policy concept. What is the role of social policy? Only to aid those who suffered serious losses on the market or also to improve general living conditions and to prevent the emergence of impossible situations and keep society integrated? In the World Bank's recommendations the notion of social policy was confined to a narrow concept, which is limited to the assistance of the poor and others who are badly off. On the assistance of the poor, the Bank proposed efficient and effective means.

#### Policy Proposals

Our main policy proposals are the following:

The practice – which is commonly known as the “Washington consensus”, – to use privatisation, liberalisation and restrictions of the budget as the main means to increase GDP and the standard of living of the population, as well as for reducing poverty, must be reviewed. These measures in themselves do not result in rapid growth and the reduction of poverty. Moreover, in the case of Hungary, they were accompanied by increasing social and regional disparities. Therefore it is time to modify this. There is a new need.<sup>(5)</sup> The new consensus re-evaluates the role of the state and the importance of the democratisation of decision-making, and places greater emphasis on surmounting poverty. In addition to these, it broadens the development objectives. In close relation to these are the following:

- Besides equilibrium, the fiscal and monetary policy should attach adequate importance to sustainable economic growth and demands for increased wages and incomes.
- The development of a human infrastructure, its urgent investments should be managed as a high priority task.
- Reforms of the health and education systems have to be carried out with full attention to national traditions, saving the existing systems and lasting values, improving the competitive capacity and equal opportunity for the young.
- The pension system should be stabilised and developed, establishing adequate guarantees for saving and increasing the real value of pensions and for a higher level of the newly created basic pensions (the first pillar).
- In the family allowances and particularly in children provisions, the discontinuation of previous subventions (the indirect wages) should be taken into account and the emerged income deficit should be gradually eliminated.
- In harmony with long-term family policy aims, increasing resources should be provided for maintenance, reconstruction, modernisation and new building of dwellings and for stopping an environmental decline.

The main issue of reform policy in the next decade will be “How can the Hungarian economy be more competitive in the twenty-first century?” The new modernisation program, which will also be the final program before joining the European Union, should no longer be based on the continuous devaluation of the human capital due to inadequate social policy, but on developing the competitive capacity through knowledge. This knowledge should be supported by an active welfare policy rooted in the Hungarian conditions and should be a priority concern regarding education and health care.

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# INTERNATIONAL AND NATIONAL ACTORS IN ESTONIAN PENSION REFORM

*Anu Toots* \*

National social policy today is increasingly determined by global economic competition and international organisations. One may speak about globalisation of social policy and socialisation of global politics. However, national and political interests persist. This interplay of different interests and actors makes the policy process more complicated because more interim and final agreements are required.

Globalisation of the policy-making process is receiving increasing academic attention amongst prominent researchers of welfare state and social policy. G. Esping-Andersen (1997) discusses national adoptions of the contemporary worldwide processes. Leibfried and Pierson (1995) raise the question of social Europe as the common welfare model in an integrated Europe. Deacon (1997) argues that international organisations will increasingly influence the social policy-making in national states. The phrase "Global Social Policy" serves as a departure point for the current paper on Estonian pension reform. Deacon studies the presence of international organisations in post-communist Hungary, Bulgaria and Ukraine and analyses their impact on social policymaking. He also demonstrates that different international actors favour different welfare models, which encounter a broad spectrum of national political interests. We would like to examine how Deacon's conclusions fit into the Estonian social security policy of the 1990's.

From the many areas of social provision we will focus on pension policy for two reasons. Firstly, pension reform is probably the major social reform, which touches an extremely broad variety of social groups, political actors, and public and business institutions. At the same time, a successful solution to this social security area largely predicts a sustainability of economic and human development. Secondly, national old age pension systems have become even closer to the single three-legged stool model promoted mainly by the World Bank (James, 1996) but also by other international organisations.

The main objective of this paper is to investigate the role of international organisations in shaping the Estonian pension reform by placing their activities in a domestic political context. We will compare policy platforms of international actors with those of major political parties and influential pressure groups assuming that the fit between international and national visions is important for policy applications. In the final part of the paper we look at the impact of

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studied policy agents on the principles and rate of pension reform. We also suggest some answers to the very basic question on whether national policy makers are losing their power, or if international actors are forced to adjust their views to country-specific conditions.

### **Development of a National Social Policy Agenda**

In most post-communist CEE countries, social issues faded from the policy agenda in the early stages of transition. Political parties with strong social programs, powerful trade unions or civil pressure groups did not exist in the Estonian political arena. Therefore old-age social security issues were not a topic in the election campaign of 1992.

Estonia inherited a traditional PAYG defined-benefit pension system from the Soviet Union. This system was slightly revised in the Act on State Living Allowances (1993) initiated by executive political actors and replaced only in 2000 by the Act on Public Pension Insurance. During this transition period, principles of solidarity were more profound than the doctrine for personal contributions and savings (Toots 2001).

In the parliamentary elections of 1995, pension policy became an important issue. Firstly, during the election campaign period, the amount of pension payments was increased twice and this certainly contributed to the electoral victory of the large catch-all-type party coalition supported primarily by rural and older voters. Secondly, a comprehensive reform was launched in 1997 based on a three-pillar pension system model. To elaborate the reform concept, a Commission on Social Security Reform (CSSR) was established. It is worth noting that out of its five members, two had explicit relations with the World Bank (WB) and one with the Council of Europe. Another interesting detail is that although the Minister of Social Affairs was responsible for the work of the commission, she was not a member herself. In the relevant government regulation, it was stated that the commission should focus on the financial aspects of social security reform, including cooperation in the field with the IBRD (RT I, 1997, 37/38). These institutional arrangements during the course of reform, provide evidence on how pension issues were quickly shifted from the public to the close circle of experts.

The first two years of the centrist Coalition party's power were marked by numerous incremental amendments to the pension policy and since 1998, the nature of governmental initiatives has become more radical. Three new laws (Act on Social Tax, Act on Public Pension Insurance and Act on Pension Funds), which play a crucial role in building up the new social security system, have been passed by parliament. Two remarkable features of these changes should be emphasised. Firstly, in the coalition agreement, the private sector is seen

as the main provider of old-age social security. This is rather surprising since governmental parties of the considered period can be characterised as left-centre oriented and not neo-liberal.

Consequently, this advocacy for private pension insurance did not stem from the ideological platforms of governmental parties. Secondly, private pension funds were not merely declared as a policy aim, but were introduced in 1998. Thus, Estonia found itself in a peculiar situation, whereby the first and third pillar of the planned three-tiered pension system were set up but the second pillar was non-existent. Therefore, the question arises – “what kind of factors urged market-oriented policy design, despite the absence of electoral support and ideology of governmental parties towards this line”? It is probable that relations with the IMF, set up by the former cabinet of Mart Laar, continued to influence social policy design.

In the next parliamentary elections in 1999 a new coalition was formed. Contrary to the former cabinet, this was composed of three equal partners, each having 5 portfolios in the cabinet. This clear party division inside the coalition contributed to the more concrete and binding coalition agreement. Where the coalition agreement of the cabinets from 1994 – 1999 was first and foremost a political declaration, the agreement of the cabinet in power since 1999 is more a program of actions, including planned legal acts and dates for implementation. Concerning pension policy, the main objective was the implementation of the compulsory fully funded pension scheme (second pillar) and the conclusion was to be the long process of pension reform (Coalition agreement 1999). The issue of compulsory pension savings has been debated since early 2000, and the relevant legal act was passed by parliament in the autumn of 2001. As for the former coalition of 1995 – 1999, the first year in power did not bring any principal decisions in pension reform. Perhaps “the political business circle” defined by Dunleavy & O’Leary influenced the tempo of reform. The main preparatory work for completing the three-tiered system was carried out in 2000 when electoral interest toward policy was declined after the 1999 elections.

One might expect that with the last legal component of the pension system, the long saga of reform would end and that pensions would no longer be an issue of political debates. However, this is not the case. In 2002, Estonia will hold its next local elections in the autumn and parliamentary elections will be held in the spring of 2003. Already we can see that the left-wing political parties, both in coalition and in opposition, are doing little to amend the existing laws on the PAYG system to increase the benefits. As one of the main experts on pension reform, a member of the Commission on social insurance reform L. Leppik pointed out that Estonia is continuing its “political enhancement of pensions” (Leppik 2002). It is important to note that there is no public debate

or questioning on funded components of the pension system and what their real impact on living standards in the far future will be.

Different publicity relating to the various components of pension reform indicates a division forming between political actors and pressure groups on pay-as-you-go and the fully funded parts of the pension system. Left-wing political parties and socially-oriented pressure groups (the Union of Pensioners) are concerned with the first, whereas semi-public bodies and business oriented pressure groups (Insurance companies, banking sector) are interested in policy decision concerning the second and third pillars. This trend is also present in the last government coalition agreement (2002). One of the two governing parties (the left wing Centrist Party) insisted that old-age pensions must be increased and become in 2003, 40% of the average salary.

Insofar as Estonia is becoming integrated into international organisations and the EU, one sees a stronger external influence on the national social policy agenda. In the coalition agreement of 1999, for the first time ever, the Estonian government declared taking into account Council of Europe and EU principles when developing social policy, whilst at the same time taking into account Estonia's economic possibilities. The government intended to ratify the European Social Charter and European Code of Social Insurance and to work with temporary European agreements on social insurance and elaborate governmental positions in the course of pre-accession to the EU.

The Council of Europe and the EU can be regarded as sub-global organisations whose principles in social policy are explicitly represented in Estonian policy memorandums (coalition agreements, governmental action plans) and debated in parliament. Further, there are also other international actors whose interests in shaping the Estonian social insurance systems are not so transparent and publicly known. The International Monetary Fund, World Bank, International Labour Organisation and OECD fall into this group.

### **Social Policy Concepts of International Organisations**

The formation of national policies in a contemporary world cannot occur in isolation without the interference of policy advisors, experts or observers from international bodies. In the 1990's when the golden age of neo-liberal thinking began, social dimension became more important in the activities of global organisations. Whilst Estonian political parties neglected social policy issues at the beginning of transition, international organisations such as the IMF, WB, ILO and EC showed an active interest in them and expanded their activities into the Baltic region. Despite the very different nature of these actors, they all had similar motives for policy intervention. As pointed out by B. Beacon "concern to stabilise the process of market reform and prevent its slowing down, with

appropriate attention to the social costs of transition” characterised activities of all these agencies (Deacon 1997).

The International Monetary Fund (IMF) is known as a US-based advocate for the New Right economic and social policy. According to its ideology, social spending can only increase when the economy grows. Social needs can by no means justify a state budget debt. However, when post-communist regimes emerged in Central and Eastern Europe, the IMF revised its structural adjustment policies. The fund stated that in addition to the “macroeconomic stability, a market based environment for trade and investment”... “...sound social policies, including social safety nets to protect the poor cost effective social policies and employment generating labour market policies” are required (IMF 1995).

In the second half of the 1990’s the official thinking of the Fund became more engaged with long-term social policy strategies for emerging democracies rather than the earlier short-term safety net ideology. This of course, meant greater interest in social security reforms. The Fund proposed that social security schemes should not act as disincentives to save or to work, that the link between benefits and contributions should be strengthened and contributions should be kept relatively low. The main message from the IMF was that new pension schemes must be financially self-sustaining over a long period of time and therefore individual investments should play a greater role (Deacon 1997).

The IMF early on, formalised its policy interests in the Baltic region. Since 1994 the Fund has had their permanent representative in Tallinn to monitor both the reform process and economic development. Relations between the Fund and the Estonian government did not simply rely on irregular consultations and recommendations. From 1997 until 2001 the Estonian government and the IMF signed annual Memorandums of Economic Policies. Although (unlike the World Bank) the Fund does not attach social conditions to its loans, the governments that adopt IMF programs are nonetheless free to adopt measures to protect vulnerable groups (Deacon 1997). The following are data to illustrate this. In 2000 the IMF provided a \$39m standby credit for Estonia. At this time, Estonian poverty relief schemes declined in value whereas pension payments increased even faster than salaries at the end of the 1990’s (Toots 2001).

In monitoring Estonian pension policy reform, the IMF was first and foremost concerned with the high level of social insurance contributions and investment rules for the II and III pillar institutions (IMF 2001). The effect of the IMF on pension reform was twofold. Despite suggestions to lower the level of taxation, this actually rose to 33.5% due to the introduction of unemployment insurance at the beginning of 2002. In another area – the restriction for investments of pension funds capital – the IMF has been more successful. Funds would be free (and expected) to invest in foreign securities so as to diversify the risk to pension-

ers by making investment returns less dependent on the domestic economic and financial situation in Estonia (IMF 2001). Although one can hardly testify that there was a direct interference by the IMF in Estonian pension reform design, the basic principles adopted follow the same advocacy for greater personal incentives and sustainability of the system.

The World Bank (WB), as the organisation most closely connected to the IMF, has become one of the most influential global actors in ongoing social security reforms. It is not merely a tool of intergovernmental politics, but rather an independent policy-making and agenda setting body. The growing number of countries transforming their pension systems into the three-legged-stools can be regarded as evidence of the agenda-setting role of the Bank. Although a basic consensus on pension policy exists between the IMF and the WB, they differ in the instruments used for policy implementation. While the IMF had only a representative monitoring the social policy decision-making, the WB brought loyal people into the very heart of policy formation. Since the Bank expanded its activities in the CEE and CIS many new staff members were recruited (Deacon 1997). Often they were non-Americans – Europeans and even experts born in the country. The composition of the Social Security Reform Commission (CSSR) is an excellent example of such policy; the Minister of Social Affairs from 1990 – 1992, A. Kuddo, has been working since 1995 for the World Bank. As a result, the WB gained two advantages compared to the other international organisations. Firstly, the very American neo-liberal thinking was complemented with the European view on social welfare and therefore gained broader support. Secondly, the exploitation of country-born experts explicitly involved in policy designing bodies gave more voice to the ideas of the WB. For example, in the discussion document “Aims, choices and implementation plan of the compulsory funded pension scheme” concrete measures are mentioned where the CSSR’s viewpoint is conform to that of the position of the WB.

The International Labour Organisation’s (ILO) ideology on social welfare is the contrary to that of the above mentioned organisations. Instead of the minimal safety net concept, the ILO relies on the notion of social citizenship. ILO top officials argue that there is no paramount need to refuse the Bismarckian social security model based on public pension schemes. They think that fiscalisation of social policy can erode democratic cohesion and demote social partnership in the policy-making process (Deacon 1997). It may seem surprising, but the social democratic thinking of the ILO did not meet with large support in Estonia. The reasons are twofold. Firstly, to the broader public the ILO associates itself with trade unions, which have had little power since communism. Therefore, as far as the public is concerned, the ILO is too Left-oriented. The same is also true for government parties that belong to the Right wing of the political spectrum. Secondly, the system of tripartite policy-making in Estonian was uncommon in

the 1990's. Therefore the institutional structure of policy making was not well suited to ILO principles. As a result, this organisation has been more successful in completely new areas of post-communist social policy such as unemployment and gender equality. In policies inherited from the old system, such as pensions, the ILO was not, unlike the WB, a real player.

The ILO also differs from the IMF and WB in its institutional activities. To challenge the strong influence of Bretton Woods's unsocial discourse, the ILO established some new institutional structures in CEE countries with regional headquarters in Budapest (Deacon 1997). Estonia regained its membership status in 1992 and since then, there is an Estonian ILO Council, which evaluates legislative proposals according to ILO standards. An ILO Bureau and correspondent have been working with the Ministry of Social Affairs since 1994.

An analysis of meetings with ILO representatives and Estonian policy-makers brings us to the conclusion that this organisation has minimal effect on Estonian social security policy. Perhaps this was not even one of the ILO's strategic aims since it focuses more on workplace issues as opposed to old age pensions. In early 2000, a two-year agreement between the ILO and the Estonian government was reached whereby the ILO took on the responsibility of assisting different social projects in Estonia, including pension reform. Unfortunately this agreement was not signed by the ILO and thus never came into force. Consequently, the main role of the ILO in Estonian social policy was to maximise the European way of social thinking and to minimise the influence of US-based monetary organisations.

Europeanisation of Estonian Social policy already began in 1993 when Estonia became a member of the Council of Europe. However, a real boost to these processes was given with Estonia's decision to apply for EU membership. The obligation to adopt the *acquis communautaire* forced the Estonian government to undertake concrete measures to harmonise EU and Estonian regulations in the field of social protection. Given the principles of EU social policy, different issues are placed at the centre when compared with Bretton Woods' policy interests. Economic sustainability of pension schemes is not the main concern of European supranational bodies. Rather they call for the equal treatment of men and women, and all nationalities. A sufficient level of benefits is also a concern for European organisations.

The Council of Europe applies its norms to member states via charters and conventions if these are ratified by national parliaments. Because there is no efficient mechanism for law enforcement, the process of signing and ratification depends only upon national politics. With regard to Estonian social policy decisions, the Council of Europe's role is vague. The new version of the European

Social Charter was signed in May 1998, ratified two years later and came into force at the end of 2000. The process of the ratification of the European Code of Social Insurance is a similar case, with several postponements. This task was set in the “Government Action plan for integration into the EU” in 1999 with a deadline of January 2000. In the Spring of 2002 this task is still not completed. The Code sets out only minimum standards and leaves open such questions as financing and management, as well as definition of the coverage of schemes. Because Estonia meets the minimum standards for old-age pensions, there are no real obstacles to ratification of the code (Leppik 1999). Thus, the absence of socially oriented lobby groups or political parties seems to be the main reason for delay.

Social security standards set by the Council of Europe and the European Union do not differ, but one can observe the different policy focuses and the variety of policy instruments. The EU previously regarded social policy as an appendix to the “four freedoms”. Thus, the export of the social security benefits and equal treatment of workers has been the main concern. In the accession negotiations process, Estonia has to harmonise its national legal acts with the EU directive 79/7 which, amongst many articles, sets an equal pension age for men and women. Although these amendments had to be implemented in the Fall of 2000, they were postponed until 2002 after a decision by tripartite negotiations between the trade unions, employer organisations and the government. They found that the equalisation of pension age must be detached from harmonisation measures until 2016 as allowed by article 7 of the directive 79/ 7.

Problems on social protection of migrant workers based on EU directives 1408/71 and 574/72 also remain unregulated under Estonian law. It is worthy of note that this is happening despite the bilateral advice projects under the auspices of the *Phare* and Consensus III program that began in 2000. Why is the development of a European dimension in Estonian social security so slow despite the fact that everyone concerned with Estonian policymaking favours joining the EU as soon as possible? We believe that this is because of the various interaction patterns between political players.

### **Interplay between International and National Interests**

Analysis has shown that international organisations have different impacts on the Estonian pension policy design determined mainly by diverse institutional nexus. Large organisations with complicated institutional structures such as the ILO, the CE and the EU tried to use their existing internal units whereas the IMF and the WB sent special representatives to the CEE countries. Each of these organisations mainly uses their own experts to advise on policy reforms in post-communist countries. European organisations worked on a very broad scale and

co-ordination between the various reform areas was random. Recommendations were often conflicting (Deacon 1997). This catch-all style reduced their impact on the decision-making process. US-based IMF and WB concentrated their activities on welfare economics and employed long-term experts. As we have seen with the WB, country born experts whose employment career was with the WB, have become the most influential players in national social policy design. According to K. Müller, the extent of the engagement of the Ministry of Social Affairs or Ministry of Finance has also played a crucial role. In countries where the latter, together with the World Bank, was a major player we can see a clear preference toward privatised pension schemes. In countries with a powerful Ministry of Social Affairs, pension reform was carried out in the Beveridge-Bismarckian ideology framework (Müller, 1999).

Another factor, predicting the ability of international actors to shape the content of reforms was the fit of their ideology with that of the government. For example, the IMF's significant influence can be explained by the fact that both the Fund and two main coalition parties in the 1990s *Pro Patria* and Reform Party favoured a neo liberal view on welfare provision. The permanent IMF representative in Estonia, Basil Zavoico, said "this country was lucky that it had S. Kallas, the radically minded Central Bank President from 1992 – 1995 and M. Laar, pro-reform Prime Minister from 1992 – 1994, who was almost a kind of suicidal reformer". He expressed serious concerns that after the dismissal of the *Pro Patria* coalition with M. Laar, the Prime Minister "a lot of the momentum went out of the reform effort" and there has been no progress since 1994 (Zavoico, 1997). As one can see from the chronology of the pension legislation, these worries became a reality. The pension reform began in 1997 and it will only be in mid – 2002 that the last necessary legal act regulating mandatory funded insurance, will enter into force. During 1995 – 1999 when a catch-all government with a vague ideological basis was in power, none of the radical decisions that the IMF wanted, have been implemented. Although a new Act on public pension insurance entered into force and private pension funds were introduced in 1998, the very heart of the social security system – contributions and eligibility rules – remain untouched.

The third point, relevant to the impact on decision-making deals with the complexity of the reform process and policy preferences of the actors. On the one hand, social policy is closely connected with economic policy. Discussion around this has become a classic dilemma for welfare state theorists. Every government executing its reform plans must clearly define its preferences and the price necessary to pay. For Estonian neo-liberal governments, fast economic growth has been the ultimate goal. Therefore they adjusted their social reform programs to the fiscal and economic conditions set out by the IMF in order to receive



standby loans. It has to be said that there is no permanently active pensioners' lobby that would resist the New Right approach to social security.

The fact that the support of domestic interest groups is important is clearly illustrated by divergent destinies of the pension system second pillar and social protection of migrant workers based on EU regulations. Legal procedures in both cases took years and deadlines have been postponed several times. Nevertheless, the mandatory saving component of the Estonian social security system has recently been implemented. However, the social protection of migrant workers is still under discussion. In the former case, business groups were very much interested in the policy outcome and this was confirmed by the intense advertising campaign organised jointly by the government and insurance companies. In the latter case there are no actors in the political arena who will rapidly move the preparatory work forward. Therefore this issue is pushed out of the pre-accession agenda by other more pressing problems for local actors (free movement of labour, agricultural subsidies etc.).

In conclusion, we suggest that at the input phase, international bodies and the Executive are the principal actors, whereas political parties presented in parliament are not involved. In the second phase when proposals are debated in the Legislature, international actors become less involved and national players such as the different pressure groups and political parties assume the decisive role. Estonian experience shows that the Legislature is able to dictate the speed of the reforms process and seriously change international recommendations.

### **Who rules?**

The current policy-making process is becoming more complex. Through the implementation of certain principles or ideas, both the global and national contexts have their role to play. International organisations constituted originally solely for pursuing economic interests (the WB and the EU), have revised their fundamentals. In the second half of the 1990's their official thinking began to regard social policy, not as a burden, but rather as an investment paramount for sustainable economic growth. Consequently, the approaches of different international actors are coming closer together and the sharp cleavage between the US and European organisations is widening. On the other hand, national policy making bodies are not losing their power – they still have their citizens' votes and enjoy the support of the lobby groups. As the welfare state gradually transforms into a welfare society, the spectrum of agents interested in social policy issues becomes wider. Semi-public and private bodies which were previously excluded from the old-age social security provision are important players in the policy arena today. On the basis of our study we believe that more ruling power will

go to the body which can adjust its visions to the country-specific conditions whilst at the same time, keeping global development trends in mind.

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## **SECTION 6**

# **Democratic Governance of Multiethnic Communities**



# DEMOCRATIC GOVERNANCE OF MULTIETHNIC COMMUNITIES – DELIVERING PUBLIC SERVICES IN MULTIETHNIC COMMUNITIES

*Petra Kovacs* \*

## **Introduction**

This year, working sessions of the WG were devoted to an in-depth analysis of new models and methods of public service delivery from the point of view of ethnic diversity. The aim of the WG is to assess and analyse the public policies that determine the access of minorities to public services. Inequitable distribution of public resources may destroy the results of other public policies that aim at promoting cohesion and stability in society. Therefore policies promoting equitable access of minorities to public services will be the focus of discussions.

The Working group discussed fourteen case studies from Bosnia, Bulgaria, Czech Republic, Croatia, Estonia, Israel, Hungary, Latvia, Romania, Slovakia and the Ukraine.

Sessions of the WG have contributed to the main conference topic by analysing the impact of reforms of public services, especially the introduction of policies of “New Public Management” on the equitable access of minorities to locally provided public services.

Participants agreed that transition involved the transformation of most social, economic and political structures and processes. Although these changes have deeply affected the relation between states in transition and their citizens, not all of them are equally important from the point of view of ethnic diversity. Whereas decentralisation may contribute to the formulation of ethnically biased policies by leaving institutional frameworks of representation and power sharing non-regulated. Reforms of public administration, especially policies based on principles of New Public Management may strengthen ethnic bias through promoting management systems evaluated against measures of economic efficiency only and through the denial of broader social costs of policies from among the criteria of evaluation. New Politics of Welfare may provide an argumentative support for new rules of redistribution based on membership. The NPW is an ideology as it creates moral categories by defining justified and unjustified needs. It creates a social welfare system, which is based on the economic cooperation between members of the community by linking economic efficiency and social justice. Such rules of distribution may result in the effective exclusion of Roma in CEE, Russians in the Baltics, new minorities of the states of former Yugoslavia.

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# WHO BENEFITS? ETHNIC BIAS AND THE PUBLIC POLICY PROCESS IN CENTRAL AND EASTERN EUROPE

*Petra Kovacs* \*

## 1. Introduction

Powerful arguments have been developed on democracy in multiethnic states. These theories argue that democracy is based on the consent of those governed and emphasise the role of the state in establishing order and maintaining the rule of law. When the state and its institutions are not regarded as neutral and fair by all actors, minority groups may find themselves forced to create their own, potentially divergent forms of self-protection, which can come to be seen by the ethnic majority as a threat to the integrity of the state. These theories emphasise that only those democracies that are able to re-integrate and engage all ethnic groups (majority and minorities) into the same society can lead to order and stability. Democratic institutions (governments, administration, welfare and justice) should therefore be accessible to all minorities including ethnic groups.

In theory, the state operates by adhering to a set of (constitutional) rules and rights and thereby ensuring transparency and accountability. However, few if any, state policies are absolutely neutral in their distributive effect among different ethnic groups. In most cases, state policies are based on arbitrary decisions that often result in disparate impacts or discrimination against minorities.

A government – local or central – is considered to be legitimate if its decisions are generally acceptable to its constituency as fair and equitable. If the policies of a government appear to be biased in favour of a particular group, the legitimacy of the state and the support of policies will be weakened. Trapped in their “myopia”, ethnic majorities tend to deny any bias in government policies. Governments dominated by the ethnic majority often claim their policies are “ethnically blind” and point to a broader understanding of equality between citizens. These governments and institutions ignore problems inherent in participatory democracies. Such arguments camouflage the fact that ethnic minorities have less power to influence rules, procedures and policies. In “ethnically blind” environments, majorities often consider public resources as their privileges: they label claims of minorities as an attempt to privatise public resources for the benefit of their particular group.

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There are two answers to the question “*Who benefits?*”. In the short-term, majorities may think that excluding minorities and their preferences from the policy process and the agenda is an efficient solution. However, in the long run, such win-lose situations will turn into a lose-lose situation as social order deteriorates. Tragic experiences in the Balkans (and elsewhere in the region) demonstrated that restricted competition for power and resources and the exclusion of various constituent groups from transparent and inclusive decision-making processes sooner or later result in serious social conflicts, mass migration and in extreme cases, bloody wars in which everyone suffers.

This is why analysing local policy processes in multiethnic states and the access to public services in particular, is timely.

The purpose of this paper is to develop an analytical framework and a set of working hypothesis for a comparative policy analysis based on a proposed concept of ethnic bias in local public policy processes. It aims to invite more efficient government actions in providing equitable access for minorities to public services at the local level.

The scope of the research is to provide an analytical framework for a comparative policy research on access of minorities to public services at the local government level. More specifically, patterns of ethnic bias at the local (municipal) level of government through their policies, which have redistributive goals because of the following reasons. As a result of decentralisation and public service reform, local governments gained new competencies and responsibilities to design policies responsive to the needs of citizens. Most public policies determining access to public services are now designed and implemented by local governments. Thus, the local government represents perhaps the key arena for examining *ethnic bias* in public policy processes. In order to identify the role of public institutions in the formation of *ethnic bias*, this research will focus on those factors that are under the control of (local) governments and their institutions. The research will involve only those policies that impact access to (locally provided) public services, because access to those services is interrelated with other civil and political rights. Therefore bias in providing access to public services will disadvantage minority families to take full advantage of all resources and benefits in their communities.

## **2. The Concept of Ethnic Bias**

In this paper, I will propose and develop a new concept, the concept of *Ethnic Bias* for analysing equity in minority access to public services. The concept of *ethnic bias* combines an institutionalist approach with a pluralist one to public policy. Institutional approaches to public policy suggest that the state and its institutions play a crucial role in defining and shaping policies of redistribution.

Pluralist approaches look at ways in which governmental decisions are made, i.e. who is involved in policy-making and how? The concept of *ethnic bias* combines these two approaches.

The *ethnic bias* approach is an adaptation of the bias theory of Bachrach and Baratz that says that policy-making is structured by the distribution of power between various groups and institutions of society. However, in the decision-making process, a bias may occur if those in power can successfully exclude certain issues and problems from the policy-agenda. Since the 1970s, several studies have addressed the problem of minorities in the policy process. These studies were inspired by various community-based and social movements in Britain and America. They focus on the policy processes that resulted in systemic rejection or exclusion of issues and policy proposals developed by race and gender equality movements or advocacy groups. The studies demonstrated that policy-makers with the power to keep certain issues off the agenda could successfully screen out potential policy issues as defined by these communities and movements. In sum, these studies demonstrate that unequal distribution of power among various social groups has a significant impact on the capacities of these groups to influence policy-decisions.

*Ethnic bias* refers to an institutionalised preference towards the interest of the ethnic majority (dominant group) that occurs at various stages of the policy process. Therefore *ethnic bias* often prevents minorities from equal enjoyment of public services and other resources.

A policy process is ethnically biased if:

- one ethnic group has disproportionate (or exclusive) power in defining policy goals and priorities (the policy agenda), and/or
- if structural arrangements favour the interest of certain ethnic groups in the course of policy formulation, and/or
- if rules of distribution of public resources and service delivery are biased in their effects.

*Ethnic bias* can be assessed by the presence of various types of inequalities between ethnic groups. When policies of public institutions are biased, social cohesion often deteriorates. Deteriorating social cohesion elevates the risk of social conflict. Alarming symptoms call the attention of decision-makers for the need for action. Such symptoms can vary from ethnic stratification to spatial or institutional segregation between various groups, and from institutional or systemic discrimination against certain minorities to an increased number of community conflicts and sometimes even to minority migration.

In this research, *ethnic bias* will be analysed through the various stages of the policy cycle. Depending on the stage of the policy cycle in which *ethnic bias*



occurs, different types of *ethnic bias* will be identified. The identification of these various types will be used to develop policy recommendations.

### **3. Why is Ethnic Bias a Policy Issue?**

The different social sciences have produced a range of various approaches that explain and interpret the phenomenon of social conflicts and inequalities in multiethnic societies.

Sociologists dealing with ethnic relations explain ethnic conflict by using concepts of social stratification, discrimination, group identity and the size of the ethnic group. Political scientists suggest two relevant approaches, through the concepts of modernity and group cohesion. Social psychologists emphasise that feeling threatened is the cornerstone of ethnic conflict. This chapter will present a policy-oriented approach to help explain ethnic relations in terms of equity in the distribution of power and public resources among various ethnic groups.

Each of these social-scientific approaches emphasises one particular aspect of the complex political and social reality in which ethnic power, resources and prestige are distributed in a given society. It is important to note that problems usually categorised as ethnic conflicts are often more of a complex nature. The systemic changes resulted in a situation in which “ethnicity has become more pronounced, thus energising social cleavages with vital political interest and thus highly regarded moral and ethical considerations.” Often, “instrumentalisation” of ethnicity in competition for the control over public resources resulted in the “ethnicisation” of various policy issues.

The most recent literature suggests that in CEE, ethnic conflicts strain not only group identity, but also the economic, political and historical interests of particular ethnic groups. Because of the multi-ethnic composition of most countries in the region, the borders between socio-political and ethnic conflicts are fuzzy and fragile. Political struggles can mask conflicts of interest between ethnic groups, or camouflage an ethnic conflict. In other cases, leaders of groups use ethno-nationalism as a means of moral compensation for economic backwardness, or in response to new challenges and increased competition.

More literature has recently become available on diversity management. This *policy-oriented analysis* focuses on what governments can best do to manage ethnic diversity. This approach involves a series of strategic actions meant to provide, in due time, the legal, political, economic and socio-psychological conditions to peacefully resolve conflicts within multiethnic societies. The measures taken by governments and other political actors depend on the perception of conflict and the culture of conflict management. This literature suggests that public policies are useful and efficient tools of conflict prevention as policy processes allow direct negotiations between various groups with conflicting or competing

interests. Moreover, agreed mechanisms of negotiation imply solutions generated by participants directly involved in the situation. By leaving a relatively high degree of leeway to those involved, well designed policy processes are likely to avoid polarisation and the escalation of conflicts.

At the central level of government, policies of managing ethnic diversity involve legal guarantees to minorities regarding non-discrimination and social and political participation. Because most of the everyday problems of inter-ethnic relations exist at the local level, local authorities can also develop explicit policies and strategies for accommodating ethnic diversity in areas such as political participation, education, housing, employment and health care.

Almost all issues related to problems of ethnic bias manifest themselves in local communities. The city represents a key arena for examining a wide-range of processes, effects and interventions across a variety of social, political and economic domains. Due to recent public administration and public service delivery reforms, local authorities have gained more discretionary power on deciding priorities for public services, the level of services and the delivery mix. The central question is whether local governments (municipalities) are able to fulfil their duties and formulate inclusive public policies responsive to the needs of their multi-ethnic population. This question is central as it touches upon the essence of democracy: the need to establish an acceptable balance between the inclusion of diversities and maintaining social order. It implies that the state and its administration should be perceived as legitimate, so that the state gains the support of society to achieve the balance. Political actors may gain legitimacy by being responsive to the needs of citizens. The guarantee for remaining responsive lies in procedures that make political actors accountable for their decisions.

If a state, its institutions and its policies are perceived as being biased towards certain groups, the other part of the population will withdraw their support from those in power. In such cases, governments have to cope with various forms of resistance while implementing public policies. In the longer term, such resistance may result in inefficient government practices and the erosion of social cohesion.

There are numerous identifiable demographic, socio-economic and political trends and processes that have been associated with a general lack of social cohesion. Over the past decade, changing patterns of ethnic diversity juxtaposed with new socio-economic patterns (transition, migration processes, creation of new states, cutback of welfare-state etc.) resulted in increased competition for political and economic resources and the increased polarisation between various ethnic groups.

As noted, biased policy processes tend to result in poorer access of minorities to essential resources, which can result in heightened tensions and sometimes

conflict. In such situations minorities may increasingly feel that power is directed against them. Majorities on the other hand may perceive any form of self-organisation of minorities as threatening or hostile to the state. Although the source of conflict is not ethnicity as such, a danger exists of the rapid escalation of these conflicts due to the weakness (or the lack) of agreed (trusted) mechanisms for mediation and conflict resolution. Once ethnicity is associated with a conflict it is very difficult to escape the negative cycle of mutually reinforcing ethnic strife, as both sides tend to falsely explain their problems in ethnic terms. Once this point has been reached, it is unlikely that matters can be settled by policy instruments. But to reiterate, neutral public policies are likely to prevent the escalation of such ethnic conflicts from ever happening.

Recently, several approaches have been developed to address the problem of equity and discrimination. There have been several attempts to adopt comprehensive anti-discrimination laws in several countries in the region. Other countries have introduced constitutional guarantees against all forms of discrimination. These legal institutions are important as they set standards and express commitment on the part of decision-makers to mitigate discrimination. However, those legal instruments remain weak. Relevant jurisprudence experience shows that there are at least three major weaknesses in the purely legal approach. First, it is very hard to find legal remedies for cases of discrimination (especially cases of indirect discrimination) due to the difficulty of substantiating allegations with hard facts. European legal precedents in this matter remain isolated and their policy impact is negligible. Legal approaches operate from a normative framework that presumes that an offence or an abuse has been committed by a “perpetrator” against a “victim”. Hence the legal approach offers remedies but not preventive measures.

I propose here a different approach. *Ethnic bias* is a comprehensive approach that looks at problems related to ethnic diversity, inequity, discrimination and a lack of access in a wider policy context of public administration reform and the reform of public services. The concept of *ethnic bias* works on the basis that policy problems are highly relevant for both majorities and minorities. As symptoms are alarming, it seems necessary to address the problem in a more effective way.

The concept of ethnic bias acknowledges that public policies emerge from a complicated process of policy formulation, adoption and implementation. It is therefore suggested that the type and level of ethnic bias depends on the combination of the following four main components:

- the participation of different ethnic groups in setting the policy agenda;
- the representation of minorities in the process of policy formulation and adoption;

- the involvement of minorities in the delivery of public policies;
- the relationship between the dominant group and the minorities.

#### 4. Research Questions and working hypothesis

##### *Research questions*

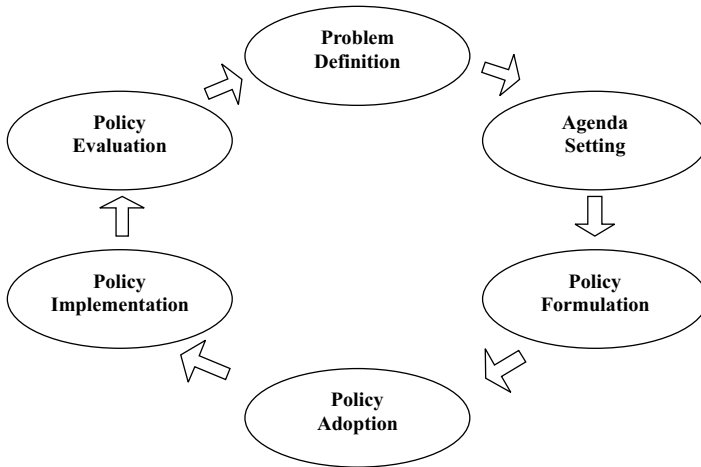
There are four main questions that structure this inquiry on equitable access of minorities to public services:

1. How does ethnic bias occur in the policy process?
2. Why do policy processes become biased?
3. How can the presence of various types of minorities be associated with different types of ethnic bias?
4. How can efficiency and equity be reconciled through ethnically unbiased public policies?

These questions should be answered after the comparative analysis of case studies from various local communities in Central and Eastern Europe.

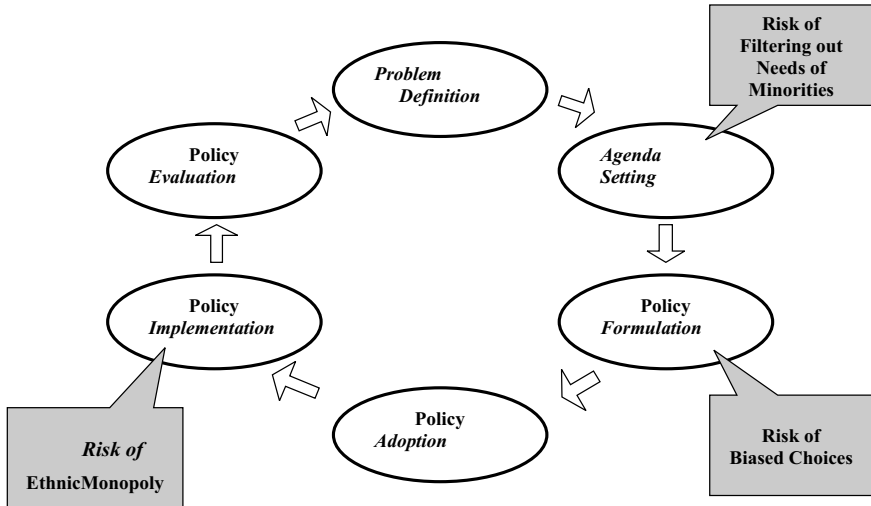
As discussed, the concept of *ethnic bias* suggests that inequitable access of minorities to locally provided public services is the result of gaps in various stages of the policy process. This is why working hypothesis has been developed on the basis of the “policy cycle model” (see Figure 2).

**Figure 1**  
**The Policy Cycle approach to the policy process**



Sources: Adopted from Parsons (1995) and Anderson (1997)

**Figure 2**  
**The policy process and the three types of *ethnic bias* risk**



The policy cycle approach to public policy continues to be the basis for analysis of the policy process. This model creates an artificial (oversimplified) view of policy-making. Nevertheless, it has significant merits as it provides an analytical framework to explore public policy processes. This research therefore adheres to the policy cycle model as a useful analytic tool. However, in my analysis I will go beyond consideration of the stages of policy-making and will look at the wider context of the problem of *ethnic bias*.

This study will be centred round three stages of the policy cycle. First, it will analyse the input phase where problems get public recognition and are accepted into the policy agenda. It will then look at the context in which policy decisions are made. Lastly, the research will look at how policies are administered and implemented.

The three hypotheses cover three types of risks of *ethnic bias* which affect the access of minorities to locally provided public services. These risks may occur separately or combined. The empirical phase of the research will identify typical combinations of various risks and their association with different types of inter-ethnic dynamics.

## 5. Working Hypothesis

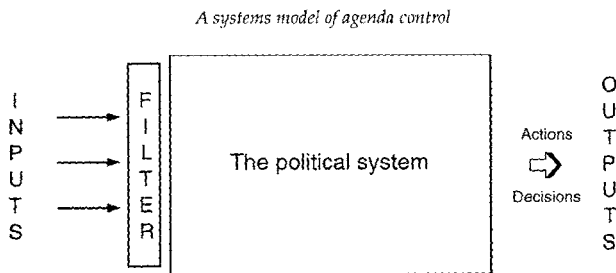
### *Agenda Setting: “filter hypothesis”*

The genesis of a policy involves the recognition of a problem. The central question is how certain issues or problems come to be recognised as public ones. This question is strongly linked to the distribution of power. Why do only some problems become targets of public policies? How do local governments decide what problems to address? In fact, the recognition of problems and the setting of policy agenda are essentially the outcome of a competition between different social groups. As power and influence is not equally distributed among social groups, the policy agenda however, often favours certain groups.

Due to the lack of adequate power-sharing models available to decentralisation agendas, minorities have little impact on policy formulation at the local level. Policy-makers are mostly members of the dominant group and act as gatekeepers to filter the demands of ethnic groups. Without the effective participation of minorities, the local decision-making process is likely to become biased against inputs from minorities.

By filtering minority-specific demands out from the policy agenda, governments fail to be responsive and thus promote ethnic bias.

**Figure 3**  
**Agenda control and ethnic bias**



*Source: Parsons (1995) p.138.*

In fact, each system has its own mechanisms to protect itself from inputs which would overload the system or which include excessive or unacceptable demands. However the mechanism can be biased against certain inputs. There are a number of ways that locally elected leaders and decision-makers can ensure that the demands of minorities are excluded from the policy process. In case of welfare rights this can result in filtering out claims for policies that would

benefit minorities and the re-direction of public funds towards needs expressed by more powerful groups.

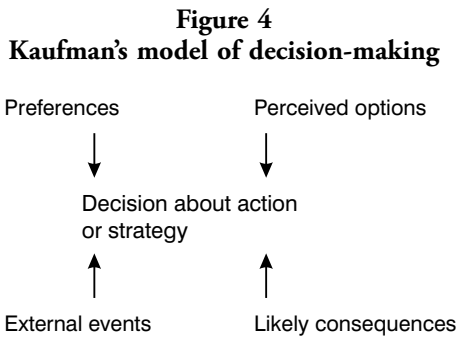
In practice, public policies and delivery processes use a mixture of instruments to improve efficiency while seeking to balance these values against demands for fairness or equity. How a delivery system may be mapped in terms of driving values that determine institutional as well as organisational arrangements depends on power. Whose values, needs and priorities may filter in the allocation process, is the function of openness in the system, the decentralisation of power and the degree of public participation.

### 6. Policy Formulation: “Hypothesis of Biased Policy Choices”

Once a problem is recognised and included in the policy agenda, decision-makers will engage in developing policy options to address the problem. The question is how decisions are taken, by whom and when.

From an institutional perspective, the distribution of goods depends on the choice of social, economic and political institutions from which distributions will actually emerge. This includes procedural rules governing political decision-making.

Policy formulation involves the development of a set of relevant, feasible and acceptable proposals to address the problem. These alternative or competing solutions will be proposed for decision-makers to select the preferred option. This process of formulating and selecting between alternatives is driven by culture, values, traditions and the knowledge and skills of the decision-makers. Choices of decision-makers will also depend on their access to resources and their views about an “ideal” or preferred outcome. In the democratic system, various stakeholders will seek to influence decisions through various institutions of negotiation and bargaining.



Source: Adopted from Kaufman by Parsons(1995) p. 372.

The stage of policy formulation also involves a risk of bias. Institutions have an important role in shaping relations between the state and its citizens. The way in which formal (and informal) procedures and rules allow the expression of different interests and preferences shapes the distribution of power among stakeholders.

State institutions also play a decisive role in selecting specific values that will influence public decisions. When the *cake* (available public resources) to be divided becomes smaller, as in the case of most post-communist countries in the region, it becomes crucial whether decision-makers believe that that equity should or should not be applied as a guiding value of public policies. Under severe budget constraints, the choice between efficient and equitable might be difficult to reconcile. Policies might represent efficient use of resources, but may at the same time result in unfair or unequitable allocation of welfare.

Ethnic minorities may have policy preferences that are different from that of the dominant groups. However, due to the lack of appropriate institutions of bargaining and the frequent under-representation of minorities in public institutions, minorities have little chance to develop and promote policy alternatives to solve policy problems. As these alternatives are in most cases left out of the real decision-making process, there is a risk that the selected alternative will have a negative or un-proportional impact on the access of minorities to the services established by these policies.

The lack of structural arrangements or institutions of bargaining involve a risk of biased policy choices: minorities will not be able to articulate their preferences and to influence selected policy options, including the rules of access.

## **7. Policy Implementation (Service Delivery): “Hypothesis of Ethnic Monopoly”**

At this stage of the policy process, the main question is how selected and adopted policies are administered by public institutions and organisations involved in the delivery of services. How are policies enforced? How does the implementation alternate the policy formulated by decision-makers?

In theory, the job of public administration is to carry out the policy program. However, administration and service providers have an important impact on the outcomes of these policies. In fact, the implementation phase is of crucial importance as this is the stage where the state and the citizens interact. The patterns of this interaction may have an important consequence for the access of minorities to public services.

Patterns of interactions are determined by values, human behaviour and the policy-makers' capacity of to monitor the implementation of policies and to make service providers accountable for the quality of services delivered. Professionals



(teachers, social workers, welfare officers, doctors etc) working in service delivery, play a decisive role in carrying out the policy. Their knowledge and experience is clearly a resource for the system as a whole. However, these professionals have discretion over decisions made. On the one hand the discretionary power delegated to street-level officials makes the systems of delivery more efficient and flexible. But at the same time, problems arise with regard to applying specific regulations to specific circumstances.

Discretion may become a source of conflict in cases of ethnic and cultural differences between professionals providing public services. There are very few minority representatives working in the civil service and public administration. This situation affects the implementation of various policies. *Ethnic bias* can occur in at least two ways: first, when access to public officials is hindered by linguistic, cultural, social or other differences, and second when members of a minority are discouraged from applying for services from public agencies run by the dominant group.

From an institutional perspective, access to rights and services is awarded by the public power. These rights to access public services become more than mere declarations only if they are enforced by the government through the allocation of public resources (police, schools, welfare etc) and through appropriate institutions. As public resources are limited, there must be a broad consensus, which is often reached through social bargains that generate mutual benefits. The government's main role is to provide those services included in the "social contract" both fairly and impartially.

In multiethnic societies, however, minorities have limited access to rights due to their weak position in the bargaining process. If the dominant group captures public institutions, other groups will likely feel that the delivery of services is biased – thus the consensus over the distribution of public resources has been breached. Accordingly, if the state is biased in guaranteeing impartial services it raises the problem of political legitimacy. Selective service delivery exacerbates problems of diversity and heterogeneity; as Holmes and Sunstein argue, access to rights may strengthen political divisions along ethnic lines. In such cases the legitimacy of rights-enforcing regimes (police, justice, local and central governments etc.) will suffer. This will endanger social cohesion and result in various degrees of conflict.

In most CEE countries, the government and state administration retained the monopoly of dominant ethnic groups. In the process of service delivery, monocultural (and in most cases monolingual) views of government and administrative culture risk of generating a biased distribution of public resources.

## 8. Conclusions

Why is it necessary to study *ethnic bias*?

I am convinced that the development of participatory systems of governance that are responsive to the needs of diverse minorities is vital to best ensure stable and functioning democracies. In many countries, as a result of public administration reform and decentralisation, local authorities gained competencies to design policies responsive to ethnic diversity through various inclusive measures and through the representation and involvement of minorities in the local policy-processes. However, in many cases, such policies are hindered by insufficient technical expertise, a lack of capacity and political support and inadequate resources. Therefore, the need exists to enhance local government capacities to meet the needs of multiethnic communities.

From the scientific interest point of view, a study on the access of minorities to public services will contribute to a better understanding of those policy processes that result in unfair (biased) outcomes. An increased knowledge of local public policies may contribute to ongoing debates about exclusion and marginalisation. Moreover, it may highlight new aspects of the process of exclusion of minorities by focusing on the role of local governments and their institutions.

Furthermore, this issue has become a key priority for all CEE governments as they proceed along the path to EU accession. In support of this priority, governments have to develop unbiased, inclusive policies that provide an opportunity to build successful multiethnic societies. As it is obvious that policies of equitable access to municipal resources and municipal infrastructure will soon clash with the interests of well-established networks, decision-makers should be empowered with policy recommendations to meet such challenges.

Officials as well as citizens are often frustrated in their attempts to obtain a clear picture on the performance of their government's achievement in promoting inclusive policies. The media occasionally reports on such stories but comprehensive information and analysis are rarely available on the issue of equity in public service delivery.

In some countries, the collection and dissemination of information on the performance of local (and national) governments in the field of public service delivery was confirmed in the 1990s. Over the past decade, a number of national and international organisations, as well as publications and reviews, have promoted methods of monitoring and evaluating race equality and equal access practices.

These policy studies provide a number of suggestions through which local governments and their agencies or institutions can regularly assess their performance and demonstrate progress. Think tanks, networks, databases and other information systems use different means for collecting and selecting information

and indicators tend to differ. Nevertheless, in all cases, monitoring and evaluating are understood as being a structured collection of data, the results of which can be analysed.

The aim of these systems is threefold. First, to provide data for public officials and for citizens. Second, to provide other public officials with suggestions for improving particular situations. Third, to accelerate new policy actions in areas of service provision to meet the needs of minorities.

The concept of ethnic bias suggests a neutral, de-politicised approach to observe a highly sensitive issue. In the past five years, having been involved in various projects addressing local government capacity to accommodate ethnic diversity, it has become clear that such an approach is vital to gain cooperation from any public bodies. Also, an approach that offers governments an opportunity to take an active role in preventing discrimination will be more efficient than the introduction of new standards of anti-discrimination.

In the long run, providing public services in fair and equitable ways is a win-win strategy. Unbiased policies developed by inclusive governments will strengthen democracy, stability and prosperity.

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# SOCIAL INCLUSION OF ROMANIES: THE POTENTIAL OF THE ROMANI POPULATION AND OPTIONS FOR PUBLIC POLICY IN THE CZECH REPUBLIC<sup>1</sup>

*Tomáš Sirovátka* \*

## Introduction

The aim of this paper is to identify what potential – human, social, cultural, and political – there is for the integration of the Romany minority; what kind of consensus there is between the minority and majority as regards a preferred model of minority inclusion, and finally, what role is played (and can be played) by public policy in the integration of the Romany minority.

The paper is based on a survey of one thousand representatives of the Romany minority and one thousand representatives of the majority population in ten Czech cities. Based on empirical findings, I argue that the position of the Romany in Czech society is, as in many other societies, marginal. Nevertheless, their socio-economic position is markedly differentiated: many of them possess sufficient integration potential. Still, they face significant social barriers. Romanies are not really involved in the implementation of the interests of their community through political means, and their potential in this sphere is weak. The assimilation model of coexistence and Romany integration, predominate; they are enforced by unequivocal demands from the side of the majority, as well as by their acceptance by the majority of Romanies. Full recognition and acceptance of the principle of common responsibility for integration on the side of the majority is a necessary condition for the successful integration of the Romany community.

Dimensions and Models of Social Exclusion and Social Inclusion of Ethnic Minorities

There are several aspects of the concepts of social exclusion and social inclusion. We find them with other authors (Room 1995, A. B. Atkinson 1998, R. Atkinson 2001) at social, economic, cultural, and political levels.

At the social level, there is a conflict between two developmental trends in (post) modern society. On the one hand, we can point to the general problem of social integration identified by Durkheim, on the weakening of social soli-

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parity. On the other hand we can point to individualisation and anomic trends of modern society. In this respect, Bauman's hypothesis (2000) on the identity crisis of (post) modern society and on the functional need of social exclusion of minorities for the sake of identity confirmation and solidarity within the majority society is significant. Minorities therefore serve as an 'external enemy' so that the members of the majority can identify themselves socially and can integrate. Then it is possible to estimate a fatal tendency of the majority towards a social exclusion of minorities, which impacts inter-ethnic relations in ethnically heterogeneous societies.

Against this pessimistic hypothesis there is an optimistic side i.e. the central role of citizenship in (post) modern society. It is also based on Durkheim, who sees in the socially associative potential of citizenship the possibility of solidarity, reconstruction and integration in modern society. This hypothesis is further developed by, among others, Flora & Heidenheimer (1981) and Dahrendorf (1991). Civil rights and equal opportunities transcend barriers of cultural, property and other social inequalities.

At the economic level, the main axis of the integration of minorities is represented by access to markets (especially to the labour market) and by the possibility to take part in equal (fair) market contests. However, for labour markets in (post) modern society it is typical dualism (Berger, Piore 1980) which is the answer from social groups to the economic insecurities and risks of modern society. In the bitter race for jobs in the globalised economy, the qualities of human capital, as well as of social and cultural capital (or socially and culturally defined ports of entry) are crucial when penetrating the primary segments of the labour market.<sup>2</sup> In the (post) modern society workforce, human, social and cultural capital is more and more marginalised for many reasons.

On the other hand, the process of globalisation gradually changes the role as well as the character of the secondary segment of the labour market. When insecure and low paid jobs in this market leave workers in a precarious position, an escape into the informal grey economy, or the change of the secondary segment of labour market into a 'grey zone' of economy are often the result. In this way the position of being marginal is then fixed, more or less permanently.<sup>3</sup>

At the cultural level, the integration of the ethnic minority does not, in principle, require an entire uniformity and assimilation to the dominant culture. Yet the 'structural integration' of minorities also conditions a certain level of 'cultural integration', which relies on mutual acquaintance, as well as on respecting the culture of minority and majority. There are usually higher demands on the

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<sup>2</sup> On the role of human, social, and culture capital, cf. especially Bourdieu (1986).

<sup>3</sup> Beck (2000) speaks of 'Brazilianization'.



minority, and on their capability to 'operate' with the majority culture, which also involves command of language and respect for the basic social norms (for example work ethics). This 'cultural capital' also provides for better opportunities at the economic level and becomes part of human (intellectual) and social capital: a certain level of cultural integration is a prerequisite of structural integration (Szalo 2002).

At the political level, ethnic minorities are usually represented at an inferior level compared to the majority. Therefore it is vital to determine to what extent minorities can influence their stature, and to what extent minorities are able to participate in the public policy making process (at both central and local levels)<sup>4</sup>, and how these possibilities are used.

The inclusion or integration of ethnic minorities into majority society is within the scope of the concept of citizenship. Only by guaranteeing and realising equal rights (civil, political, cultural and social), as well as by assigning the same duties to all citizens, regardless of differences in ethnic or national origin, can inclusion strategies be successful.

The coexistence of minorities and the majority population can, as a result of a varied degree of participation and integration in the above-mentioned levels of social inclusion, acquire various forms. There can be a model of 'pluralism' (as a policy of common citizenship that retains the cultural diversity of minorities); a model of 'assimilation' (a policy of adaptation of minorities to the values and models of behaviour of the dominant majority culture), and finally there can be a 'differential exclusion' (a policy of neglecting the rights and claims of minorities to common citizenship). These models can be depicted as multiculturalism, assimilation, and segregation (apartheid). There is indeed one more solution, which rules out the coexistence of minorities and the majority and rejects coexistence. This can be implemented by expulsion or liquidation of a minority by the majority or by the 'escape' or emigration of the minority.<sup>5</sup>

If the minority is to be socially integrated, certain prerequisites must be met on the side of the minority as well as on the side of the majority. This concerns the human, social, cultural and political potential of both sides of society, and their strategies employed when building mutual relations between the minority and the majority society. Generally we can talk about the 'potential of integration'. It is important to determine which model of integration will be best suited

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<sup>4</sup> For example, the need to exceed the 5% minimum of votes for a political party to be represented in the Parliament, blocks on principal the possibility of Romani ethnic demands be enforced politically in the Czech Republic.

<sup>5</sup> Also Romani emigration from the Czech Republic and Slovakia can be understood to be such solution.

to a particular arrangement and which will be most likely to succeed in the long run. The Romany have always sought their place in majority society. But majority society has traditionally exerted the policy of exclusion or segregation that, particularly under the communist regime, turned into a policy of forced assimilation, which indeed impinged upon the shortfall of potential for such assimilation on the side of Romanies. The question remains as to what extent and in what time frame it will be possible to mobilise the necessary potential in the new post-socialist democracies for the social inclusion of the Romany minority?

### **Questions, Hypothesis and Data**

In this article we deal with the question of what potential – human, social, cultural, and political – exists for the integration on the part of Romany minority, and on the part of the majority society in the Czech Republic; what kind of consensus exists between the minority and majority with regard to a preferred model of minority inclusion; and finally, what role public policy plays (and can be played) in the integration of Romany minority.

Our central hypothesis is that when approaching the problems associated with the integration of the Romany, we must conceive them being on all four levels of social exclusion/inclusion: social, economic, cultural, and political. Social deprivation or economic marginalisation of the ethnic minority are also demonstrated in resignation, decreased aspirations, in cultural patterns of fatalism and social dependency, and in devious patterns of behaviour which are understood and interpreted by the majority society as a cultural attribute of the Romany population. Therefore, social distance and aversion intensifies. As a part of this hypothesis there is a supposition regarding a significant impact of social institutions representing the majority society. They can at least partly influence the position of Romanies as well as influence the public. These institutions are important because of their symbolic influence: they strengthen social aspirations and trust on the part of Romany minority. Trust in social institutions by the majority society is then crucial for the growth of aspirations, motivation, and readiness to co-operate from the minority's standpoint.

To assess the questions posed by this study, we used mainly empirical research based on semi-standardised interviews (and questionnaires) in ten localities (towns, cities) in the Czech Republic. We interviewed about 100 members of the majority and of the Romany minority in each locality; the total sample being 1,000 members of the former and 1,000 members of the latter. The localities were chosen according to a typological key, so that the localities that would be represented had had a history of raised tension between the Romany minority and the majority, and also localities in which relationships had been rather

harmonious between the groups. Respondents were selected using the ‘snowball’ technique in the localities where the majority and the Romany minority were neighbours.<sup>6</sup> We also monitored the ‘objective’ indicators of living conditions of Romanies in these local neighbourhoods as well as the role of public policies aimed at the Romany minority living there.

The following sections deal with the principal areas which form an ‘integration potential’ of the Romany community: a) the human, cultural, social and political capital of the Romany community itself, b) their socio-economic position, material position, as well as social disadvantage and deprivation, c) the real and potential role of public policies and consensus about the mode of Romany inclusion into society.

### **Romanies in the Czech Republic: Legacy Of The Past**

Romanies underwent a ‘triple shock’ in Czech territory during the twentieth century. It began with the slaughter of the major part of the settled population in concentration camps during World War II, then the socialistic experiment of forced assimilation combined with paternalistic practices towards this population, and finally market transformation. Today Romanies are a socially and culturally crumbling community that is finding it difficult, if not impossible, to maintain their values and determine their own representation. The majority, confronted with socially pathological manifestations of this deprived and very often, un-concentrated population, is assured of their preconceptions. These dominate the public discourse – and political representatives are no exception.

After the holocaust of the Romanies in World War II, the majority returned to the Czech lands from Slovakia during the ‘socialistic industrialisation’ looking for work, income and better living conditions. Their coexistence with the majority was affected by forced assimilation, for which most of them were not prepared. Essentially, this policy of assimilation was based on forced settlement and obligatory permanent jobs—usually unskilled ones. This was accompanied by some social advantages (i.e. housing, welfare benefits). Under the communist regime, the majority of Romanies had very little personal or civic responsibility (yet under the given conditions, the majority population was also slowly losing this responsibility).

The fact that the Romanies were not well prepared for the new social situation in the course of market transformation, and that social changes would necessarily mean a change in their way of life, was not sufficiently reflected by the majority society. This was omitted by politicians, who were in a position to back the social position of the Romanies. In the process of market transformation Romanies were

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<sup>6</sup> The Research was backed by the Phare Project: ‘Inter-Ethnic Relationships’ (Cz 9901.01).

largely pushed out of the labour market as work opportunities for the unskilled labour force were being drastically reduced in the nineties.

Many of those Romanians, who under the old regime, gained the position of 'working class' and with their material and cultural standards came close to joining mainstream society, lost their jobs after 1990. On the other hand, social assistance benefits and state welfare (support) benefits (and also unemployment benefits) were enacted, which became easily accessible to Romanians. As a result of discrimination, low qualifications and a reduced demand for unskilled labour, some Romanians felt helpless in the formal labour market. They opted instead for a life based on welfare benefits, or one combined with occasional work in the informal labour market (which – unlike the formal labour market – opened for them). As a consequence of the spatial concentration of the unemployed and materially deprived Romany communities, there arose 'ethnic ghettos' and Romany urban underclass, often compounding ethnic relations in communities.

Resulting from everyday experience with the Romany community, whose segment demonstrates characteristics of an 'underclass' and socio-pathological traces, the Romany are often treated with contempt by the majority population. Racist views are even sometimes tolerated (including by state institutions) and violent acts by extremists movements against the Romany are not tackled in a consistent manner. With this 'symbolic toleration', the negative stereotypes about the Romany are strengthened. Fatalism and the dependency of part of the Romany community on social benefits, as well as the Romany participation in the grey economy, therefore initiates the stereotype of 'un-deservedness' of the Romanies to welfare benefits or to other forms of support provided by the state. This stereotype has a strong impact on the attitude of state institutions towards the Romany.

### **The Romany Minority's Potential for Integration**

Insufficient human, cultural, social, and political capital are generally understood as being the main problem preventing the social integration of the Romany minority. This presupposition holds true in many cases, yet at the same time we observe, in this regard, an inner structure of the Romany ethnicity that offers positive developmental trends.

First and foremost, it is important to note the development in the structure of the education of the Romany in the period between 1991 – 2001.<sup>7</sup>

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<sup>7</sup> However, we can be skeptical about these numbers, because in regard to the snowball technique of the respondents' selection, this does not concern strictly representative research based on random selection requirements.

**Table 1**  
**A Comparative Example of the Structure of Education of Romanies**  
**and the Results of Census in 1991 (in %)**

Maximum attained education	Romany respondents (2001- research)	Romany nationality (Census 1991)	Difference from Census
Maximum elementary education (incl. the category without education)	69.4	88.3	- 18.9
Skilled without A-levels	20.7	9.7	11
High school without A-levels	3.6	0.4	3.2
High school with A-levels	4.6	1.1	3.3
University degree	1.7	0.4	1.3
<b>T o t a l</b>	<b>100.0</b>	<b>100.0</b>	

*Source: Census 1991 ('Sčítání lidu, domů a bytů', SLBD) – 'Romany Nationality' (Selection requirements: age – 20 years old and above)*

The proportion of Romanies who did not attend school or did not finish elementary school is very low at present, even though the number of those in this problematic group is not insignificant (15%). In contrast, 30% of Romanies have higher education than elementary school. The number of Romanies who have completed secondary education and university degrees has recently grown (approximately four times). A visible class of Romany intelligence has been created, although not extensively and some have become doctors and lawyers. The proportion of Romanies with university degrees is generally higher in large cities – Prague, Brno, and Ostrava.

**Table 2**  
**A Detailed Structure of Education of Romanies (in %)**

	Did not attend school	Special school	Unfinished elementary education	Elementary education	Skilled without A- levels	Skilled with A-levels	High school without A-levels	High school with A-levels	Univ. degree	Total
TOT	2.9	15.8	10.1	40.6	20.7	2.4	3.6	2.2	1.7	100.0

*n* = 863

A significant number of Romanies have gradually managed to strengthen their cultural capital, which is signalled principally by the command of the language of the majority. Approximately 40% of Romany respondents in the Czech Republic declared having some problems with the use of Czech language, out of which only one-quarter (in total 10%) had major difficulties. The aspirations and efforts to culturally adapt are considerable: only 18% of Romany families speak solely or mainly the Romany language at home; 28% speak both languages at the same

level, but 21% speak predominantly Czech and 28% speak only Czech (10% of respondents did not answer). Thus, around 50% of Romanies use the language of the majority rather than their own language even in private. This change also indicates the loss of cultural identity: about one fifth of Romany respondents actually admitted that their children could not speak the Romany language.<sup>8</sup>

The social potential of the Romany community lies mainly in their degree of acceptance by the majority and in their relationship with the majority.

**Table 3**  
**Assessment of Individual Experiences of Discrimination**  
**from the Side of the Majority (Answers ‘Yes’ in %)**

By employer	33.3
At institutions	36.0
In public (and in social life)	55.8
My children at school	26.7

Wording of the question: ‘Have you ever experienced that non-Romanies suppressed your rights (discriminated against you) because you are of Romany origin?’

Even if 10 – 15% of respondents did not answer this question (in the case of discrimination of children at school it was one-third), it seems that public discrimination is the key form of Romany discrimination. In contrast, a smaller portion of the Romany minority (yet not an insignificant one) encounters discrimination within the system of institutions, either in education, employment, or public assistance etc.

One can also see that the potential for political participation among the Romany minority is low, and the same applies for their trust in the majority of institutions of the majority society; with the exception of the school system. Particularly low is the trust in institutions representing power and control by the majority society: the police and laws are not at all perceived by Romanies as institutions that would protect them.

Romanies show little interest in voting – only 25% are interested in participating in parliamentary elections; 42% decline to vote and 34% were undecided.

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<sup>8</sup> Similarly, the author of this article encountered a young ethnic Romani woman who works on the position of a Romani advisor and considers herself Romani, yet does not speak the language of Romani minority.

Obviously, the little trust in institutions and political representation expresses a low level of integration of the Romany minority in political and civil dimension.

**Table 4**  
**Trust of Romanies in some Institutions of the Majority Society**  
**(answers 'Yes' in %)**

	Trusts a lot (1)	Trusts less (2)	Trusts total (1+2)
Trust in schools	40	34	74
Trust in public institutions	15	44	59
Trust in government	3	40	43
Trust in courts, laws	14	28	42
Trust in police	6	40	46

This is a result of their marginal position in a specific dimension: Romanies themselves are aware of this disadvantage. As we can see from the results of the international research carried out by the International Labour Organisation<sup>9</sup> in the five post-communist countries (BG, CZ, HU, SK and RO) at the beginning of 2002, 70% of Romany respondents expressed the condition for Romanies becoming equal citizens by 'employing Romanies in local bureaux of public administration. 63% conditioned this by 'employing Romanies in central bureaux, and 52% by Romanies' 'representation in the government'.

#### The Socio-economic Position of Romanies

The socio-economic position of Romanies can be understood as an indicator of the structural aspect of social integration. In what manner is the potential of integration of the Romany minority in their real socio-economic situation represented? The Romany population is substantially differentiated: approximately half are unskilled or trained manual labourers; about 15% of those in their economically active age have the status of qualified labourers; and over 10% have a higher socio-economic status (this concerns mainly the category of lower skilled labour); and 20% above the age of 20 have not yet worked or their socio-economic status cannot be deduced from their position at work.

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<sup>9</sup> The Challenge of Roma Human Development Project (1,000 respondents in each participating country, representative sample).

As for the social mobility of the Romany population we can trace processes of social differentiation; the ‘losers’ in the economic transformation (represented by the unemployed—especially long-term—and underemployed) have grown in number. On the other hand, the category of ‘winners’ is disproportionately small. If we accepted the hypothesis on parallel ‘ethnically’ differentiated social stratification

**Table 5**  
**The Socio-economic Status According to Current or Previous Position at**  
**Work in ten Neighbourhoods**  
**(not including pensioners and students, in %)**

	Romanies			The majority		
	Men	Women	Total	Men	Women	Total
Senior specialist	0.0	0.3	0.1	2.6	2.1	1.9
Junior specialist	1.0	0.5	0.8	9.4	10.3	9.8
Senior non-manual	0.5	1.1	0.8	9.1	17.9	13.7
Junior non-manual	4.2	9.3	6.7	7.2	19.0	13.3
Small owner with employees	2.1	0.3	1.2	2.4	0.9	1.6
Small owner without employees	1.6	0.3	0.9	5.3	3.1	4.2
Technician, foreman	1.3	0	0.7	9.1	1.8	5.3
Skilled labourer	22.9	7.9	15.6	31.0	19.7	25.1
Trained labourer	23.4	19.6	21.6	8.7	8.5	8.6
Help	30.2	28.3	29.3	4.1	6.3	5.2
Farmer	1.6	0.8	1.2	1.7	1.1	1.4
Was not employed	8.6	30.8	19.4	7.5	9.4	8.5
No answer	2.6	0.8	1.7	1.9	0.9	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

*n* = 751 (Romanies), *n* = 863 (the majority)



systems within one society, and if we traced the social stratification through the optics of Romany community, then we could observe that the previously formed 'Romany socialistic middle class' (Vašečka 2000:156) partly disintegrates in the nineties. On the other hand, a large category of long-term unemployed welfare benefit dependants is formed. The entrance of Romanies into the 'old' or 'new' middle class, defined from the point of the majority society (the same applies to the categories of the skilled labour force) is far too slow and unassertive. That said, the positive shift in the structure of qualification/education might tempt one to be optimistic about the future.

In the Czech Republic there is no noticeably different social group that would be definable by its distinct social trait, whose specific unemployment rate would be higher than that of Romanies.

**Table 6**  
**Romanies – Their Social Position in Relation to Education (in %)**

	<b>Employed</b>	<b>Underemployed</b>	<b>Unemployed</b>	<b>Inactive</b>	<b>Pensioners</b>	<b>Total</b>
Incomplete elementary ed.	3.7	9.4	13.1	13.5	30.8	12.9
Elementary ed.	47.7	65.9	59.1	60.0	53.3	56.3
Skilled/high school	38.1	17.6	22.6	21.1	13.3	24.4
A-levels/univ. degree	10.6	7.1	5.2	5.4	2.5	6.4
	100.0	100.0	100.0	100.0	100.0	100.0

*n* = 860; notes: the association is significant at level .000 (contingency coefficient *CC* = .301, Cramer coefficient *Cr* = 182)

The findings indicate that the chances of Romanies gaining employment are more related to the qualities of human capital rather than to the ascribed social characteristics. This is significant. Whereas age differences, according to our findings, did not impact upon the chances of Romanies finding employment, the educational level possessed by them mattered considerably. For economically active persons with incomplete elementary education, the relative indicator of chances to work (1.00 is average) is 0.28. Social capital also plays an important role here, or more to the point social networks, which make it possible to get work.

Next to social capital, cultural capital (indicated by the knowledge of the Czech language) determines the chances of Romanies attaining full-time jobs. 84% of full-time employed Romanies declared having a good command of the Czech language, whereas among the unemployed and underemployed, the number was slightly more than 50% (55% and 52% respectively).

We can also trace that in localities such as Ostrava, Chomutov, Přerov, ÚstínL., where the general rate of unemployment is high, Romany unemployment is also high. In contrast, localities with low unemployment rates such as Český Krumlov and Pardubice show low unemployment amongst the Romany population.

Feelings of employer discrimination are stronger in those categories of Romanies who are more disadvantaged in the labour market, or more affected by unemployment (even though the differences are not so varied). Therefore, it is difficult to distinguish between cases of 'discrimination' with a real racial undertone, and those where stereotypes intensify the actual higher risk of unemployment resulting from other factors.

However, the expressed experience of discrimination on the side of Romanies does not match the rate of unemployment in the locality. For example, it is highest in Prague, where there is low unemployment, and also in Vsetín, where unemployment slightly exceeds the Czech average. But discrimination is relatively low in Chomutov and Přerov, towns with high unemployment rates.

**Table 7**  
**Romany Experience with Discrimination by Employer in 10 Localities (in %)**

	Yes	No	No answer	Total	Rate of unemployment
Brno	38.0	51.0	11.0	100.0	8.2
Český Krumlov	17.0	60.0	23.0	100.0	7.2
Chomutov	28.0	65.0	7.0	100.0	16.5
Ostrava	34.0	39.0	27.0	100.0	16.4
Pardubice	32.0	47.0	21.0	100.0	5.9
Prague	48.0	47.0	5.0	100.0	3.5
Přerov	28.0	44.0	28.0	100.0	14.0
Uh. Hradiště	21.3	68.1	10.6	100.0	6.5
Ústí n.L.	33.0	58.0	9.0	100.0	14.3
Vsetín	47.0	39.0	14.0	100.0	9.5
Total	33.3	50.9	15.8	100.0	8.7

*n = 947; notes: the rate of unemployment according to the Ministry of Work and Social Affairs (MPSV) in June 2001, in the table as the rate of unemployment for the Czech Republic*

Worse conditions on the labour market thus do not necessarily translate in a larger threat of discrimination for the Romany. We can propose a hypothesis that disadvantaging (if we were to use this term instead of discrimination) on the labour market is quite stable – as it has deeper social foundations than the current development on the labour market. It is therefore a comparatively stable factor for disadvantaging Romanies, even on a relatively favourable labour market.

The profile of employment and unemployment of Romanies is shaped by the structure of the local labour market, and by the route of their migration over the past years. For example, we can trace a high proportion of unskilled workers in areas such as Chomutov and Ostrava, as well as in Vsetín (75 – 80% of economically active persons). In contrast, we find a relatively higher proportion of the skilled labour force (not only for manual labourers) in Prague, Český Krumlov, Pardubice, Brno, Uherské Hradiště. In contrast we find a lower proportion of categories of unskilled labourers in Pardubice (only 37% of economically active people), in Český Krumlov (55% of economically active), in Prague (58%), Brno and Uherské Hradiště (slightly over 60%).

It is to some extent surprising that Romany unemployment is not highest in the regions with the highest unemployment rates, but rather in regions where the labour market is slightly more favourable, yet not overly favourable. This applies to the regions of Ústí, but also Vsetín and even Prague where we find only 9 – 15% of economically active Romanies who have not encountered unemployment. On the other hand, in towns such as Český Krumlov, Pardubice, and also Uherské Hradiště, 29 – 36% of Romanies have not encountered unemployment.

In our view, the hypothesis that Romanies (resulting from more factors – see above) rotate permanently in the secondary labour market, is confirmed. When possible, and in their opinion it is beneficial, they accept at least some temporary and unstable jobs that this market offers. Yet they are indeed the first to be made redundant when their employers have problems. As a result, the frequency of previous unemployment of Romanies is high even in places where labour markets do not show an extremely high rate of unemployment. In any case, we observe that the majority of Romanies remain, despite high unemployment rates, an active population.

### **Material Deprivation of Romanies**

We used as an indicator of the subjective experience of poverty, the classic (modified) question of H. Deleek from the University of Antwerp. The question was changed for the respondents to a five-point scale instead of a six-point one (which is usually used), as the original scale proved to be rather complicated during the questionnaire testing.

About half of the Romanies declared that they found it difficult to make ends meet—21% found it very difficult. The risk of poverty for Romanies is more than double that of members of the majority population.

We found a significant difference in the degree of subjective poverty of Romanies in relation to their position in the labour market, where the unemployed is the most deprived group. In comparison with employed Romanies the proportion of poor people among the unemployed is four times higher.

**Table 8**  
**Subjective Poverty of Romanies in relation to the Position on the Labour Market (%)**

How do you find it making ends meet?	With great difficulties	With difficulties	It depends	Easily	Very easily	Do not know/no answer	
Employed	8.7	21.0	51.1	15.5	3.2	0.5	100.0
Underemployed	15.9	48.9	28.4	4.5	1.1	1.1	100.0
Unemployed	34.9	31.0	27.4	4.8	0.4	1.6	100.0
Not active	25.5	34.0	28.2	7.4	3.7	1.1	100.0
Pensioners	22.0	43.1	25.2	8.9	0.0	0.8	100.0
<b>Total</b>	<b>22.5</b>	<b>32.6</b>	<b>33.3</b>	<b>8.6</b>	<b>1.8</b>	<b>1.0</b>	<b>100.0</b>

*n = 870; the association is significant at level .000 (contingency coefficient  $CC = 0.345$  and Cramer coefficient  $Cr = 0.184$ )*

The position on the labour market is a determining factor of Romany dependency on welfare benefits, where the overwhelming majority of the unemployed and economically inactive are dependent on welfare benefits, as opposed to 15% for employed Romanies. Apart from this, it is indicative that almost a third of Romany pensioners are dependent on social assistance benefits. Their low incomes in the past, and short or fragmented job career often meant only minimum pensions. Also, it seems that the effect of the welfare system eliminates, at least to a certain extent, material deprivation of Romanies. Subjective poverty experience was actually found only in approximately 20 – 30% of respondents – Romanies, regardless of the rather long-term dependency of almost half of them on welfare benefits.

The position on the labour market is the deciding factor in Romany poverty. This does not concern only unemployment, but also low paid jobs, underemployment, non-employment and low entitlements resulting from the pension system (and welfare) schemes because of the insufficient work history that many Romanies experienced – pensioners. Poverty is indeed also found among the employed, economically inactive, and pensioners. All of the above-mentioned characteristics

of the current or past position on the labour market then creates in the Romany community a powerful stratum of permanent claimants of welfare benefits.

In summary it can be noted that the subjective experience of poverty and the dependency on benefits are differentiated according to education, to their command of the Czech language and their health and work history (current and past). Striking differences in the socio-economic position of Romanies in various localities in the Czech Republic can be observed.

**Table 9**  
**Social Position of Romanies in 10 Localities**  
(percentage from total respondents is given in each column)

	<b>Employed</b>	<b>Unemployed</b>	<b>Benefits</b>	<b>Poor</b>
Brno	30.0	24.0	53.0	32.3
Český Krumlov	55.1	12.8	17.0	10.4
Chomutov	12.0	40.0	67.0	40.0
Ostrava	17.7	38.5	56.0	52.1
Pardubice	32.1	15.5	23.0	13.1
Prague	29.7	25.3	45.0	36.6
Přerov	15.0	45.0	56.0	27.5
Uherské Hradiště	22.7	25.0	59.6	38.6
Ústí nad Labem	26.3	32.3	47.0	34.0
Vsetín	15.3	26.5	47.0	12.2
<b>Total</b>	<b>25.2</b>	<b>29.0</b>	<b>46.4</b>	<b>29.8</b>

*n* = 870

In a nutshell, the socio-economic position of the Romany minority in comparison to the majority is actually marginal, especially in terms of access to the formal labour market. Nonetheless, the position of Romanies on the labour market is markedly differentiated, and there is a bigger majority of adult Romany population who works. Indeed, among employed Romanies there are only a small number of cases of welfare recipients, and their material deprivation is not as great as those Romanies who do not work. In fact, their proportion is identical to the proportion we find among the majority population. There are substantial differences in positions on the labour market and the material standard of the members of Romany community among the localities in the Czech Republic. This often depends on previous routes of mobility of the Romanies. The worst situation is in regions, where 'socialistic industrialisation' paved the way to severe economic decline and social disintegration. It comes as no surprise then, that the concentration of Romanies actually intensifies the social imbalance and tensions in these regions.

## The Potential for Integration and the Role of Public Policy

Measures to support the integration of the Romany community have a chance to succeed if they are based on the appropriate strategies of coexistence on the part of the Romany minority as well as the majority.

Both Romanies and members of the majority reject the solution of mutual relationships based on segregation principles (or Romany emigration as a fix-all solution). Instead they overwhelmingly support the principle of mutual understanding, which is the basis of the multicultural model of coexistence. However, among the majority there is an even stronger demand that Romanies adapt and align themselves to the majority model of coexistence. Interestingly, the majority of Romanies accept this demand.

**Table 10**  
**Opinions on the Solution of Co-existence of Romanies and non-Romanies**  
**– the Majority (%)**

Opinions on the Solution of Co-existence of Romanies and non-Romanies	The majority				Romanies			
	Yes	No	No answer	Total	Yes	No	No answer	Total
Learning to understand one another	84.5	7.8	7.7	100.0	80.9	3.6	15.5	100.0
Romanies should adapt to the majority society	79.1	11.3	9.6	100.0	52.1	23.9	24.1	100.0
Romanies should live separately from the majority society	15.4	70.4	14.3	100.0	3.5	78.1	18.4	100.0
Romanies should spread out in the majority society	63.1	21.1	15.9	100.0	64.0	15.6	20.4	100.0
Romanies should go somewhere else	14.5	65.9	19.7	100.0	7.7	71.2	21.1	100.0
The majority society should do more for Romanies	12.5	72.0	15.6	100.0	67.1	14.5	18.5	100.0
Romanies themselves should try to improve their position	90.1	2.3	7.6	100.0	64.3	11.1	24.6	100.0

The opinion of Romanies and the majority, however, is fundamentally different on achieving this solution of mutual coexistence. The majority unequivocally demands that Romanies improve their position themselves (90%), while only 13% of the majority agree that they should assist in the process. Romanies acknowledge the need to try and improve their position (67%), but they also demand more help from the side of majority (64%).

Thus, there exists a potential for forming a multicultural society, although the majorities' call for assimilation is even stronger. The strategy of assimilation was

implemented systematically in the past, and it is evident that a large proportion of the Romanies themselves has accepted this imposed form of coexistence with the majority as a real chance and strategy for the improvement of their position. The spread of the Czech language in Romany households; the generally positive attitudes of Romanies towards mixed marriages (only 12 % declared they would mind if their children married a member of the majority), and the reality that many Romanies listed their nationality as being Czech rather than Romany, all seem to indicate the potential for assimilation into mainstream society on the part of the Roma.

The majority society recognises the right to cultural identity, political participation and Romany support from the side of the majority. These should, in their view, continue to have or receive a real institutional form. At the same time, recent Czech support for Romany counsellors in the local sections of state institutions and of Romany educational assistants in schools is promising.

**Table 11**  
**The Support of the Rights of the Minority and Measures for its Benefits by the Majority (in %)**

	Definitely yes	Rather yes	Undecided	Rather no	Definitely no	No answer	Total
Participation in the solution of their problems	41.6	28.9	20.5	19.7	17.3	4.0	100
Representation in local councils	28.7	28.7	20.5	9.7	9.4	3.0	100
Own cultural life	55.7	28.8	8.3	3.1	2.2	1.9	100
Romany assistants at schools	33.4	34.5	16.1	7.6	5.2	3.2	100
Classes in Romany language	17.3	21.5	20.5	19.7	17.3	4.0	100

*Wording of the question: 'Would you agree to have, as an ethnic minority of Romanies, the right to...'*

Czechs generally are quite tolerant and friendly towards the Roma. These attitudes are in concordance with Romany demands on their political participation and representation in state institutions. On the other hand, they are not enthusi-

astic about their own greater engagement in improving the social position of the Romany minority. According to 60% of Czechs, the state takes sufficient care of Romanies and over 20% even declared that the state takes greater care of them than it should. Also, more than 70% of Czechs do not believe that the majority should do more for Romanies than it does at present (only 13% agree with this option). Approximately 18% of Czechs answered favourably to the question on affirmative action<sup>10</sup>, 20% were undecided, and 63% rejected the idea.

## Conclusion

The position of Romanies in Czech society is marginal, as it is in numerous other countries. Despite this, it seems inadequate to approach the ethnic minority as one uniform entity. First, their socio-economic position is markedly differentiated (even though they overwhelmingly maintain a low social status). Possibilities of welfare benefits have also opened up (which offers incomes close to those of households of unskilled labourers), opportunities in the grey economy, and even new illegal activities.

Many Romanies – notably those who have lived with the Czech majority for a long period of time – have adapted to this development. Those with sufficient integration potential most often follow the path of assimilation; they adapt to the majority society and look for their place in its social structure. Romanies who do not have this possibility occupy a marginalised position – they make use of welfare benefits, which very often top off incomes from the informal economy. At present, Romanies are not really involved in the implementation of the interests of Romany community through political means, and their potential in this sphere is weak.

The majority society is principally welcoming towards the Romany minority and their aspirations to integrate. Still, the assimilation model of coexistence and Romany integration predominates; and they are enforced by unequivocal demands from the side of the majority, as well as their acceptance by the majority of Romanies. However, the Romany minority has one important claim, which is not accepted by the majority: they expect greater support from the majority in their quest to assimilate.

Of course there are localities in the Czech Republic with substantially different levels of Romany integration. In two out of ten localities that we researched, the degree of coexistence was exceedingly better than elsewhere. This was the result of long-term development strategies. On the other hand, there was an open local policy on the part of local authorities, which – although they did not formulate

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<sup>10</sup> Wording of the question: 'Do you think that there should be measures taken in order to level the Romani position in relation to the majority, for example advantages in schools or at work?'



any special measures for the benefit of the Romany community – positively accepted Romany attempts to integrate and negotiated and co-operated in solving their problems. This ‘civic’ model can operate with success in the Czech Republic although in the short term it has little chance of effectively integrating a large number of Romanies in the problematic localities. Unfortunately, it is these localities which are predominant in the Czech Republic.

Consequently, the crucial future challenge lies in the reassessment of the principles of policy towards the Romany minority, and in providing more systematic support to them. Above all, full recognition and acceptance of the principle of common responsibility for integration on the side of majority are necessary.

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# STRUGGLES FOR RECOGNITION ON THE BATTLEFIELD OF SOCIAL SERVICES: THE CONFLICTING INTERESTS OF GENDER AND ETHNICITY IN CONTEMPORARY HUNGARY

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## Introduction

The continuing struggles of disadvantaged and/or deprived social groups – such as women and different ethnic minorities – to gain due recognition in their immediate and broader social milieu has contributed to the substantive reshaping of the established welfare states over the past decades (Mishra 1984, Taylor 1994, Habermas 1994, Honneth 1995, Fraser 1997). Their fights have not been restricted to the values and daily formation of inter-group relations; power relations and redistribution, labour market participation, and issues associated with social and welfare institutions also factored heavily on their progressive struggle.

In the following, I will attempt to show the peculiar features of post-communist struggles for recognition. First, I will discuss Hungarian women's struggle to gain acknowledgement for certain forms of work that had been forcibly locked into informality under the old regime. In analysing women's silent mass-movement for improving their economic and social positions, I will attempt to focus on the obscure 'trade-off' that has emerged between decreasing gender inequalities and increasing class inequalities in contemporary Hungary. The latter will result in a presentation of a completely different example of recognition struggles: that of the dramatically impoverished and deprived Romany minority. Concerning their struggle, the paper will present the continuous reinterpretation of Romany identity amid the ongoing process of massive marginalisation on ethnic grounds, and will explore the causes of a marked rejection of the policy of social integration on the part of the majority. I will also consider some of the major consequences of this mass-refusal, and will attempt to point out the dangers that follow from the recent trends to the deterioration of the newly established democratic order of the country.

The choice of the two cases is not arbitrary. As will be demonstrated, much of the success of any of the two movements depends on the state of the other. Given the weak institutionalisation of legally guaranteed social protection, the flow of women into the expanding local social services functions as a 'substitution'

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for the decline of universal provisions. The immediate consequence is improved upward occupational mobility and the betterment of women's economic and social positions. The strong articulation of distinct claims of the Romanies on the basis of minority-rights has shifted the issues of social protection into the closet of political discourse on welfare. There, it has unwillingly contributed to the frequent closure of local social services – together with women's recently established jobs in them.

Of course, it is not “they” – either the women flowing into the social services, or the Romanies struggling for acknowledgement of minority rights – who create these traps. Rather, it would appear that they are each captivated by their own circumstances, which neither of them can control, let alone change. Instead, it is the dubious way of managing the otherwise necessary decomposition of the once omnipotent state that creates the socio-political space for their conflicts. The continuous clashes of interests between women entering the enlarged job-market of social services and the Romanies fighting against social deprivation in the arena of minority-politics follow on from the same decisive process of the post-communist transformation: the destruction of the institutional pillars of the earlier all-embracing power, presence, and influence of the central authority. It is this complex process of state withdrawal and the simultaneous detachment from it, which creates room for marketisation from below for large groups of women. However, this also leads to the sharp reinterpretation of societal policy, thereby throwing universal social and political rights into the dustbin, and leaving their ‘redefinition’ to the often cruel internal fights of local communities. Though the daily conflicts arising from this situation appear at the local level, the deeper analysis will hopefully demonstrate that it is the control over power and redistribution that matters, and in light of this, women and the Romanies are equally powerless. Thus, one can argue that the two decisive strands of the struggle for recognition terminates in mutual losses and simultaneous gains for all those interested in the unbroken reproduction of the highly unequal access to power in contemporary Hungary.

I will present below the presentation of two concurrent histories of the near past – that of Hungarian women's success in gaining strengthened positions in the post-1989 labour market, and that of the Romanies who, due much to the same processes, have suffered dramatic losses during the past decade. The brief historical overview will be followed by outlining one of the gravest – though logical – consequences: the dangerous co-mingling of the ‘social’ and ‘minority’ aspects of poverty, with its resulting damage on the running of daily minority-politics. The final section of the paper will discuss the evolving – structurally determined – contrasts between women's interests and those of the Romany minority. It will conclude by making some general comments on the state of democratic politics amidst the post-communist transformation.

## Women's Struggle for Recognition at Work

Much to the surprise of sociologists, political scientists and economists studying the features of post-communist transition, Hungarian women did not face a general deterioration of their social and economic positions during the 1990s. Rather, labour market surveys and sociological studies unanimously registered an incremental increase in relative female gains in comparison to men, and also to women's pre-1989 conditions.

First, the annual national educational reports clearly indicate women's rapidly rising participation in higher education. The yearly rate of enrolled female students has regularly exceeded those of the males during the past decade. As a consequence, women effectively took over the lead in the gender-composition amongst full-time students by the late 1990s (their share rose to 56 per cent by 1999/CSO 2000/). Second, as surveys on employment show, women have been less hit by the negative side effects of economic restructuring than men. They have been less often faced with the threat of losing access to meaningful work; and when women did lose their jobs on average, they found new ones faster than men in the same position.<sup>1</sup> Third, the data on household-budget surveys indicated that nowadays women are less hit by poverty, and have better access to high income in their households than men.<sup>2</sup> Finally, in contrast to the prevailing practice in most European countries, access to the various benefits and welfare provisions does not show any differentiation by sex in contemporary Hungary, or if it does, these differences give women the advantage.<sup>3</sup>

When searching for an explanation on these developments, it is important to underline that they certainly cannot be attributed to any deliberate policies aimed at the closure of the gender-gap, or because women's socio-economic advancement ranked high on the political agenda. Such policies were not out-

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<sup>1</sup> By 1999, the respective unemployment rates were 7.5 p.c. for men, and only 6.3 p. c. for women; the proportions of those being on the dole for more than a year were 47 per cent for men, and only 43 per cent for women (Laky 1999, CSO 2000).

<sup>2</sup> As the regular household-budget surveys show, in 1998, the proportion of female active earners in the lowest quintile of the per capita income-distribution was 10.8 per cent (with a respective 15.5 per cent figure for male earners); at the same time, 31.1 per cent of the female employees could be found in the highest (fifth) quintile, while the respective figure for male earners was only 27.4 per cent. (Janky 1999)

<sup>3</sup> Given that women live some 10 years longer than men, they receive pensions, assistance for the elderly, health-care and other age-specific provisions for longer periods. These demographic differences are in the background of women giving 75.4 per cent of those enjoying regular local welfare assistance, 64.3 per cent of those receiving meals-on-wheels and home-care, 65.5 per cent of those taking up services in the network of community-based day-centres for the elderly, and so on (NYEDO 1994).

lined by any of the political parties or other influential political actors over the past decade. In fact, the subsequent post-communist governments were at best insensitive to gender related issues or, at worst, represented a clear conservative stand with announced expectations for women's return to the classical roles of motherhood and housewife.

However, women took the opposite route. They responded to the experience of earlier forced 'emancipation' through *compulsory* employment in the command-economy with the *intensification* of freely chosen entrance to and visible presence in the now *marketised* world of organised labour. In this sense, one may say that the clear improvement of women's conditions over the past decade has occurred *despite* loudly propagated political wills from above, but still in harmony with the major base of the nation-wide political consensus: Hungarian society's strong determination to rapidly establish a well-functioning and modernised market-regulated economy.

This vast restructuring has been partially due to women's concurrent move from old-fashioned industries to modern segments of the labour market. Building on their previously accumulated experience in the production and exchange of a wide range of personal and social services within the informal economy, tens of thousands of now redundant female workers in the former 'socialist' areas of: construction; chemical and textile industries; agriculture and administration, etc. can now easily transfer and become acknowledged service-providers in the newly expanding economic fields.

All this has been happening, however, in a strange way. The new service jobs are not distributed amongst a growing number of employees, but are mainly done through the multiplication of duties of those already in employment (Szalai 2000 – Gail-Sue). All kinds of formerly unknown combinations of 'first' and 'secondary' occupations appear on the scene, and 'status' considerations appear to be irrelevant. More precisely, they matter in choosing and cautiously preserving one's primary job, but not in additional ones which women secure to increase income and protect them from unforeseeable insecurity in employment. The different notions attached to the different kinds of work explain why women are keen to acquire a 'first' job with acceptable prestige, even if they suffer a continuous decrease in the value of earnings from it. However, this loss is compensated by the second and third jobs they acquire, where security and money are the primary concern and one is not pejoratively labelled by the social nature/status of the chosen activity. It is for this reason that a variation of life and work-styles has appeared. Nurses, schoolteachers, librarians or public servants of the local administration are ready to do cleaning, catering or home visiting in the evenings. Well-trained female economists do not refuse to aid management for house-maintenance on the recently privatised run-down state housing blocks.

Accountants and university lecturers often work as part-time saleswomen or taxi-drivers. One can find journalists and lawyers working as casual business-consultants in brokers' firms; and, above all, women with all kinds of 'primary' occupations provide for a wide range of personal social services in child-care, welfare and care for the elderly and the sick (Horváth 1997).

In light of what has been said so far, is it still justifiable to call the above-outlined massive move of Hungarian women on the labour market a 'recognition struggle' in the established sense of the term? Or, would it be more appropriate to simply perceive the process in the classical terms of 'economic adjustment', pointing to those aspects of it, which, in this exceptional case, have worked to women's advantage? My answer to the dilemma would certainly be in the affirmative. When arguing for the relevance of the recognition struggle approach (instead of the more limited economic one), I would like to underline those aspects of the women's silent movement which points to a broadened self-perception of their roles, and the redefinition of their identity – in other words, to those which touch upon the core of "recognition".

It should be noted that women's current move on the labour market transcends the passive, adaptive attitude of the 'classical' worker amid conditions of a market-economy, and contributes to the alteration of fundamental social relations. By mobilising their knowledge, diverse expertise, and readiness to accept a wide range of job-arrangements, women cross an important borderline: that which exists between the *private and public spheres of social life*. During the late decades of socialism it was more and more their achievements in the private, informal domain that gave them self-esteem, pride and respect. Still, their recognition remained locked into the informal networks of family, kinship, neighbours and friends, and was rarely expressed in regular payments. With the 1989 – 90 turnaround, the irons of forced 'private-ness' have been removed, and the very same sources of self-esteem, pride and respect have become grounds for publicly acknowledged *social* positions, together with the accompanying material rewards. However, such an important change did not come about automatically. While the conditions were provided by the nation-wide commitment to marketisation, women had to act as active agents to achieve the necessary institutional and legal guarantees. True, these latter aspects of their struggle for recognition have not taken the form of a classical political mobilisation but have rather remained within the framework of the trade union movement, local lobbying and the likes. It is equally true that without the strong backing of an organised women's movement with clearly articulated claims that become part of the prevailing political discourse, the new institutional arrangements have frequently proved fragile, poorly protected and uncertain at the individual level. Despite these weaknesses, the break-up of the strict border between women's public and private economic contributions is still a reality which has completely changed women's opportuni-

ties, which has created the base of future claims for attaining the still missing firmer legal and institutional guarantees. In this sense, women's massive move onto the labour market has not only brought about better economic rewards and improved social positions, but it has also concluded in the recognition of their rightful participation in matters that – by their very nature – are discussed and settled in the public arena.

The irreversible shift between the public/private divide is perhaps the most remarkable outcome of the processes discussed so far. This unquestionable achievement of women's 'silent recognition struggle' has been paired, however, with a serious conflict: the simultaneous *individualisation* of poverty. The two processes are not independent from each other. First, the recent rapid growth of inequalities of income and wealth between women in the higher and lower ranks of the social hierarchy provides prosperous soil to the blossoming of all those ideologies that derive advancement from personal efforts. Because of the lack of an organised women's movement with a clear agenda, established social critique and articulated political claims, there is no alternative discourse for discussing these inequalities other than the antiquated one of 'discipline' and 'merit'. It seems that success depends only on individual exertions, and so does falling-behind on the lack of the necessary internal drive. Obviously, this ideology is not restricted to explaining and justifying solely the relationship between rich and poor women, but imbues the entire political domain. At any rate, it works against solidarity, and also hinders the creation of organisations aimed at the representation of collective interests. As a result of the deficiency of such institutions and forms of interest-representation, women are left alone in their individual struggle for advancement. Amid the conditions of such lonely struggles, the 'individualisation' of social differences assists the acceptance of harsh forms of subordination. This is emphasised by the spreading of unprotected and poorly paid labour that thousands and thousands of women in low-paid 'first' employment fulfil in the households of the "better-off". However, practices of subordination have a self-sustaining tendency. Thus, it is especially in the less developed agricultural areas of the country that an effective revitalisation of the pre-war forms of domestic serfdom can be recorded, together with the reappearance of cast-like differences in consumption and the way of life.

In addition to the rationale to justify the emerging and increasing class differences between women, the basic interests of daily living also veer a large and rapidly expanding group of them towards taking an active share in the individualisation of poverty. These are the tens of thousands of female employees who have been moving from the lower positions of the social division of labour to the new personal and welfare services. The maintenance of many of the jobs in these services is a direct function of the personified perception of poverty, which makes the clients' case an issue for individual care. The boom of personal



guardianship as the sole response to poverty is an immediate consequence, and also a 'precondition' of women's employment here. As long as personal provisions are rendered according to the current exclusive principle of individually investigated 'neediness', there will be jobs to run the necessary investigations, to manage means-testing, to carry out welfare administration, to provide social work, home-visits, counselling and emergency care etc. And these are the jobs where mainly former working class women now find employment. Thus, they would risk mere sustenance by formulating a critique of the personalised explanations of poverty, which would then obviously conclude in the questioning of their own functions and roles in the welfare system. Further, large groups of these care-providing women have a first-hand base for comparison. Since most of them also experienced personal poverty, their personal history and way out of destitution is a justification for the 'individualised' argument; if they succeeded, then escaping should merely be a matter of discipline, diligence and adaptation for their clients as well. Thus, women whose current rise and success rests on their earlier experience in the informal economy, have reason to remain blind to this fact, and stick to the individualised explanations. It is against their interests to question the prevailing personified views, and seeks the deeper structural factors behind access to and exclusion from, the marketised relations of the economy. Instead – whether known to them or not – women in welfare provision have a great deal of vested interest in the maintenance of poverty strictly *separated* from the market, strictly driven and regulated by other rules, and strictly remaining under their 'own' control. In short, they are protected against slipping back into destitution as their clients fail to get out of it.

True, the drama of the clashing interests between women in welfare and women (and men) on welfare rarely appears in such a sharp form. This is partly because the colourful causes and manifestations of poverty often hide these inter-group relations, and partly because the forms of welfare assistance transform the conflicts into those between the poor and the majority-groups in their local communities.

It is not the task of the present paper to explore all the various causes and appearances of this phenomenon in detail. Nevertheless, there is an outstanding group among the present-day poor, whose case the above mentioned individualisation of poverty has led to dramatic conflicts on ethnic grounds: the Gypsies. Their recognition struggle for receiving due minority-rights distinct from their social rights has witnessed serious, and sometimes face-to-face, clashes with women's claims for due recognition of their work in providing welfare for them. Before turning to these conflicts, I would like to outline their immediate base: the intermingling of the 'social' and 'minority' aspects of poverty in the case of Hungary's Gypsy minority, and the built-in traps of the struggles that they have endured to clear up the confusions arising.

## Attempts at Practising Minority-Rights: The Built-in Dilemmas of Romany Local Self-Governance

After several years of heated debates behind the doors of government offices, in the Constitutional Court and in other national decision-making bodies, in late 1993 the Parliament enacted the much-awaited decree on the rights of “national and ethnic minorities”.<sup>4</sup> The Act was the first attempt in Hungary’s post-war history to define minority rights as distinct from all other rights and entitlements, and granted them the right to select nominees for the upcoming minority-elections. As a result of the first held minority-elections in 1994, 679 minority governments came into being, out of which 416 were Gypsy self-governments. Despite controversial experiences, the popularity of the institution has risen. Thus, four years later in 1998 the new elections brought into being twice as many institutions as before: their number suddenly increased to a total of 1363, which included 771 Gypsy governments.<sup>5</sup>

At the time of the codification into law of minority-based self-governance a great deal was taken into account, but the case of the Hungarian minorities took a backseat. Instead, two important foreign policy considerations steered policy formulation: (i) Hungary’s relatively recent accession to the European Council and, more importantly, (ii) the problem of ethnic Hungarians living outside Hungary’s borders. The particular conditions behind the nascent laws determine the limitations on the institutions that it helped to create. It was the country’s largest minority, the Gypsies, whose needs were least taken into account by the Act. Many other minorities also received few viable rewards from the new developments.

As far as the first motive behind the hurried enactment – Hungary’s rating in the European Council – is concerned, the political aim of this legal gesture was the expression of an intention to satisfy Western norms. Upon gaining

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<sup>4</sup> Act LXXVII/1993 on ‘The Rights of National and Ethnic Minorities of Hungary’.

<sup>5</sup> These figures are rather meaningless without knowing the population-size of the respective minority-groups. However, due to the political novelty of the phenomenon, statistical information is rather poor in this regard. The only source which provides a clue to a more or less valid estimation is the data of the 1990 Census on self-reported minority-belonging. On the ground of these data, the proportion of the 12 national minorities together is around 1 per cent. The case with the Gypsy population is somewhat different, and even more difficult from a statistical point of view. Due to the prejudices and fears around the ‘Romany issue’, self-reported sources hardly can be used for any calculations. Hence, the now officially applied numbers for the size of the Romany community are driven from representative sociological surveys which originally aimed at studying their living conditions, educational patterns and labour market participation. According to these investigations, the ratio of the Romanies makes up some 5 per cent of Hungary’s population. For more details see Glatz, Kemény (Glatz, Kemény 1999) and also Horváth, Landau, Szalai (Horváth, Landau, Szalai 2000).

membership to one of Europe's most important political institutions, Hungarian legislation incurred the obligation to put modern European minority-policy principles into legal forms. Hungary had to enact constitutional provisions establishing the freedom to choose one's identity and the maintenance of respect for those identities, statutory legal guarantees for the everyday protection of the exercise of minority rights. Although these guarantees were very sketchy and were to be refined considerably later on, with the promulgation of Act LXXVII of 1993, Hungary indisputably provided the EU with important evidence of the seriousness of its commitment to democracy, and thereby justifiably claimed a certain degree of reciprocity.

However, important as it was to create a Western 'image' for Hungary, an even more powerful motive for the promulgation of the Minority Law was its second foreign-policy element, the situation surrounding ethnic Hungarians beyond the borders, which held the most weight. The political calculation of the then ruling conservative right-wing coalition was, from its own viewpoint, quite rational. Since, other than the Gypsies – who had a low level of political organisation – the national minority population in Hungary was rather small and well assimilated, the domestic policy risk would not be 'excessively large' if the legislation proceeded relatively generously in the determination of minority entitlements. However, the 'external' effects of such a step would be considerable. In the wake of the introduction of such a law in the mother country, the almost 5 million ethnic Hungarians living beyond the borders would have something to 'bring to the table' in their endeavours to have similar rights enacted into law in the countries in which they were citizens. And what is even more important, good arguments and political deals would be useful tools enabling them to put up a realistic struggle for parliamentary representation in Romania, Slovakia, Ukraine, and perhaps one day in Yugoslavia. Moreover, the Hungarian influence, which it was hoped would grow abroad, could later help nationalist forces in Hungary. That is, taking everything into account, the declared generous recognition of the Hungarian ethnic minorities' rights, even if somewhat 'above their heads', favoured Hungary's standing in the West, profited those in power, and certainly could not have 'harmed' the affected minorities, or at least, so it seemed.

Despite several modifications during the past six years, the Act still bears the imprint both of these political determinants of its 'creation', and of the fact that those affected by it—Hungary's national and ethnic minorities—have not yet gained any powerful say in its (re)formulation. As a consequence, the Minority Law, and especially its regulations concerning self-governments, defines the institutions according to the initial aims of the Act. Thus, a great deal of 'outer' and 'alien' considerations, determines the framework and direction of political activity in search of collective identity also for the Romany community. As a result, it is no wonder that, as will shortly be demonstrated, the entitlements

contained in the law hardly fit in with the needs of the Romany minority, and even often block their earlier involvement in public matters.

The lack of accommodation with respect to actual needs is quite evident in the comprehensive introductory chapter of the Minority Law, entitled 'Basic Provisions'. It was certainly not the Gypsies' needs that stood before the legislators' eyes when they drafted the following:

1.§ (2) Within the meaning of the act a national or ethnic minority (hereafter: minority) shall be any ethnic group whose members are citizens of Hungary which, domiciled on the territory of the Republic of Hungary for at least one century, constitutes a numerical minority in the population of the state, is distinguished from the rest of the population by its own language, culture, and traditions, and at the same time exhibits a consciousness of homogeneity, such that all of these things tend towards the preservation of their historically formed communities, and the expression and protection of their interests.

3.§ (4) Every minority community and every person belonging to a minority shall have the right to live in his homeland, and to maintain contacts with his homeland undisturbed. The right to a homeland shall mean the freedom and safeguarding of contact not only with a person's place of birth, but also with the place of birth or residence of their parents, foster-parents, or forebears, as well as with the old country and its culture and traditions.

Among the many questions the second passage begs one is *where* the 'old country' might be, whose culture and traditions were the Gypsies supposed to cultivate? Likewise, isn't the Romany community's equality with the other minorities questionable also in principle, if the law builds its definition of 'minority' on a historically settled consciousness of homogeneity? How can such a working definition assist in the amelioration of those historically deprived of a minority group consciousness?

While it is true that the entitlements enumerated in the law are, by and large, those actually needed by the well-assimilated small-size Hungarian minorities who wish to safeguard their identity in a cultural sense, the phrase '*and ethnic*' attached to the word 'national' does not in itself offer a solution as to how the law might also guarantee the rights of the Romany minority. From the latter standpoint, what is most evident is where the law is lacking. It is sufficient to consider that the law does not say a single word about what is perhaps the most important collective and individual need of the Romany community as a minority today: statutory protection of their human dignity and self-esteem.

True, the aforementioned ‘Basic Provisions’ prohibit discrimination of minorities. From the description of the different forms of discrimination, however, it is clear that in the eyes of the legislators the national minorities’ historical injuries were of primary importance, and above all they wanted to bring to bear the force of the law against possible repetitions of such harm. A logical consequence of this was, however, that the Minority Law provided a single sphere of action for the prohibition of discrimination: *international law*. That there might be any discriminatory political actions *within* the borders of Hungary was simply *not* acknowledged. It is therefore logical that the government did not consider the establishment of domestic institutions responsible for guarding against such actions to be its task.<sup>6</sup>

The law considers the question of guarantees to be settled by means of empowering minority local self-governments: in respect to questions concerning the community they can request advice from the responsible state body by:

- a) seeking information;
- b) making recommendations;
- c) initiating measures;
- d) raising objections to practices and individual decisions related to the functioning of institutions that contravene minority rights, and initiate the modification or repeal of a decision.

The person in charge of the responsible and authoritative body . . . shall be obliged to *give a detailed reply* to the request within 30 days. [26. § (1 – 2) (emphasis added—J. Sz.)]

This means that regardless of the principle laid down with lofty words in the preamble of the law concerning self-governance, the minorities’ new constitutional law institutions have no more authority than do *ordinary Hungarian citizens* who

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<sup>6</sup> The following passages of the Minority Law leave little room for doubt in this connection:

3. § (5) Discrimination of any kind to the detriment of minorities shall be prohibited.

4. § (1) The Republic of Hungary prohibits all political activities and conduct which:

- aim at the assimilation of the minority to the majority nation or which bring it about;
- are directed towards alterations of national or ethnic relations in territories populated by minorities which are detrimental from the standpoint of the minorities themselves;
- persecute national or ethnic minorities, or members of such minorities, as a consequence of their affiliation; degrade their living conditions; or obstruct the exercise of their rights;
- are directed towards the forced resettlement of national or ethnic minorities.

(2) The Republic of Hungary shall, in its international relations, take action against any political activities which lead to the consequences listed under paragraph (1). The Republic of Hungary shall endeavour to provide protection against political activities of this kind with the instruments of international law and by way of international agreements.

go to the authorities with a request. Their proposals and requests are at most worthy of an ‘answer on the merits’, although the competent authorities have no obligation to enforce or report.

None of this constitutes a problem from the viewpoint of the legislature because it always imagined the self-governments—as institutions tasked with promoting collective belonging and community preservation—as ‘internally’ operating constitutional law organisations, and arranged their spheres of authority accordingly. According to the law, a self-government can shape its *own* operational regime; form its accounting procedures and accounts of assets and liabilities from its *own* resources; decide on the utilisation of the property provided for it by the local authority; and choose its *own* name, emblem, and awards, as well as the terms on which these awards are bestowed; it can also take care of the conservation of its *own* local monuments. This, however, must generally be scraped together by the self-government itself: i.e. *every* possibility lies open to the minority self-governments for deal-making, craftiness, and good PR, but *no* material resources are guaranteed for them from regularly collected, state-distributed budgetary sources. True, in one place, mention is made of the ‘*state*’ as a possible sponsor. From the detailed regulations, however, it turns out that there is only one direct link between the central budget and the minorities’ constitutional-law institutions: the annual support given to the minorities’ *national* representative bodies through the state’s public foundation for the purpose. The question remains how, and under what conditions, even a single penny will find its way to the lower levels?

Another important question is what was the point of all the legislative fuss, since a number of associations of this kind were already in existence? One clearly finds the answer to this question not in the domain of functions, but in that of *symbolic content*—in harmony with what the (foreign) political circumstances, discussed earlier, dictated to the legislators. These circumstances demanded that with reference to developments in the mother country, ethnic Hungarians living outside its borders should have some ground for participating in the politics of their kin-state, and that it would be possible to maintain in an organised fashion native-language education, publishing, and culture. But it is *these*, and only these, two areas in which the Minority Law has created something new. The minority self-governments which it brought into being may therefore be distinguished from the tradition maintaining and cultural associations in the following two respects: (i) the proclaimed *constitutional law status* of the new formation (which is important even if its actual content has so far been extremely modest), and (ii) the statutory possibility of *institution-founding*.

At first sight this all seems to be in order. Through the bestowal of constitutional legal status there can no longer be any doubt that in Hungary “the

minorities are state-forming factors”.<sup>7</sup> As far as rights to the establishment of institutions are concerned, the more well-to-do minorities can already feel themselves ‘recognised’: through the newly declared educational bodies which they have created, forthwith count as ‘proper’ state institutions, and so ‘proper’ state support is due to them. Naturally, if a local minority is to found its ‘own’ kindergarten, school, theatre, or museum it must be well off. If not, such an institution will simply *not* be established. True, in this way the minority’s right to recognition is to some extent linked to the possession of assets. This is at best deceptive, however, because the law *in principle* gives this right to everyone.

That the Gypsies cannot do much with these new supposed possibilities is not only because their communities are not ‘rich’. It is also not only because the associations which may be regarded as the self-governments’ predecessors—if there were any—were occupied with obtaining educational, employment, and material support but rather with the preservation of traditions. From the Romany standpoint the listed entitlements are empty. The law is not clear on whether representatives of the minorities have the right to a say in the culture of *community coexistence*? Can minorities become involved in affairs that affect *their* lives in terms of ‘self-defence’ and ‘the preservation of their identity’? For example, can they ensure organised legal protection to mistreated members of the community; can they have a say in the shaping of local welfare regulations and in weeding out their hidden discriminatory contents; can they have a say in the local redistribution regime and its prejudicial practices; do they have the right to demand training programs for unemployed members of their community; do they have the right to revise the kindergarten admissions system or the composition of school classes; do they have a say in the appointment of school principals or the directors of local health-care institutions, and so on? The Minority Law leaves these questions unanswered.

Naturally, the aforementioned ill-defined matters can lead to problems amongst the least powerful and disadvantaged groups within the majority. Still, if their complaints and claims enter the official realm, the disputed issues must be put on the paths of ‘ordinary citizenry’, and have to be handled in the administrative and legal channels built upon the grounds of citizens’ rights. The situation is, however, different with the Romanians. Now that they have their ‘own’ minority-institution, it needs to be determined whether their claims should be channelled into the still painfully imperfect legal procedures of protecting *minority-rights*, or should they be accepted as *citizens’ issues*, without any further differentiation. And, as can be expected, attempts at shifting matters from one ‘box’ to another are made on a wide range of matters of daily life. Thus, it would appear that

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<sup>7</sup> 68. § of the Constitution of the Republic of Hungary.

the conflicts arising from the earlier intermingling of the 'social' and 'minority' aspects of one's rights have hardly been settled by the new law—at best, it has changed the appearance of the controversies, but certainly not their substance.

However, it would be unjust to emphasise only the negative aspects of the Minority Law. For, the creation of officially acknowledged and elected institutions has been of significance for the Romany community *in its own merit*. After all, it was the 1993 Minority Law, which for the first time in history granted the Gypsies a framework to articulate collective needs in an organised form. In fact, many of the local communities 'read' the message of the new law in this manner, and reacted accordingly. This is the primary explanation of the otherwise mysterious fact, why—despite all its dubious entitlements has the popularity of minority self-governments grown so remarkably amongst the Romanies?

The new institutions provided a path for political education at rather limited risks. Given the fact that the Minority Law entrusts the elected representatives with no more than opinion-forming and lobbying functions, the new institutions help to select the actual opinion leaders of the community. They are also delegated with the role of formal representation to all those fora where the local administration cannot make decisions without the consent of the minority. Though the influence of the minority representatives remains limited in most cases, their participation helps majority and minority views to coalesce and helps to put together the first building blocks of a meaningful local policy on majority-minority cohabitation.

The new institutions could also be used for promoting social mobility within the Romany community. Representation of the community has become an 'occupation', a 'profession' usually resulting in material rewards, and in increased respect. Further, the simple fact of electing several thousand representatives has not remained without response on the part of the civil organisations of the majority. A great many courses, training programs and professional activities have been set up to assist the minority's local activities.<sup>8</sup> As a result of these developments, the mere existence of local minority governments has inspired individual investments to upwardly mobilise, and has assisted in increasing the number of capable, informed and talented Roma in their communities.

In summary, local minority governments have not generated a fundamental turnaround in the administration of the 'Romany question' in contemporary Hungary. By creating a weak institution in defence of the rights to exercise individual and collective identity, the Minority Law has opened the door for 'lawful' attempts at turning citizens' issues to distinct 'minority-cases'. Thus, it

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<sup>8</sup> Apart from solidarity, these deeds have been self-affirmative also for the NGOs in question: this way many of them have gained acknowledged and stable status on the exceptionally competitive market of adult education.



has contributed to segregation and the impoverishment of the content of undifferentiated citizenship. On the other hand, it established recognition and has generated the existence of a knowledgeable Romany community leadership.

It will take longer to see how the legislation will eventually evolve. However, much of the outcome depends on public acknowledgement of the fact that the local struggles of the Romanies do not take place in a social vacuum. They are, rather, embedded in a number of other conflicts related to the ongoing transformation. A self-revealing case among these conflicts is the fight between women and the Gypsies around matters of redistribution.

### **Clashing Claims for Recognition: Women and Gypsies on the Battlefield of Welfare Assistance**

As mentioned, despite the advantages that stemmed from its framework character, the Minority Law failed to resolve the key-problem of the Romany 'question'. This failure should not be attributed to any 'forgetfulness' on the part of the legislature. Instead, it was a consequence of the interplay of the earlier discussed motives to draft a law that was primarily targeted at the well-assimilated, well-to-do minorities, which were small in number. For them, the content of the now legally recognised minority belonging is merely a cultural and emotional matter, an additional entitlement to all other human and citizen rights that they had long practised within the 'ordinary' institutions of Hungarian society. However, as we have seen, the case is completely different with the largest minority actually using the law in its day-to-day struggles. The Romany community, the largest ethnic minority, is neither well-assimilated nor well-to-do. In addition, the post-1989 economic and political processes have led to the actual *impoverishment* of the Romanies' human and citizen rights, and have done so on the grounds of ethnicity.

Under these circumstances, the granting of minority self-governance forced the local Romany communities to face a dilemma that could not be resolved without further complication or conflicts. They either take the new organisations as their points of departure for struggling against social deprivation, or stick with the wording of the Minority Law, and confine themselves to vacuous misdeeds, whilst forgetting about the burning issues called forth by the wretched living conditions of those whom they represent. It is easy to see that both paths lead to a dead-end. When opting for the first choice, the minority governors clearly go beyond the law-given entitlements and 'misuse' them in legal terms, which risks undermining the newly gained minority-driven legitimacy of the institution. In addition, they find themselves in deep conflicts with all those institutions of the local majority, which regards these attempts at extended minority-protection as an offence and hostile.

The other route also leads to an impasse. If the new Romany minority self-governments strictly interpret the written ordinances of the law as their point of departure, and define their role as 'smoothing' agents between the majority institutions and the local minority, they risk rapidly emptying the institution. In the eyes of the deprived minority community, they jeopardise not only the legitimacy and usefulness of the minority self-governments, but those of *all* right-protecting institutions. In addition, by refraining from the necessary interventions, they give 'official' consent and tacit approval to the unbroken continuation of the tightening up of the social and citizen rights of those whom they should protect.

In the course of the past six years, the Romany local self-governments have experimented with both of these troubled role definitions, and also with various fine-tuned combinations of them. Although the second, 'conformist' path seemed less hazardous for many of them at the outset, the quickly dwindling local support led to the collapse of these organisations. As a consequence, the termination of the representation of minority-interests has intensified the defencelessness of the local minority; thus its members made all attempts on the occasion of the next elections to find a proper replacement. Since it was not only they, but also the entire electorate of the locality who had to decide, the selection of local Romany candidates became a contentious issue. As a result, the preparation of the second round of the minority-elections (1998) was accompanied by corruption, blackmailing and attempts at breaking down the unity of the Romany community.

In the cases where the first path was followed from the beginning, the conflicts took on different forms. Though the militancy of the elected representatives assisted to strengthen the cohesion of the local minority community and somewhat protected it from the external manipulations, these committed local politicians could hardly win either. Striving to extend the framework of minority-governance to the spheres of welfare, health and education concluded in heated local conflicts with the competing clientele of the majority who then made all sorts of attempts to mobilise authority against the 'unlawful' actions of the minority. Ultimately, these intensified conflicts led to similar conclusions on the part of the majority to those described before: they made all efforts to get rid of the trouble-making minority-leaders when the second round of the minority elections offered an 'orderly' way to do so. Nevertheless, the lessons learned from the first endeavours of local recognition struggles have been preserved by the Romany communities.

Among local attempts to extend the social aspects of the rights of the Gypsies, the harshest conflicts arise regarding the distribution of welfare assistance. In Hungary today fifty to seventy percent of Romanies can be regarded as poor

according to the most rigorous assessment. However, agreed and legally prescribed measures of poverty simply do not exist in the current Hungarian welfare policy. Apart from a few loose central orientations, the acknowledged criteria are matters of local bargains, depending on the capacity, political structure and sensitivity of the community (Horváth 1995). With this background, the local regulations further determine the list of concrete entitlements for assistance and leave the actual distribution to extremely personalised means-tested schemes run by the local service providers. Amid these conditions, the available resources are in short supply, and the tough competition between various groups is a built-in constituent and also a major self-regulatory instrument of the system. It is justified to say that, instead of welfare, this arrangement is multi-faceted *warfare*, pitting the poor against the poor, the providers against the poor, and the poor against the providers.

In these local wars, the Romanies often get blamed for 'overuse' if available resources. Being heavily over-represented among the needy, an appearance promptly emerges when looking at the composition of the queue in the anteroom of the welfare office. One easily might conclude that it is the task of those running the welfare office to tighten up the conditions and not to provide assistance to 'everyone'. Thus, welfare officers, social workers, teachers, health visitors, etc. all are called upon to unite against 'unjust' exploitation of the scarce resources: or, in other words, to find ways to reduce Gypsy consumption of public provisions. Given the feminised nature of these professions, it is generally women who are addressed by the call. Looking at the practical consequences, what is required from them is simply the turning of their newly acquired protective job into a *policing* one, and with it, changing the built-in supportive content to an authoritative one.

It is not a matter of 'liking' or 'disliking' the Gypsies that women are usually reluctant to make such a turn. 'Policing' is alien to them as a 'masculine' activity often associated with the use of force. They generally choose the 'caring' profession because of its 'safe' distance from authority and for its protective nature. Interviews with a number of newly trained social workers revealed that a frequent motivation behind opting for employment in the welfare services had been the wish to defend, help and provide caring for those in great need. These strong motivations for exercising goodwill usually followed directly from women's earlier experiences of defencelessness and abuse. Now that they are increasingly turning against their clients in the name of 'higher principles' means the betrayal of many of their entire careers.

In these circumstances the minority self-governments are seen to be 'saviours' for the troubled women of the welfare agencies. Instead of a way out of the traps of the 'protective policing' trade-off, the new institutions with their drives to

extend the Romanies' social rights are at hand to take over the task. This is why in an increasing number of local communities the elected leaders of the minority 'unexpectedly' have been invited to 'make just decisions' among 'their' people. At first these invitations seemed to be an acknowledgement of certain Romany claims. After all, the struggle surrounding social rights implied increased autonomy in decision-making, and it strove for the recognition of the community-specific features of poverty and for the application of purposeful methods to combat it. Hence, the shifting of certain responsibilities in welfare assistance appeared to meet some of the claims on both sides.

However, these actions at passing over the burden rapidly had hidden dangers. On the one hand, they have worked as boomerangs against the aforementioned female service workers. Left 'only' with the task to assist the non-Gypsy poor, many of them soon became redundant, and, besides finding themselves "on the dole", their institutions (local family centres, services for children, the elderly, the sick, etc.) shortly became 'superfluous' in the eyes of local decision makers. On the other hand, the creation of a 'distinct' scheme for the Gypsy poor sped up and pushed to the extreme, the ongoing spontaneous processes of segregation. After all, the call to assist in creating a 'distinct' system of welfare distribution with 'specific' regulations outside the framework of the general law further weakened the otherwise loose system of welfare protection by doubling it. In addition, control over the resources still remained with the majority. Thus, the shifting hardly assisted the decision-making autonomy of the minority, whilst it gave up its protection by 'ghetto-ising' it. Instead of enlarging social rights, the takeover of welfare assistance ultimately led to further reductions, together with the radical marginalisation of the entire Romany community.

In light of these outcomes, it is no surprise that the practice of mutual blaming has been visibly on the increase between women involved with welfare and the Romanies claiming welfare. Since their fights are strictly kept within the local framework, it seems that things could have happened otherwise with some 'goodwill' on either side. However, the actual causes of the conflicts lay outside, and can hardly be controlled by the conflicting but powerless parties. As discussed, it is the extreme decentralisation of redistribution which originally aimed at serving the state's quick desertion from matters of welfare, but which left behind a vacuum in settling the disputes around the differing interpretation of rights and entitlements. With a lack of regulations, protection, and ample publicity, the 'natural' consequence is the reciprocal weakening of power of the various local groups in the struggle for recognition, often resulting in them turning against each other.

## Conclusions

In identifying the causes of the partial success of both women's and the Gypsies' local struggles for recognition, we return once again to the most controversial issue of the post-communist transformation: the desertion of the state from matters of redistribution and welfare policy. As discussed, the decomposition of the institutional pillars of the old state has been an unquestionable precondition of the transition from a command economy to a market regulated one, and it was also a prerequisite for the establishment of new, democratic political institutions. Although the first years of the transformation brought about serious difficulties and uncertainties for a great number of social groups, those troubles have been overcome rather quickly, and adaptation to the new conditions proved to be beneficial for the majority of Hungarian society. Even the less protected social groups turned out to be advantaged by the changes. This is demonstrated by the success of the women's silent mass movement to gain recognition for their work which formerly had been 'shut' into the household units of the informal economy.

While on balance, the majority of society now enjoys some of the fruits of post-communist Hungary, a serious price has been paid by the way in which the withdrawal of the state was managed. This was especially true of the Roma. Most of the difficulties follow on from the fact that the legal, regulatory and practical changes implemented in the name of curtailing the state's influence in matters of welfare policy have hindered, rather than helped the separation of the 'social' and the 'minority' elements of the Romany 'question'. They have also contributed to an increase in majority-minority tensions. Welfare redistribution, with its sharp bifurcation into systems for citizens and the poor respectively, and also with the strong decentralisation of the latter subsystem, has weakened the platform from which the poor can assert their rights. At the same time, individual competition among the poor has sharpened for the acquisition of local resources, which have been diminishing year by year. To a great extent, this multi-step series of developments in welfare has meant that while ethnic clashes have become more frequent and more intense over the last few years, they have not escalated into a nation-wide 'civil war'.

In the course of the transformation of the system both the issues of poverty and that of the defenceless ethnic minority were pushed into the background within the administrative borders of villages and towns, far from 'big politics'. In this way the blame could be apportioned to individual local abuses if the groups concerned came into conflict. Ultimately, society's (more) successful strata can thank welfare reform for this. For sure, such occurrences are not the responsibility of the 'rest' of society—those who live outside the settlement—nor is it up to them to interfere in the internal affairs of local communities. The

co-mingling, both in principle and in practice, of the 'social' and 'minority' elements of the Romany 'question' is for this reason still the principal pledge for the daily maintenance of social peace. It is true that there is a price to pay for maintaining this social peace on such a narrow basis – above all in connection with general legal security. Because everyone knows – even if one is not aware of it on a daily basis—that if the democratic legal system interprets the law for minorities imperfectly or illegally, it ultimately cannot guarantee the rights of the majority either.

It is women in welfare who seem to learn these lessons first. Though their massive move to the welfare services was experienced and seen as a clear and well-deserved acknowledgement of earlier acquired knowledge and expertise, these grounds for success and enhanced self-esteem have started to deteriorate amidst the sharpening local wars surrounding welfare distribution. The frequent, short-sighted attempts at shifting the burdens of the missing legal regulations on the service providers' shoulders result in the motivation for 'escaping'; the proportion of people leaving their jobs is highest in the welfare sector. If not leaving of their own free will, women may be forced to do so. The local wars of the poor hasten the 'ghetto-ising' of distinct services for the Romany part of the community, which in turn, results in the closing down of 'superfluous' provisions.

This friction should be heard beyond the borders of the distinct localities. After all, when weak groups turn against each other the result can only be a common loss. The consequences for neutral, more powerful groups are harmful as well. The 'local wars' undermine the legitimacy of politics as such, increasing distrust and denigrating the support of the democratic institutions. These tendencies favour illegal and arbitrary actions aimed at 'seeking justice' outside the law, and thus threaten general security. Further, the recurrent attempts at 'ghetto-ising' lead to a sharp disintegration between the two societies within the same national borders. However, the peaceful cohabitation of partners at odds cannot be maintained in the long run, and not only because of the foreseeable war of the deprived against the privileged. Even if such a 'war' does not break out in the physical sense, the lack of rights on one side will keep questioning the rights of the other.

It is easy to conclude that, ultimately, it is only the rule of law that can be the safeguard against such developments. Still, the rule of law cannot be established with differing rights for parts of the citizenry. Therefore, we must return to where this paper commenced – the guaranteeing of fundamental social rights. The necessary public discourse about the content of these rights must start, however, with a due sorting out of the 'social' and 'minority' elements of poverty and with the state taking responsibility for protecting these rights. All this requires strong governance and a high degree of legitimacy for democratic

authority—in short, a state with high potency. However, we do not yet have that in Hungary. But now that the vestiges of the old totalitarian regime have been swept away, it is realistic to hope for its creation.

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# THE ESTONIAN AND LATVIAN STATE INTEGRATION PROGRAMMES: A RECIPE FOR SIGNIFICANT EARLY SCHOOL DROPPING-OUT AMONGST THEIR RUSSIAN-SPEAKING MINORITIES?

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The European Monitoring Centre for Drugs and Drug Abuse (EMCDDA) report (1998) concludes with regard to EU countries:

In many countries, heroin dependence is concentrated among marginalised subgroups... Problems linked to increased social exclusion of marginal groups, including addicts, are reported in some countries (p.14)

The relationship between heroin addiction and social marginalisation is repeatedly stressed in subsequent EMCDDA reports (1999; 2000). The 1999 report observes the link between heroin and poverty in France (p.10), between heroin and “marginalised communities” (p.11) including the Roma minority in Spain, and notes that some members of the EU have drug prevention campaigns targeted to ethnic minorities (p.26). The 2000 report observes a European “trend towards viewing the drug problem in a broader context encompassing issues of poverty, unemployment and social exclusion” (p.23). It reiterates that high-risk groups for drug use include “ethnic minorities”, the “socially deprived” (p.26), and notes specifically in the context of heroin use that high-risk groups include “marginalised minorities” (p.8).

Heroin injection is a problem in Estonia which is impacting its Russian-speaking minority in a vastly disproportionate way, with estimates of between 98% (Kalikova 1998) and 90% (Kalikova 2000) of intravenous heroin users amongst the Russian-speaking minority. This constitutes approximately 35 % of the total population of Estonia i.e. 35% of 1,439,197 (Poleshchuk 2001a, p.11) and 42.1 % of the total population of Latvia i.e. 42.1% of 2,360,434 (Poleshchuk 2001a, p.12). Unofficial estimates from non-governmental organisations in Latvia also suggest that those attending treatment centres for addiction are disproportionately from the Russian-speaking minority<sup>1</sup>, although not to the same extent as in Estonia. These Russian-speakers, or their parents or grandparents, mostly came to Estonia and Latvia under the Soviet regime, a flow of immigration engineered from Moscow. At the time of the restoration of their independence in 1991, a

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<sup>1</sup> Vilcina 2001, Information Centre of the Naturalisation Board, Latvia, personal communication

large part of the population of Estonia and Latvia were respectively ethnically non-Estonian and non-Latvian.

In this article it will be argued that the cycle of social marginalisation, early school dropping-out and drug addiction will only increase if the proposals for reform of the Russian-speaking schools in Latvia and Estonia are implemented. This argument will be based on consideration of research in psychology, sociology and educational theory, and supplemented by extracts from interviews with Russian-speaking heroin addicts in Tallinn in 1999/2000 concerning their experience in school. The semi-structured interviews were conducted under the supervision of the author with the cooperation of the methadone maintenance centre at Erika St., Kopli, Tallinn, Estonia. 18 interviews took place at the centre while 17 heroin addicts declined to be interviewed. The Latvian integration document 'The Integration of Society in Latvia' proposes radical reform of the school system for the Russian-speaking minority from 10th grade onwards. After a transitional stage where 75% of 10th grade classes will be taught in the Latvian language, all classes from 10th grade onwards will be in Latvian by September 1st 2004, according to the Latvian Law on Education adopted on 29th October 1998. The Estonian State Programme 'Integration in Estonian Society', which proposed 60% of 10th grade classes (for Russian-speakers) to be in Estonian from 2007, has recently been partially abandoned by the incoming Minister for Education, Mailis Rand due to the need to prioritise issues of early school dropping-out rather than state language learning<sup>2</sup>. However, there is a need for explicit critique of the recently re-examined Estonian education integration reforms in order to distance any future integration documents from this preceding one.

## **1. Labelling Students as Failures**

MacDevitt (1998) highlights that one direction of educational reform in a European context is "the recognition of achievement for all students" (p.47). The danger of the current Latvian integration plan (and the partially abandoned Estonian integration plan) is that many from the Russian-speaking minority will be labelled failures by the educational system if the proposed changes to language in Latvian schools are implemented, when, as a consequence of the implementation, they have difficulty learning in classes in their second language. Such a high level of Latvian language skills to study all 10th to 12th grade subjects (or even 60% of classes in Estonian) is a very high level of academic expectation. Some headmasters in several schools in Daugavpils, Latvia, have already observed that the transition to classes in Latvian for Russian-speakers is especially difficult for pupils whose skills and abilities are below average (Poleshchuk 2001b, p.24).

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<sup>2</sup> The Baltic Times, February 7 – 13, p.4.

Warnock (1977) emphasises that the educational curriculum must be “genuinely suitable for all, not only suitable for the middleclass or the most academic” (p.84). Gardner’s (1993) examination of multiple types of intelligence in educational psychology proposes seven different types of intelligence, linguistic, musical, logical-mathematical, spatial, bodily-kinesthetic and personal. This highlights the need for the educational system to be flexible enough to allow for expression of different types of intelligence and not just linguistic (verbal) ability (see also McDermott et al. 2001 on differences between verbal and non-verbal learning). MacDevitt (1998) expands on this theme of recognising different types of intelligence and achievement and emphasises the need for avoiding labelling less academic students as failures, referring to:

“the need to provide recognition of achievement, particularly for more marginal students. Recognition is seen as a preventative measure which avoids some pupils being seen as failures and lessens the chances of premature drop out (MacDevitt 1998, p.47)”

A focus on achievement would require a focus on developing primarily the strengths of the student rather than tying the student’s educational progress to development of a potential weakness in the student regarding Latvian or Estonian language learning.

Numerous educational theorists and educational psychologists recognise the danger of labelling students as failures (e.g. Glasser 1969; Warnock 1977; Handy & Aitken 1990; Kellaghan *et al.* 1995; MacDevitt 1998; Kelly 1999) with the consequent knock-on effect of early school drop out. In the words of Kellaghan et al 1995:

A first influence (on early school drop out) is school failure. While there may be occasions when young people who are doing well may leave school, the vast majority will have had a history of doing badly. The issue of school failure is intimately related to the breadth/limits of the curriculum. With a broader curriculum, there is a greater chance of achieving success in some domains, while a curriculum, which is based on academic learning only, will ensure success only for those with an academic aptitude (p.92).

The experiences of at least some Russian-speaking heroin addicts support this view, as their school failure led to early school leaving. Their responses to the question “*How did you find school?*” were as follows:

**Mikhail:** “School was the worst time in my life. It was boring for me. I thought that what they taught me there was of no use for the future. Besides, when a pupil has bad marks, teachers have no sympathy or support for him. Therefore, the pupil has no will to

return to school ever again. I left school in the 8th grade. Now I should be in the 11<sup>th</sup>”.

**Sergei:** “I had to study till 9th grade...After it became complicated. I chose the wrong direction - mathematics. I left later on my own. If I had continued humanitarian studies, I would have stayed. But in mathematics, you know, if you don't understand something in the beginning, you will never understand it later.”

**Konstantin:** “It was a long time ago. I can hardly remember what happened to me at that time...The only thing I remember is that I was the one who always had the worst grades in the class. I hated school and I skipped lessons all the time. Everything finished when I was expelled from the 11th grade for obtaining 2's in maths and chemistry.’

Such experiences are common to low academic achievers who struggle to learn through their first language, Russian, and who would clearly struggle to an even higher degree if their classes were not in their first language (i.e. if they were in Estonian or Latvian)

In the Estonian integration document, a missed opportunity for dealing with social integration of low academic achievers also occurs in the section concerning the need for speech therapists (p.34) which only narrowly focuses on speech therapy in the context of learning the Estonian language. In such circumstances of an overly academic emphasis on learning subjects in the Estonian or Latvian language, the words of Handy & Aitken (1990) would predict alienation and loss of identity for the less academic among ethnic Russian students:

“the loss of identity and sense of anomie of many students [occurs] in an organisation where such academic values are overemphasised and other experiences and achievements are under-expressed (p.28)”

Rosenberg (1965) describes self-esteem as feeling that you are “good enough”. Self-esteem is positively associated with school achievement (Purkey 1970; Brookover et al 1964; Hay, Ashman & van Kraayenoord 1997). Morgan (1998) cites Kaplan et al's (1994) North American study of 4,141 young people tested in 7th grade and once again as young adults. The study found a significant, damaging effect of dropping out of high school for mental health reasons. This was measured by a 10-item self-derogation scale; a 9-item anxiety scale; a 6-item depression scale and a 6-item scale designed to measure coping. This effect was also evident when controls were applied for psychological mental health as measured at 7th grade. Moreover, the significant damaging effect of dropping out of school was again evident when controls were applied regarding gender, father's

occupational status, and significantly, for at least some level of comparability with Latvia and Estonia, ethnic background. Academic failure, attaining low levels of 'social competence' by society, low self-esteem and early school dropping-out are all a recipe for an increasing escape into drug-taking. Programmes based on finding ways for the at-risk, less academic, minority youth to be rewarded and given labels of success are, at best, vaguely referred to in the Latvian plan and are totally lacking in the partially abandoned Estonian integration plan. Kellaghan *et al.* (1995), commenting on the experience of U.S prevention of early school leaving schemes, emphasise that:

“success in one kind of target domain may have a snowball effect on other kinds so that the net beneficial effect may be greater than predicted for any one domain (p.90)”

The danger is that the current trajectory of the planned restructuring of the educational system in Latvia will bring about a snowball effect of failure for the less academic and less vocally skilled among the Russian-speaking minority youth. It will fail in its declared aim of including these minority groups as a positive resource for each respective society. Adjustment into the Procrustean bed of an imposed, academic, language curriculum betrays a lack of a detailed strategic plan for the success of the less academic among the Russian-speaking minority.

## **2. Targeting Educational Support to less Academic Students through a Broader Curriculum**

From an educational perspective, the emphasis of both integration programmes on language is an emphasis on transmission of knowledge and curriculum as (language) content, rather than education as development i.e. responding to the developmental needs of the individual. Kelly (1999) criticises educational models predominantly based on education as transmission of knowledge and curriculum of content as being simplistic and failing to be child oriented:

“The idea of education as transmission or of curriculum as content...is simplistic and unsophisticated because it leaves out of the reckoning major dimensions of the curriculum debate. In particular, it does not encourage or help us to take account of the children who are the recipients of this content and the objectives of the process of transmission, or of the impact of that content and process on them, and especially their right to emancipation and empowerment” (p.53)

The focus on a top-down imposed language curriculum, irrespective of the needs and abilities of the student, is a failure to provide a child-centred education which is arguably contrary to the UN Convention on the Rights of the Child. The concluding observations of the Committee on the Rights of the Child for

Latvia (2001) have already criticised the Latvian plan to abolish Russian-speaking schools from grade 10 onwards by 2004. Moreover, the timescale envisaged in the Latvian plan allows for a much shorter period of adjustment than in the Estonian proposal. The focus in both the Latvian and Estonian integration documents is on processing the student into an imposed language curriculum content. This is strikingly in contrast with the child-centred reforms in education advocated by IFAPLAN (1988), the German research Institute with responsibility for co-ordinating projects in the EC concerning transition from school to work. Their report concluded:

“These changes have meant a new climate in secondary education. In the schools, the effect has been a push towards putting the student more at the centre of the teaching/learning process. The challenge is to stimulate re-thinking of the use of the school and its resources in terms of what it can do for her/him, instead of how young people can be fitted into what the school-system, or individual subject-teacher, have traditionally offered”

In O’Donnabhain’s (1998) words:

“As the IFAPLAN working document reported, it was no longer possible for schools to insist on young people fitting into whatever the school decided. Disgruntled young people react in one of two ways – they either rebel openly and cause major disciplinary problems or they simply drop out and grow up as a part of the deviant section of the society. Thus many educational initiatives attempt to put the young persons at the centre and allow the learning environment to grow around them so that they can develop a sense of active citizenship” (p.46/7)

Moreover, Banks (1994) argues that too rigid and unsuitable curricula and insufficient attention to personal development are important contributory factors to early school dropping-out.

### **3. Student Autonomy and Motivation for Learning**

Peters (1965,1966) describes a key difference between education on the one hand and training, instruction or indoctrination on the other – a difference frequently recognised in research on education. This difference is individual autonomy, without concern for which, according to Peters, no process of teaching can be called education. Therefore, from Peters’ well-known perspective, an imposed language curriculum on students in the Latvian integration document and the partly abandoned Estonian document, amounts not to education, but to training, instruction and even indoctrination due to the lack of autonomy

given to the student. This imposed dimension occurs despite the rhetoric in the Estonian document emphasising autonomy of the individual:

Focus on the individual means that integration into society is the result of the free choice of the individual, not a decision dictated from “above”. An individual’s attitudes and understandings change, above all, on his own initiative and the State’s task is to create conditions favouring this change (p.15)

With regard to diversification of measures for the organisation of teaching, one of the criteria for assessing the effectiveness of activities in the Estonian document is student motivation (p.30). Yet lack of autonomy is well recognised in Western cultures as damaging student motivation. For example, teachers who are autonomy supportive, in contrast to controlling, catalyse in their students greater intrinsic motivation, curiosity and the desire for challenge (e.g. Deci, Nezlek & Sheinman 1981; Flink, Boggiano & Barrett 1990; Ryan & Grolnick 1986; Deci & Ryan 1992; Ryan & Stiller 1991) and students taught with a more controlling approach not only lose initiative, but learn less effectively, especially when learning requires conceptual, creative processing (e.g. Amabile 1986; Grolnick & Ryan 1987; Utman 1997; Glasser 1986). However those findings on motivation in education would obviously gain strength if replicated on an Eastern European student body as student schemas as to whether the qualities of an effective teacher arguably do depend on cultural context. Beishuizen *et al.* (2001) observe a difference in expectations of what constitutes a ‘good’ teacher when comparing a primary and secondary school sample of students in Britain. Primary school students focused on transfer of knowledge and skills whereas secondary school students emphasised *relational* aspects of good teachers. On the assumption that secondary students’ emphasis on relational aspects of student-teacher interaction is an appreciation of relationships, which are not authoritarian, a relational emphasis would thus prioritise a role for autonomy with regard to motivation and learning. Issues of autonomy in school experience and hostility to school authorities are expressed by the voices of the following Russian-speaking heroin addicts’ responses to their experience of school:

**Deniss:** “School for me was a horror movie. I dropped out then I was in the 8th grade. Teachers irritated me. I didn’t want to study and I didn’t want to go to school at all. If I had the power I would firstly change the pupils’ attitude to school and the teachers’ attitude to pupils. I would make their relationship warmer than it was in my school.”

**Igor:** “I liked to study. But I hated all of my teachers. They were too strict and did not allow freedom of choice”

*How did you find school?*



**Dima:** “I didn’t like it”.

*What would you change in your school if you had the power?*

“I would blow it up”

This lack of autonomy and hostility to authority would clearly increase if an imposed language curriculum were to be enforced. MacIver et al (1991) found that extrinsic pressure did bring increased effort amongst middle school students but *not* among high school students, while Gottfried, (Fleming & Gottfried, 2001) found that for a U.S. sample, it was in the later high school years that academic intrinsic motivation dropped most, particularly for maths, but also for reading (and science). Thus the lack of autonomy concerning language learning for 10th grade students onwards in both the Estonian and Latvian integration plans for education will impact upon the student age cohort which is already most vulnerable to decline in motivation in education as well as being most resistant to attempts at external imposition of tasks. The need to respect student autonomy in order to increase motivation for learning has been overlooked in both integration documents.

The collective effect of demotivated peers must also be recognised as a real problem leading to increased school drop-out, if a compulsory immersion in the Latvian/Estonian language is implemented (see Morgan 1998, p.81 for an account of peer influence on early school drop-out). This demotivation among peers was highlighted by the following heroin addicts as a factor in their leaving school early:

**Boris:** “For me school was interesting, but I still didn’t like to go there. Maybe it was because of my classmates’/peer pressure – everyone in school said that they would rather do something else than go to school”.

**Igor:** “I left school when I was in 10th grade. I guess I was a bit lazy. I missed a lot of classes then. I decided to quit school. It all happened with the help of my so-called friends... If you ask me if I regret quitting school, I say, yes, very much. As for what I would change... well first of all I would change my circle of friends that I had at that time. The other stuff was ok I guess”.

Influence of demotivated peers on early school-leaving would once again be accentuated if an imposed language curriculum were to be implemented in either Latvia or Estonia. Moreover, it must be noted that the option of retaining Russian-speaking minority students in classes of lower level, if they fail to reach sufficient standards of communication in the Latvian or Estonian language respectively, is an option which would be rejected according to a vast amount

of educational research which has failed to find support for any form of grade retention as an effective intervention for most students with low achievement or marginal socio-emotional adjustment (Hauser 1999; Jackson 1975; Holmes & Matthews 1984; Fowell & Lawton 1992; Smith & Shepard 1987; McGill-Frantzen & Allington 1993; Jimerson *et al.* 1997; Jimerson 1999; Ferguson, Jimerson & Dalton 2001).

#### **4. The Inter-relation between Linguistic-Communicative and Socio-Economic Integration**

The Estonian State Programme 'Integration in Estonian Society' recognises three dimensions to integration, namely, linguistic-communicative integration, legal-political integration and socio-economic integration. However, its overwhelming focus is confined to the first dimension, linguistic-communicative integration. The latter two dimensions are relegated to the status of "long-term" aims i.e. aims achievable later than 2007 (p.17) though with some scope for socio-economic issues to be faced at a regional, rather than national level, in the short-term through a regional development plan (1998 – 2003) for the predominantly Russian-speaking Ida-Viru region; a social plan for Ida-Viru county to deal with unemployment and an 'Estonian regional development strategy'. Issues regarding socio-economic integration are treated as being "too complicated" (p.18) to be dealt with by the State Integration Programme. This approach noticeably diverges from that of the Latvian integration document 'The Integration of Society in Latvia' which recognises that "the integration of society is closely linked to social and regional problems; the course of discussions strengthened the conviction that a section on social integration should be an integral part of the programme" (p.5). The broader scope of the Latvian plan is evident from its subsections 'civic participation and political integration', 'social and regional integration of society' and 'education, language and culture'. Moreover, the Latvian integration plan commits to particularly support disadvantaged regions (p.51), to increase investment in disadvantaged regions (p.51), to an action plan for each town (p.45) and to lifelong education for the disadvantaged and long-term unemployed (p.41). The new institutional set-up foresees the creation of a Social Integration Foundation (in charge of selecting projects and securing financing) and the Law providing for the creation of the Foundation was adopted by Parliament in July 2001.

Yet despite the broader scope of the Latvian plan, which purports to examine the integration issue in a manner broader than focusing on simply language learning, the concrete consequences of the Latvian plan are much more extreme than the partially abandoned Estonian proposal. In fact, it places even more emphasis on language learning since all classes will be in the Latvian language from 10th grade onwards commencing September 1st 2004. Thus, despite the

potentially broader focus of the Latvian educational reforms highlighting socio-economic problems underlying educational reform, the reality of the Latvian proposals is the total abolition of Russian-speaking schools by 2004 so that linguistic-communicative competence is the overriding goal of the educational reform plans for Latvia. However, at first glance it may seem that the Latvian proposals are phrased in apparently more moderate language than the Estonian reform proposals.

The ECMDDA (2000) report recognises that truancy and school suspension/expulsion are not desirable as non-school attendance leads to heightened risk of drug use. Similar conclusions that absent students are somewhat more likely to be involved in various substances use than students consistently in school have been found in international studies (e.g. Grube, Morgan & Kearney 1989; Andersson, Hibell & Sandberg 1999). Moreover, absent students in Sweden were found to have more 'advanced' drug habits (Andersson, Hibell & Sandberg 1999). While the Latvian document refers to the need for social policies to reduce early school dropping-out, this policy goal is totally undermined by the overriding goal of abolishing Russian-language schools. In contrast to the Latvian plan, which somewhat recognises the problem of early school leaving and commits to action plans for at-risk areas, the Estonian document ignores these problems almost completely through framing the terms of its document in terms of linguistic integration and postponing any discussion of socio-economic and political integration until after 2007. (The Report of the Estonian Government (2000) only refers to dropping-out among Russian-speakers in the context of university education (p.45)). This is all the more serious given that Estonia was found to be in the top three countries in the ESPAD 1999 (Hibell et al 2000) survey for the highest percentage of students absent from school due to truancy (together with Italy and Poland with 41 – 45% of students absent) in the previous thirty days.

## **5. Social Competence**

The Estonian plan with its "main emphasis" (p.4) on linguistic-communicative integration develops four sub-programmes in detail: (i) 'education', (ii) 'the education and culture of ethnic minorities', (iii) 'the teaching of Estonian to adults', and (iv) 'social competence'. The Latvian plan similarly emphasises social competence though it will be seen that the very conception of what social competence means is different to some extent in both documents.

The modern study of social competence can be traced to Thorndike (1920) who defined social competence, which he called social intelligence, as "the ability to...act wisely in human relations" and argued that it is distinct from abstract and mechanical intelligence. The early research prompted by Thorndike's idea

operationalised social competence as social insight, social memory and social knowledge (e.g. Broom 1928;1930; Chapin 1942; Hunt 1928). More recent research has operationalised social competence as socially effective action (e.g. Brown & Anthony 1990; Ford & Tisak 1983). Some commentators emphasise social competence as involving “ability to master...developing and maintaining friendships” (Wiest *et al.* 2001, p.122; see also Vaughn, Colvin, Azria, Caya & Krzysik 2001). There is general agreement in the psychological literature that social competence cannot be reduced to just one or two dimensions, but is multidimensional (Buhrmeister, Furman, Wittenberg & Reis 1988; Duran 1983; Marlowe 1986; Riggio 1986). Schneider, Ackerman & Kanfer (1996) divide social competence dimensions into the following categories: social intelligence dimensions, interpersonal personality trait dimensions, social skill dimensions and social self-regulation dimensions. They observe that within the social intelligence category, social insight, social memory and social knowledge are included. Their review of interpersonal dimensions to social competence highlight traits such as assured-dominant, warm-agreeable, social closeness and social anxiety. Their examination of the literature on social skills with regard to social competence highlights skills such as the sending and receiving of verbal and non-verbal signals as well as coaching, negotiating and conflict management. Aspects of social self-regulation, which they observe, include self-monitoring and emotional control. Schneider, Ackerman & Kanfer (1996) argue that social competence is “a compound trait” and also conclude “social competence overlaps substantially with the personality domain, whereas cognitive ability (as operationalised by academic performance indicators) is less related to social competence. The more verbally-oriented facets of cognitive ability do, however, overlap to some extent with social competence...” (p.479). In similar vein to Schneider *et al.* (1996), Rutter & Rutter (1992) reject “social incompetence” as a “unitary phenomenon” (p.155).

The Estonian sub-programme of social competence is divided into three objectives:

- (a) Inhabitants of Estonia actively participate in the development of the civil society regardless of their nationality and mother tongue,
- (b) the attitudes of Estonians and non-Estonians contribute to the achievement of the main aims of the state programme, and
- (c) improvement of the situation of groups of the population with serious social special needs.

Objective (b) treats social competence not so much as a skill or psychological trait but as an attitude. Moreover, valuing Estonia is itself treated as being associated with social competence later in the document (p.44/5), with further reference being made to “socio-cultural competence” (p.55). This raises questions

as to definition of social competence given that it implies that other attitudes or values are socially 'incompetent'. An unfortunate implication of objective (a) and (b) is that those who do not speak Estonian actively or who engage in political dissent from the goals of the State programme are not socially competent or at least are presumed not to be socially competent. A badge of inferiority for those who are not 'socially competent' is a theme, which arose with regard to a recent publicity campaign (Autumn 2001) in Estonia to 'encourage' Russian-speakers to speak Estonian. It portrayed those unable to speak Estonian as tongue-tied, with depictions of a man's mouth tied with a lace and a woman's mouth with a balloon in it. Many Russian-speakers in Estonia are said to have found this advertising campaign offensive in its attempt to ridicule those unable to speak Estonian (Kalikova 2001, personal communication). Yet the ethos of the advertisement simply mirrored the narrow and negative conceptions of social competence and incompetence expressed in this Estonian integration document. Furthermore, according to the psychological literature, interactions with friends tend to be associated with social competencies in ways that interactions with acquaintances are not (Azmitia & Montgomery 1993; Hartup 1996; Ladd & Kochenderfer 1996; Newcomb & Bagwell 1995, 1996). Thus, the ability of Russian-speakers to interact with their friends rather than their acquaintances is a greater indication of social competence than simple language learning.

Social competence has to be viewed in a much broader sense than in the excessively narrow conception of social competence in the at least partly abandoned Estonian integration proposals. Oppenheimer (1989) suggests that many aspects of social competence are simply indicators of conformism within a society. Moreover, Durkin (1995) warns of the danger inherent in use of the concept 'social competence':

"A possible liability of the notion of social competence is that it can attract prescriptivism. Social competence sounds like such a self-evidently desirable property that it is tempting to confuse it with moral worth and to assume that it expresses an objective standard that all ought to be encouraged to match". (p.154)

A further issue relates to Wiest et al's (2001) description of competence as "the internal drive to be effective and master the environment" (p.113). This approach to social competence, which emphasises internal or voluntary dimensions to competence, is *prima facie* in tension with a top-down imposed requirement to learn Estonian or Latvian in schools as being for the purpose of social competence. This internal or voluntary dimension to social competence is also implicit in Kavussanu & Harnisch's (2000) examination of assessment of competence as not simply being in comparison with other people but comparison with oneself

according to “self-referenced criteria” (p.237) to assess progress (see also Kelly 1999 on ipsative assessment).

The Estonian document is not so much the politicisation of a scientific psychological concept ‘social competence’ as the appropriation of a vague, generic psychological category already ripe for politicisation (see also e.g. Burman 1994 for an account of politics within psychological concepts). Social competence is defined explicitly in the Estonian document as “a person’s ability to function adequately on all levels of social life” (p.66). Selective highlighting of certain features of social competence tends to label those Russian-speakers as being in a presumed state of social incompetence if they do not speak adequate levels of Estonian. It has a dual effect of (a) stamping many from the Russian-speaking minority with a badge of failure and (b) is an individualisation of the integration problem which tends to move attention away from the need to improve education, social support and socio-economic conditions in Russian-speaking areas of high unemployment.

In the abandoned Estonian integration document, only a very vague outline is provided of education for social competence as a policy towards helping those with “serious social needs”. Are low academic achievers or those at risk of early school leaving and consequent drug taking outside the category of ‘serious’ social needs and thus not deserving of help in a competitive society? This important restriction upon those deserving State attention to “serious” social needs is nowhere defined as to the breadth of its scope. In contrast to the Estonian document, the Latvian integration plan includes within its conception of social competence attempts to improve the situation of those on low income, in poverty, with education broader than simply learning the Latvian language. Furthermore, in the Latvian document, social competence is associated with dealing with early school drop out to the extent that it is linked with adult education (p.24/5). The Latvian document provides the following activities as recommendations for education in social competence: providing residents with basic knowledge and information on their possibilities to participate in the local community and labour market; development of skills necessary for participating in solving issues that are important for oneself, participation in activities of NGO and co-operation with local authorities; fostering development of new public initiative groups and civic organisations in the local community; formation of civic consciousness and responsibility towards the state; development of participation traditions. Nevertheless, the breadth of vision of the Latvian document is radically undermined by the subordination of these dimensions to the overriding goal of abolition of Russian-speaking schools by September 2004.

## **Conclusion**

The Latvian and Estonian integration proposals contain serious weaknesses with regard to less academic youth from the Russian-speaking minority at risk of early school dropping-out. Proposals to abolish, or significantly weaken Russian-speaking schools would: (a) bring about the danger of labelling students as failures if they have difficulty learning in classes in their second language; (b) overlook the need to target educational support to less academic students through a broader curriculum than one contingent on learning through the Latvian or Estonian language and (c) overlook the need to respect student autonomy in order to increase motivation for learning at an age when students are in most need of such autonomy.

These weaknesses have at least been implicitly recognised in Estonia through the recent decision to re-examine their proposals for reform of the education system due to the need to prioritise the issue of early school leaving among the Russian-speaking minority. Despite the fundamental dangers inherent in the Latvian integration plan, there are some strengths in the Latvian plan which are absent in the Estonian integration proposals and which need to be retained in future proposals for integration. The comparable strengths of the Latvian document are: (a) language learning is recognised as not being separate from socio-economic issues of integration, unlike in the abandoned Estonian integration document; and (b) social competence is viewed in a much broader sense than in the excessively narrow conception of social competence in the Estonian integration proposals. There is a clear need for fresh plans for integration in both Latvia and Estonia to avoid accentuating a cycle of social marginalisation, early school dropping-out and heightened risk of drug addiction in the less academic students amongst their respective Russian-speaking minorities.

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**SECTION 7**

**Public Sector Finance and  
Accounting**





## **PUBLIC SECTOR FINANCE AND ACCOUNTING – GRANT TRANSFERS AND FINANCIAL SUPERVISION IN CENTRAL AND EASTERN EUROPEAN COUNTRIES: AN OVERVIEW**

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The transition in the field of public finance in central and eastern European countries (CEECs) has been largely marked by the decentralisation efforts promoted by the international financial institutions, and particularly the World Bank (Bird, Ebel and Wallich, 1995a). It was generally perceived that the decentralisation of a highly centralised socialist state would strengthen democratic movements and increase the transparency of public policy process. The citizens are (theoretically) in a better position when communicating with a local government body, which ostensibly knows their needs and preferences better. However, without far reaching complex reform it is difficult to believe that this will indeed be the case. Bureaucracy is behaving as bureaucracy does, regardless of the level at which it operates. The rituals are fairly similar in central government, regional offices and local government bodies. The national bureaucracy shares the same values and corporate culture. The reform is usually expected to break with those inner expectations and general perceptions (*Cf.* Hall, 2002).

Decentralisation has a few dimensions, which in a well-designed and executed public policy action should align and avoid being in conflict. From the economic perspective, decentralisation should increase public sector efficiency and improve the allocation of resources in the economy as a whole. From a political point of view, decentralisation should strengthen the country's democratic institutions, align public policy more closely with people's needs and preferences, and increase the accountability of the public officials (do Carmo Oliveira and Martinez-Vazquez, 2001). Decentralisation as a public policy action and public policy process is not without its ambiguities.

Decentralisation also has institutional dimensions, which include the creation of a sustainable legal framework, mechanisms of accountability (through effective rule of law), the societal contexts, and capacities to fulfil the roles assigned. Often delegating certain functions can be perceived as decentralisation (Bird, Ebel and Wallich, 1995b, p. 7), but it is not the case of real decentralisation. Delegation assumes that at any point in time the central authority can revoke

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the agreement and attract the jurisdiction directly to itself. Real decentralisation assumes different degrees of decentralisation, but is usually only associated with devolution or is aligned with deregulation (and privatisation).

Technically, the weakest form of decentralisation is *deconcentration*. Deconcentration assumes the dispersion of responsibilities within the central government, and shifting it to the regional office (usually physically separated from the central government organisation headquarters). The previously mentioned delegation goes a step further (but not far enough), empowering local government bodies to execute certain functions on behalf of the centre, usually closely supervised and/or monitored. *Devolution*, as a real step towards decentralisation, assumes not only the implementation function, but also the authority to decide that what is done is given to the lower level of government. Finally, *privatisation* and *deregulation* involves full transfer of responsibility to non-government organisations or the private sector (widely defined). Decentralisation can have many arguments pro and contra. Arguments range from those aligned with (rational) choice, efficiency, revenue and sustainability to those that are generally ideological, value-initiated and dynamic. For instance, decentralisation promotes and facilitates innovation, and enables better dissemination of 'best practice' (to use the British public sector terminology).

However, despite the strongly promoted process of decentralisation, fiscal transfers are still a dominant feature of intergovernmental finance in these countries. The (self) local governments are not empowered to raise local taxes or, if they have such an authority, the revenues locally collected are often not sufficient to meet the expenses incurred in the process of discharging their statutory (or even constitutional) duties. For better or for worse, the dependency from the central government through the fiscal transfers is there. Decentralisation of government, despite being promoted as a step to better governance, raises problems of macroeconomic control at national level. According to Bird, macroeconomic stability at national level is fought at local level (Bird and Wallich, 1993). This is because local accountability in itself assumes the transfer of financial competencies including the right to borrow financial resources. In a situation where it is still existing but deteriorating (Colombatto and Macey, 1996), the sovereign country implicitly guarantees the debts of the 'subordinated' governments. For those reasons local budgets are, as a rule, subject to central government control and regular monitoring.

Whatever tax system may be established, there will always be a need to establish a grant transfer system or an appropriate revenue sharing mechanism on objective criteria, as the local expenditure needs typically tend to outweigh local resources. Consequently, the design of an appropriate grant system is vital for the usually stranded relationship between central and local governments. Intergovernmental

fiscal relations, by definition, should be based on stable, transparent, universal and non-negotiable (for the time being) rules, which should not negatively effect the principle of accountability. In creating a decentralisation framework one has to ask generally three questions: 1) What is the role of government?; 2) How is it possible to match revenues with responsibilities at each level?, and 3) How can a balance be struck between autonomy and control? (Lister and Betley, 1999). Pending these questions a country will take a direction in fiscal decentralisation. Whatever the answers might be, the local government must be legally empowered to act and perform its duties with the resources earmarked.

Intergovernmental transfers must provide vertical and horizontal balance. Vertical balance should address the problem of imbalance between the expenditure responsibilities of sub-national government and their revenue raising capacity (or powers?). When creating the system, one has to decide what is to be prevalent, local taxes or intergovernmental transfers? In developed countries, local taxes will have a primate, while in developing (and transitional) countries the intergovernmental transfers will be a preferred option. The reason is primarily economic, although there may also be some political motives. Namely, in countries at a lower level of economic development, the public sector is perceived as having a developmental role. Huge expenditures in infrastructure programmes, protection of (macro) economic stability, and improvement of basic living conditions assume high costs and therefore require a centralised approach in handling them. With economic and social development, the situation may well shift. Equalisation that is horizontal has to be achieved as well, as in developing and transitional economies regional disparities and differences are not to be neglected. Capital cities are usually the centres of economic activities while border-based towns pay the price of being on the periphery.

Intergovernmental transfers are to offset externalities. Different governments can under-spend on services where there are substantial external benefits. Often the fiscal planner has to decide on the amount of a grant and also how to solve the problem of multi-tier government. Local government can decide to under-spend on public services of particular importance to people (education, health, *et sim.*) knowing that in any event, the intervention will come. Also, it is necessary to make necessary administrative justifications. It is generally argued that the central government is better in assessing the needs and organising the tax (public revenue) collecting system. The usual argument of efficiency is put forward, as the economy of scale works at the central level. However, practice has demonstrated that some types of taxes and user charges are better administered at a local level, as people can see what they get for their money and appreciate the effort put in by the local government. And, of course, in an environment dominated by the central government and its bodies, some prejudices are sustained, so the lo-

cal government will experience problems proving that they are worthy of being entrusted with public revenue collection.

When it comes to predominantly political reasons for justification of inter-governmental financial transfers, the logic becomes adverse. In other words, the central government can adopt intergovernmental transfers for some other, less justifiable reasons. Usually, it is believed that intergovernmental, i.e. grant transfers discourage local government autonomy. This is of course the position of the central government, which does not want to lose its grip over the entire public policy process in the country. Again from an arguments of efficiency and effectiveness point of view the central government can be a promoter of uniformity. The goal of the central government can be to resist diversity on the part of local governments, in terms of expenditure mix or revenue structure. There is also a view that the local government might be more corrupt than the central government, as they work more frequently directly with people. Consequently, the shift of resources from the central government to sub-national level government would lead to an unnecessary waste of revenues. Further on, a transfer system may be put in place as part of a strategy to off-load the budget deficit on to local governments (see: Bahl, 2000).

In designing a transfer system one has to take into consideration vertical and horizontal equalisation issues. There are three more or less common approaches to determining the size of the total grant pool: 1) as a share of some central government revenue source; 2) on an *ad hoc* basis, or 3) on a basis of cost reimbursement (Bahl and Linn, 1992). If the horizontal aspects are taken into account, transfers can be allocated in accordance to a derivation basis which assumes that the local government can retain a part of the revenue collected on its territory, or the government can receive a grant based on a priori agreed formula, cost reimbursement or accorded *ad hoc* method. The pool of grants (grant pool) can operate fairly well in any fiscal system, either a highly centralised or decentralised one. First of all in a vertical equalisation model, the central government may decide to share taxes with a local government. The central government allocates the share of the total collected on the national territories to the sub-national level government(s). Two issues are outstanding. What tax is to be shared, and what will be the percentage of participation for sub-national level governments? This is generally the issue that is to be solved in any given country. Different countries offer different models of sharing and it is very difficult, if not impossible, to define a consistent theory of tax sharing providing all the input information necessary for designing a tax-sharing arrangement.

*Ad hoc* transfers assume that the central government will decide on the amount to be transferred to sub-national level government on a discretionary basis. However, in legal terms, discretionary right assumes that there are some

legal foundations establishing that right. The legal framework provides one with the necessary information on how the discretionary right is going to be exercised. Therefore, there is no possibility for loose discretion. Discretionary behaviour must be in the final instance subjected (if necessary) to full judiciary control. An *ad hoc* approach in itself has many setbacks. First of all, it is not transparent. Then, it leads to great uncertainties for local government, reduces the esteem for local government at central government level and denies a link between expenditure responsibilities and revenue resources. Finally, *ad hoc* grants can increase moral hazard, as the local government may decide to behave irresponsibly if they know that they will be bailed out by *ad hoc* grants. *Ad hoc* grants must not be seen, by local governments, as a financial lifeboat of ultimate instance (similar to the credit of last resort in central banking practice). On the other hand, this type of grant provides the central government with maximum flexibility. The central government can change spending priorities without changing expenditure assignments. Despite all the shortcomings, they are widely used, and it would be fair to say that they are preferred by many central government bureaucrats.

The cost reimbursement model is that which is mostly preferred by accountants, as it is fairly straightforward. The central government defines services for which it will guarantee to cover the cost incurred by the local government in delivering the service. Central government can cover all the costs incurred, or simply put a cap on the costs, using a particular limitation rule (for instance, cost per student in primary education, etc.), or their offer can be associated with certain conditions. They are very good for concentrating public resources in the areas that require particular attention due to high priority national needs. They can also ensure the higher level of uniformity of standards across the country. However, they are probably the most centralised grants and entail a very high level of monitoring and control.

However, while the central government usually prefers the use of *ad hoc* and cost reimbursement grants, the local governments in contrast work hard on the development and adherence to a particular revenue sharing formula. Formula requires that all stakeholders agree on its elements, input data, costs associated with the general programme administration and finally conditionality. Elements are usually the most objective aspect of the formula, as it tries to find variables, which can be easily quantifiable (population, indicators of physical factors, etc.). Formula also takes into consideration fiscal capacity equalisation and tax collection efforts reported for a particular local jurisdiction. Formula should reflect the balance between revenue raising capacity and expenditure needs in general, although particular local government features are also to be taken into account.

The implementation of a formula model raises the issues of control, monitoring and evaluation. First of all, the central government assumes certain duties in

controlling the expenditure of local government. This authority is derived from the fact that the central government is ultimately responsible for the macroeconomic stability and economic wellbeing of citizens in the country. Irresponsible local government can be fairly expensive to sustain. Control usually requires regular and extraordinary inspections, while monitoring and evaluation assumes positive and pro-active behaviour from central government. Regular review of a formula arrangement enables the central government to see how the agreed formula model works. If necessary, the changes can be proposed, negotiated and implemented. In a good bargaining model of public policy, it is possible that the central government and local government can arrive at an optimum solution, not at the expense of either of the two (or three, if we included public citizens as the third stakeholder). Evaluation, which is to be used for all public programmes, takes into consideration all the main features of the model, and considers the method of determining the total grant pool and the formula used in the distribution.

When the institutional capacity of the local government is fairly low, the attention of local politicians (and civil servants) will be to lobby for a better revenue-sharing model or a better (not necessarily more comprehensive) formula. With the improvement in economic wellbeing and overall social capacity of local government, attention will be shifted to demonstrating the quality of fiscal capacity of a particular local government. However, this takes decentralisation to a higher level and our brief review is to be finished here.

A selection of the papers presented is as follows. Sergii Slukhai of the Kyiv National Shevchenko University (Ukraine) focused on the general issues of fiscal equalisation in transitional countries. In his paper, entitled: 'Shaping Fiscal Equalisation Techniques in Transitional Countries' he focused on inter-budgetary transfers (IBT) and an important feature of intergovernmental relationship in a transitional country. He provided the reader with a comparative work on the experiences of a number of transitional countries, including often a noticeable number of Central Asian FSU republics. In current research literature it is not often that one finds data for those countries, but Dr Slukhai, painstakingly provided us with those data. As expected with a paper on this subject, he focused much of his attention on the issues of vertical and horizontal equalisation, again comparing national data, and providing us with a comparative comment. Certainly, all students of fiscal decentralisation will enjoy Professor Slukhai's paper, as it provides not only up to date data sets, but also builds on the current research done by other authors that was demonstrated not only in the paper itself, but also in the list of references at the end.

Professors Phillip Bryson and Gary Cornia of the Marriott School of Management at the Brigham Young University wrote a paper on Fiscal Decentralisation in the Czech Republic. Professor Bryson and Cornia are not novices to this research

as they have previously worked on the issue before comparing the Czech and Slovak experience (Bryson and Cornia, 2000). After describing the organisation mainly of the tax system, Professors Bryson and Cornia focus on the property tax in the Czech Republic, i.e. its future within the transitional fiscal system. This is followed by a presentation of other tax forms and the issue of revenue sharing. The authors conclude that in the Czech republic 'the local tax initiative is both small and declining'. They criticise the overwhelming powers of the Ministry of Finance and its resort to discretionary grants.

Piotr Bury and Pawel Swianiewitz of the University of Lodz and University of Warsaw, respectively, wrote a paper entitled: '*Grant Transfers in Financing Local Governments in Poland*'. For both authors this is merely a continuation of their long-standing research on local urban and rural finance issues, whose results were published in a number of Polish academic and professional journals. Closely following the adopted Research protocol, they presented and analysed the current situation with the intergovernmental fiscal relationship in Poland. Looking at a vast amount of data they offer, in good academic manner, different policy conclusions. Certainly, they are more for improving fiscal capacity of local governments and moving from fiscal transfers to a fiscal partnership, where a local government will be empowered to raise its own taxes. The paper is very informative and gives a true and fair picture of the current state of intergovernmental fiscal relations in Poland, providing at the end *pro et contra* using the grants in the public finance system.

Mark Chandler of the Euro Faculty Vilnius Centre, prepared a paper on grant transfers and financial supervision in Lithuania. This paper heads the group of three papers analysing the intergovernmental financial relationship in the Baltics. The paper provides a very good description and analysis of legal acts upon which local governments in Lithuania operate, claiming that the Ministry of Finance has the predominant role in defining the relations in the sub-national government sector. The central government bodies almost entirely control local government finance and therefore exercise a strong political influence, although citizens elect separately local and central government officials. The shift in the division of locally collected taxes did not yield much expected change in the relationship between the central and local governments. Empowering the local government bodies to control part of the revenue is still an outstanding problem to be tackled in the future.

Eliko Pedastsaar and Annika Jaansoo of the Tallinn University of Educational Sciences and Tallinn Technical University, respectively, prepared a paper on the grant transfers and financial supervision in Estonia. They commence their analysis with a claim that over 50 per cent of municipalities in Estonia have less than 2,000 citizens, with 70 per cent of municipalities having less than 3,000 citizens.

Certainly, the total number of 247 municipalities sounds exorbitant, for a relatively small country. The local governments in Estonia receive revenues from a variety of sources ranging from their share in state (centrally collected) taxes to government grants and contributions through revenues from local taxes. However, despite this *de jure* positive situation, the reality is somewhat different. The central government is still a powerful, predominant social force, while the local government does not have the capacity to resist pressures from the centre.

Mudite Priede and Solvita Klapare of the Union of Local and Regional Governments of Latvia and the World Bank, respectively, prepared a paper on grant transfers and supervision of finances in Latvia. The paper begins with a sound legal framework analysis, which informs the reader that in a small country such as Latvia, there were 578 sub-national governments as of 1st January 2001. The authors claim that Latvia has established one of the most effective systems of intergovernmental negotiations in Europe, but then they also claim that not one single tax is imposed by local government. Sub-national government can impose only fees. The paper gives an excellent overview of the current state of grant transfers in Latvia, although in a few places the reader can find a few highly politicised claims. The authors give, at the end of the paper, a number of recommendations on how to improve the current system. Interestingly, the list of recommendations is longer than the list of positive aspects of the current system.

Clare Romanik and Francis Conway, both of the Urban Institute, a think-tank based in Washington, DC, prepared a paper on grant transfers and financial supervision in Romania. Their main focus was on the provisions of a relatively recently promulgated Law on Local Public Finance. The legal definition of local government in Romania clearly discloses the heavy involvement of the World Bank and its agencies in the reform of local government in that country. Decentralisation is a central point of local government reform around which all other issues simply revolve. After 1999 the local revenues began to play a more prominent role in financing local government functions. A well-developed portfolio of local taxes is providing good local tax collection and contributes significantly to the overall strength of the municipality. Under the new conditions, local governments are empowered to raise finance in financial markets as the law allows them to enter into direct relations with the prospective 'investors'. However, as the authors noted, there is a huge discrepancy between the letter of the law and the real situation.

The last paper in this part was written by Leonida Pliskevich of the International Institute of Social and Labour Relations in Minsk (Belarus) with the assistance of the author of this article. The paper is a work of a young scholar and it gives a brief and basic overview of fiscal and inter- and intra-governmental



relations in the Republic of Belarus. The particular value of the paper is that it is focused on a country upon which not much has been written and which has a particular form of inner management. The paper describes the power structure in Belarus and the basics of relationships between different levels of government, primarily the central government and sub-national level government. The paper gives a few straightforward policy recommendations, but it is very difficult to assess to what extent these logical steps will be taken, if ever, by the current government. But, again, young scholars at the beginning of their career may be around long enough to see these changes implemented.

Some members of the Group (Bury and Swianiewitz) claimed that often, local governments are induced by the current intergovernmental transfers to fight against the introduction of local taxes, since with the local taxes an issue of accountability arises. It is much easier to be on the receiving end, without much effort being put in, and without any particular responsibility and duty to submit accounts. However, full decentralisation leads, in the long run, to devolution and in this case the local governments must learn to become accountable and socially responsible.

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# GRANT TRANSFERS AND FINANCIAL SUPERVISION IN LITHUANIA

*Mark Chandler* \*#

## 1. Introduction

Lithuanian local government operates in a rapidly changing environment. Its structure of local government finance is also continually being revised. Throughout the ten years of transition, changes have been made to the number of layers of local government, the number of municipalities, the taxes used to fund local government, and the types of grants paid by the state to municipalities. These changes continue to the present day, with a fairly radical reorganisation of municipal funding in 2002.

Lithuania is a country of 3.5 million people, approximately the same size as Ireland. Its current government is formed from a centre-left coalition of Social Democrats and Social Liberals, with the next parliamentary elections not due until 2004. All main parties in Lithuania are committed to the goals of EU and NATO membership.

Economic growth is a healthy 4 – 5%, with inflation below 2%. The Social Democrats and Social Liberals also received the highest number of seats in the Spring 2000 municipal elections, totalling 546 out of 2026.<sup>1</sup> Mayors of 25 local authorities are affiliated with governing parties<sup>2</sup>. Other centrist parties control 17 mayorships, and the Peasants Party, 11 mayorships.

Since the reforms in 2000 there are now 61 local authorities (LAs), an increase from 56. Twelve municipalities are urban and there are 49 districts. Given an overall Lithuanian population of 3.5 million, the average LA has 57,000 residents. Some urban LAs are geographically submerged within a single district LA, leaving the district without a centre. Each LA is within one of 10 counties serving as branch offices of national government.

Local government has been seen mainly as performing an administrative role in Lithuania, despite having been elected. It is not perceived to have much freedom of manoeuvre on policy but is judged on its capacity to provide value

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# Thanks are due to Artahses Gazaryan, Lina Domarkiene and Vytautas Sulija for helpful comments. All remaining errors are my own.

<sup>1</sup> <http://www.lrs.lt/n/rinkimai/20000319/mlta.htm>.

<sup>2</sup> Own calculations from data provided at <http://www.lsa.lt/nariai> and <http://www.lrs.lt/n/rinkimai/20000319/asmp.htm>.

for money. Another traditional role for local government, which is evident in Lithuania, is as a training ground for politicians before entering national politics. In 2000, for example, the mayor of Vilnius was appointed Prime Minister. The main services provided through local government are schools, social security and welfare, higher education, housing and residential services, and recreational and cultural services.

Almost all revenue sources for local government are controlled by the state and this weakens local government. The power of municipalities to make policy decisions over expenditure has oscillated since 1990. Overall, there is a general low public opinion of local government according to regular opinion polls. Local government is often perceived as having a low capacity to fulfil its responsibilities and this induces resistance to expanding their responsibilities any further. The main body responsible for fiscal and other relations between the LAs and central government is the Association of Local Authorities in Lithuania. The ALAL is also a key source of information on developments in the budget process. The most notable attempt to foster openness from local government is in the city of Vilnius where the mayor has put a live view of his office on the internet 24 hours a day.<sup>3</sup>

## **2. Local Government Legal Framework**

There are two levels of government in Lithuania; national and local. The national government also maintains 10 county level offices whose heads it appoints in political bargaining between the coalition partners alongside its ministerial appointments. Similarly, some LAs divide their territory into neighbourhoods for the administration of certain services. Nevertheless, the only levels of government elected by the citizenry are the national (president and one-chamber parliament) and the local authorities' councils.

The main legal acts are the:

1. Constitution
2. Law on Local Self-Government<sup>4</sup>

### Constitution

Chapter 10 of the Constitution (articles 119 – 124) is devoted to “Local Government and Administration”. Article 119 establishes that local administrative units have the right of local self-government and that their governing councils must be elected by the residents of each jurisdiction. The remainder of the chapter provides for state support to the independent local authorities, discusses

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<sup>3</sup> <http://www.vilnius.lt/new/vadovybe.php>

<sup>4</sup> Council of Europe (1996): 5.

local fiscal policy, establishes the right of local authorities to appeal to court any violations of their rights, and the right of individuals to appeal to court against any infringements by the local authorities.

### The Law on Local Self-Government

This provided more of the details needed for operation of local government such as the territorial division of the country, the institutional structure and the organisational procedures. It was first passed on 7<sup>th</sup> July 1994 and has been amended several times since. The main decision-making body of local government is the local council. This is supplemented by the mayor, elected by the council, who is responsible for chairing council meetings, relations with other institutions, making proposals to the council and general supervision of the work of the LA. The structure of LAs also includes an executive board of the council, a head of administration accountable to the mayor, and a controller with legal experience who is responsible for the supervision of funds. The LA's functions are divided into three groups by degree of independence from control by the national government i.e. independent, limited independence, and state delegated.

The key channel for interaction with the national government is the Association of Local Authorities in Lithuania. This body is responsible for conducting budget negotiations with the national government on behalf of the LAs. The ALAL has also been involved in issues such as LA debt and supply of utilities. The ALAL represents Lithuanian LAs at the European Council. Another indirect channel of intergovernmental interaction is the courts. Occasionally LAs are found in contravention of health and safety or other laws and are forced to increase expenditure in a particular area in order to comply with a court decision. The county administrations of the national government employ government representatives whose role, according to the Constitution, is to evaluate the legality of LA actions.

Much power in local government affairs is vested in the Lithuanian Finance Ministry, due to its control of the allocation of budgetary income to the LAs. Income is general and taxes are not assigned to any particular spending categories. This effectively removes one side of the budgetary process from local control. The more controversial question is how much control LAs have over their expenditure. The existence of expenditure norms, used by the Finance Ministry in calculating budget allocation may have considerable influence on LAs. LAs may be heavily politically constrained by these norms since spending less than the norm could be used as strong political ammunition against the ruling party on the local council. If no area receives less than the norm there is no flexibility to increase spending in any areas. Also however, spending less than the norm could be self-defeating for an LA if the Finance Ministry reacts by reducing the

allocation for the LA in that area the following fiscal year. Within the broad spending categories governed by norms, LAs may have more flexibility. Even here, though, they are constrained by decisions at the national level such as nationally determined teacher wages. One further constraint on the ability of the mayor or ruling party of an LA to make independent decisions, is control from their national party. Although many commentators still argue that political parties are weak in Lithuania LAs that are run by members of the same party as that in national government are less able to push for their own interests and more likely to follow the agenda of the government. Much, however, depends on the political strength of individuals. An illustrative example is the mayor of Vilnius in 2000 who, despite being a member of the party of national government, withheld payment of social security taxes for city employees as a negotiating tactic with the national government. That the mayor and Prime Minister were of the same party may even have increased the ferocity of the battle as some commentators looked upon it as being part of the war between these two figures for support within their party.

Experts of the European Congress of Local and Regional Government conducted a review of deficiencies in the legal structure of Lithuanian local government after a request from the ALAL. This led to 87 recommendations approved by the Congress on 30th May 2001. These included items urging the Lithuanian Government to ensure that financial control is carried out with proportional methods that would not harm local governments' independence. Another set of recommendations covered the need to ensure that municipalities have recourse to courts to resolve conflicts with the state government.

### **3. Intergovernmental Financial Relationship**

The financial relationship between state and local governments is complex and includes a matrix of impacts on both the revenue and expenditure side. There are formal obligations of one level of government to another, that have financial implications (e.g. grants from the state to local governments), and impacts that arise from political or other non-statutory considerations (e.g. the pressure on local governments to fund spending categories according to state guidelines). Furthermore there are effects from one layer of government to another that may be indirect consequences of their independent decision-making.

One of the main aims of the 2001 reforms to local government finance, then, was to improve the delimitation of local versus state responsibilities. In order to achieve this, functions administered by local governments were divided into three categories; state dependent, partially independent, and fully independent local function. Those functions deemed to be fully state responsibilities were henceforth funded by categorical grants with the municipalities clearly only playing

the role of administrators of state policy. Those functions that were fully local responsibilities were to be funded from general revenue and the local councils would have policy control over these.

Prior to 2002, local government revenue in Lithuania was dominated by personal income tax. This tax was used largely for the financing of local authorities although it is controlled by the national government. That dichotomy created problems for the efficient administration of the tax. It may be that part of the reason why revenues were so low from personal income tax is that the institution in control of collection, the national government, had a significantly weakened incentive to improve collection since local authorities receive the vast majority of the revenues. The LAs could have become a strong interest group for the improvement of efficiency of administration of the personal income tax. The LAs did not, however, take on this role, probably calculating that they would be unable to retain the benefits from such an improvement in collection.

The changes in the funding of state functions for 2002 implied a large increase in the amount of funding from categorical grants. To balance this, there was a large fall in funding from general revenue, particularly personal income tax. In the new system, the state budget would take approximately 40% of personal income tax revenue in each town, in addition to the 30% taken by the compulsory health fund. For the first time, the state government has a direct and clear interest in personal income tax collection and this may help to improve its efficiency.

The scale of the transformation is shown in the table below.

**LA Revenue by Source  
(Litas 000's)**

	<b>2000</b>		<b>2002*</b>	
	Amount	%	Amount	%
Personal Income Tax	2504272	76.5	1097804	32.0
Other Taxes	325556	9.9	295682	8.6
Non-tax	112521	3.4	69077	2.0
Grants from the state budget	315405	9.6	1963747	57.3
Transfers from other budgets	16515	0.5		
<b>Total</b>	<b>3274269</b>	<b>100</b>	<b>3426310</b>	<b>100</b>

\* *forecast*

Sources: *Statistics Lithuania (2001, p. 21 – 22), Ministry of Finance (2002).*

Hence the new revenue structure has grants providing the majority of funding where the personal income tax did before. As shown in the table below for 2000, property taxes are the second most important category.

**Tax Revenues in 2000 (thsds. litas and percentage of total revenue)**

	Personal income	Land	Land rent	Real estate	Estate, inheritance, Gift	Stamp	Market place
	2504272	20849	46019	189804	1831	60031	7022
%	76.5	0.6	1.4	5.8	0.1	1.8	0.2

Source: *Statistics Lithuania (2001, p. 21)*.

Municipal revenue is almost totally controlled by the national government, as has been criticised by previous analysts.<sup>5</sup> There is also a healthy debate among specialists within Lithuania on this issue. The ALAL proposed the establishment of local taxation but the national government has not been ready to accept this reform. Giedrius Lingis, ALAL Consultant on Finance and Economics, presented several arguments for the establishment of a local real estate tax [Lingis (2001)].

1. The European Charter of Local Authorities calls for local taxation with rates under the control of LAs.
2. The Law on Local Authorities (2000) provides that a part of LA revenue comes from taxes whose rates can be adjusted by LAs up to maximum levels set by law.
3. Local taxation would ensure healthy competition between LAs.
4. Increase in responsibility of LA councils and reduction in Government responsibility for increasing revenue in specific municipalities.
5. In other countries, property taxes provide 30 – 40% of LA revenue compared to only 8% in Lithuania at present.
6. Real estate tax revenue is more stable and easier to forecast than other forms of taxation.
7. Income tax rates could be reduced, in accordance with the Government’s “Tax System Concept”.
8. It is more difficult to evade real estate tax and this would enable tax rates to be reduced overall without reducing revenue.
9. Real estate taxes would be paid in the area of residence, where citizens actually use LA services, rather than in the jurisdiction where they work, as at present with the personal income tax.

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<sup>5</sup> See for example Martinez (1998, p. 77).



10. There would be a reduction in the revenue inequality between municipalities.

To this list we might add the improvement in the incentive of LAs to develop the economy of their jurisdiction. The Ministry of Finance has disclosed that it is working on a proposal for local real estate taxation as part of a new Real Estate Tax Law.<sup>6</sup> This may allow municipalities the flexibility to set their own tax rates between the limits of ½ and 1%. So far, however, the full proposal has not been presented.

Every year, the government must pass a law on the Confirmation of State and Local Authorities' Budgets' Financial Indicators. One of the issues that arises repeatedly is the accuracy of the government's forecast for tax revenue for the following year. An example of this is in the ALAL executive decision "On the Draft Law on the Confirmation of the 2002 State and Local Authorities' Budgets' Financial Indicators" (8th October 2001). This decision contains the claim that the 2002 revenue projection for personal income tax is too high. Therefore, to keep revenue at the same level in 2002 as it was in 2001, LAs overall would have to receive 45.77% of personal income tax revenue rather than the 44.03% given in the draft law. A more concrete example of failing revenues is in a table of forecast and actual revenue for the first 10 months of 2001 prepared by the Ministry of Finance (2001b). Here we see that overall LAs received only 79% of their forecast revenue for the year (compared to the 10/12 or 83.3% they should have received). The situation varied significantly across LAs with 11 being on, or ahead of schedule. The worst performer, Akmene district, had received only 72% while two municipalities, Palanga city and Neringa, had already received over 100% of their forecast revenue for the year by the end of October.

One possible explanation of why revenues continue to fall behind projections for most LAs is that governments deliberately overestimate future revenue so that they can better control the distribution of funds. When revenue turns out to be lower than projected, municipalities still receive what was projected due to later compensation for the shortfall. If revenue is higher than projected, however, the municipality keeps these extra funds and this implies a loss to the national government. This means that there is an incentive for the national government, having decided how much money it wants to distribute to each municipality, to give over-optimistic forecasts for revenue that enable it to set tax and grant parameters lower than necessary in order to ensure that revenue in reality. This means that no LAs end up with more revenue than the government intended. This structure ensures that there is little incentive for most towns to improve revenue since their future compensation for their revenue shortfall will

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<sup>6</sup> Private correspondence with Vytautas Sulija 10<sup>th</sup> January 2002.

be reduced by exactly the amount that their revenue shortfall decreases by. The only advantage to the municipality would be from the time discount on future compensation.

The role of tax abatements by the municipalities in the overall state financial system is also fairly controversial. Bronis Rope, President of the ALAL, argues that these abatements are a method to encourage business and therefore ultimately increase revenues and reduce costs across government budgets [Rope (2001)]. He also uses the example of a government decision regarding granting exemptions to disabled persons to argue that such abatements are an integral part of national policy. Hence there is a case against the decision of the Finance Ministry to count revenue lost through abatements as having been received by the municipalities, although on balance it is better to allow municipalities to feel the cost of their decisions, even if prompted by governmental advice. The variety of abatements is quite striking; 5 municipalities gave none in the first 10 months of 2001 whilst in Neringa they amounted to 722,000 litas [Ministry of Finance].

Disagreements over the appropriate revenue for LAs arise from a number of sources. One of the most common is based on the provision of the Constitution that municipalities must be compensated by sufficient revenue to cover any increase in expenditures resulting from decisions of the national government. This gives a legal context for the Lithuanian version of the traditional inter-governmental battles over unfunded mandates. A major financial development stemming from falling tax revenues and disagreements over legal revenue of LAs is the emergence of LA debt. This has an impact on the entire complexion of public finances since the state is implicitly the payer of last resort. The debt also forces LAs to be more assertive in pursuing their claims with the national government. The debt is thus a contributory factor in the initiation of court action against the national government by the ALAL. While allowing municipalities to engage in borrowing, the national government has also placed maximum limits on the size of LA debt as a proportion of their annual revenue. In the Law on the Confirmation of the 2002 State and Local Authorities' Budgets' Financial Indicators, the government increased this limit from 25% to 35% for all LAs except Vilnius city whose limit rose from 35% to 50%. There is also a limit of 20% of their annual revenue for the LAs' borrowing in one year. The portion of the debt that is owed to the national government becomes part of the financial negotiation as terms of repayment are traded for agreement on other aspects of the budget. An example of this is the agreement of the Finance Minister on the passing of the law on Confirmation of the 2002 State and Local Authorities' Budgets' Financial Indicators not to seek repayment of interest-free loans to the LAs due to their tax revenue shortfall in 2001.

## 4. The Grant System

### 4.1. Roles and Purposes of Grants

The system of grants applied in Lithuania can often seem ad hoc, despite the establishment of formulae and procedures in law. I will disentangle the separate decisions made on the different grants but also show where allocations in one category depend on those in another. The grant system is constantly evolving in Lithuania so I will attempt to give an up to date account of the newest revisions while also providing some context about the systems followed previously.

In Lithuanian legislation, grants are divided into compensation grants, specific grants and equalisation aid. Compensation grants are given to towns that received less income than was forecast for them. Grants became a much larger part of municipalities' incomes in 2002 as part of the general reorganisation of local government finance. The state and local authorities' budget law lists categorical grants for each municipality. These vary both in number and in size from year to year. The formulae for equalisation grants are established in the Lithuanian Local Authorities' Budget Income Method of Calculation Law. Prior to 2002, this law was supplemented by the Local Authority Budget Income and Equalisation Variables law, which established the size of the formula coefficients that were fixed for three years. For 2002 this law was no longer required and all coefficients were set in the Lithuanian Local Authorities' Budget Income Method of Calculation Law.

### 4.2 General Purpose Grants

In the 2002 national budget, general-purpose grants to municipalities are only used to compensate for changes to overall projected revenue between 2001 and 2002 and for partial compensation of the revenue shortfall from 1997 – 2000. This is in contrast with the 2001 budget, in which municipalities received general-purpose grants to compensate for the shortfall of tax revenue in the previous year and for functions newly delegated to them by the state government. This latter form of compensation is mandated by the Constitution. The new general-purpose grant in the 2002 budget<sup>7</sup> is the general compensation grant given to ensure that municipalities in 2002 do not receive more than 1% less than they were projected to receive in 2001. In addition, however, there is a general grant from LAs back to the state budget from those municipalities whose projected revenue in 2002 has risen more than 7% from revenue projected for 2001.

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<sup>7</sup> Other than the equalisation grants analysed separately in section 4.4.

*(i) Compensation for reduction in revenue.*

In previous years, the Government has compensated municipalities directly with a grant for the shortfall of income tax revenue compared to that projected. In the 2002 budget, passed in December 2001, there was a provision for continuing compensation for shortfalls from 1997 – 2000 of 64,555K litas but no compensation for 2001. A shortfall in revenue in 2001, however, is reflected in the revenue forecast for 2002 and so is compensated in LAs where overall revenue is projected lower than in 2001. To illustrate this point, consider the example of Birstonas given below.

<b>Birstonas 2001</b>	<b>Litas (000's)</b>
Income tax revenue forecast net of Compulsory Health Fund:	2,054
Overall revenue shortfall in Jan-Oct:	268
<b>Birstonas 2002</b>	
Income tax revenue forecast net of Compulsory Health Fund:	1,714

Hence there was a downward adjustment of the forecast income tax revenue associated with the overall revenue shortfall the previous year. That reduction in projected income tax revenue is reflected in a lower overall revenue forecast, which triggers an increase in the compensation for reduced revenue. Revenue forecasts for the municipalities are thus significant determinants of the size of their general grant. Combined with the inevitable uncertainty associated with any forecast, this means that they become controversial numbers in the budget negotiation process. Since the ALAL has complained about the lack of compensation for the shortfall of revenue in 2001 we may anticipate that this will be added to the budget by amendment during 2002 as the 2001 data becomes available.

An example of the sometimes rather ad hoc nature of the Lithuanian municipal grants system is provided by the phenomenon of interest-free loans that the Finance Ministry later does not require to be repaid. This happened in 2001 when interest-free loans from the Finance Ministry were kept as grants by municipalities to cover revenue shortfalls from personal income tax. This dispensation might be labelled grants for needy areas i.e. those that received less than projected from the income tax, although they also form part of the equalisation system. The process then forms part of the story on the timing and mechanism of payment of revenue/grants to LAs. It becomes apparent with the operation of this compensation for revenue shortfalls that municipal income does not depend upon income tax collection in a given year, but only on the Finance Ministry's projection of what that revenue should be.

What is less clear is whether a decline in a municipalities tax revenue that is projected to continue for the following year leads to a decline in the funding of that municipality the following year or if the difference is made up completely by increases in other grants. This is similar to the question of whether any expenditure savings or revenue increases engineered by LAs will result in counterbalancing reductions in grants from the national government.<sup>8</sup> It appears that there is enough flexibility in the municipal funding system for Parliament to adjust the various components of the budget to arrive at whatever final sum it wants to allocate to a municipality. This is an empirical question that could potentially be answered by careful econometric analysis. Unfortunately, in order to do this, we would first need a reliable model of the political decision-making in Parliament regarding municipal budgets. Vote maximising by members of Parliament may be an inappropriate assumption in a transition country where gains from large-scale privatisations and other similar opportunities for politicians may outweigh re-election as a goal.

#### *(ii) Compensation for newly delegated functions*

Since there is a constitutional requirement to provide increased revenue to municipalities to cover newly delegated functions, governments have often felt it necessary to include this allocation as a separate budget item in the budget law. The 2001 budget law contained 3.3 mln litas in grants to the municipalities under this category, whilst in 2002 there is no such grant. Instead, however, this category of funding is likely to be partly subsumed under the new special grant to perform state functions. This is part of the effort to clarify municipal activities by dividing them between the administration of state functions and independent local functions. The question of under what circumstances the government is obliged to provide such funds, how it calculates the amounts, and whether there is any mechanism to prevent the Government from removing these funds from another part of the LA budget thus become important.

### 4.3 Special Purpose (Categorical) Grants

The number and type of categorical grants has varied throughout the transition period in Lithuania. They are established not only in the budget law passed before the year begins but also in amendments passed during the year itself. The only consistent grants have been for investment.

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<sup>8</sup> This was the claim, for example, in the interview with the Finance Minister in Lazdynas (2001a).

**Investment grants have followed the pattern depicted in the table below.**

Year	Number of municipalities	Total (thsd. litas)
1997	16	52,500
1998	18	61,333
2000		63,239 <sup>a</sup>
2002	30	64,731

Sources: Budget laws; a Statistics Lithuania (2001, p. 34).

Vilnius City also received special grants of 15 million litas in 1998 and 1999 and 2 million litas in 2000 and 2001 to renovate its Old Town. Other grants were less stable as shown in the table below.

Grant	Year	Number of municipalities	Total (000s litas)
Pay off debt	1997	7	31,142
Environment	1997	14	74,862
Environment	1998	19	81,702
Housing restitution	1998	44	18,700
Libraries	1998	56	2,000
Housing stock	1998	3	10,000
Children in state care	1999	54	53,053
National service	2001	59	2,714
Anti narcotics	2001	2	600

Source: Budget laws

In 2002, categorical grants became much more important in the structure due to the radical reorganisation of local government financing. Functions that are classified as state functions only delegated to local authorities for administration are now funded by categorical grants. They are of the following type and size:

Grant purpose	Litas (000's)
State functions administered locally:	762,057
Pupil basket:	1,047,378
Special needs pupils:	1,046
Interest on loans for renovation of educational institutions:	5,590
State investment programme:	64,731
<b>Total:</b>	<b>1,945,357</b>

They made up 57% of overall LA revenue. Most notable is the shift of education funding into a categorical grant called the pupil basket. The budget also contained partial compensation of the revenue shortfall from 1997 – 2000 as a categorical grant, although it is more accurate to consider it a general grant

since there is no restriction on what these funds are used for. In practice they are likely to be used to repay debt but, at least at the margin, LAs can decide other uses.

#### 4.4 Equalisation Grants

The equalisation system was reformed quite markedly in 2002, by amendment of the Method of Calculation of Local Government Revenue Law. The previous system<sup>9</sup> was based on a state total equalisation grant for local governments, D, given by

$$D = A - B - C$$

where A = forecast level of expenditures for all municipalities

B = forecast revenues from tax and non-tax sources

C = total specific grants.

Hence the forecast of revenues had a direct impact on the state allocation for equalisation. This total grant was then divided between three sub funds. Revenue shortfall funds went to towns whose revenue was below what had been forecast. Revenue equalisation funds were for those towns whose per capita revenue was below the average. Expenditure need equalisation went to all towns whose indices of expenditure need were above the lowest. Expenditure need equalisation funds were supplemented by formula determined payments to the fund from LAs with above average tax revenue per capita. 20 municipalities in all paid into this fund. All funds were distributed to municipalities according to formulae that determined their share of funds for revenue shortfall, revenue equalisation, and expenditure need equalisation from their amounts of revenue shortfall, revenue poverty, and expenditure need, respectively, as proportions of the aggregate level. The formulae also contained scaling coefficients that ensured only a part of the relevant gap was considered for equalisation. Some coefficients for the formula were set for three years. Other variables were established annually in the national budget law.

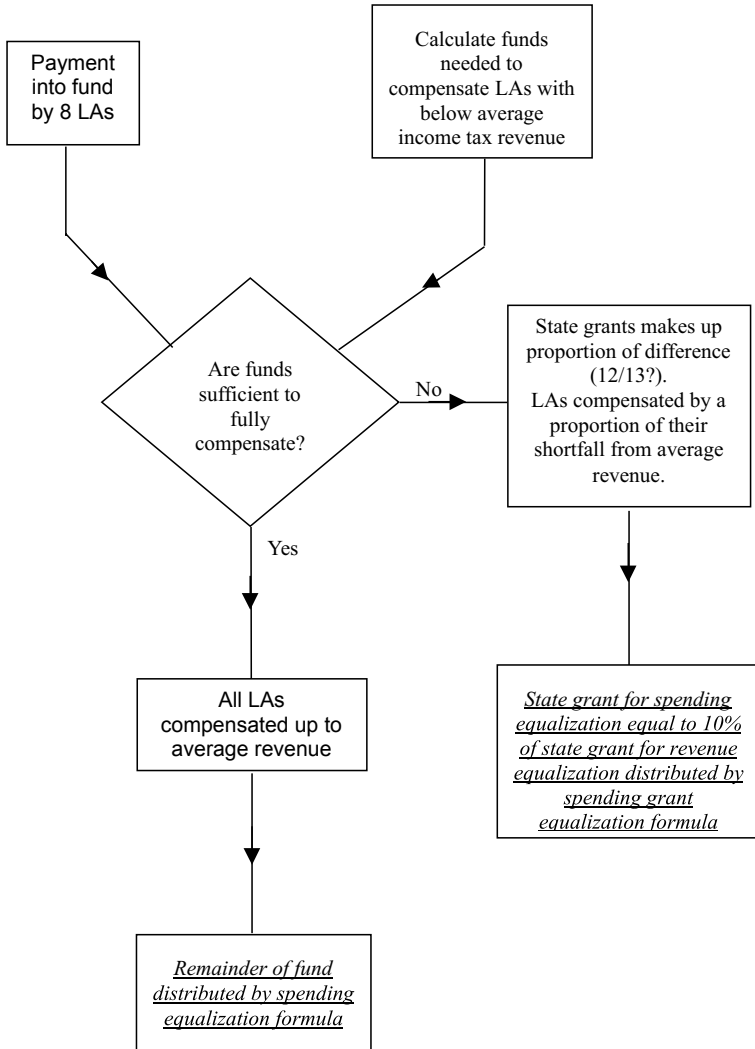
Several changes were made to the system in 2002. One of the main criticisms of the system of equalisation in 2001 was that it depended directly on revenue forecasts. Hence the new system was based instead on actual receipts. Another change was the removal of the formula for distributing funds for revenue shortfalls. The new system contains only equalisation for towns with below average revenue and equalisation of expenditure need. The formula for payment into the expenditure need equalisation fund was removed and replaced by payment of a

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<sup>9</sup> See also the discussion of the first version of the previous system in Martinez (1998).

specified proportion of tax revenue by a specified group of 8 municipalities. The structure of equalisation now looks as shown in Figure 1 below.

**Figure 1**  
**Structure of Equalisation**





Municipality	% of income tax (net of Compulsory Health Fund and state budget payments) paid to the equalisation fund	% of overall income tax paid to the equalisation fund in 2002
Vilnius	60	18
Kaunas	26	8
Klaipeda	36	11
Siauliai	4	1
Panevezys	16	5
Ignalina	22	7
Mazeikiai	45	14
Palanga	30	9

The 8 LAs that pay into the equalisation fund are the five largest cities and three especially well-endowed municipalities.<sup>10</sup> Hence the previous formula for determining payments was abandoned in favour of a simpler approach based on pre-set proportions and fewer payees. Their contributions are as in the table below. In the 2002 budget, the proportion of income tax paid to the Compulsory Health Fund is 30% and 57% of the remainder goes to the state budget. Hence only 30% of income tax collected in the municipalities remains to the local level of government and the proportion of overall tax collection that is paid into the equalisation fund is equal to this 30% multiplied by the proportions given in the middle column of the table.

Since 34% of all income tax in 2002 was projected to be paid in Vilnius, the contribution to the equalisation fund from this municipality alone represents 6% of Lithuanian personal income tax revenue, or 20% of the income tax revenue going to local government. Neringa municipality would appear to be one of the greatest beneficiaries from the new equalisation system; previously it kept only 1% of its income tax revenue.

The second element of the equalisation system is the calculation of revenue equalisation grants to municipalities. LAs receive these payments each month that their personal income tax revenue per resident the previous month was less than the national average. The grant makes up 90% of the difference. I.e.

$$L_{ii} = 0.9 G_i (\bar{x}_f - x_{if})$$

where  $L_{ii}$  = revenue equalisation grant to the municipality  $i$

$G_i$  = population of municipality  $i$

$\bar{x}_f$  = average personal income tax revenue per resident in Lithuania the previous month

$x_{if}$  = personal income tax revenue per resident in municipality  $i$  the previous month.

<sup>10</sup> Ignalina has a nuclear power facility, Mazeikiai a large oil refinery, and Palanga is a major tourist resort.

This formula decides how much of the month's equalisation fund is paid out to each LA for revenue equalisation unless the payments to the fund are not sufficient. In that case an additional state grant for equalisation makes up some of the shortfall.

As long as the payments into the equalisation fund are sufficient to cover the grants paid out for revenue equalisation according to the above formula, the remainder is used for spending equalisation. If the payments to the fund are not sufficient an additional state grant funds the spending equalisation. The size of this grant for all municipalities is set at 10% of the total of the state grants for revenue equalisation. In either case the total funds for spending equalisation are divided among the municipalities according to a set formula. Only the 8 municipalities that pay into the equalisation fund are excluded from this process. They receive no grant for revenue equalisation and their cost indices are not included in the total index for all towns in the formula.

The formula for spending equalisation determines the share of the total spending equalisation funds paid to each municipality throughout the year as follows.

$$L_{2i} = L_2 \cdot \sum_n K_n \cdot E_{ni},$$

where  $L_{2i}$  = spending equalisation grant to municipality i;

$K_n$  = coefficient showing the influence of indicator n ( $\sum_n K_n = 1$ );

$E_{ni}$  = proportion of indicator n in municipality i given by the formula  $E_{ni} = \frac{R_{ni}}{\sum_i R_{ni}}$ , where

$R_{ni}$  = indicator n for municipality i.

This formula has been simplified to the one used prior to 2002 in several respects. The previous formula contained three expenditure groups, each containing

Indicator	Coefficient
Length of local roads	0.13
Area of municipality	0.17
Number of pension age residents	0.13
Number of children from 7 to 17 years of age	0.11
Number of children from 0 to 6 years of age	0.25
Area of land of educational institutions financed by the municipality	0.13
Area of mortgaged municipal land	0.04
Inverse of density for resorts	0.04

several indicators. The  $n$  indicators and their coefficients ( $K_n$ ) for the new system were determined on the basis of recommendations by an independent organisation, the Lithuanian Regional Research Institute, as requested by the ALAL [Lionginas (2001)]. The table below gives the coefficients for each indicator.

These indicators were found to be objective cost factors, beyond the control of the municipality. They imply that municipal costs depend on physical size factors as well as demographics. The previous system included 11 indicators, so this has been reduced to 8.

#### 4.5 Payment of Grants

Grant payment schedules can have a large impact on local authorities. One of the main reasons is the erosion of the real value of grants over time by inflation. In Lithuania, however, inflation has fallen to below 2% and so this is of minor concern. Perhaps greater concern arises from the rate of interest paid on short-term borrowing to cover waiting periods. Categorical and equalisation grants appear to have been paid according to schedule since this issue has not been raised by the ALAL or individual municipalities. What has been a much larger problem is the receipt of compensation grants for shortfalls in tax revenue and for new mandates.

In 2001, the Government agreed that local authorities were still owed money to compensate for the shortfall in revenue from 1997 – 2000. The over-optimistic revenue forecasts of these years led to a large delay in the payment of compensation. This led to large borrowing by municipalities while they waited to receive funds they were entitled to by law. When municipalities are then paid compensation grants for these shortfalls, the grants are added to their budget revenue in the year the grant is paid. These funds, however, cannot really be considered as part of current revenue. They are likely in practice to be used to pay off debt accumulated to cover the expense that was incurred previously. The funds are in fact simply a late payment of a previous year's revenue. Adding them to the later year's revenue gives a somewhat distorted picture of the balance between revenue and expenditure since the funds cannot be used to fund expenditure in the year they are received.

#### 4.6 Grants Mechanism Reassessed

The grants system initiated in 2002 is a radical increase in the importance of grants in Lithuanian local government finance. This is especially true of categorical grants. It is now more evident which are the areas where local governments are administrators of funds received from the state explicitly for spending on certain national policy priorities. Hence categorical grants take up a much bigger part of the overall grants picture now. Several simplifications to the equalisation

aid formulae have resulted in a clearer system in which towns can more easily predict their contributions to the equalisation fund.

As with any major change to a fiscal system, there are both potential winners and losers from the transition. These can be seen from the data provided by the Ministry of Finance (2002) used to calculate compensatory grants for and from those towns whose losses or gains exceed the boundaries of 1% and 7%, respectively. Silutes forecast revenue, for example, rose from 50,787K litas in 2001 to 60,579K litas in 2002 before capping, a rise of 19%. This was largely thanks to a rise in its categorical grants from 0.1% of its forecast revenue in 2001 to 78.8% of the 2001 revenue in 2002. In Visaginas, however, categorical grants rose by only 39.2% of 2001 revenue and hence this town lost 36% of its revenue in the new system, all of which was recouped by the compensation grant. While the compensation grant system ensures that there are no substantial losers in 2002 this is only provided for three years in the law. Hence if the new financial system survived longer than three years some towns would see substantial losses or gains. Given recent practice, however, it seems unlikely the new system will last that long before being revised.

## 5. Financial Supervision

Financial supervision of Lithuanian local governments is conducted by a number of different officials. Each municipality has a *controller* elected by a secret ballot of the council. The parliament ombudsman can investigate citizens' complaints. The State Control Office supervises all government institutions. The *government representative* works at the county level. Finally, the Parliament itself can impose direct rule on a municipality if the courts find it in violation of the law.

The municipality's controller supervises the execution of the budget and the use of property. They ensure that laws are not broken and also overview the effectiveness of the municipality's work. The controller is directly accountable to the municipal council, not its executive. Nevertheless Beksta and Petkevicius argue that there is a lack of independence and it would be better to have internal and external audits conducted by independent auditing companies. This has been disputed by Bronis Rope, President of the ALAL, who argues that the principal task of controllers should be to assist LAs with their financial control and therefore they do not need independence from the LAs.

The new Law on Local Authorities requires LAs to establish internal auditing [Vitkauskiene (2001)]. Currently LAs employ financial controllers whose role has not been developed to the point that it is possible to distinguish them completely from auditors. The new law raised many concerns among LA controllers due to the lack of specifics from the central authorities on methods and

professional training. It is noteworthy to contrast the reaction from this group of professionals, upon being given such leeway with the usual call from LAs for more independence from national government. The following data gives some indication of the workload of controllers.

# of controllers	# of LAs
1	9
2	21
3	16
4	8
>5	6
Total	60

Number of institutions audited:	4167
<i># financed in LA budgets</i>	3067
# institutions audited per auditor per year:	20

Algimantas Demenius, Chairman of the Association of Local Authority Controllers of Lithuania (LSKA), contrasted this data with the claim that auditors can only effectively audit 7 institutions per year. EU standards of auditing are far from being reached by Lithuanian municipalities, in part because mayors often do not have the time or the will to become involved in what they may perceive as a relatively technical issue. Other controllers present at the LSKA 2001 meeting argued that the Law on Internal Auditing has not been put into practice because it was adopted so hastily, without refinement, and that this is only compounded by absurdly unclear criticism from government institutions.

Rimas Kalkys, Senior Adviser of the parliamentary Committee on Local Authorities and Government Reform, commented that local government controllers will have to choose between two professions; financial control and internal audit as both of these two separate activities are needed in local government. Kaunas city LA has already made this separation. Darius Matusevicius, Acting Director of the newly formed Department of Financial Control Methodology in the Finance Ministry, pointed out that a Joint Committee co-ordinating the establishment of the auditing system in the state sector was formed in 2000.

The Parliament ombudsman can respond to citizen complaints regarding local government employees. These complaints may refer to corruption or to overly bureaucratic behaviour. The ombudsman does have the power to revoke local government decisions that are in conflict with the law. The State Control Office has similar oversight functions to the municipal controllers, and will sometimes control these controllers. Laima Sipkauskiene, chief of the State Control Office's Budget Control Department reported that state controllers found that audits

conducted by LA controllers were superficial, often containing no more than descriptions of annual budget turnover.

Government representatives are responsible for checking that LAs are in compliance with the law and government decrees. They have had a somewhat tortured existence in that they were abolished in 1997 only to be reinstated in 1998. If the government representative finds an LA to be in contravention of a statute, they can require the municipality to make the necessary changes, although this may be challenged in court. There is in practice, however, considerable variety in the role played by these officials [Lazdynas (2001b)]. Sigitas Siupsinskas, ALAL Director, complained that what is required by LAs is an institution that would assist them with the effective management of the functions delegated to them but that instead of this, the work of government representatives is akin to a bailiff.<sup>11</sup> He postulated that the best controller of the work of a municipality is the community itself. Government representatives claim that citizens, afraid of approaching courts, often turn to them to lodge their complaints about LAs. Petras Papovas, Chair of the Parliamentary Committee on State Administration and Local Authorities, argued that government representatives should leave investigation of the effectiveness of municipalities to LA controllers, and focus instead purely on the legality of LA statutes.

## **6. Conclusion**

The reforms to local government finance appear to be a move in the right direction. There is now a clearer delimitation of which functions are under the control of municipalities and which are state functions only administered locally. The equalisation system was simplified in several respects. In a country with still limited capacity for public administration, particularly in fiscal areas, that is a significant gain. The sharing of personal income tax revenue with the state budget may also be a positive step if it leads to greater efforts from the state government to improve the efficacy of the tax. The Government has now proclaimed this a main priority.

The main problem of the Lithuanian local government has still not been addressed. This is the issue of granting municipalities some control over their income. Lack of control over income inevitably leads to lack of independence in expenditure and administrative decisions. It also implies the absence of mechanisms to link decision making over services to costs and benefits. The ALAL has called for municipalities to be given a true local tax. If the Government wants to start with a real estate tax with a maximum rate, then this should be encouraged as a

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<sup>11</sup> This discussion took place at a meeting of government representatives organised by the Parliamentary Committee on State Administration and Local Authorities on 28th November 2001.

first step. It is then to be hoped that the limit will be raised later to give towns the flexibility to provide extra services if desired by their constituents.

The equalisation system still contains two elements, revenue and expenditure need, which are somewhat contradictory. Some will object to equalisation in principle, although this seems less tenable in the Lithuanian system since it involves no distortion of taxing decisions. Equalisation in Lithuania can be seen as a government commitment to provide every municipality with the ability to provide the same level of service. With that objective, expenditure needs equalisation is rational but revenue equalisation more difficult to justify. It seems counter-productive to bring all towns' per capita revenue to 90% of the national average if some towns have less than 90% of the expenditure need per capita.

Expenditure need equalisation is an imperfect art, however. We cannot be sure that the indices used to compute expenditure need give the true picture for all municipalities. This may be part of the justification for the compromise of including revenue equalisation. Expenditure need equalisation may also create some distorted incentives. While some of the indices, such as area of the municipality, are out of the control of the local council others, such as length of local roads, area of land of educational institutions, and even number of pensioners, may be influenced. Thus it is important not to give the councils too great an incentive to change these variables.

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## Appendix 1 Revenues 1996 – 2002 (litas 000's)

	1996	1999	2000	2001*	2002*
<b>Total Revenue</b>	2,657,043	3,207,977	3,274,269	3,209,851	3,426,310
Tax Revenue	1,998,865	2,904,116	2,829,828	2,889,251	1,393,486
Personal income	1,514,756	2,576,394	2,504,272	2,623,521	1,097,804
Corporate income	216,483				
Property taxes	177,430	246,606	258,503	258,060	288,082
Land		18,795	20,849	19,079	
Land rent		47,452	46,019	50,457	
Real estate		178,210	189,804	186,764	
Estate, inheritance, and gift		2,149	1,831	1,760	
Other	90,196				
Stamp duty		73,526	60,031		
Market place duty		7,590	7,022	7,600	7,600
Non-Tax Revenue	107,469	175,350	112,272	78,765	69,077
Grants and Transfers	550,617		331,920	241,835	1,963,747

\* *forecast*

Sources: *Martinez (1998, 96)*; *Statistics Lithuania (2000, 23 – 38)*, *Statistics Lithuania (2001, 21 – 22)*, *Ministry of Finance (2001a)*, *Ministry of Finance (2002)*.

## Appendix 2 Expenditures 1996 – 2000 (litas 000s)

	1996	1999	2000
<b>Total Expenditure</b>	2,654,525	3,295,167	3,265,886
Economy	416,282	453,031	387,941
Housing and community affairs	353,950		231,892
Fuel and energy affairs	61,715		80,614
Agriculture	617		49
Transport and communication			74,341
Other			1,045
Social Affairs	2,151,626	2,531,713	2,512,549
Education	1,117,107	1,903,867	1,871,815
Health care	645,013	17,919	13,266
Social security and welfare	290,009	445,124	478,300
Culture and recreation	99,497	164,804	149,168
Other Functions	86,617	310,422	365,396
General public services	86,617		155,231
Public order and safety			25,852
Other			184,313

Sources: *Martinez (1998, 97)*; *Statistics Lithuania (2000, 40)*; *Statistics Lithuania (2001, 28)*.

# GRANT TRANSFERS AND SUPERVISION OF FINANCES IN LATVIA

*Mudite Priede* \*, *Solvita Klapare* \*\*

The citizens of the Republic of Latvia implement state public power through the highest decision-making institution – Parliament (Saeima) – with self-governments elected through direct election, and district councils formed by self-governments. According to the Constitution of the Republic of Latvia (Satversme), Parliament is the highest state executive power, approving the Cabinet of Ministers nominated by the Prime Minister and ministries.

During the last 10 years, self-governments in Latvia have experienced fundamental changes. The process of these changes can be characterised by several stages, which are closely linked with the process of the renewal of an independent public administration in the country.

## 1. Legal Framework of Self-Governance

The highest normative act of legal power in Latvia in respect to self-governance is the European Charter of Local Self-Government, ratified by Parliament on 22 February 1996. 29 of the 30 paragraphs of the Charter are binding for Latvia as a member country of the European Council (EC). This means that theoretically Latvia has accepted the principles defined by the Charter.

Based on the law “On Self-governments”, adopted by Parliament in 1994, there are two forms of self-governments: local and district (regional) governments. Local self-government is the local executive authority – council – acting as a representative body elected by citizens. Through the Council’s established institutions and entities, it ensures the performance of functions assigned by the laws, together with tasks assigned, based on the principles defined in this law, by the Cabinet of Ministers and local self-government’s voluntary initiatives, taking into consideration the interests of the state and residents of the respective administrative territories.

Local self-governments are split into towns, pagasts (rural self-governments) and ‘novads’ self-governments (amalgamated territories), which have equal functions and rights. District self-governments have different functions from local governments. Governments of the Republican cities perform both – local or district government functions and have the rights granted to both.

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Elections of self-governments and decision-making authorities of the Republican cities take place once every four years in Latvia – by equal, direct, closed and proportional elections. District governments' decision-making authorities – district councils – are no longer elected through direct elections since 1997, but are formed by the heads of towns, novads and pagasts governments.

When implementing local and district (regional) administration, local authorities within the framework of the Self-governance legislation are the subjects of public rights, whereas in the sphere of private rights, they have rights of a legal entity. Self-governments within their competencies and the law act independently.

Since 1 January 2001, there are now 578 self-governments in Latvia:

- 473 “pagasts” – rural self-governments,
- 7 “novads” – amalgamated territories,
- 65 towns,
- 7 Republican cities,
- 26 district governments.

The law on “Self-governments” defines the general rules and the economic basis of self-governments in Latvia. Self-government property is separate from state property and from property of other subjects of legal acts. Self-governments administrate, use their property and manage it in accordance with the procedures defined by the law.

It is important to understand the difference between decentralisation and local autonomy. Decentralisation is a necessary condition, but not sufficient for local autonomy. “Level of autonomy which has been granted to local authority reveals political interests of the centre” (A. Smith).

The model of Latvian local self-governance is closest to the interaction model, which is characterised by influence and control from the central government, at the same time retaining high independence of local authorities. The model of district governments, in its turn, corresponds closest to the agency model, as the political authority is not elected through direct elections and there is no tax revenue basis.

As will be reflected in the further analysis of self-governments' functions and financial systems, there are a number of preconditions to improve the legal framework in order to adjust the model of Latvian self-governance to a relatively autonomous model.

The principle of self-governance is not defined by the Constitution. Discussions on inclusion of a separate chapter on self-governments in the Constitution have been ongoing for 10 years.

After regaining its independence, Latvia began the process of delegating additional functions to self-governments, as well as decentralisation of tasks. Although the number of tasks to be fulfilled by self-governments was increasing, the financial and technical capacity to perform these tasks has not been proportionally favoured. Such a capacity, however, has existed within the central government sector and respective ministries. As a result, decentralisation of government functions has not affected the ongoing centralisation of basic functions in the respective sector ministries.

Self-governments have the right to independently form and approve their budgets. They have the right to collect budget income in accordance with legislation to ensure a regular and safe macroeconomic stability corresponding to the income basis.

In the initial stages of composing the budget of self-governments, the Cabinet of Ministers, based on calculations showing the share of self-governments' budgets in the General budget of the Republic of Latvia; the need for state budget grants in relation to total assessment of the possibility of funding of the state budget and functions to be performed by self-governments, agrees the following with self-governments:

- on the total amount of the state budget grants for the projected economic year for the purposes of equalisation of finances,
- total amount of the state budget for the projected economic year,
- its distribution among the self-governments.

The results of negotiations are formulated in the form of a protocol. The protocol of negotiations reflecting a consensus or disagreements is attached to the draft project of the respective state budget, which is then submitted by the Cabinet of Ministers to Parliament.

Latvia has established one of the most effective systems of intergovernmental negotiations in Europe.

## **2. Intergovernmental Financial Relationship**

One of the objectives of the government of the Republic of Latvia is to ensure the stability of finances. It is essential to implement an up-to-date and internationally recognised financial policy to achieve this objective. One of the most important objectives of such a policy is the limitation of fiscal deficit of the state budget. Fulfilment of the state fiscal policy directly influences self-governments' budget revenue.

It states in paragraph 9 of the Charter that the structure of funds of self-governments is broken up into two broader categories: own funds and funds

which they may freely operate with, within the framework of their jurisdiction, and “transferred means” or financial transfers.

After regaining independence, self-governments received revenue from various taxes, agreeing on their distribution every year during negotiations. The distribution of grants and earmarked grants has been very diverse and is incomparable (Appendices 1 and 2). Due to the various currency changes – from the Russian ruble to the Latvian ruble and finally to the Latvian Lat, there was a sharp rise in inflation. Thus, in 1991 subsidies and grants were allocated to district and town governments in thousands of rubles. Because of a sharp increase in inflation in 1992, the budget was approved every six months. Self-governments received earmarked grants as well as donations for payments of allowances for the poor, because of increased prices in energy. In 1994, for the first time, the equalisation of self-governments finance was introduced and was changed every year until 1998 when the long-term law on “Equalisation of Self-governments Finance” was passed.

The tax and fee system is based on state taxes, state fees and self-governments’ fees. Each tax must have its own individual tax law adopted and these laws must coincide with the general law. State taxes are paid into the state budget or, based on the prescribed distribution, divided into the state budget and self-governments budgets, based on the respective tax law. None of the tax is stipulated as a self-government tax.

Since 1997, local governments and Republican cities receive income from real estate tax in the amount of 100% (until 1998 there were two taxes – land and property tax), 71.6% of personal income tax, 20% of lottery and gambling tax, share of excise tax on oil products and 60% of the natural resources tax.

Personal income tax is administered by the State Revenue Service, with the exception of three self-governments: Riga, Liepaja and Ventspils. Tax revenue share transferred to self-government budgets within the calendar year is based on the share coefficient of each self-government of personal income tax from total collected tax revenue in the state from taxpayers’ taxation year’s revenue over two years.

The existing situation whereby self-governments are not involved in the administration of personal income tax, does not facilitate local authorities’ interest in the economic development of territory. Self-governments have no access to the operative information on actual collected personal income tax amounts imposed on the revenue obtained by residents of their territories, which means that self-governments cannot react in a timely fashion to the changes of the economic situation in the territory.

Paragraph 3 of Section 9 of the Charter also states: “at least a share of financial resources of local power has to be obtained through local taxes and fees, the

rates of which they have the right to stipulate within the limits determined by the law". In Latvia, however, none of the taxes are defined as a self-government tax in Latvian legislation and self-governments have no right to change tax rates. Until 1995, self-governments, however, were allowed to introduce local taxes.

Whilst revenue has been relatively stable, the number of self-government functions has been significantly increasing due to the recent laws and amendments passed on the existing legislation. However, some of these functions are not performed at all, due to a lack of proper financing, and the fact that obtaining financing through loans is rather limited. Although not as readily expressed, the fiscal imbalance is still in existence.

To implement economic and social programs, which require investments, self-governments may take out long-term loans. Self-governments' rights to take out loans and issue guarantees for self-government entities are stipulated by the law on "Self-governments Budgets". It is the responsibility of the Cabinet of Ministers to stipulate the procedure for this. The regulations stipulate that self-governments take out a loan by concluding a loan agreement with the State Treasury.

Latvia has been ahead of many other transition countries in the correct choice of revenue instruments for self-governments. The choice of both the personal income tax and property tax as the major sources of revenue for self-governments is appropriate because their tax bases tend to be relatively stable during business cycles of the economy. They are not easily exportable, and there tends to be a more identifiable linkage between the payment of these taxes and the benefits received by taxpayers from local public services.

Self-government revenue is intended to cover the expenditure of mandatory functions and voluntary initiatives stipulated by the law on "Self-governments". Decisions on the use of self-governments' revenue are made independently by the self-government except those on the use of earmarked grants.

Similar to the development of total revenue, public expenditure as a share of GDP has remained relatively stable since 1997, at around 10 % of the GDP.

### **3. The Grant System**

#### **3.1 Role and Purpose of Grants**

The law on "Self-governments Budget" stipulates that in order to strengthen the economic bases of regions and ensure performance of state functions, the state budget may assign grants and earmark grants for implementation of certain tasks. That means that self-governments in Latvia may only receive earmarked grants for financing of predefined assignments or general grants, which are used at the discretion of self-governments. There are two sources of financing donations: the state budget and equalisation fund of self-government finance, the revenue of

which is formed by the state budget donation and payments from the “richest” self-governments. There are no mixed earmarked grants in Latvia, which may be freely utilised either for operational costs, or capital investments.

A special case is revenue from personal income tax. It makes up the largest portion of self-governments revenue. Based on the fiscal decentralisation theory, income from personal income tax in the amount of 71.6% is a transfer payment from the central government to self-governments, rather than self-governments’ own revenue, as the aforementioned tax is administered by the central government, except in the three biggest municipalities. Both the tax base and tax rates are set by the state government and self-governments have no right to impact it. However, as revenue from the above mentioned tax is the biggest portion, both self-governments and finance specialists of Latvia and abroad consider it a self-government’s own revenue. Thus, in official publications can be found the different definitions of the revenue from the tax in question. OECD publications consider this as a transfer payment or a share tax, and Latvia is characterised as a centralised state. On the other hand, the European Council in its official publications, mentions this revenue as own revenue and Latvia is ranked amongst the highly decentralised countries.

The structure of earmarked grants since 1997 is relatively constant – the biggest share is formed by earmarked grants for the provision of teachers’ salaries in education institutions. One of the most important functions of self-governments is to take care of residents’ education by providing certain rights in obtaining primary and general secondary education; providing pre-school and school-age children with places in educational institutions and organisational and financial assistance in interest education institutions and education support institutions.

Each self-government must assure the opportunity of obtaining pre-school and primary school education for children residing in its territory. Local self-governments should also ensure that this also applies to youth in the secondary education system. Legislation stipulates that students are allowed to choose between schools in their territory and other self-governments. This should be financed by self-government after signing a mutual agreement with the other self-government. Local authorities sign and terminate work contracts with heads of the educational institutions within their jurisdiction.

Both the state and self-governments ensure the financing of pre-school education institutions, basic education and general secondary education. The State finances teachers’ salaries and state mandatory social security expenses (except for pre-school teachers) and the purchase of books. Self-governments, in their turn, provide the financing for study materials, maintenance and repairs of school buildings, technical school personnel, student meals and communal services.

Earmarked grants for education account for around 90 – 95% of total earmarked grants for self-governments annually. Each year, the state budget allocates earmarked grants for investments to self-governments within the framework of the Public Investment Program, as well as earmarked grants for preparation of the territorial plans and amalgamation projects, as there is the administrative territorial reform implemented in the country. However, the share of these earmarked grants is inconsiderable.

Grants from the state budget for the Equalisation Fund of Self-governments Finance and performance of the Administrative Territorial law are projected annually. A grant for capacity building of Regional Development Agencies is assigned for a second year. In 1997 and 1998, grants were assigned for very specific and even non-ordinary cases. The state base budget allocated LVL 0.9 ml in 1997 and LVL 3.4 ml in 1998 for increasing self-governments income bases for those self-governments with less revenue planned for the respective year, compared to the previous year's. In 1998, self-governments received grants as a compensation for non-fulfilment of prognosis of real estate tax revenue in the amount of LVL 4.5 ml, which was calculated as the uncollected amount of real estate tax due to circumstances, which may not be influenced by the self-government. The Parliament adopted this decision after Riga City Council brought a Claim to 'Satversme Court' (the highest legislative body) for unlawfully passed regulations by the Cabinet of Ministers envisaging a different compensation procedure.

### 3.2 General Purpose Grants

As was mentioned in the previous Section, self-governments receive the following general grants:

1. Grants from Equalisation Fund of Self-governments Finance.
2. Grants for fulfilment of the law on "Administrative Territorial Reform".
3. Grants to support capacity building of Regional Development Agencies.

The state budget shares for the Equalisation Fund of Self-governments Finance and amounts of grants assigned to self-governments from the Fund are defined in accordance with the law on "Equalisation of Self-governments Finance" and will be described more broadly in Section 3.4. This grant forms a major share of the total self-government's grants.

#### *Grants for Fulfilment of the law "On Administrative Territorial Reform".*

Latvia has passed a law on "Administrative Territorial Reform", which stipulates that self-governments may voluntarily amalgamate, or establish cooperative unions by 2004. Based on this and the law on "The Annual State Budget", the regulations of the Cabinet of Ministers on "Assignment of Single Grants to Self-governments implementing Administrative Territorial Reform" were issued.



The regulations determine that a self-government must submit to the Administration of Self-Governments Affairs the following information:

1. the decree of the self-government on amalgamation or cooperation;
2. the project of amalgamation of self-governments or cooperation agreement and project of this cooperation;
3. the review of performance of base budget of the self-government in the previous economic year;
4. the request for funds and the plan of projected use of funds.

The Administration of Self-governments Affairs links the draft regulations and the order with the Administrative Territorial Reform Council.

If, after amalgamation has taken place, other self-governments join the newly established self-government, the grant is determined by the amount stipulated by these regulations, based on the previous economic year's base budget revenue of the joining self-government, but excluding earmarked grants received from the state budget and loans (hereinafter, total amount of self-government annual budget).

It should be noted that the procedure for receipt of the amalgamation grant is clear and transparent.

#### *Grants to Support Capacity Building of Regional Development Agencies.*

One of the preconditions for the successful development of a region is ownership and participation of each self-government involved, as well as real actions to facilitate the processes of self-development of own territory. Therefore, on 4 April 2001, the Cabinet of Ministers adopted the decree, stipulating the establishment of five Planning Regions by 1 January 2001. The formation of the Planning Regions took place in a democratic way, i.e., "from the bottom", as they were formed by self-governments (district governments and Republican cities). For the purposes of regional development planning and policy implementation, Regional Agencies were established and a grant obtained from the state budget to strengthen them. This was projected in 2001 and is in the draft state budget for 2002. The amount of the grant is modest, only LVL 50,000 per agency. Funds from the state budget are transferred to the accounts of the self-government in which the agency is located, and the agency may freely operate with the funds received.

In both cases the central government may control the use of grants through the general procedures (see Section 4), i.e., only the State Audit may assess the appropriateness of the use of grants.

### 3.3 Special Purpose Grants

Earmarked grants may be split into 3 groups:

- for education activities;
- for investments;
- for other purposes.

Around 90% of all earmarked grants to self-governments are for education.

I. The main block is formed by earmarked grants for institutions of basic, general secondary education, professional education, special education and partial payment of salaries of teachers of interests' education programs, music and art schools and mandatory state social protection instalments.

Earmarked grants are calculated based on the regulations of the Cabinet of Ministers "Regulations on the Salaries of Teachers". The regulations determine the detailed procedure and amount of salary payments and scope of the workload. Earmarked grants are transferred to the budgets of districts and Republican cities' self-governments and the Administrations of Education forward these funds to the education institutions.

Self-governments may not directly influence the amount of funds allocated for teachers' salaries. However, they do make the decisions on sharing the funds amongst the various institutions within the district. When doing this, they should, of course, take into consideration the Cabinet of Ministers' regulations. Self-governments define the organisation of salary policy and priorities within the self-government by issuing a decree. Thus, self-governments decide on the amount of additional payments required to stimulate the quality of work. The regulations stipulate that 10% of salary funds of the respective educational institution may be allocated for this purpose.

The use of earmarked grants is controlled very strictly by the state and where self-governments have misused these funds (used them for another purposes), after verification of this by a State Audit, self-governments must reimburse the funds to the fund for earmarked grants. The State Audit may also penalise the self-government.

II. Earmarked grants for district and republican cities' self-governments – for special pre-school institutions, boarding schools including sanatorium-type boarding schools and special boarding schools for children with physical and mental disabilities. In respect to the aforementioned institutions, these are entirely financed by the state budget, including the teachers' salaries and operating expenditure. Starting from 1 September 2004, self-governments will cover these operating costs from their budgets. The Ministry of Education and Science recommends considering this fact when calculating equalisation of self-governments' finance by introducing new criteria.

In the authors' opinion, this would not be relevant, as equalisation should be based on residents' structure criteria, not infrastructure.

III. Earmarked grants for preparation of Administrative Territorial Development Plans of Self-governments. The procedure for assigning earmarked grants is set out by the regulations of the Cabinet of Ministers.

The Minister of Environmental Protection and Regional Development has established a Commission for Assigning of State Earmarked Grants for Planning of Territory Development, based on the decision from which the funds are granted. The state grant may only be used for activities mentioned in the decision of the Commission. The decision on assignment of the state grant is submitted to the respective self-government and the State Treasury.

To commence the planned activities, the state issues advance payment in the amount of 75% of the total assigned grant to the grant recipient. The remaining share of assigned grant to self-government is paid through a single payment – after completion of all activities. The State Treasury carries out finance operations related to the payments of earmarked grants.

IV. Earmarked grants for investments. Since 1995, earmarked grants for investments may be obtained through the Public Investment Program (PIP). The PIP is prepared by the Ministry of Economy for the next three years, taking into account priorities, strategy of finances and development directions of the economy, determined by the Government's Declaration for the time period in question.

In accordance with the governing legislation, proposals for the investment projects of self-governments should be submitted to the respective sector ministries, which have a responsibility to define sector investment priorities and rank their projects next to self-governments projects. Proposals of ministries, incorporating both national and self-governments projects, are submitted to the Ministry of Economy by 1 April. This ministry is responsible for reviewing proposals submitted and working out a draft working paper of the PIP, which is then submitted to the Cabinet of Ministers. To prepare and submit the proposal, self-government must carefully follow the methodology of preparation of investment project proposals, issued by the Ministry of Economy.

Despite the fact that the PIP is prepared every year for a three-year period, limits of funding are becoming known and are approved only for the coming economic year. During recent years, the state budget funds make up around a quarter of the PIP funding – the remaining share is made up of loans, foreign grants and other financial resources (including the co-financing share provided by self-governments).

Unfortunately, during the past several years, there has been a practice in Latvia, that in parallel to the PIP assigned earmarked investments, when adopting the current year's budget, politicians assign "political investments", i.e., funding for various state institutions and self-governments, in many cases even without a proper project proposal.

### 3.4 Equalisation Grants

To ensure an equal development of self-governments, a major role is played by the Equalisation System of Finances. The objective of the equalisation system of self-governments finance is to provide similar opportunities for self-governments to perform the functions assigned by the law, as there are very rich self-governments the richness of which comes from their geographical and economic conditions, and there are territories, which are unable to perform their own functions with their own revenues only.

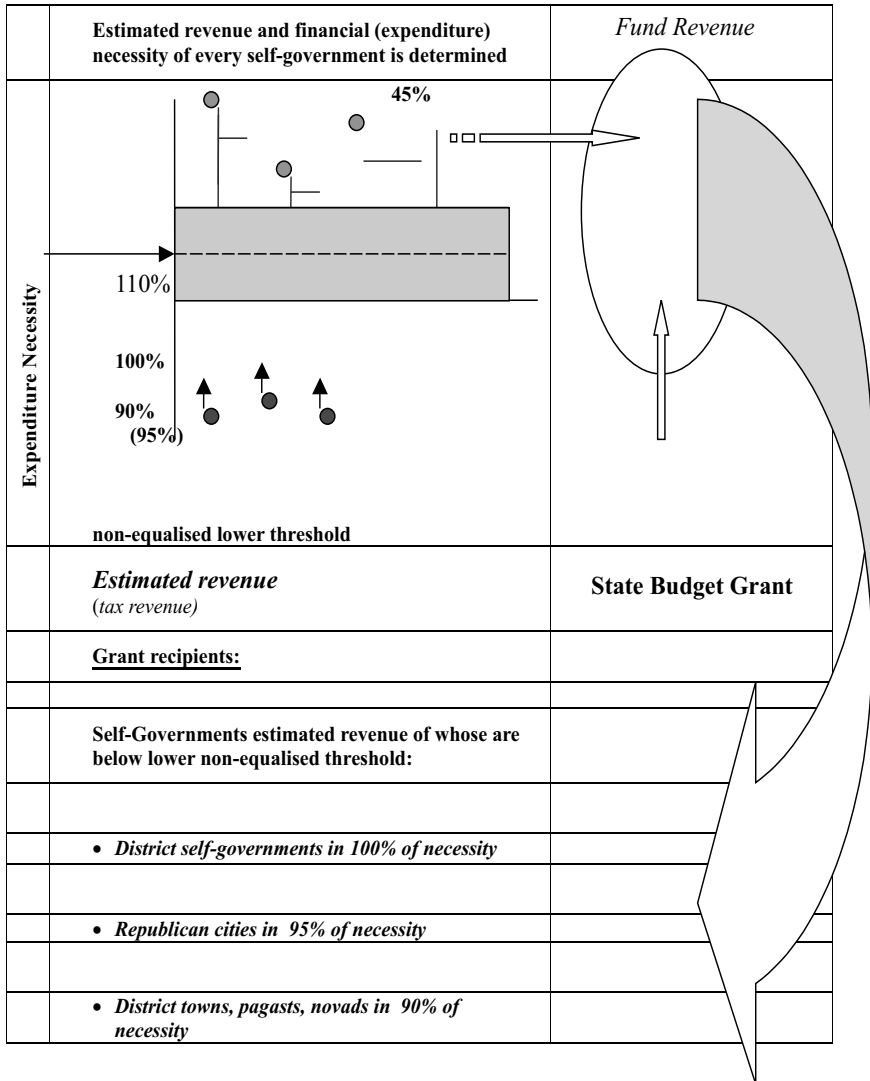
The equalisation system of self-governments' finance was introduced in Latvia in 1995. The system contains regulations on financial necessity or expenditure need, as well as revenue equalisation. The system is partially based on the inter-municipal financing (horizontal equalisation) and partially on the general state grants (vertical equalisation).

The equalisation of the self-government's expenditure and revenue is carried out separately for the three types of self-governments (Republican cities, rural (town and pagasts, novads) governments and district governments).

The equalisation of the expenditure need and the revenues is carried out in an integrated way where, as a focal point, a comparison of the expenditure needs with the revenue side in each of the 578 self-governments, is carried out. The self-governments with a revenue basis higher than 10% of the calculated expenditure requirement, contribute to the system. These self-governments contribute 45% of this surplus. The self-governments with a revenue below 100% for the regions, 95% for Republican cities and 90% for the towns/pagasts/novads of the expenditure need, receive grants from the Equalisation Fund to bring them up to 100%, 95% and 90% coverage of their expenditure need, respectively.

The ceilings mean that self-governments between 100%, 95% and 90% respectively, according to the type of the self-government and 110% of the expenditure need covered by the revenues, do not contribute or receive grants from the system (a so-called neutral zone with no payments paid or received). In 2001, 54 self-governments contributed to the Fund; 474 received grants from the Fund and 50 were in the neutral zone.

**Figure 1**  
**Equalisation System of Self-governments Finance**



### *Equalisation of Expenditure*

To carry out equalisation of self-governments finance, the first step is to determine the total financial (expenditure) necessary for the self-governments in the country. The Union of Local and Regional Governments (ULRGL) and the Ministry of Finance do not have a common view on how to determine this.

The Ministry of Finance basis is Paragraph 8 of the law on “Equalisation of Self-governments Finance”, which stipulates that “total minimum financial necessity of self-governments in the economic year shall be calculated in the process of the preparation of the annual state budget law and shall be included in the annual negotiation protocol of the Cabinet of Ministers and the ULRGL, taking into account the following:

- 1) total financial necessity of self-governments planned in the budget preparation year;
- 2) the forecast of the state macroeconomic figures of the economic year;
- 3) re-division of functions between self-governments, as well as between self-governments and the government for the economic year;
- 4) priorities set for the economic year.

The experience over the last years shows that the Ministry of Finance, in order to determine the total financial necessity of self-governments for the economic year, applies the inflation coefficient on the previous year’s financial necessity only.

The ULRGL, however, when determining total financial necessity, bases this on Paragraph 13 of the Section 1 of the law “On Equalisation of Self-governments Finance”, i.e.: “total self-governments expenditure for carrying out those functions of self-governments, defined by the law “On Self-governments”, and which are not financed by earmarked grants.

Since the effectiveness of the current Equalisation Law (1998), the ULRGL and the Ministry of Finance have not found a consensus on the calculation of the total financial necessity of self-governments. Nevertheless, in 1998 a common opinion on the methodology was reached and as a result of the economic crisis in Russia, the Ministry of Finance was forced to decrease the prognosis for personal income tax and the financial necessity, since it was impossible to increase the amount of the state grant. In 2000, when determining the financial necessity for 2001, the methodology was accepted by both sides but the government again found no possibility of increasing the state budget grant.

The methodology prepared by the Union of Local and Regional Governments and the Ministry of Finance:

Financial necessity = self-government base budget expenditure – earmarked grants – income from paid services – capital investments + 20% of investments + inflation.

The Ministry of Finance has determined the financial necessity for the year 2001 in the amount of LVL 202.6 ml. The ULRGL – LVL 219.5 ml, however the Cabinet of Ministers and Parliament approved LVL 211.3 ml as the amount of expenditure necessary.

These problems may possibly be solved by issuing the regulations of the Cabinet of Ministers, instructing the methodology for calculating financial necessity.

Based on the experience of European countries, the total financial necessity could be calculated by using the following method:

Total financial necessity = expenditure of self-government budget– earmarked grants – income from paid services – investments + 20% of investments + inflation + loans for ensuring performance of self-government functions + expected salary increase + funding for new functions.

The system of equalisation of expenditure need is based on the following main criteria:

- 1) self-government group (Republican city self-governments; districts, district town self-governments, novads and rural self-governments);
- 2) the number of residents;
- 3) the number of children up to age of 6;
- 4) the number of young residents in the age group 7 to 18;
- 5) the number of residents above working age;
- 6) the number of children in children's houses;
- 7) the number of dwellers in guesthouses and centres for the elderly.

The first five criteria are real, “objective” criteria, i.e., those that self-governments cannot influence, whereas Nos. 6 and 7 are so-called “quasi objective” criteria, as these criteria are based on the number of children and the number of elderly people in centres for the elderly (who were there before January 1, 1998). The last two criteria were developed in order to adjust to the fact that some local authorities handle many of these children and elderly people because of the special large service centres dating from the past communist system of service provision.

### *Equalisation of Revenues*

The equalisation system is based on calculations of revenue from two taxes (personal income tax and real estate tax), prior to the start of the equalisation year, and self-governments pay or receive funds based on those calculations. If

tax revenue appears bigger or smaller than projected, corrections of grants and equalisation are not carried out afterwards.

It is interesting to note that payments into the Fund are positively related to the per capita gross regional product, a measure of fiscal capacity. This is what is intended by the equalisation formula. Payments from the Fund do not go to those self-governments with lower fiscal capacity, but rather to those with higher expenditure needs, as proxied by the percentage of population under and over the working age.

Payments into the Fund are mainly fiscal capacity equalising, while payments from the Fund are more needs equalising. For the three years (1997 – 1999), wealth has been the dominant determinant of payments into the Fund, while fiscal needs have been the dominant determinant of payments from the Fund.

The current mechanism provides a high degree of equalisation and it addresses what could otherwise be a significant problem, given the large fiscal disparities that exist among self-governments in Latvia. Whether or not such a high degree of equalisation is needed or whether the degree of equalisation is excessive – these are difficult questions to answer. What degree of equalisation is desirable depends, to a large extent, on the level of national solidarity and societal norms. The current degree of equalisation may be considered excessive if wealthier communities are equalised below the average of poorer communities. Excessive equalisation may have the effect of reducing revenue mobilisation efforts by those communities that are brought up to a national average. It may also discourage revenue mobilisation by those self-governments that have to contribute to the Fund. An even harder question to answer is, whether the high degree of equalisation may slow down an overall economic growth of the nation by diverting resources from areas with higher economic growth potential to the areas, where fewer growth opportunities exist.

### 3.5 Payment of Grants

As was previously noted, Latvia has the most effective negotiations system in Europe. Self-governments during the budget preparation process are involved from the very beginning. Preparation of the following year's budget commences as soon as February of the economic year, when sector ministries submit their "base expenditure" calculations.

During the preparations of the budget process, the Union of Local and Regional Governments has monthly meetings with the Minister of Finance, in which the discussions on self-governments' revenue take place, namely: tax projections; amounts of earmarked grants; amount of state budget grants to be assigned to the Equalisation Fund of Self-governments Finance together with the total limit of loans and guarantees of the self-governments.



The most sensitive issue during the negotiations is that of the calculation of the equalisation of the self-governments finance. The ULRGL carries out monthly Finance and Economy meetings, during which self-governments are informed about the status of negotiations and are introduced to the calculations.

Budget projections are electronically transmitted to all self-governments meaning that self-governments obtain timely information on tax projections and the amounts of earmarked grants.

Earmarked grants for educational activities are transferred into the self-governments' budgets by the 5<sup>th</sup> day of every month. The grant from the equalisation fund is paid by the State Treasury bi-monthly by deducting from the budgets of Republican cities, districts, towns, novads and pagasts a 1/12th of total expenditure of the fund, by no later than the 15<sup>th</sup> and the 25<sup>th</sup> of the corresponding month. Transfers are made without delay.

There is another procedure for transferring earmarked grants for investments. Since 2000, the State Treasury transfers funds to the self-government's accounts only after it provides documentation on the completion of works.

The law on "Budget and Finance Management" stipulates that the State Treasury every year on 31 December closes all accounts opened within the current economic year. State base budget funding accounts are opened for state financed budget institutions in the following economic year based on the allocations assigned by the financing plans. It causes problems in the self-governments in cases where self-governments within a given year have not been able to utilise assigned financing for investments. The unused amount is non-transferrable to the following year.

The authors' opinion is, that this procedure should not be applied in respect of investment grants, in the cases where self-governments have not been able to manage the financing due to circumstances outwith their control. Earmarked grants for investments should be transferable to the following year's budget.

### 3.6 Grants to Needy Authorities

There are no special grants for poor self-governments in Latvia. Equal opportunities to perform the various functions are guaranteed through the equalisation system of self-governments finance.

However, the state offers certain tools to help ensure an equal development of territories through the implementation of various support forms for poor self-governments. The "Concept Note of Latvian Regional Development Policy" has been worked out in Latvia and the National Development Plan is being prepared at the moment.

To support the poor regions, the law on “Regions in Need of Special Support” was adopted in 1997. Development processes of regions requiring special support is favoured through regional development means – state investments in infrastructure, special credit policy, investment grants, single payments to enterprises (business enterprises) and self-governments, activities of economic education, establishment of free (special) economic zones. It is important to note that only the regions where the number of residents does not exceed 15% of the country’s total population country are considered being ‘a region in need of special support’. The status, however, is reconsidered every three years.

The Cabinet of Ministers for the economic development of “regions in a need of special support” has set up the Regional Fund. As one form of assistance, self-governments may directly receive interest payments for earmarked loans from the mentioned Fund. Such a loan should be used in accordance with the business plan. In certain cases, based on the decision of the Regional Development Council, the development of an infrastructure may be financed by the Regional Fund together with the self-government’s contribution.

#### **4. Financial Supervision: Rights and Duties**

Different terminology is used when referring to “management control” and “internal control”. However, when analysing those terms in-depth, they are the same as the term “audit” used in normative.

Based on the management theory, the functions of the manager are to plan, organise, control and motivate. The term “management control” is used more often to describe the third of these functions – “internal control” which is more related to revision of finances. Internal control is the weakest link in the system of Latvian self-governments’ management as there is almost no control.

Up until 2001, self-governments were required to form Revision Commissions, whereas nowadays they can choose whether to form such a commission or not. On the other hand, we can consider the Revision Commissions as external control bodies.

Revision Commissions are elected proportionately to the number of elected members of each political organisation.

If, when electing a Revision Commission, professional criteria are not considered, such a commission is unable to ensure the performance of duties assigned to it. Performed revisions are more formal and do not bring real benefits. That was the main reason why the decision allowing the choice of whether to create such a commission or not, was made.

When talking about external audit, Latvia has one of the strictest systems of control in the world. Since 1993, an independent collegial institution – the

State Audit (State Control) has been in existence, which revises the status of state and self-governments property including financial means) and related operations. The task of the State Audit is to supervise so that collection and use, as well as operations related to the state and self-governments' base and special budget means are lawful, useful, and correct. It controls all state and self-governments institutions, enterprises, business enterprises and those who possess state or self-governments' property and which are financed by the state or self-governments funds, or which perform state of self-government (public) procurement.

The State Auditor is appointed by Parliament for a period of seven years. Members of the State Audit Board and Collegiates of Revision departments based on the recommendation made by the State Auditor are approved by Parliament – also for a period of seven years. The State Auditor, members of the State Audit Board, and Collegiate of State Control Revision departments may not be a member of any political organisation (party).

What does the control performed by the State Audit look like in reality? First of all, the State Audit may at any time without prior notice approach the self-government and carry out a full or partial revision. Secondly, since 2001 the external audit system of self-governments has been amended and the law “On Self-governments” stipulates that local authorities must carry out a financial revision

After the self-government has received the auditor's opinion, it submits this, together with a yearly report, to the State Audit office to receive their views on its accuracy. The Director of the Self-Governments' Revision department of the State Audit, then submits it to the self-government for transmission to the State Treasury.

In summary, the control system in Latvia may be considered as solid. The authors' opinion is that the State Audit should not control the self-government's activities from the viewpoint of usefulness, as self-government makes its decisions independently and carries out its responsibilities vis a vis its electorate. The authors would also like to emphasise that a unified control system for self-governments, institutions and enterprises should be positively assessed.

## **Conclusion**

After analysing intergovernmental fiscal relations in Latvia, it can be concluded that it is very complicated to come to a straightforward conclusion. As was mentioned in Section 4.1., the main self-governments' revenue source – personal income tax – is defined differently. OECD publications point out that these are transfer payments or share tax and Latvia is characterised as a centralised state. On the other hand, the official publications of the European Council define the revenue in question as own revenue and Latvia is ranked amongst the most

highly decentralised countries. Latvian self-governance and finance specialists' opinions are that this revenue is self-governments' own revenue.

In summary we would like to point out the positive aspects of intergovernmental fiscal system:

1. Decentralisation of functions is carried out in Latvia and many critical functions are delegated to self-governments.
2. Latvia has established one of the most effective central government and self-governments negotiations systems in Europe.
3. Personal income tax and real estate tax is a reasonable choice of main sources of self-governments' revenue.
4. The equalisation system of self-governments' finance is stable.
5. Latvia has established a strong, unified control system of self-governments, institutions and entities.

The negative aspects of the intergovernmental fiscal system could be summarised as follows:

1. Assigned funding for the performance of various functions is insufficient. Latvian self-governments perform almost exactly the same functions as Northern European countries. However, the share of the Latvian self-governments' budget in GDP is half that of northern European countries.
2. Self-governments have limited rights in defining tax rates.
3. District self-governments have no tax income.
4. Earmarked grants form the biggest portion of the total amount of grants and earmarked grants.
5. Latvian self-governments have limited rights in attracting credit resources.

Recommendations:

1. Involve self-governments in the administration of personal income tax.
2. When delegating new functions to self-governments, provide funding for implementation of these functions.
3. Give rights to self-governments to determine rates of real estate tax.
4. Define enterprise income tax as a regional self-governments tax.
5. After implementation of regional reforms, introduce a separate equalisation system for local self-governments and regional self-governments.
6. Ratify in Parliament section (8) of paragraph 9 of the Charter and allow self-governments to borrow freely in the local capital market.

In summary, analysing the role of earmarked grants and grants in the intergovernmental fiscal system, the biggest share of earmarked grants is for educational activities. The current situation satisfies both the state (the Ministry of Education and Science) and self-governments. As far as the self-governments' major grant

is concerned, (grant from Equalisation Fund of Self-governments Finance), it should be analysed jointly with the entire equalisation system.

Considerable improvements are still necessary in the decentralisation of the tax system, i.e., by involving self-governments in the administration of personal income tax, as well as allowing self-governments to determine rates of real estate tax.

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# Appendix 1

## Appendix 1 Structure of Grants 1995 – 2001, LVL ml [State Treasury data]

Grants and Earmarked Grants	1995	1996	1997	1998	1999	2000	2001 plan
<b>Earmarked Grants, for:</b>							
Investments	11.7	14.2	*76.4	88.4	92.9	102.6	112.1
Education Activities (payment of salaries and social security payments of teachers of basic, general secondary education institutions, institutions of professional education of self-governments and partial interest education institutions)	2.1	3.0	2.8	7.0	9.1	10.7	10.4
Education Activities (special pre-school institutions, boarding schools and sanatorium-type boarding schools, special boarding schools for children with physical and mental disabilities)			54.4	63.7	66.8	73.8	81.7
Salaries of Leaders of Folks' Art Amateur Performance Collectives	6.6	7.6	13.3	16.4	16.3	17.5	19.2
Territorial Planning			0.2	0.2	0.2	0.2	0.2
Preparation of Amalgamation (Cooperation) Projects		0.6	1.0	1.0	0.4	0.4	0.4
Social Security Activities	3.0						0.2
Ensuring of Operation of Psychoneurologic Pensionists		3.0					
Salaries of Staff of Pre-school and Education institutions			3.7				
Funding of Land Evaluation Works			1.0		0.1		
Other				0.1			
<b>Grants from State Budget</b>	<b>55.8</b>	<b>9.5</b>	<b>*12.5</b>	<b>10.6</b>	<b>9.1</b>	<b>7.1</b>	<b>7.7</b>
Grants for Equalisation Fund of Self-governments Finances	55.8	9.5		2.7	6.1	6.9	7.2
Implementation of Administrative Territorial Reform Law					0.2	0.2	0.3
Facilitation of Capacity of Regional Development Agencies							0.2
Increasing of Income Base				3.4			
Nonfulfilment of Income of Real Estate tax Projection				4.5			
Compensation of Nonfulfilment of Personal Income tax Income Projection			12.5		2.8		
Grants from Equalisation of Self-governments Finance	65.5	46.7	28.8	27.1	30.2	31.5	34.4
<b>Total</b>	<b>67.5</b>	<b>23.7</b>		<b>99.0</b>	<b>102.0</b>	<b>109.7</b>	<b>119.8</b>

\* In 1997 there was a grant allocated from the state budget for Equalisation Fund of Self-governments Finance in the amount of LVL 54.8 ml, which was distributed in a form of earmarked grant in the amount of LVL 55.4 ml and grants – LVL 28.8 ml. Total revenue of the Fund was LVL 84.2 ml (remaining share was formed by self-governments instalments)

## Appendix 2

### *Brief description of the Self-government Finance System in 1989 – 1994.*

Until 4 May 1990, Latvia was a member of the Soviet Union and the budget of the Republic was linked to the budget of the USSR, thus, the distribution of funds was centralised. There were no self-governments as such. Executive bodies were established locally and within the districts. After regaining independence in 1990, the governance of the law “On the USSR State Budget for 1990” was stopped in Latvia. However, the state budget still received instalments of the Union’s state taxes and revenue into the budget of the Republic of Latvia.

- In 1990 the pagasts, town/city and district self-governments were formed.
- In 1991 self-governments received subsidies and donations from the state budget.
- In 1992 the state budget was approved semi-annually.
- In 1994 budget was determined in LVL and self-governments received subsidies from the state local budgets’ equalisation fund and earmarked grants for investments.

### **Self-governments Grant Structure 1991 – 1994** [data collected by authors]

	<b>1991 (000s rubles)</b>	<b>1992 (000s rubles)</b>	<b>1993 (000s rubles)</b>	<b>1994 (lats)</b>
Grants	478545	970428		5809520361
Subsidies	39018			
Earmarked Subsidies, of which:		1123066 (for half a year)	234500	
• State Investments		148855		
• Social Infrastructure Objects		100000		
• Capital Repairs and Construction of Rural Roads		45000		
• Education and Culture Activities		853930		
• Social Security Activities		75281		
Assignment to Payment of Allowance for Poor People		1000	970	

# THE SYSTEM OF PUBLIC FINANCE IN THE REPUBLIC OF BELARUS: A BRIEF OVERVIEW

*Leonida Pliskevich* \*, *Zeljko Sevic* \*\*

## 1. Introduction

With the transition from a mono-party highly centralised state to a democratic society and state organisations, the issue of decentralisation has emerged. Many advanced transitional countries are well on the way to decentralising their inter-governmental relations, while others are novices to this process. The Republic of Belarus belongs to the latter group, as it is still a fairly centralised state, despite the fact that some forms of fiscal decentralisation have been promoted since 1997. To a large extent, the central government holds everything in its hands and pulls all the strings in society. The country has a very strong presidential regime, where the President is the formal Head of State and the Head of executive power. The government is there to support him and implement the presidential policies. If one takes into account the fact that the country has very limited relations with other countries (external isolation), while there is no strong opposition in the country (internal isolation), one can understand the reasons for over-centralisation. There is a necessity to make the regime survive any eventual challenge, either from abroad or from within the country.

However, despite these ‘political challenges’ the state has initiated some steps towards decentralisation. This paper has the modest aim of describing the basic relations between the different levels of local government and to depict the basic relationships between them – primarily central and local. The paper focuses narrowly on the issues of financial intergovernmental relations and the main problems for further decentralisation of the country. This is research in progress, and this paper merely provides a broad and brief institutional framework for the analysis of intergovernmental financial/fiscal relations in the Republic of Belarus.

## 2. The Organisation of the State Power in Belarus

The sovereignty of the Belarussian Republic, as an independent state, was proclaimed on July 27th 1990, when the Supreme Soviet of the Republic adopted the “Declaration of State Sovereignty of the Republic of Belarus.”

The Law on Ensuring Political and Economic Independence of the Belarussian Soviet Social Republic was enacted on 27th August 1991. According to this Law all enterprises, organisations and institutions of the Soviet Union that were

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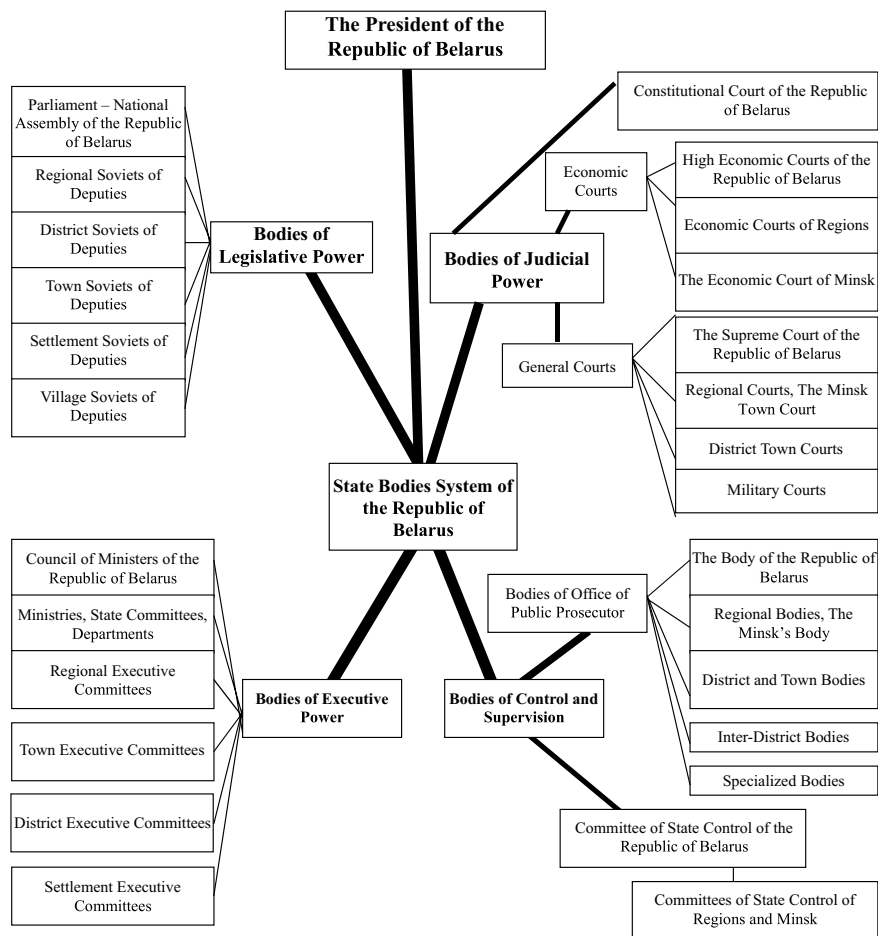
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situated on the territory of Belarus were transferred into the property fund of the Belarussian Soviet Socialist Republic. Only on September 26th, 1991 did the Supreme Soviet adopt the Law changing the new name of the Belarussian Soviet Socialist Republic into the Republic of Belarus. However, it took almost four more years to agree on the national symbols. On May 14th, 1995 new state symbols were introduced – a new State Coat of Arms and the Flag.

**Figure 1**  
**Organisation Chart of the Belarus Core Public Sector**

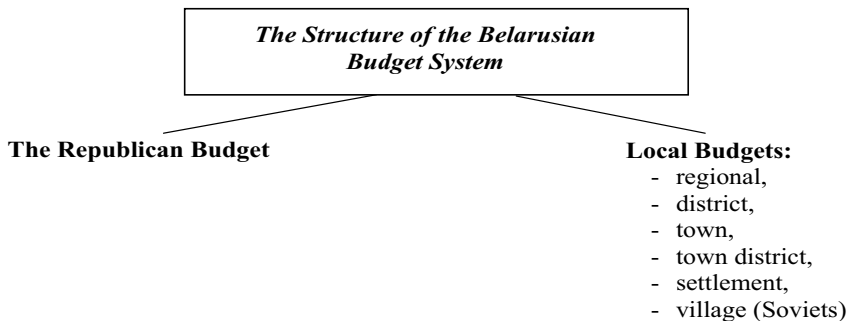


The Belarus Constitution of March 15th, 1994 laid down formal foundations for the development of a modern legal system. Following the promulgation of a new constitution, Presidential elections were held. Alexander Lukashenko was elected the first President with an overwhelming, but widely disputed, majority. After being elected, Lukashenko came forward with the idea of calling a republican referendum to amend the newly adopted Constitution. Constitutional changes that followed the referendum declared the Republic of Belarus a unitary, democratic, social state, based on an overriding principle of the rule of law.

The Republic of Belarus is a so-called 'presidential state' in which the President has the predominant executive power, besides being the formal Head of State. The state power in the Republic of Belarus is executed on the basis of a Montesquean division into legislative, executive and judiciary branches. *De jure*, state bodies within the limits of each power are independent, but they must interact with, control and balance each other's prerogatives. However, due to the current state of public policy practice, the executive power is predominant, and to a large extent the other two branches assist the executive to perform the functions and achieve the desired policy outcomes. (See the formal organisational chart of the Republic of Belarus).

### 3. The Organisation of Public Finance in Belarus

From the declaration of independence in 1990 until 1993, the Belarus fiscal system operated and was based on old Soviet legislation. Only in 1993 did the Supreme Soviet of the Republic of Belarus promulgate the Law on the Budget System of the Republic of Belarus and State Extra Budget Funds. This remained by far, not only the most important, but also the only significant source of law in this important area of social life. The Budget System of Belarus is underlined by the administrative and territorial division of the Republic, as can be seen in the following graph.



A draft of the Republican Budget is formally prepared by the Council of Ministers and enacted by Parliament. Drafts of local budgets are formally prepared by a Soviet Executive Committee and promulgated by a local Soviet of Deputies. According to the Budget Law the main function of the Republican Budget is the following: to provide monetary resources for the Republic to discharge its duties. As the duties are also carried out by the regional and local governments, it is necessary to provide them with sufficient resources to successfully carry out their statutory functions. Consequently, grant transfers are effectuated taking into consideration the economic strength and the state of social development of the different sub-national jurisdictions. Subventions, grants and subsidies may be transferred to the budgets of regions and the City of Minsk, from the Republican budget.

Delimitation of revenues and expenditures between the Republican Budget and sub-national budget is defined by Parliament (formerly the Supreme Soviet) of the Republic of Belarus and in accordance with the Law on Local Self-Government and Local Economy in the Republic of Belarus. The budget law stipulates that the revenues of the Republican budget come from a range of sources, such as: republican taxes and revenues (minus the amount transferred to the regional local budgets and Minsk at the rate stated by the Supreme Soviet of the Republic of Belarus); corporate tax, with the notable exception of enterprises and organisations, whose tax is treated as a local budget revenue (mainly local enterprises); export and import taxes; custom duties, revenues from international economic activities; transfers received from other states in accordance with signed international treaties; revenues from operations with securities by the republican bodies, and other revenues according to the legislation of the Republic of Belarus.

In order to perform its constitutional and legal functions, the Republic must incur certain expenses. The budgetary legislation is fairly detailed on how public funds are to be allocated to their ultimate uses and on what. The public funds from the Republican budget may be spent on: capital expenditures in the acquisition of property into republican hands or maintaining the value of republican property; environmental protection and preservation of natural reserves; eradication of the consequences of the Chernobyl disaster; social programmes of Republican importance; expenditures associated with international economic activities; financing institutions and organisations in education and sport subordinated to the respective republican bodies (i.e. the institutions of republican importance); maintenance of the required level of public reserves; financing of judiciary and other law enforcement agencies; national defence, border guard and customs; interest payment on national debt and other credit repayments; maintaining the reserve fund of the Council of Ministers of the Republic of Belarus, reserve fund of the Ministry of Finance and the other (statutory) reserve funds; transfers of grants, subventions and subsidies to enterprises, organisations and sub-national

(regional and local) government bodies and for other activities financed from the Republican Budget in accordance with legislation.

The listing of expenditures clearly disclosed some specifics, or rather anomalies in the Belarus public finance system. Namely, when talking about interest payments on public debt the Law explicitly mentioned repayment to the National Bank, although formally the National Bank was independent in conducting its monetary policy and providing price (monetary) stability. However, although obtaining exact data on the public debt financed by the National Bank is difficult, if not impossible, it is obvious from daily life that the monetisation of public debt is practised (despite the current fairly well suppressed inflation).

Local budgets are formally perceived as the financial basis of local governments (Soviets of Deputies). Local budgets are fairly diverse, ranging from regional budgets to small village budgets. Soviets of deputies in all forms of sub-national government (regions, districts, towns, town districts, settlements and villages) formally promulgate local budgets, but in a highly centralised state (like Belarus) they are directly dependent on their relationship with the Republican government. It seems that, to a large extent, the local budget is the result of central government 'grace' and will assist a particular local government rather than be a result of the blind application of the letter of law. As a consequence, local governments often cannot meet their dues or perform their legally stipulated duties. This kind of intergovernmental relationship maintains the status quo and empowers the central government to be not only dominant, but also to be almost the only player in the public policy processes (although without the presence of the accountability variable).

According to current Belarus legislation the main function of a local budget is the financing of economic, social, cultural and other programmes of local and inter-district importance organised and executed by the local government bodies. Revenues of local budgets at every level are defined in accordance with the tax legislation of the Republic of Belarus, and more specifically the Law on Local Self-government and Local Economy in the Republic of Belarus. Grants, subsidies and subventions may be transferred to local governments from the hierarchically higher body. However, all the local budgets are, *de jure*, independent and consequently there is no requirement for the preparation of a consolidated budget.

Local Soviets of Deputies define the local expenditures independently, with the exception of recourses transferred from a hierarchically higher body for a particular purpose (so-called 'specific grants'). They also have to provide for reserves and other expenditures on particular activities as defined by the local Soviet of Deputies. Local Soviets of Deputies are allowed to invest unspent revenues in economic activities, bonds and securities, grant loans to enterprises and other legal bodies. Interestingly, the law allows local governments to practise an active

treasury function. However, it is most unlikely that a financially exhausted and stranded local government will have unallocated resources to invest. The legal norm is also dangerous in itself, as it allows the local government to take an active role in economic life. This is contrary to all transitional efforts to remove government (regardless of level) from economic activities and instead promote its wider regulatory role.

Although budgets are formally independent documents, *de facto*, the basis for their preparation and final outlook is set out in the Law on Local Self-Government and Local Economy in the Republic of Belarus. The Parliament of the Republic in the Law on the State Budget, defines the model and proportion of republican taxes and other public revenues that will be transferred to local (sub-national) governments. However, all sub-national level governments are free to define how they intend to spend their respective budgets following the main guidelines as set out in the Law.

#### **4. Looking at the Transfer Finance and Financial Supervision**

Being a highly centralised country, the financing of sub-national government is primarily based on a transfer from the central government. The general budgetary rule applied in the budgetary process is that the budget must be balanced (effective revenues must be equal actual expenditures). However, throughout the year there are a few 're-balancing' exercises when the 'low and controlled inflation' is taken into account and budgetary items adjusted. Of course, the speed with which certain budget items are realised is unknown. For instance, it is possible to spend the entire planned sum of money on a particular project before the 're-balancing' exercise takes place, and the adjusted figure immediately after, in high (or hyper-) inflationary conditions makes a lot of difference.

The state budget has, as its aim, to provide horizontal and vertical equalisation, ostensibly following the principles of justice and openness of the budgetary system. The budget, *de jure*, is seen as an instrument to stimulate efforts on behalf of local government to mobilise existing resources and minimise expenditures (covered by the principle of 'budget effectiveness'). In order to exercise the above-mentioned principles, the Republican budget uses three forms of transfer to sub-national governments.

First of all, there are transfers. They are perceived as financial support coming from the Fund of Financial Support of Regions in situations where all current revenues are insufficient to balance the lower level government budget. Transfers as such were introduced as late as 1997. The Fund for the Financial Support of Administrative-Territorial Units is presented as an item in the main Republican budget. The main source of revenue for the Fund is a fixed proportion of collected turnover and corporate tax revenues. The execution of the Fund's expenditure

plan is one of the duties of the Ministry of Finance, as is the case of the entire Republican budget.

Subventions are another form of transfer. They are special grants used for maintaining housing, providing community services, and social, educational and cultural functions of the Local Soviets. Normally all these functions and the property associated with the execution of these functions, lie in the hands of local Soviets. Subventions as such, must be spent for planned purposes and cannot be rolled-over to cover general local expenditures. In practice, local governments often have to find additional resources if they are to perform their statutory functions well.

Subsidies are transferred to lower level budgets in order to equalise the level of social and economic development of a respective administrative and territorial unit. In practice, subsidies are transferred to local budgets for the purposes of building, additional housing, or in support of a failed local economy, still largely in state hands (either under central or local government control).

Despite many shortfalls, it seems that local budgets have succeeded in truly depicting the existing tasks of local governments. All the main local government functions are covered, with varying levels of success. Local governments are given an opportunity to plan their activities knowing more or less, what their revenue will be in the next fiscal year, although, the contrary may have been expected. The Republican budget followed the agreed revenue sharing agreement, and as tax revenues recently demonstrated a relatively high level of stability, they were able to provide local government with a stable source of revenues. The full application of all transfer instruments enabled a better horizontal and vertical equalisation. However, despite this logical claim, in practice there is a widening gap between the capital (Minsk) and the rest of the country. Cities and settlements inland often demonstrated less than the minimum level of public services provided, irrespective of which level of government might be responsible. Certainly, practice shows that the results are not as wonderful as the central government would like them to be.

*Stricto lege*, the Parliament of the Republic of Belarus, the State Control (i.e. the Committee of State Control) of the Republic of Belarus and the Council of Ministers control the execution of the Republican Budget. The Ministry of Finance, financial bodies and state tax inspectors control both revenue and the effective expenditure. Throughout the year the execution of the Republican Budget is continuously reviewed by the Parliamentary Finance Committee and the State Control. If required, the Committee reports to Parliament in a full session, recommending any necessary actions to be taken. At the end of the fiscal year the Government (Council of Ministers) prepares the Annual Accounts and

a full report on the execution of the budget, which are discussed by Parliament, following a detailed procedure.

Financial Supervision over the Local Budgets is performed by the Soviet of Deputies, through its executive committees and the Control Chamber of the Republic of Belarus. The Ministry of Finance supervises the execution of sub-national budgets in the part financed by intergovernmental transfers. Special focus is directed towards subventions and subsidies as some kind of special purpose grants. Also, various inspections control the collection of revenues (financial police, tax collection administration, etc), but their activity is outside the scope of our current interest.

## 5. Conclusion

The disintegration of the USSR and the loss of economic relations between the former republics created considerable financial difficulties for Belarus. As a direct consequence of this, for a number of years, all budgets recorded a deficit despite, *de jure*, an applied principle of a balanced budget. The government was forced to resort to different methods of raising finance. Unfortunately, the credits from the National Bank were the easiest option, but the price has been rather high (high, rising inflation). The National Bank was also constantly 'asked' to purchase government securities, but despite this irresponsible behaviour, the macroeconomic conditions have slowly deteriorated. As the budget recorded a deficit, the government showed growing interest in other para-fiscal funds (health, social security, etc.). The government tried to attract funds from abroad, but besides a few credits from international organisations, not much has been done. Ideas to finance the deficit by issuing securities abroad was hampered by the very low country rating of Belarus, mainly because of delayed political and economic reforms.

In fact, from the moment the budget deficit was recorded, its financing was carried out through the National Bank's 'monetisation' exercise. In 1993 – 1994 the main source of financing the deficit was external loans. The credits were given by the Russian Federation and the International Monetary Fund. However, the Republic demonstrated a high level of inability to service its foreign debts.

The main features of the budgetary system in the Republic of Belarus are:

- the lack of international financing;
- considerable increase in credits provided by the National Bank, which negatively reflects on the monetary stability in the national economy;
- a low, or rather non-existent, demand of investors for government securities.

The following steps should be taken in order to improve the current negative situation in the Belarus public finance:

1. Minimise the National Bank money printing exercise in order to cover the growing budget deficit;
2. Develop the market for government securities;
3. Initiate nation-wide political and economic transition, which will, in the medium-term, improve the country's credit rating and improve the overall effectiveness of the national economy.



# SHAPING FISCAL EQUALIZATION TECHNIQUES IN TRANSITIONAL COUNTRIES

*Sergii Slukhai* \*

## 1. Introduction

Fiscal equalisation plays an important role in a modern world in transition. Both the vertical and horizontal imbalances in the sector of public administration in post-socialist countries have been of a scale that could not be ignored; governments have been trying to find a remedy to solve the emerging problems. Solving the equalisation problems must be balanced between the theoretical approaches and the specific combination of different factors present in any country. Besides the general principles of an effective grant system, formulated by the theory of fiscal federalism that could have an impact on elements of the system of inter-budgetary transfers (IBT), the broad spectrum of internal country-specific factors is also important. To these, belong the peculiarities of a country's economics (level of economic development, maturity of market relations; scale of state involvement in the economy on the micro- and macro level) and the institutional issues (especially how democratic traditions have taken root, institutional formation of the sector of public administration and public attitude to equality issues etc). This is of special importance, because "In most economies in transition, the design of fiscal federalism is crucial because it affects almost all of the key goals of reform, including macroeconomic stabilisation, the effectiveness of the social safety net, the private sector development" (Wallich, 1994: 1 – 2).

A goal that the author has set in this paper is: through analysing the current systems of intergovernmental fiscal relations (IGFR) in the two groups of transition countries – CIS and CEE – to find the main critical issues that could be addressed in shaping the present system of fiscal equalisation. Taking the positive and negative experiences into account makes it possible to arrange the effective reforms of the transfer system.

The author looks at two groups of the ECA transition nations – the CEE and CIS countries. This, because it presents an excellent opportunity to make a comparison between the two relatively homogenous country groups; one of them (CEE) was chosen for its European values in building-up the sector of public administration and had achieved some positive results and the other had just begun reform and was still aggravated by its soviet inheritance in intergovernmental relations.

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## 2. The Changing Role of the Sub-national Level in the Sector of Public Administration of ECA Transition Nations

Reforms in the sector of public administration of ECA transition countries have brought about some changes to state expenditure and revenue allocation (Table 1).

**Table 1**  
**The Sub-national Governments' Portion of Expenditures and Revenues in the Sector of Public Administration in ECA (%)**

Country	Expenditures		Revenues	
	Start period	Final period	Start period	Final period
Czech Republic, 1993-1999	21.3	21.9	14.3	19.0
Estonia, 1991-1999	30.3	24.2	26.6	16.7
Hungary, 1988-1998	22.4	25.4	11.9	15.0
Latvia, 1994-1999	24.1	24.7	19.4	19.9
Lithuania, 1991-1999	24.9	19.3	14.3	21.2
Poland, 1994-1999	16.6	36.4	12.4	22.1
Slovakia, 1996-1999	8.1	6.8	7.5	5.6
Unweighted average for CEE	21.1	22.7	15.2	17.1
Armenia (1)	&	7.0	&	&
Azerbaijan, 1994-1999	25.3	23.6	18.9	14.9
Belarus, 1992-1998	30.4	41.0	29.0	36.1
Georgia, 1995-1999 (2)	17.2	26.1	&	30.6
Kazakhstan, 1997-1998	29.9	33.4	27.8	29.7
Kyrgyz Republic, 1999	&	30.7	&	17.4
Moldova, 1995-1999	29.5	21.7	31.7	17.7
Russia, 1994-1999	39.2	39.9	41.4	36.2
Tajikistan, 1998	&	36.5	&	27.4
Ukraine, 1991-1999 (2)	31.4	45.0	45.8	40.0
Unweighted average for CIS	29.0	30.5	31.7	27.8

Source: IMF, 1999, 2000; (1) Wetzel, 2001; (2) MoF of respective country.

Firstly, it can be seen that decentralisation in the ECA region has occurred. These processes are more intensive in CEE countries, despite the opposite trends in certain countries (Estonia, Lithuania, Slovakia); in CIS countries stagnation can be seen. The former could be attributed to a delay of reform start, or to its insufficient radical changes.

Secondly, the sub-national governments (SNG) portion in state expenditures has been increasing but the portion in revenues, on the contrary, has been decreasing. This accentuates the SNGs' growing gap between expenditure and

revenue power (vertical imbalance). Vertical imbalance justifies subsidising the SNGs by the central government and in this way leads to their growing external dependence.

The difference between CEE and CIS countries can also be seen. The SNGs' portion of expenditures of the combined state budget in CIS countries is higher than in CEE. The reason for this is that in CIS, expenditures of territorial state administration have not been separated from those of self-government bodies.

The reform of intergovernmental relations in the ECA region is now facing several challenges. One of them is *territorial fragmentation* leading to the problem of insufficient size of units of SNGs. This problem is very acute in some central European countries, e.g. the Czech Republic and Hungary. It also became more significant over the last years for many CIS states. As it transpires, the size of basic territorial units in the republics of the fSU (which was of no importance in Soviet time when financial flows were highly centralised) plays a role in the effectiveness of SNGs' functioning in modern conditions.

The average size of SNG of basic level (municipality) in ECA countries is less than in the developed world. According to European standards, the effective minimal size of a local government should be no less than 5000 inhabitants (CLRAE, 1997). However, in CEE and CIS, only nine countries in total attain this size – in CEE three out of nine and in CIS, six out of 12 (Wetzel, 2001).

The other problem has been self-governing at the regional and/or county level. In some ECA countries these bodies were dissolved, at least for a time (Armenia, Azerbaijan, Estonia, Georgia, Czech Republic, Lithuania, Slovakia, Tajikistan, Turkmenistan) freeing up space for territorial state administrations and functional representations of central bodies. Only some countries have tried to find an effective solution to the problem. The most advanced are Latvia and Poland; other countries such as the Czech Republic, Hungary, and Slovakia are making progress in this field<sup>1</sup>. The reasons for the lack of progress are not only due to the state, but also financial considerations: constituting new self-governing bodies means giving them adequate funding, taking it away from other layers of government.

In step with decentralisation progress, the SNGs receive more functional responsibilities. The most important sub-national functions are services in education (elementary and secondary school, vocational schools), health, social branch, housing and transport. The fragmentation discussed above does not leave much

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<sup>1</sup> In the Czech Republic and Slovakia the regional self-governments were re-introduced in 2001 – 2002.

place for expanding the sub-national sector in many countries at the cost of their own revenues.

**Table 2**  
**SNGs' Portion in Governmental Expenditures on the most important Public Services (%)**

Country	Year	General public services	Education	Health	Social security & welfare	Housing & communal amenities	Recreation, culture, religion	Transport & communication
Estonia	1999	29.9	52.2	18.1	7.8	98.8	43.8	15.5
Latvia	1999	41.2	73.3	4.4	5.3	84.8	50.0	23.5
Lithuania	1999	23.0	71.8	0.1	9.0	98.2	37.8	10.0
Poland	1999	44.8	71.6	90.1	6.8	88,5	74.5	63.9
Slovakia	1999	26.9	0.2	0.3	0.6	43.0	29.4	66.0
Hungary	1997	51.7	50.2	49.8	10.4	75.1	45.2	19.0
Czech Republic	1999	56.5	17.7	5.5	7.3	69.7	57.9	45.9
Unweighted average for CEE	1999	39.1	48.1	24.0	6.7	79.7	48.4	34.8
Azerbaijan	1999	19.6	84.2	84.2	1.0	98.4	45.5	8.2
Belarus	1999	26.7	82.8	76.9	3.1	98.8	57.1	67.0
Georgia	1999	...	75.7	50.6	5.3	...	45.3	...
Kazakhstan	1999	21.6	81.0	51.6	10.8	100.0	40.0	0.2
Kyrgyz Republic	1999	15.1	...	...	6.2	39.9	28.3	1.9
Moldova	1999	38.4	69.5	51.3	3.8	79.3	...	14.3
Russia	1999	32.0	87.6	87.4	9.9	...	81.5	59.8
Tajikistan	1999	36.0	82.6	80.0	2.1	87.9	23.4	21.7
Ukraine	1999	...	73.7	90.7	51.4	99.1	85.7	85.4
Unweighted average for CIS	1999	27.6	79.6	71.6	10.4	86.2	50.5	32.3
Unweighted average for OECD	1997	28.0	52.5	27.3	13.6	67.1	71.3	50.2

*Source: Own calculations based on: IMF, 1999, 2000; OECD, 1999; Georgia – MoF*

The situation in CIS and CEE countries when compared, demonstrates some crucial differences. One can see the more significant role of SNGs in CIS in delivering services in education and health. As a matter of fact, the notable share

of these functions in CEE has been delivered by central government de-concentrated functional units and also by state territorial administrations, so these expenditures have been funded not only by SNGs, but also through national government budget. These spheres are more privatised and commercialised in CEE countries, than in CIS countries.

Making a comparison to developed countries (OECD), one can see that CEE countries are very close to the international standards of SNGs' functioning. However, in some branches (social security, recreation and culture, transportation and communication) they are still lagging behind.

**Table 3**  
**Composition of Sub-national Revenues in ECA, 1999 (%)**

Country	Local duties and taxes	Ceded revenues	Shared revenues	State transfers	Total external revenues
Czech Republic	2.5		50.6	22.1	72.7
Estonia	6.3		40.2	22.5	62.7
Hungary, 1998	22.6		14.6	31.7	46.3
Latvia	0	12.0	43.4	23.6	67.0
Lithuania	2.6	8.0	83.1	4.1	87.2
Poland	24.2		18.2	57.6	75.8
Slovakia	19.6		35.8	13.9	49.7
Unweighted average	14.3		41.0	27.6	68.6
Armenia	3.4	...	44.0	18.7	62.7
Azerbaijan	16.9		0.0	50.4	50.4
Belarus	11.1	21.8	45.8	19.7	65.5
Georgia	7.8	22.6	44.4	10.5	54.9
Kazakhstan, 1998	21.2		48.4	20.3	68.7
Kyrgyz Republic	13.6		22.2	50.0	72.2
Moldova, 1998 (1)	5.0		49.0	37.0	86.0
Russia	16.3	9.2	48.7	12.1	60.8
Tajikistan	3.1	19.0	43.2	24.3	67.5
Ukraine	2.8	11.4	56.3	16.3	72.6
Unweighted average	18.5		40.1	25.8	66.1
Unweighted average for ECA	16.8		40.8	24.5	67.1

*Source: Country Specific Studies In Annex; (1) Wetzel (2001).*

Due to the theory of fiscal federalism, there should be some relationship between SNGs' expenditure and revenue assignment. But a very typical situation in ECA countries is the growing discrepancy between their expenditure assignments and the capacity of the own revenue sources. This should justify broadly used vertical fiscal equalisation instruments, including tax sharing. The

SNGs' revenue structure is characterised by a high significance of state transfers, as shown in Table 3.

The budget revenues of SNG could be divided into two broad categories: internal ("own") and external revenues. The most important for SNGs' revenue autonomy are tax sources. Own tax revenues extend to those revenues that are wholly assigned to the sub-national budgets and towards which SNG can exercise some degree of autonomy in introducing, fixing tax bases and tax rates, and administrating (Bailey, 1999). In fact, there is almost no country in the world where SNGs enjoy all of these liberties. External revenues are funds distributed by the state amongst the SNGs.

The SNGs' revenue composition, which demonstrated their high external dependence in the early 90s, has also demonstrated a similar status at the end of the 90s<sup>2</sup>. The indirect (shared taxes) and direct (general and conditional) transfers still form a major portion of sub-national revenues.

The SNGs' autonomy towards internal revenues in most ECA countries is limited. This is true not only for ceded taxes (they are national by definition), but also for "local" taxes and duties<sup>3</sup>. Local tax bases and marginal tax rates are fixed in national legislation, charges are fixed by the national government, and tax administration is centralised (See Table 4). Only a few countries give relatively high revenue autonomy to the SNGs – for example Poland and Hungary, where internal revenues constitute a significant portion of sub-national tax revenues. In developed European countries this is usually the exception rather than the rule (Wetzel, 2001: 24).

Table 4 indicates that none of the ECA countries practised such a strongly recommended (Bird, Ebel, Wallich, 1995: 43 – 44; Engelschalk, 1999: 66) source of sub-national revenues as supplementary PIT. Most countries prefer to have this tax as a ceded (especially CIS) or shared one. The most common sub-national own tax is sales tax. In comparison to EU countries (Pola, 1999: 39), the own tax base in ECA is still insufficient.

### **3. Main Issues in Vertical and Horizontal Equalisation**

The obvious lack of sub-national internal revenue sources in transition countries is compensated for by a voluminous inflow of vertical state transfers, especially indirect. The low portion of internal revenues in SNGs' revenues means that vertical imbalance is significant, especially in CIS countries. Since vertical imbal-

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<sup>2</sup> This fact has been acknowledged in many studies since the mid 90s through the last years (Bird, Ebel, Wallich, 1995; CLRAE, 1997; Engelschalk, 1999; Slukhai, 2000; Wetzel, 2001).

<sup>3</sup> In some countries they are treated as "national duties", e.g. Czech Republic, Kazakhstan, Latvia, Lithuania.

ance delivers an indicator of external dependence (Shah, 1994:40), it means that SNGs in transitional nations do not really have much scope for autonomous budgetary decision-making.

**Table 4**  
**The most significant “own” Sub-national Taxes and Duties in ECA**  
**(late 90s).**

Country	Real estate tax	PIT	Sales tax	Property tax	CIT
Czech Republic				(1,3)	
Estonia			2,4	(1,3)	2,4**
Hungary	2,4		2,4		2,3
Latvia	1,4*		1,4	(1,3)	
Lithuania			2,4		
Poland	1,4		1,4	(1,4)	
Slovakia	1,3				
Armenia	1,3			1,3	
Azerbaijan	2,4			2,4	
Belarus		(1,3)	1,4		
Georgia	(1,3)				1, 4
Kazakhstan	1,3	(1,3)		1,3	
Kyrgyz Republic			2,4	2,4	
Moldova	1,3	(1,3)	2,4		
Russia	1,4		1,4	1,4	
Tajikistan	2,4		2,4	(1,3)	
Ukraine		(1,3) since 2000	2,4		
Uzbekistan	1,3			1,3	

Sources: Country specific studies in Annex.

Legend:

◊ Compulsory tax; ◊ Voluntary tax; ◊ Rates are set by state; ◊ Rates are set by the SNG in limits set by the state.

\* Ceded land tax, but municipalities have a right to make reductions in tax rate.

\*\* Municipalities have a right to introduce supplementary local tax rate.

In brackets, ceded national taxes are shown.

The vertical gap is usually bridged by means of revenue sharing. As shown above, shared revenues is the most significant revenue source in the respective country group. It is also the most important form of IBT: their share in external revenues is generally around two-thirds, with CIS countries having a slightly

higher average than CEE. Thus, the revenue-sharing mechanisms are one of the most important factors of intergovernmental finance, in general, and of sub-national finance, in particular.

One of the characteristics of revenue sharing arrangements in ECA that has been present until recently in most countries, is the method of setting sharing rates: these rates were previously the subject of bargaining between state levels. This process was not formalised properly and was therefore non-transparent and subjective, triggering corruption and other abuse in the sector of public administration.

Tax sharing in the ECA region has been practised on a broader scale than in developed countries. Its revenue share is bigger than that of direct transfers; in developed countries the situation is the opposite (Compare: OECD, 1999: 276 – 277). Of course, shared revenues have played a significant role in subsidising the sub-national units in many developed countries, but in transition countries they are especially important compared to other forms of state fiscal assistance.

The differences in tax-sharing arrangements of ECA countries are quite remarkable (See Table 5).

**Table 5**  
**Tax-sharing Arrangements in some ECA Countries (late 90s)**

Country	VAT	PIT	CIT	Excise	Property tax
Czech Republic		3,5+6	3,6		
Estonia		2,5			1,5
Hungary		2,50			
Latvia		2,5		2,5	1,5
Lithuania		2,5			1,5
Poland		3,5 (50**)	3,5 (50**)		1,5
Slovakia		2,5	2,5/6		
Armenia		3,5			3,5
Azerbaijan, until 1998	2,4,5				
Belarus	2,4,5	1,5	2,4,5	2,5	1,5
Georgia	2,5	2,5	2,5	2,5	1,5
Kazakhstan	3,4,5	1,5	3,4,5	3,5	
Kyrgyz Republic	3,5*	3,5*	3,5*	3,5*	
Moldova	2,5	1,5	2,5		1,5
Russia		2,5		2,5	
Tajikistan	2,4,5	2,4,5	2,4,5	2,4,5	3,5
Uzbekistan	2,4,5	2,4,5	2,4,5	2,4,5	1,4,5
Ukraine		2,4,5***	2,4,5	2,4,5	

*Sources: Country specific studies in Annex.*



*Legend:*

*1 Ceded tax; 2 Sharing rate is set annually; 3 Sharing rate is set for several years; 4 Regional differentiation of sharing rates; 5 Allocation according to principle of origin; 5a Allocation according to principle of dwelling; 6 Proportionally to population.*

*\*Uniform rate for all shared taxes.*

*\*\*Until 1996.*

*\*\*\*1999; since 2000, ceded tax.*

Table 5 also demonstrates the differences between CEE and CIS countries re tax sharing: the main shared taxes were previously PIT and CIP. With regard to the contemporary situation, this list can be broadened – beside these taxes, in CIS, VAT and excise are at play. It can also be seen that the setting of sharing rates in CEE is much more transparent and simpler than in CIS; the sharing rates for the basic SNG tier are set at national level, while in CIS the national state sets rates only for regional governments, and the former are in charge of setting rates for SNGs in the territory of their jurisdiction. What is common for both groups is a bias of sharing rates effective for several years, but this is not yet widely spread.

An improvement that can be seen in the CIS area is the transition from a tax sharing mechanism based on regionally differentiated rates to the other using uniform rates for the whole range of governments (e.g. in Armenia, Kyrgyz Republic, Russia, Ukraine). Only some fSU countries are still practising regionally differentiated rates: Georgia, Belarus, Kazakhstan, Moldova, Tajikistan, and Uzbekistan.

At the same time, some problematic issues of the current sharing system should be mentioned. (See Table 6.)

First of all, there is the instability of the sharing system. For some reason, central governments (amongst them, those that are securing macroeconomic stability) have been engaged in the changing of the sharing pool (worthy of note, but not limited to, the Czech Republic, Lithuania and Ukraine) and sharing rates (Hungary, Slovakia, Ukraine, Central Asian states). This gives more flexibility to IGFR, but affects the stability of intergovernmental finance in a negative way.

Secondly, the most important allocation principle employed in ECA is origin. Taking into account the fact that the territories in the respective countries usually differ significantly concerning spatial allocation of economic activities, it makes the horizontal fiscal equalisation very topical.

**Table 6**  
**Peculiarities of Tax-sharing Systems in some ECA Countries (late 90s)**

<b>Countries</b>	<b>Sharing rates for municipalities are set by regional / county government</b>	<b>Stable sharing rates for several years</b>	<b>Regional differentiation of sharing rates</b>
Czech Republic	No	No	No
Estonia	No	No	No
Hungary	No	No	No
Latvia	No	No	No
Lithuania	No	No	No
Poland	No	Yes	No
Slovakia	No	No	No
Armenia	No	Yes	No
Belarus	Yes	No	Yes
Georgia	Yes	Yes	Yes
Kazakhstan	Yes	Yes	No
Kyrgyz Republic	Yes	Yes	No
Moldova	Yes	No	Yes
Russia	Yes	Yes	No
Tajikistan	Yes	No	Yes
Uzbekistan	Yes	No	Yes
Ukraine *	Yes	No	Yes

\*1999.

Source: *Country specific studies in Annex.*

Third, the presence in some countries of several levels of SNG leads to a situation where tax sharing is effective only for regional authorities. They are responsible for fiscal equalisation on a subordinate sub-national level (counties, urban and rural municipalities). Such an arrangement makes the system less transparent and less objective. However, it should be mentioned that the practice of setting sharing rates for other than regional levels became widespread in the Czech Republic, Poland, Slovakia and some CIS countries.

Although the most important component of IBT in the ECA region has, up till now, been indirect transfers, direct grants, both general and conditional, began to play an increasing role. In spite of this, the importance of these types of IBT is still lagging behind that of countries with a developed market economy, where this form of transfers is the most important (OECD, 1999: 277).

It is worth mentioning that accomplishing reforms in the sector of public administration in the 90s was followed by SNGs' increasing dependency from the state, especially where direct transfers were involved. The state is likely to

be more involved in the direct subsidising of sub-national governmental levels, according to the data in Table 7.

**Table 7**  
**Dynamic of Direct Transfer Portion in SNGs' revenues (%)**

Country	Period	Change, points	Grade of change
Czech Republic	1993-1999	-8	∨
Estonia	1991-1999	+7	^^
Hungary	1988-1998	+2	^
Latvia	1994-1999	-5	∨
Lithuania	1991-1999	-46	∨∨
Poland	1994-1999	+10	^^
Slovakia	1996-1999	+7	^^
Azerbaijan	1992-1999	+9	^
Belarus	1992-1999	+1	^
Kazakhstan	1997-1998	+6	^
Moldova	1995-1999	+4	^
Russia	1994-1999	-8	∨∨

*Source: Own computation based on IMF, 1999, 2000.*

- ^^ Significant increase (for more than 30 per cent).
- ^ Increase.
- ∨ Decrease.
- ∨∨ Significant decrease (for more that 30 per cent).

Out of twelve countries in the region whose data has been made available, nine have had an increase in direct transfer share in SNGs' revenues, including a significant amount in three of them. Only four have had a decrease. Both CEE and SNG countries have demonstrated this trend.

As it was with the analysis of indirect IBT, the direct transfers also demonstrate very high diversity in design. First, the propensity of the state to subsidies in SNGs by use of direct grants differs widely. The share of central government expenditures in its total expenditure could serve as a measure for this sort of activity. The results of the comparison are shown in Table 8.

The comparison presented below shows: on average, the central government in CIS countries has a higher propensity to subsidise SNGs by means of direct IBT than in CEE countries, where the propensity is much lower (especially in Lithuania and Slovakia). The explanation for this can be found in the traditions of SNGs' functioning in CIS, where the sub-national budgets, as in Soviet times, are still considered an organic part of the state budget and the SNGs' chiefs are,

at the same time, state administrators subordinated to the central government bodies. So the traditions of paternalism are in general more clearly shaped here, in contrast to CEE countries which have made significant progress in building up the basics of autonomous sub-national bodies.

**Table 8**  
**A Share of Central Government Expenditures for SNGs' subsidising in its Budget Expenditures (%)**  
**1998 – 1999**

<b>Country</b>	<b>Per cent</b>
Czech Republic	6,4
Estonia	8,0
Hungary	9,9
Latvia	7,4
Lithuania	0,9
Poland	19,2
Slovakia	0,5
Unweighted average for CEE	7,5
Azerbaijan	15,6
Belarus	9,1
Georgia	3,5
Kazakhstan	11,8
Kyrgyz Republic	20,8
Moldova	7,8
Russia	5,9
Tajikistan	17,4
Ukraine	7,4
Unweighted average for CIS	12,4

*Source: Own computation based on IMF, 1999, 2000.*

The direct IBT is playing a growing role in revenues of SNGs in transitional countries. Of course, the characteristics in some countries are quite different. Not only the role of particular transfer types in IGFR differs, but also the proportions between them.

Most ECA countries have been practising several basic types (general and conditional grants, equalisation grants) of direct transfers. Table 9 makes these differences between countries clear.

The need for fiscal equalisation in transitional countries is rather high because of the inequality in spatial location of revenue base, referring to the decline of traditional industries that have been heavily concentrated in some regions due to the former socialist policy of territorial distribution, and following horizontal

**Table 9**  
**Peculiarities of Direct Transfer Systems in some Countries**  
**(late 90s)**

Country	Conditional grants		General grants	Equalisation grants
	Current	Capital		
Czech Republic	Yes	Yes	No	No special equalisation procedure
Estonia	Yes	Yes	Yes	Formula grant, with respect to population and difference in actual and average per capita revenues
Latvia	Yes	Yes	Yes	Formula grant, with difference in per capita revenues and expenditures to be equalised; the system is funded mainly through contributions of local governments
Lithuania	Yes	Yes	Yes	Formula grant, equalisation component are included in general grants; the differences in both per capita revenues and expenditure needs are included; SNGs contributions are practised (this system was substantially changed in 2002)
Poland	Yes	Yes	Yes	Formula grant, per capita revenues are equalised up to predetermined grade
Slovakia	Yes	Yes	No	Indirect equalisation through differentiation of sharing rates and addressed grants to small municipalities
Hungary	Yes	Yes	Yes	Equalisation is a component of the normative grant, taking into account both the revenue and expenditure sides; also investment grants are involved
Armenia	No	Yes	Yes	Formula grant, with respect to per capita incomes and expenditure need indicators, especially the size of SNG
Belarus	Yes	Yes	Yes	Regionally differentiated sharing rates; equalisation grant allocated by formula, with respect to difference between per capita standard expenditure and normative revenues
Georgia	Yes	No	No	Equalisation is done though differentiation of conditional grants for basic social needs; there is no transparent procedure for their allocation
Kazakhstan	No	No	Yes	Formula grant, with respect to per capita standard revenues and expenditures; funded exclusively through regions contributions
Kyrgyz Republic	Yes	No	Yes	Formula grant, with respect to difference in per capita revenues and expenditures; conditional grants are also employed to equalise difference in delivery of public services
Moldova	Yes	Yes	Yes	Equalisation of regionally differentiated rates of shared taxes
Russia	Yes	Yes	Yes	Formula grant, the differentials in per capita budget revenues and expenditure needs are equalised
Tajikistan	No	No	Yes	Regional differentiation of sharing rates, deficit grants to needy regions
Uzbekistan	No	No	Yes	Regional differentiation of sharing rates, deficit grants to needy regions
Ukraine (since 2001)	Yes	No	Yes	Formula, with respect to per capita normative expenditures and revenues, also tax ability of SNG is involved

Source: Annex.

imbalances. It would be plausible to guess that horizontal rather than vertical equalisation is more topical for them, as it is in most developing countries (Shah, 1994: 42). Almost all of the countries have used some sort of instrument to achieve more equity amongst jurisdictions.

It is worth noting that many of the countries have practised horizontal equalisation by use of SNGs' contributions, so they are playing "Robin Hood". A system such as this is uncommon in developed countries. This type of approach is employed in the biggest CIS countries – Kazakhstan, Russia, Ukraine, and in some CEE countries, for example, Latvia and Lithuania. Most countries are doing advanced equalisation taking both the revenue and expenditure sides of sub-national budgets into account; the exceptions here are Estonia and Poland, which equalise only revenues.

In most countries, not all the components of the IBT system are consistent with the criteria of an "optimal" one. The most important characteristics of a good transfer system are objectivity, stability and transparency (Bahl, Linn, 1992). Progress towards such a system can be seen in Estonia, Poland, Latvia, Lithuania, Kyrgyz Republic and Ukraine where formula grants will soon be the most important source of SNGs' subsidising.

There is some notable difference in the IBT systems between CIS and CEE (See Table 10). This relates to the relative importance of capital and current expenditure grants. The capital grants are important in CEE, but in CIS they are insignificant. The problem is that in those CIS countries that are only at the beginning of economic recovery, state budgets do not have enough funds to assist the investment activity of SNGs. The most common goal for state money allocation is the financing of delegated functions – maintenance of the social infrastructure, paying salaries to a large number of employees in public institutions and social service for citizens etc. According to the current practice of centralised administration in the public sector, including expenditures, there is no special need to limit the utilisation of public funds by SNGs.

Table 10 depicts the composition of transfer funds over broad categories of IBT. Although the SNGs in the post-socialist category are, in fact, the agents of central government in the delivery of some public services – this can be proved by a high share of IBT in their revenues and by determination of most of their expenditures by central government; by a significant role of the local territorial state administrations (in most cases they run the budgetary funds at the regional and local levels), the portion of conditional grants in their revenues is not as high as might be expected due to the theory<sup>4</sup>. It is obvious that in this group

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<sup>4</sup> In one of the World Bank publications is stated that in case of agent model of SNG in delivery of some services, the relative dominance of conditional grants should be observed (Litvack et al, 1998: 13).

of countries there is no big need for conditionality in grant allocation to influence the SNGs' behaviour because other methods are employed, e.g. minimum standards of expenditures on some functions etc.

**Table 10**  
**Composition of Direct IBT in some Transition Countries (%)**  
**1998 – 1999**

Country	Total direct grants	Current grants	Conditional grants	Capital grants
Czech Republic	100,0	66,6	88,4	33,4
Estonia	100,0	75,3	40,9	24,7
Hungary	100,0	84,5	31,1	15,5
Latvia	100,0	100,0	68,2	0*
Lithuania	100,0	100,0	0	0*
Poland	100,0	94,0	...	6,0
Slovakia	100,0	100,0	...	0
Unweighted average for CEE	100,0	88,6	45,7	11,4
Armenia	100,0	100,0	0	0*
Belarus	100,0	100,0	20,0	0*
Georgia	100,0	100,0	100,0	0
Kazakhstan	100,0	100,0	0	0
Kyrgyz Republic	100,0	100,0	...	0
Moldova	100,0	94,8	...	5,2
Russia	100,0	100,0	0	0*
Tajikistan	100,0	100,0	0	0
Uzbekistan	100,0	100,0	...	0
Ukraine	100,0	100,0	17,1	0*
Unweighted average for CIS	100,0	99,5	17,1	0,5
Unweighted average for ECA	100,0	95,0	28,1	5,0

*Source: Own computations based on IMF, 1999, 2000, specific country studies in Annex.*

*\*A share is so small that it could be neglected.*

#### 4. Conclusions

The peculiarities of intergovernmental revenues in post-socialist countries analysed above, result in the comparison to experience in Western Europe. First of all, the current system of SNGs' revenues does not allow regional and local governments to be accountable to the population in their jurisdiction. This is because the share of own revenues is too low and the right to manage local

revenues autonomously is strictly limited. There is no link (or it is very low) between revenues and expenditures of SNGs in the region. This fact means a persistent vertical imbalance in IGFR that determines the high degree of external dependence of sub-national authorities.

Second, the SNGs' revenue base is insufficient. It is also very unstable because of the dominance of shared revenues in their budgets. The sharing rates in most cases are set during the course of the annual budget process and this makes SNGs' medium-term (and even short-term) budget planning very problematic. The shared revenues taken alone are inadequate to bridge the gap between expenditure assignments and revenues and are accompanied by direct IBT of several types. The growing role of direct transfers is a significant feature of current intergovernmental finance in the region.

Third, the structure of direct IBT is characterised by the dominance of general grants due to the nature of SNGs in transition countries.

Fourth, the need for horizontal equalisation in ECA countries is very high. The techniques practised in most of them tend to approach either the more or less efficient ones. But there is still a long way to go to arrive at a system, which would be less contradictory, more stable and better equipped to respond to the public's expectations.

The peculiarities of any system of IGFR and of IBT as one of its components could be attributed to a specific combination of political and institutional factors, as well as economic and financial variables existing in a certain country at a specific moment in time. Those in the first group are important because SNGs are creatures of the state, so their functioning in most respects, depends on what the national centre wants them to do, on how much discretion it allows and on how much it decides to run the sub-national issues.

From the economic theory point of view, the design of the system with IGFR and IBT as its components, depends on the balance between the various goals that the public finance system should fulfil. Amongst these general goals are: the optimality of allocation, equity in distribution and economic stability (Musgrave, 1959). The first of these goals claims decentralisation in public service delivery and fiscal assistance to the SNGs that took part of the state's functions because not all the sub-national bodies have the same fiscal conditions. The second goal – distribution – could be performed at the sub-national level accompanied only by expenditure compensation from the centre. The goal of stability should be assigned to the national government, but the national government should take care of the stability of sub-national finance.

At any given time, the balance between these goals may differ. This means that the changes in IBT should also follow the trends of state functions. The substantial changes are imminent in post-socialist countries because of their



transitional nature, so the system of IBT should also change in time. Due to world-wide experience, with the economic recovery and institutionalisation of IGFR in the proper manner, the transitional countries will move forward to a more balanced system of intergovernmental finance. In this system the fiscal equalisation will obtain its appropriate role, that of being a stabiliser and not a stress factor.

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## **SECTION 8**

# **Applying the E-government Framework in Transitional Countries**





## APPLYING THE E-GOVERNMENT FRAMEWORK IN TRANSITIONAL COUNTRIES

*Theodore Tsekos* \*, *Vassilios Peristeras* \*\*

During the 10th NISPAcee conference in Cracow, the first meeting of the Working Group on e-Government for Transitional Countries took place. It was organised by the United Nations Thessaloniki Centre (UNTC) and began work on the first step for creating a “Transitional e-Government Knowledge Network” under the UNTC aegis.

From more than thirty papers that were initially submitted to the WG, seventeen were selected and presented during the WG meetings. These seventeen papers can be put into the following categories:

Five papers presenting the general conceptual approaches for e-Government,

Nine case studies with experiences gained from six different countries of the region,

Three country profiles presenting the current situation of e-Government.

An interesting and vivid dialogue on e-Government issues took place amongst the members and the audience of the WG. Through a heavy program of seventeen papers/presentations, all participants witnessed a fruitful and unique exchange of experiences emanating from eleven CEE & CIS countries.

The WG members concluded that e-Government is a complex and multi-dimensional challenge for governments all over the world. So several issues have to be addressed. A short list follows:

Ethical & Cultural issues

Policy formulation

Knowledge management & learning processes

Technological infrastructure

Funding

Legal issues

Human Resources

Gov project management

Public agencies reengineering

Private – Public – Partnership e-

Especially for the CEE & CIS countries, participants agreed that despite the low Internet penetration rate, the lack of resources and the important cultural, organisational and institutional barriers within public agencies, these countries

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do not have to wait for their general economic, social and political problems to be resolved before engaging in e-Government initiatives.

On the contrary, Information and Communication Technologies properly introduced and implemented in public administration can facilitate general economic and social development, thus e-Government can be effectively used as a leverage towards democracy and prosperity.

Finally, WG co-ordinators presented five possible directions for future work that could be supported by the UNTC:

Projects and pilots showcasing an e-Government perspective

Research related to ICTs and public administration

Publications (Public Management Forum, UNTC Technical Papers, etc)

Knowledge documentation and dissemination (through UNTC Transitional Portal, accessible at [www.transitional-portal.org](http://www.transitional-portal.org))

Transitional e-Government Knowledge Network expansion

# A GLOBAL E-GOVERNMENT SURVEY: LESSONS LEARNED FOR THE TRANSITIONAL COUNTRIES.

*Theodore Tsekos* \*, *Vassilios Peristeras* \*\*

## 1. Defining e-Government

The introduction of ICT in Public Administration and the new administrative practices that these technologies introduce have been described as e-government (e-G). The e-government idea has a relatively short history of about five years. The word has been coined according to the more general practice of employing the “e” prefix to emphasise the electronic way of producing and distributing services. (e-commerce, e-learning, e-business, e-economy etc). Interestingly enough, the term has found global use regardless of cultural, economical and geographical diversity (3rd Global Forum Conference Proceedings 2001). Coming upon the numerous definitions that exist in relevant literature one might easily conclude that there is no one definition enjoying broad acceptance. From a semantic point of view the “e” prefix stands for the electronic type of governance.

As a first stage, most approaches to e-Government were chiefly technical (Peristeras, Tsekos and Tarabanis 2002). More recent developments comprehend e-G mainly as a social and organisational phenomenon

The UN Division of Public Economics and Public Administration and the American Society for Public Administration common global survey of e-Government (Benchmarking E-government: a Global Perspective, 2002) emphasises that “E-Government is about opportunity. Opportunity to transform a public sector organisation’s commitment in order to function as citizen-centric. Opportunity to provide cost effective services to the private sector contributing to the development of business and promoting long-term economic growth. And opportunity to enhance governance through improved access to accurate information and transparent, responsive and democratic institutions.”

An OECD sponsored study underlines that far beyond its technological features “E-government requires a different kind of culture – one that is less controlling and more collaborative, less hierarchical and more horizontal, less secret and more transparent. Making e-government work will require more than a change in management practices or organisational design. It will require a major change in culture” (Donald G. Lenihan, *Realigning Governance: From E-Government to E-Democracy*, Centre for Collaborative Government, April 2002).

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According to the World Bank, e-Government is “The use by government agencies of information technologies ... that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management.” ([www.worldbank.org/publicsector/egov](http://www.worldbank.org/publicsector/egov))

The Office of Management and Budget at the Executive office of the President of (OMB) USA believes that “E-Government provides many opportunities to improve the quality service to the citizen.” (“Implementing the President’s Management Agenda for E-Government – E-Government Strategy. Simplified Delivery of Services to Citizens”, 2002) An effective strategy will result in significant improvements in the federal government, including:

- Simplifying delivery of services to citizens;
- Eliminating layers of government management;
- Making it possible for citizens, businesses, other levels of government and federal employees to easily find information and get service from the federal government;
- Simplifying agencies’ business processes and reducing costs through integrating and eliminating redundant systems;
- Streamlining government operations to guarantee rapid response to citizen needs.

The European Union Ministerial declaration entitled “e-Government – a priority for Europe”-11/01, states that “Information and Communication Technologies (ICT’s) are a powerful tool for good governance, with five key principles: Openness, Participation, Accountability, Effectiveness and Coherence. The transition to e-Government must improve all of these dimensions... ICT’s can help strengthen democracy and help develop “e-community” ...and increase awareness, interest and participation in Europe’s democratic processes”

Last but not least, even the private sector’s definition of e-Government has significantly evolved. According to Laura Ipsen, Vice President, Government Affairs, Cisco Systems “e-Government is about building skills, fast transforming complex organisations to achieve agility and efficiency... and competing effectively in the global economy. The foundation is based on using networking and knowledge to revolutionise education, government service and participative democracy.” Or “...(e-G) is the usage of I.T. by the administration to improve accessibility and distribution to the services produced for the citizens, businesses as well as for PA employees” (Deloitte Consulting and Deloitte&Touche 2000)

Taking into account the above-mentioned definitions, one can easily conclude that nowadays there is a global agreement in approaching e-Government as a complex phenomenon involving not only technological, but also social, organisational and cultural components.

## **2. Classifying e-Government Maturity**

Several attempts to classify e-G maturity in various countries according to different criteria have been undertaken. Below, some of these initiatives are briefly presented.

### **2.1 UN/ASPA**

The UN/ASPA global survey identifies five categories of measuring a country's e-G progress.

- Emerging web presence: A country may have a single or a few official national government websites that offer static information to the user and serve as public affairs tools.
- Enhanced web presence: The number of government web-pages increases as information becomes more dynamic with users having more options for accessing information.
- Interactive web presence: A more formal exchange between user and a government service provider takes place, i.e. forms can be downloaded; applications submitted online.
- Transactional web presence: Users easily access services prioritised by their needs; conduct formal transactions online, such as paying taxes, and registration fees.
- Fully integrated web presence: The complete integration of all online government services through a one-stop-shop portal.

### **2.2 UN/DESA**

The Division for Public Economics and Public Administration (UNDESA) in a Technical Paper entitled "Global Perspectives on E-Government" ([www.unpan.org](http://www.unpan.org)) distinguishes the following stages in e-Gov development:

#### **Phase 1 – Startup**

- Static government information published on the web: such as laws and rules, guidelines, handbooks, organisations, directories, etc.
- An early stage in e-government development.
- Passive/Passive Relationship: government and its clients do not communicate on the web.

## Phase 2 – One-Way Interaction

- Active/Passive relationship: government active – users passive
- To some extent, government services are available, such as download government forms (e.g., income tax).
- Users can send e-mail to government, but government may not necessarily respond in e-way.

## Phase 3 – Two-Way Interaction

- Active/Active relationship: interactions between government and users complete on the web. For example, users obtain tax form on the web, fill it in on the web, and send it back to Revenue Authority through the web.
- Government and users can communicate each other through the web.

## Phase 4 – Transactions on the Web

- E-Government matures at this phase:
- Complete a business transaction (e.g., tax) on the web.
- Restructuring government becomes imperative, the ways that government operates are also changed.
- E-government is not merely computerising existing government. Instead, it is to transform the existing government.

### 2.3. e-EUROPE

The well-known e-Europe initiative has defined four stages of e-G maturity.

- Stage 1 is information only
- Stage 2 is when forms can be downloaded and submitted online
- Stage 3 full processing of forms including authentication
- Stage 4 secure online transactions.

This categorisation has been used extensively for benchmarking public administrations of the member-states.

### 2.4 UNTC

Based on the evolutionary stages of the Information Technology impact on public organisations, we proposed a four-level schema (Peristeras, Tsekos and Tarabanis 2002):

- 1<sup>st</sup> Stage: Islands of Automation: Organisations continue to function and produce as before having just automated a small fraction of their processes
- 2<sup>nd</sup> Stage – Automated Process Chains: Organisations produce the same products and services as before but with changes in the way the organisation functions

- 3<sup>rd</sup> Stage – Reengineering through Information Technology: Organisations produce the same products and services as before but in a completely innovative way that affects all internal functions, information flows and structures.
- 4<sup>th</sup> Stage – Total Reinvention: Organisations restructure the meaning of their existence and all their internal and external relations: WHY, WHAT and HOW to produce their services or goods.

### 3. e-Gov Practices

There are some interesting e-G experiences worldwide, coming from diverse social, economic and administrative environments. Only experiences that could provide useful input and insights for the CEE&CIS region have been included in the short description that follows.

#### 3.1 European Union

The European Commission focuses on online front-end public services. There is a bi-annual measurement of progress in the development of web-based applications within the framework of the Commission’s e-Europe initiative that identifies best practices from a list of twenty basic public services to be benchmarked. This list is composed by twelve public services aimed at individual citizens and eight public services aimed at businesses:

<p>A. On-line services for citizens:</p> <ul style="list-style-type: none"> <li>• Income taxes</li> <li>• Job search</li> <li>• Social security benefits <i>(Unemployment benefits, Child allowances, Medical costs, Student grants)</i></li> <li>• Personal documents <i>(Passport, Drivers licence)</i></li> <li>• Car registration</li> <li>• Application for building permission</li> <li>• Declaration to the police</li> <li>• Public libraries</li> <li>• Birth &amp; marriage certificates</li> <li>• Enrolment in higher education</li> <li>• Announcement of moving</li> <li>• Health-related services</li> </ul>	<p>B. On-line services for businesses</p> <ul style="list-style-type: none"> <li>• Social contribution for employees</li> <li>• Corporate tax VAT</li> <li>• Registration of a new company</li> <li>• Submission of statistical data</li> <li>• Custom declaration</li> <li>• Environmental permits</li> <li>• Public procurement</li> </ul>
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In order to identify common trends within groups of related services and facilitate measurement and benchmarking four service clusters have been created:

- *Income-generating services*: services where finance flows from citizens and businesses to the government (mainly taxes and social contributions)
- *Registration services*: services related to recording object- or person- related data as a result of administrative obligations
- *Returns*: public services given to citizens and businesses in return for taxes and contributions
- *Permits & licences*: documents provided by governmental bodies giving permission to build a house, to run a business etc.

### 3.2 USA

In the United States, a single governmental portal named “First Gov” has been established. On FirstGov.gov, one can search more than 51 million web pages from federal and state governments. It is important to mention here that U.S government portals are organised around customer groups and topics, instead of agency names. Examples of cross-agency portals include seniors, students, people with disabilities, workers and exporters. Users may select customer gateways such as citizens, business and government to find exactly what they need. Through the different gateways users can apply for student financial assistance, compare Medicare options, find government jobs, apply for Social Security benefits, file taxes, get advice on starting a business, obtain passport information etc.

### 3.3 Canada

A single governmental portal entitled “Canada Site” offers three general types of services: Services for Canadians (Health, Jobs, Taxes etc.), Services for Non-Canadians (Immigration, Business, Global Affairs etc.) and Services for Canadian Business (Financing, Taxation, Human Resources etc.)

Through this portal, users can access a number of on-line services such as: finding a job, obtaining a passport, file taxes on-line, replace lost or stolen identity cards, apply for a student loan, get information on Canada’s national security and safety measures and obtain information on financial benefit programs etc.

Developing countries are also experiencing ICT based government practices. The main feature that differentiates these experiences from the developed countries is the facilitated internet access through the establishment of a one-stop-shop type of community access points scattered both in rural and urban areas. Through the use of these free-of-charge community access points, the deficit of low internet penetration that is prominent in these countries can be more or less overcome.



### 3.4 The Bahia State in Brazil

A well-known example is the Bahia state's SAC model in Brazil. A SAC – “Servicio de Atendimento ao Cidadão”, is a grouping of government agencies' front offices hosted in the same premises with a common area for support services. It was specifically designed for public service delivery, a Shopping Mall for public services. There are 22 SACs, 8 Urban and 14 Rural providing the following services: ID Card, Labour ID, Social Security Number, Driver's License and Automobile Registration, Police Record, Company Registration, Traffic Record, Information on Public Bid Processes Complaints and Connections to Water, Sewer and Power Services, Unemployment Insurance, Collection of Social Security Tax, Public Housing Request, Passport, Voter Registration, Taxpayer Registration Card (CPF) etc. SAC also provides on-the-spot access to auxiliary services such as banks where citizens can pay fees for document issuing, tickets, taxes etc. photocopy and photography services that are outsourced to private companies and have to pay a rent for their premises in the SAC mall, etc.

As it was not possible to implement the SAC in Bahia's 415 localities, a mobile SAC was developed. It is an air-conditioned truck with four boxes of service delivery. The mobile SAC teams work on a 15-day shift, 7 days a week, and remain 2 – 3 days in each site.

### 3.5 Andhra Pradesh in Hyderabad, India

The Government of the State of Andhra Pradesh in Hyderabad, India developed a one-stop-shop named Integrated Citizen Service Centre (ICSC). In the ICSC, twelve counters handle eighteen different services both to citizens and to businesses. The Centre is equipped with a reception counter, an electronic queuing system, a help desk providing assistance, advice and all the required forms, digital cameras and pads for photos and signatures and a driving test space.

## 4. Barriers to E-Government and their Remedies

### 4.1 The USA experience

The aforementioned report prepared by the Office of Management and Budget under the title of “Implementing the President's Management Agenda for E – Government - E-Government Strategy: Simplified Delivery of Services to Citizens”, February 27, 2002, suggests that the main barriers to the effective development of e-G can be classified as follows:

#### Program Performance Value

Agencies typically evaluate their IT systems according to how well they serve the agency's processes and needs and not on how well they respond to citizens' needs. Systems are often evaluated by the percentage of time they are working,

rather than the internal and external performance benefit they deliver to the programs and services they support.

### Technology Leverage

In the 1990s, government agencies used IT to automate existing processes, rather than to create more efficient and effective solutions although the latter are now feasible because of commercial e-business lessons learned.

### Islands of Automation

Agencies generally buy systems that address internal needs, and rarely are the systems able to inter-operate or communicate with other agencies. Consequently, citizens have to search across multiple agencies to get service, businesses have to file the same information several times, and agencies cannot easily share information.

### Resistance to Change

Budget processes and agency cultures perpetuate obsolete bureaucratic divisions. Budgeting processes have not provided a mechanism for investing in cross-agency IT. Moreover, agency cultures and fear of reorganisation create resistance to integrating work and sharing the use of systems, information and knowledge across several agencies.

The report introduces an e-Government Management Action Plan with the following features:

- Individuals/Citizens: Government-to-Citizens (G2C): Build easy to find, easy to use one-stop points-of-service
- Businesses: Government-to-Business (G2B): Reduce government's burden on businesses by eliminating redundant collection of data and better leveraging E-business technologies for communication.
- Intergovernmental: Government-to-Government (G2G): Make it easier for states and localities to meet reporting requirements and participate as full partners with the federal government in citizen services. Enable better performance measurement, especially for grants and assure that more accurate data will be available in a timely fashion.
- Intra-governmental: Internal Efficiency and Effectiveness (IEE): Using industry best practices in areas such as supply-chain management, financial management, knowledge management and eliminating delays in processing

The U.S. e-Authentication initiative will build and enable mutual trust to support widespread use of electronic interactions between the public and government and across government by providing common solutions to establish

‘identity’. These solutions will address authentication security, privacy, and electronic signature needs of the E-Government initiatives.

Finally, an e-Government Architecture project will promote the development of architecture, towards the development of a Federal Enterprise Architecture, a core set of standardised technology models to facilitate technology solutions. Initially, this effort will focus on four key areas including Homeland Security, economic stimulus, social services, and back office operations.

#### 4.2 The EU experience

Two main conclusions can be drawn from the results of the EU Survey on Electronic Public Services (first measurement: October 2001). Firstly, best results were achieved by public services with simple procedures and centrally co-ordinated service provision (job searches, income tax, VAT, corporate tax and customs declarations). Secondly, more complex administrative procedures, which are co-ordinated by local service providers (building permits, environmental permits and enrolment in higher education) received the lowest scores in the survey.

According to the same Survey the online development of public services can be enhanced by:

- Co-ordinated e-Government solutions which allow local service providers to take advantage of centralised online initiatives offering a single point of contact in the form of e-portals or ASP-related solutions (Application Service Providers), with a citizen/customer-oriented approach rather than a procedural approach
- Extensive back-office reorganisations to transform complex transactions into simple procedures. This is a long-term operation.

#### 4.3 A UN/G8 perspective

The barriers assessed by the Task Force on Digital Government for Development within the framework of the Reference Model, a UN – G8/DOT Force – Italian Government joint international and presented by Michele Morciano at the Palermo Conference on e-Government for Development (2002) are the following:

- Fragmentation of administrative procedures due to jurisdiction
- Overlapping of competencies
- Inadequacy of regulation
- Lack of skilled personnel
- Lack of cross accessibility of databases
- Loss of information due to “truncation” of procedures

#### 4.4 The industrial partners perspective

Installed ERP systems reach their limits, as their organisational view is mainly introvert, focused on internal functions. After the Y2K, financial resources have been transferred from ERP systems to applications that exploit the Internet. This set of applications is framing the e-business trend. What characterises them most is the fact that they are focused on external relationships as they support relations along the entire value chain (suppliers, customers, competitors, etc). A gap that is identified here is in their communication with installed ERPs. This forces the organisations to use ERP systems for internal support (accounting, personnel, logistic etc) and e-business applications for external functions (selling, service provision, marketing, etc). Bridging this gap requires the development of a new generation of Information Systems that would succeed in merging both internal and external functions in a unique system. Their extroversion and capability to support inter-(instead of intra-) organisational collaboration are the basic innovations introduced by these systems that have been named ERP II (Jimenez 2000). According to Robert Lloyd, President Cisco Systems – Europe, Middle East & Africa, a main barrier to effective e-Gov development is the insufficient attention given to the back office processes: “Back- office reform and linking up with other parts of Government (an unglamorous hard work with low political exploitability) opens up both citizen & intra-governmental collaboration.”

### 5. e-G development Strategy

Here, we briefly present two e-G development strategies proposed by the United Nations. Some initial thoughts of a third approach can also be found here, based on work conducted by the United Nations Thessaloniki Centre. For the purpose of this document these three approaches are presented in a very abstract level, but readers can easily find detailed information through the references provided.

#### 5.1. The UN – G8/DOT Force – Italian Government Task Force on Digital Government

According to the *UN – G8/DOT Force – Italian Government Task Force on Digital Government for Development* ([www.palermoconference2002.org](http://www.palermoconference2002.org)) a sound e-government development strategy has :

- To modify general legislation
- To modify administrative laws
- To modify competencies and jurisdiction of administrations and their organisation
- To introduce new regulation
- Training of human resources

- To invest in ICT projects
- To transform constraints into opportunity means providing design guidelines for projects on:
  - o Regulation
  - o Organisation
  - o Jurisdiction
  - o Human resources
  - o Technology
  - o Fixed capital

## 5.2. DPEPA/UNDESA Perspective

According to UN/DESA (Zhou 2002) there are three organisational prerequisites for developing a sound e-G strategy.

### Leadership

- commitment to development of e-government must begin with top management of government within both political and administrative arms of government
- co-ordinate at the highest level of government the interests conflicts taking place between different departments and agencies

### Institutional Arrangement

- an accountable agency to deliver e-government initiatives
- new implementation structures, such as new positions and agencies attached to the highest level of office, rather than delegating implementation to individual agencies
- co-ordinate cross agency co-operation

### Effective Management

- Appropriate policies on e-government
- Strategic and planning
- Timely legislation and regulation
- Standardisation and normalisation
- Training of top government officers

## 5.3 e-G development strategy from a UNTC perspective

The UNTC approach emphasises three kinds of prerequisites in order to design and implement a successful e-G development strategy for transitional countries:

### *a. Organisational prerequisites*

There are critical organisational prerequisites that should be taken into account for e-G strategy. A radical organisational redesign is inevitable if we want to avoid having “the same old mess run faster” after the introduction of Information and Communication Technologies.

This redesign should affect:

- the processes that the organisation executes (process reengineering). Additionally to process reengineering the issue of process standardisation is very critical and a definite prerequisite for e-G applications. Process standardisation facilitates:
  - o Process simplification
  - o Measurement
  - o Transparency
- the way that communications occur both internally and with the external environment (information flow reengineering)
- the way tasks and power are distributed inside the organisation (power redistribution)
- the way all the above-mentioned are mapped into new organisational structures (structural redesign)
- the way employees perceive public service, citizens and themselves (new administrative culture)

This approach has been summarised in the USA during the 90's under the phrase “Re-engineering through Information Technology” (US Government Information Technology Services 1993) (Galliers, W. R. J. Baets (Eds) and Bob Galliers (Contr) 1998) (Heeks 1999). It is also compatible with the Business Process Reengineering (BPR) rhetoric.

### *b. Political prerequisites*

On the other hand, two essential political prerequisites affect e-Government's development: namely, political openness and willingness for transparency and participation.

The contemporary ICT technological framework permits massive and speedy information gathering as well as end users' direct communication. These facilities generate a tremendous potential for public access to government information and reduce not only red tape, but also bureaucratic opacity and political secrecy (Lenihan, 2002).

Therefore, any attempt or intention to limit transparency and external monitoring of governmental activities will be contrary to the extensive instalment

and use of ICT applications in government, mainly at the interconnection of internal and external communications systems (A2aA and A2C&B linkages). Only inclusive and transparent politico-administrative systems are really inclined to adopt a positive attitude towards integrative and, thus, fully operational and productive e-Government systems.

*c. Technological Prerequisites*

At the technological level, the key concept is inter-operability that can be realised through a two-fold integration process:

- internal system integration (creation of intranets) and
- external system integration (creation of extranets)

The first integration process has found its commercial realisation through the development and adoption of the Enterprise Resource Planning (ERP) systems during the 80's and the beginning of the 90's. The main difference between these systems and their predecessors (legacy) lies in the fact that it was the first time that Information Systems offered a global and integrated support to the organisation, through an accessible all-in-one system. ERPs aim at covering the entire organisation- horizontally, by supporting all organisational units and sub-units and vertically, by covering all functions from transactions to decision support (Laudon and Laudon 1999).

The second integration process starts up with the Internet penetration at the end of the 90's. At the technological level, we witness the merging of information and communication technologies and the further development of networks that exceed organisational boundaries linking internal and external worlds (other organisations in the same industry, suppliers, customers, public sector, etc). All organisations actively participate in various external networks (extranets) and their Information Systems communicate. Installed ERP systems reach their limits, as their organisational view is mainly introvert, focused on internal functions.

After the Y2K, financial resources were switched from ERP systems to applications that exploit the Internet. This set of applications frames the e-business trend. What characterises them most is the fact that they are focused on external relationships as they support relations along the entire value chain (suppliers, customers, competitors, etc). A gap that is identified here is in their communication with installed ERPs. This forces organisations to use ERP systems for internal support (accounting, personnel, logistic etc) and e-business applications for external functions (selling, service provision, marketing, etc). Bridging this gap requires the development of a new generation of Information Systems that would succeed in merging both internal and external functions in a unique system. Their extroversion and capability to support inter- (instead of intra) organisational collaboration are the basic innovations introduced by these systems

that have been named ERP II (Jimenez 2000). From a technical point of view, what differentiates these systems from “traditional” ERPs is their capacity to communicate with and combine a large number of diverse informational sources (other systems, web pages, etc). Such systems manage to aggregate and process information coming from diverse systems, providing the end-user with a simple interface (web-based usually) making the underlying technical and informational complexity transparent.

Their development, however, is considered to be a very complex and demanding task with many conceptual and technical barriers to overcome. Several methodologies and technologies have been deployed in this respect. Some of the most promising are Ontologies (Farquhar A. 1997) (IEEE Intelligent Systems 1999), Object-Oriented Business Analysis and Modeling with the use of the Unified Modeling Language (UML) (Mecella and Battini 2000), Generic Process and Data Modeling (Stecher 1993; Scheer 1994; Tarabanis, Peristeras and Frigidis 2001), Semantic Web (Berners-Lee, Hendler and Lassila 2001), Middleware solutions with the use of Enterprise Java Beans, XML, RDF and CORBA, and Enterprise Architectures (CIO Council 1999).

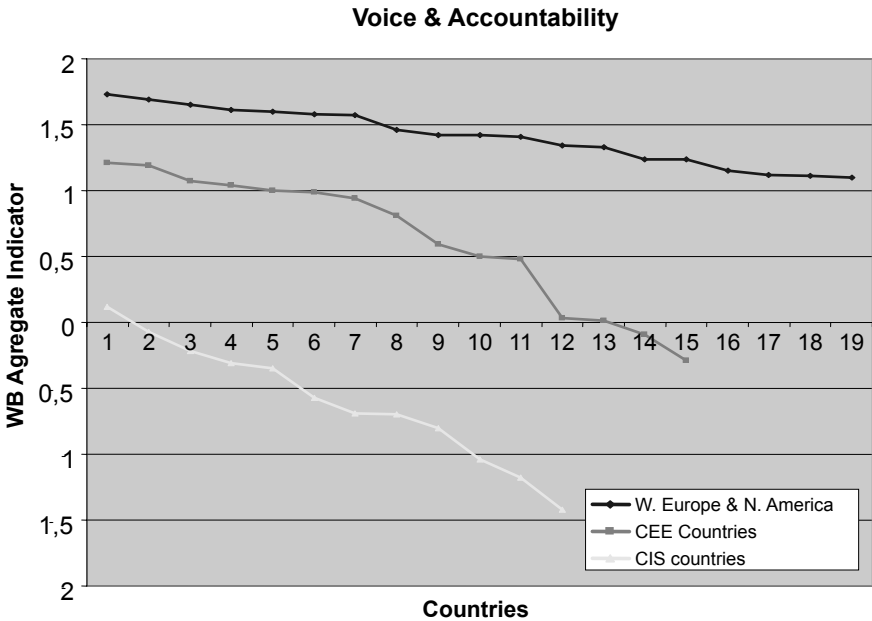
## **6. Transition Countries: Current Situation and Perspectives**

Although the situation in countries in transition from centrally-controlled and planned economic and social systems to decentralised and competitive ones is not homogenous, the region is characterised largely by certain common features. Firstly, the low level of administrative transparency inherited from the previous regime still persists in several countries. Things become even worse where the “state capture” phenomenon occurs (Hellman, 2000). The influence exercised by powerful private interests on the political and administrative decision-making system – defined and measured in a series of research papers on governance matters produced by the World Bank Development Research Group (Kaufmann, 2002) – reduces transparency and social control of administrative action even more. Under these circumstances, ICT facilitation of external monitoring could be perceived as a threat by some powerful interest groups affecting policy making. Obviously the hostile attitude of such important social actors could compromise the development of e-Government.

A comparison, based on the above mentioned data (Figure 1) shows that political and administrative transparency is lower in CEE and the CIS countries than in Western European and North American countries.

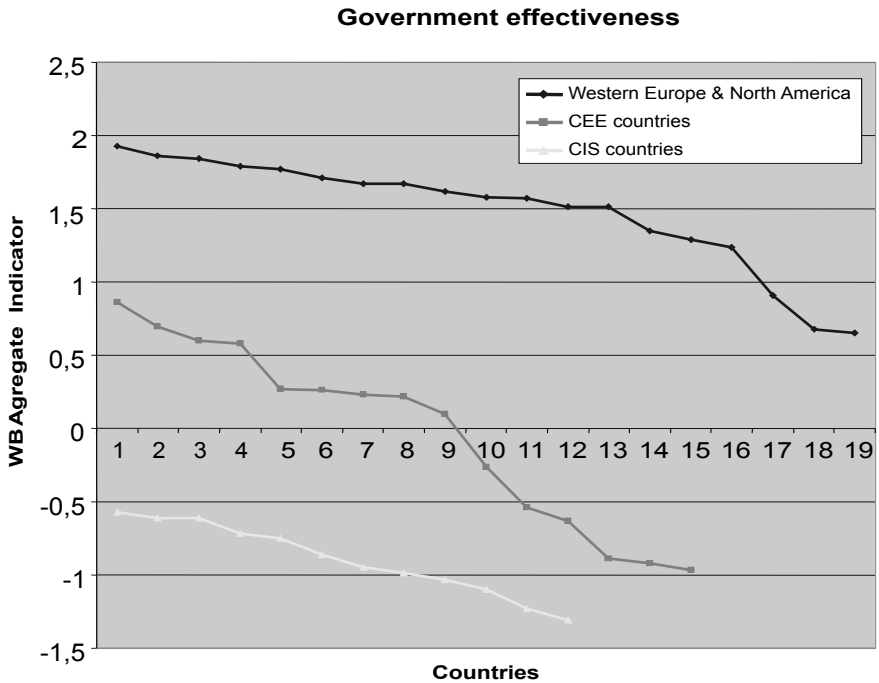


**Figure 1**  
**Political and Administrative Transparency in Western,**  
**CEE and CIS Countries**



On the other hand, despite the planning tradition of transitional countries, a lack of standardisation and measurement capacity persists. Based on a rule oriented administrative culture (Kulcsar, 2001) and experiencing a radical transformation movement (United Nations, 2001) with prevalent institutional characteristics, CEE and CIS countries have not yet reached the necessary maturity for detailed procedural rearrangements in an e-Government perspective. The capacity to implement flexible and interactive procedural and informational architecture in public organisations is linked to government effectiveness. From another point of view, the launching and development of e-Government projects demands government effectiveness in order to assure successful design and management. An analysis (Figure 2) of the aforementioned government effectiveness data reveals the poor performance of CEE and CIS countries compared to western nations.

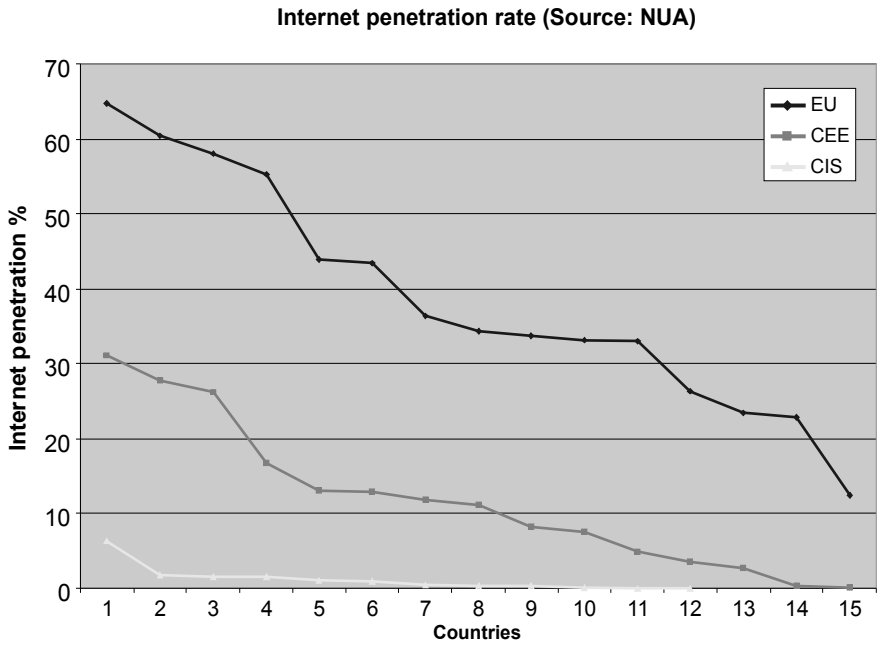
**Figure 2**  
**Government Effectiveness in Western, CEE and CIS Countries**



Finally, an important factor affecting e-Government development is the accessibility of the latest communication infrastructure. Available data (<http://www.nua.ie/surveys>) shows that the internet penetration rate is lower in CEE and CIS than in EU countries.

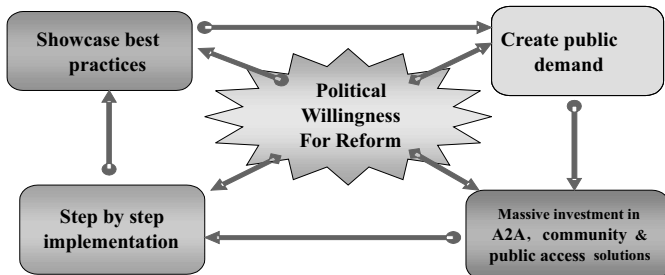
The political, organisational and technological elements cited above outline a less favourable environment for e-Government development in transitional countries. This problematic situation does not, however, lead to the suggestion that governments have to wait until the general socio-economic conditions (including administrative culture) are improved in order to employ to the greatest possible advantage e-Government applications. On the contrary, e-Government properly applied could accelerate the change process.

**Figure 3**  
**Internet Penetration Rate in EU, CEE and CIS Countries**



From our point of view political willingness for reform is the critical factor (Figure 4).

**Figure 4**  
**Sustainable e-Government Improvement**



A coherent e-Government development policy could initiate public demand for e-Services through information campaigns coupled with massive investment to back office applications and community access points. Then, a step by step implementation linking A2C and A2B front office applications to back office restructuring and permitting to showcase best practices will increase public demand and generate a sustainable improvement process.

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# ICT IN POLISH LOCAL GOVERNMENT – BETTER SERVICES, MORE TRANSPARENCY AND PROSPECTS FOR INCREASED PARTICIPATION

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## Introduction

“Public administration is an organisational and executive activity related to political power in a state” (Izdebski, Kulesza, 1998: 27). Citizens are one of the subjects of that power. Development of the mass media, dissemination of information networks (Internet), as well as increased knowledge has allowed people to exercise effective control over their governments. Information is the instrument of that control in the 21<sup>st</sup> century. Making information accessible to the citizens equals the breaking down of the monopoly of political authorities in understanding public affairs and the public administration together with the administrative procedures. Furthermore, it is commonly accepted in democratic societies that all technological innovations should be put into the public domain and be tested not only by experts but also by ordinary citizens. This also concerns to a large extent, electronic tools. “For the aim, in a democratic society [...] should not be empowering of political élite, but the strengthening of the competence and self-governing capabilities of the citizenry” (6, 2001: 105).

Strengthening the citizenry towards decision-making has been recognised by the European Commission and elaborated in the *White Paper on European Governance* of July 2001. The very fact that such a paper exists is evidence of unrest amongst EU institutions and officials concerning the legitimacy of EU policy. In the document, the following principles of good governance were highlighted: openness, participation, accountability, effectiveness, and coherence. To accomplish these principles, the Commission proposes several ways including “better involvement of citizens in shaping and implementing EU Policy” (European Commission, 2001: 10). The European Commission brings about the need “to communicate more actively with the general public on European issues” (European Commission, 2001: 11). This communication should be performed at all levels of policy making – from local to supranational.

Governance is defined here as re-establishing “the control of the democratic principal – the sovereign people acting through elections – over its agents in government by reducing as far as possible the ambiguities of delegation” (Sabel,

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2001: 127). Principles of governance were highlighted in the cited document of the European Commission. However, not only the goals but also the means to achieve them, were presented. Information policy conducted through information and communication technologies is one of the methods for accomplishing most principles of good governance.

Democratic deficit is a dilemma for the EU and most of its member countries (Daemen, Schaap, 2000). It is equally the dilemma facing transitional countries, but for different reasons. Therefore, their governments should undertake all necessary measures to introduce the principles of governance mentioned in the *White Paper*. The same concerns the instruments used to accomplish those principles. In 1990, legitimacy for the democratic government in Poland was established starting from the local level. That development should continue.

The foregoing may be described as being the “ideological” reasons for the use of ICT in local government (as well as the reasons for delivering this paper). However there are practical reasons that cannot be ignored. Electronic tools successfully support activating local neighbourhoods and comprehensive service delivery. Numerous experiences with ICT use in public administration of EU countries led us to prepare this paper based on the following assumptions:

- ICT is a medium for gathering information on the local community: it enables better recognition of local services’ consumers and their actual needs that make local administration more client-oriented and public policy more comprehensive.
- ICT is a medium for bringing openness and effectiveness to local administration: publishing administrative procedures, application forms, lists of required documents and all relevant information make local administration more transparent to the public and increases confidence in institutions at a local level.
- ICT is a medium of information policy of local government: publishing reports on proceedings of local council and neighbourhood committees, official documents concerning local community (budget, spatial plans, etc.), giving the local public the opportunity to respond through interactive media (Internet) may possibly increase participation in decision-making at a local level.

### **From Virtual Bureaucracy to E-Government**

Bureaucratic process is based in two “places”: the front office and the back office. While the front office is a place where information is gathered from the client and – at the same time – it is transmitted to him/her; the back office is a place where information is processed, i.e. decisions are made. There are four phases of handling matters addressed to public offices (Scheepers, 1994: 51):

- *intake* phase: collecting personal information from the client and providing general information about rights and duties to the client;
- *investigation* phase: collecting and checking information from sources outwith the client and making reports and proposals for a decision;
- *decision* phase: testing with legal regulations and final decision about entitlement;
- *administrative* phase: processing and executing decisions, announcement to a client and payment.

The first two phases emanate from the front office and the next two, the back office. Virtual bureaucracy means introducing electronic data processing (EDP) and networking to the back office (our definition) and it had dominated public administration till the 90's (in Poland till roughly 1997). EDP is a general term for the software supporting administrative operations. It might include both working applications (functional automation) as well as complex Management Information Systems (MIS). However, building an information infrastructure based on well developed networks and shared databases is a contemporary need and prerogative of public institutions (King, Kraemer, 1991: 34 – 35). Consequently, virtual bureaucracy cannot be created without complete networking of entire information resources of public institutions, or without complex MIS supporting information gathering, processing, storing and disseminating.

What does introducing networks and MIS actually mean for bureaucracy? The principal facet is “the massive shift from linear, sequential processing of information to parallel, shared processing” (Fountain, 2001: 58). Networked computing has changed the flow of work, reducing and transforming traditional Weberian bureaucracy into virtual one characterised by (Fountain, 2001: 61):

- Information structured by information technology rather than people.
- Electronic and informal communication.
- Digitised files in flexible form, maintained and transmitted electronically.
- Cross-functional and empowered employees.
- Roles embedded in applications and information systems.
- Rapid or real-time processing.
- Constant monitoring and updating of feedback.

However, the above mentioned features refer to administrative procedures performed in the back office. The primary aim of virtual bureaucracy is to make the “production process” in public institutions more effective and coherent with organisational goals, in other words – to make the clerks’ lives easier. Until the 90's that was the prevailing development in electronic applications in public administration. Nevertheless, with governance trend and Internet's new value, inter-organisational cooperation and clients' involvement was introduced.



Recognising the principles of governance implies informing citizens and/or clients on public affairs and receiving their response to them. It means performing a deliberate information policy either through traditional media or by new methods, i.e. Internet. It also means delivering public services in a new, more comprehensive, up-to-date way. We recognise governance and Internet as the primary factors transforming virtual bureaucracy into e-government.

E-government is set up when electronic tools are introduced to the front office and this in practice, means the integration of the front office with the back office. In that way, all four phases of handling clients' matters in public institution are electronically supported. Networked databases within institutions allowed public servant to offer a wide range of information as well as enabling them to retrieve and modify citizens' documents, often in real time [Fountain, 2001: 26]. Integration of information might be followed by integration of services or public programs in the form of one-stop shops. However, one-stop shops require data standardisation that is difficult to achieve even in well-developed information societies. For that reason we would rather keep our discussions to means and results of data integration.

In the first instance of electronic applications, the aim of achieving a better-served client is accomplished through traditional MIS. However, this does not directly support the introductory phase of handling clients' matters. To handle this particular phase of direct contact between client and public servant, a Document Management System (DMS) must developed. From a technological point of view, DMS is one of many MIS applications. However, its *raison d'être* is considerably different, as well as the implications of its use.

DMS consists of application forms and information describing every possible matter within the competence of a public institution. Forms are filled out with data delivered by a client; meanwhile the system checks if information is complete and correct. Every incoming matter to a public institution has its electronic record. Every section of that record represents an element identifying the case and can be used to recover it. However, the basic element identifying the case is its unique number attached automatically by DMS. With this number a client can follow the administrative procedure for handling his/her particular case, possibly using either Internet or intranet in one of the municipality's information kiosks. Cases are automatically assigned to the appropriate department and responsible public servant. DMS can deliver a decision automatically if the case is a matter of routine. If it is not, computer only edits the decision made by the civil servant.

DMS supports not only information gathering, its processing, storing and finally delivering the decision to the client, but also manages thousands of documents and incoming cases to a public institution. Through its analytical

capacities, it enables instant feedback and constant control of the accuracy of the administrative procedures used. In particular, DMS facilitates:

- The undisturbed flow of documents between different units of a public institution;
- The clearing up of “bottle-necks” in the institution on the basis of statistics of cases handled by each unit;
- The containing of a client’s contact within an institution to one office;
- Making the performance of this office more effective;
- The standardisation of information flow between units of an institution;
- Making administrative procedures faster through the elimination of duplicate data input;
- The up-to-date control of handling clients’ affairs by decision-makers;
- The broad and direct access to information for all entitled public servants<sup>1</sup>.

The introduction of DMS usually results in a change of organisational structure. An office with its exclusive aim being to serve public administration’s clients is created and numerous public servants from various departments of an institution are assigned to work there<sup>2</sup>. The construction of the main office, as well as automated data flow, change the scope and character of public servants’ occupations both within the office and other institutional units. Furthermore, the main office is also a public institution information centre. However, neither considerable changes in the organisational hierarchy nor power shifts resulting from the application of information systems in public administration have been observed in the short term (Pawlowska, 1999: 152 – 153; Fountain, 2001: 12 – 13).

Still, we believe that considerable institutional alterations (flattened hierarchies, greater use of project/client oriented structures, more permeable organisational boundaries) will occur in public institutions if and when institutional intranets are hooked up with Internet to permit citizens’ and clients’ direct access to information resources. These information resources should not simply be information, but also electronic application forms and payments. Only in this way can the strengths of global network, i.e. de-spacialization and dis-intermediation be availed [Brown, Duguid, 2000: 22].

The starting point is an institutional website giving information on all administrative procedures performed by an institution, relevant to its clients. Comprehensive information on a public institution (structure, authorities) and

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<sup>1</sup> *System RATUSZ*, <http://www.otago.gda.pl>, 24.05.2000.

<sup>2</sup> *Centrum Administracyjne*, <http://www.krakow.pl/samorzad/centrum.html>, 6.11.2001; *Organizacja i struktura Biura Obsługi Interesantów*, <http://www.szczecin.pl/boi/struktural/default.htm>, 6.11.2001.

its activities (competencies, financing) would also be made available there. The next step is to place application forms on the website, that can either be printed and filled out manually or down-loaded onto the client's computer, electronically completed, printed and delivered to the public institution. However, with this method, neither de-specialisation nor dis-intermediation, happen. Both features are implemented when the entire contact between client and institution takes place in a "virtual space". This is only possible if services and transactions are brought on-line. To perform this type of e-government, three conditions have to be met:

- An information infrastructure must be developed to a point that it is accessible to all citizens – clients of public institutions (through personal computers installed at home or terminals placed in public sites);
- An information system of public administration developed to a point that it is able to deliver its services on-line (elaboration of a standard uniform communication method, integration of payment procedures);
- Relevant legal regulations that make documents in electronic format equal to paper copies (introduction of digital signature).

Services and transactions brought on-line are increasing in Poland. In 2001, Taylor Nelson Sofres (TNS) undertook a major global study focused on the impact of the Internet on government. E-government was defined as the use of government online at all levels (federal, state, local.). The average e-government usage across the general global population accounted for 26%. Of the 27 countries surveyed, Poland, with one of the lowest e-government usage levels, was ranked 22. The study revealed that only 5% of Poles have used the Internet to access government online over the last twelve months. In contrast, Norway has the highest level of e-government – 53%. The basic obstacle for e-government in Poland is the low number of Internet users, estimated from 9.06 to 20.8% of the population<sup>3</sup>.

Information systems are developed diversely in public administration. While local administration undertakes a big effort to push informatisation process forward, central agencies lag behind (Pawlowska, 2002). Although legal regulations have already been passed<sup>4</sup>, they have still not been implemented (as at August 16<sup>th</sup> 2002) and it will certainly take time to prepare the relevant infrastructure to make electronic signature "work". For those reasons, we prefer to present the

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<sup>3</sup> *How many online?* [http://www.nua.ie/surveys/how\\_many\\_online/europe.html](http://www.nua.ie/surveys/how_many_online/europe.html), 7.02.2002, *Wzrasta liczba internautów w Polsce*, <http://www.i-biz.com.pl/pribiz/pnewstext1.html?274>, 6.02.2002.

<sup>4</sup> *Digital Signature Act* passed on Sep. the 18th, 2001 and it is adapted to the Digital Signature Directive of the EU. Ustawa z 18 września 2001 r., o podpisie elektronicznym, Dz. U. Nr 130, poz. 1450.

advanced e-government project accomplished in Germany and then analyse successful examples of information policy and delivery of services with the support of electronic media in Polish local administration.

### **Advanced E-Government Project**

MEDIA@Komm is the German federal government's largest multimedia initiative. It is aimed at the creation of virtual town halls and virtual market places. Project initiators took into account that the first and closest contact between state and citizen takes place at the local level and that that level should be the first to avail of the advantages of e-government. The project is also a part of the federal government program *Innovation and jobs in the information society of the 21<sup>st</sup> century*<sup>5</sup>. 136 towns, cities and local communities undertook an effort to create their e-government projects in 1998. Three individual projects – Bremen, Esslingen and Nürnberg – were assessed as being the best. Implementation of projects started at the beginning of 2000, and this should be completed by the end of 2002.

“MEDIA@Komm is developing solutions which will enable legally binding services and transactions to be conducted on-line, without discontinuity of media between the public administration, citizens and businesses” [MEDIA@Komm]. Electronic transactions will be possible due to digital signatures stored on chip cards. Over 100 transactions are to be stored in the digital network for example: residential registration; vehicle registration; Technical Control Board registration; change of address; planning approval applications; registration and cancellation of gas, electricity and water with municipal utility companies; dustbin orders; birth, marriage and death certificates; copies from the family register and information about time of birth; application and delivering parking permits for residents; ticketing for public transport; calling up information from the trade register and trade registration; filling out debt collection applications; invitations for tender/award for contracts and downloading tender documents and many more.

Target groups of MEDIA@Komm project are varied:

- “local communities, as providers of public services for citizens and private business companies,
- local communities, as users of the digital signature in internal business processes,
- citizens, as users of public services,
- citizens, as users of the services of private companies (e-commerce),

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<sup>5</sup> *MEDIA@Komm - Focus Project of the Federal Republic of Germany for the Implementation of Virtual Town Halls and Market Places*, <http://mediakomm.net/index.phtml>, 20.11.2001.

- private companies and chambers of trade, as users of public services,
- private companies and chambers of trade, as providers of their own services and users of digital signatures” [MEDIA@Komm].

Through implementation of the MEDIA@Komm Project, the following goals should be achieved:

- more information,
- better communication,
- greater transparency of the administration,
- customer orientation,
- better accessibility for the citizen,
- faster handling of administrative procedures,
- efficiency and effectiveness in business and society.

However, apart from the goals concerning the delivery public services, there are considerable social and political objectives. MEDIA@Komm is expected to strengthen citizen participation and involvement through discussion forums and a town counsellor information system. Already throughout the process of designing and implementing the project, the network of partner relations between business, administration and citizens has increased. This innovation in local decision-making is expected to be carried out at other occasions in the future. Our assumption is that the digital network will further increase social networks, as it is based on data integration and unrestricted communication between partners (Fountain, 2001: 24 – 25). This is our argument for the earlier statement that introducing networking in public administration might change its organisational structure. However, considering the main theme of this paper, we will not deepen this discussion.

Participants in the project, i.e. German communities, were relatively uninhibited in designing the process of the project’s implementation. Communities based the implementation on different pillars or determined the different milestones of the project. For example, in the Nürnberg municipal association, three sub-projects were outlined [MEDIA@Komm ]:

- Cross-section projects – individual projects such as the platform, security concept, digital signatures, payment function, document management, user interface, regional on-line platform and proposals for standards for administrative procedures. The cross-section projects provide important services for all communal public-private partnership projects.
- Communal projects – the educational region, parking permits for residents, electronic support for the council, electronic house construction file, geographical information, residential register, information from the residential register, information from the trade supervision register, business registration, changes and closure, vanity vehicle numbers, on-line libraries, invitations

for tender, award of public contracts and public participation in communal construction planning processes.

- Public-private partnership projects – applications for the regional virtual market place, medical Intranet, support for business start-ups, on-line judicial practice, public transport tickets, company identity cards and the establishment of a local card operating company for the multi-functional chip card/bank card, access to the Internet not only via a PC, but also via TV sets and mobile appliances.

E-government implemented as result of the MEDIA@Komm Project is expected to bring about time and cost savings of up to 30% compared with present solutions, as well as increase the functionality and service quality.

To complete the picture of advanced e-government projects, we may anticipate the ultimate result as building a virtual town hall that delivers:

- information services (on-line calendar of events),
- interaction services (on-line service delivery),
- participation services (on-line citizens participation in projects of communal administration).

MEDIA@Komm is not the only e-government project – there are other numerous projects of this kind throughout Europe, North America and Australia. (For examples see: Porebski, 2001: 146 – 149). We merely estimate that MEDIA@Komm is the most comprehensive event concerning e-government in local administration of EU countries.

We – as citizens – would expect the same comprehensive projects for building e-government designed and accomplished in transitional states. Are they and their societies prepared for that kind of delivery of services and mutual relations between the administration and citizens? We will attempt to answer that question in the following part of this paper.

### **E-Government at the Local Level – the Polish Experience**

Evaluation of ICT usage within Poland's local government is based on basic data and secondary analyses. An important part of this study is the examination of a questionnaire mailed to 266 cities – members of the Association of Polish Cities (APC – *Zwiazek Miast Polskich*) in December 2001. We received 128 replies, which cover 48% of the total number of cities chosen for the survey. In selected cases (Szczecin, Sokołów Podlaski, Częstochowa) interviews with local officials and representatives of local institutions were carried out. Results of this study are not representative of the whole country but carry a clear message about the development of ICT in urban municipalities. 80% of the total number of city-dwellers in Poland live in the member-cities of the Association of Polish Cities.

By contrast, rural municipalities are still in the initial stages of ICT usage. For example, only about one-third of rural municipalities compared to more than two-thirds of Polish cities had web-sites in 2001<sup>6</sup>.

As e-government refers to any use of new information and communication information technologies (ICT), it is necessary to distinguish issues more related to democratisation and those focused on delivering public services. In this paper the use of ICT will be analysed with particular emphasis on these two dimensions.

### **Democratisation Initiatives with Information Technology**

Participation and consultations are the mechanisms for identifying and aggregating the will of constituents. Building them into the decision-making process can increase the support for governance. The OECD report *Citizens as Partners* announces that new forms of governance rely on better information, consultation and public participation as key elements for engaging citizens in policy-making (OECD, 2001: 12). The main questions to be addressed are how effective is the co-operation within a community and what is the role of ICT in local government development.

### **Opening Government Information**

From the local governments' perspective

Table 1 shows that billboards were the most frequent mechanism for dissemination of municipal information in APC cities. As many as nine out of ten cities spread information via local authorities' websites. The vast majority of municipalities (77%) communicate with citizens via e-mail. Less common were newspapers, local TV and radio.

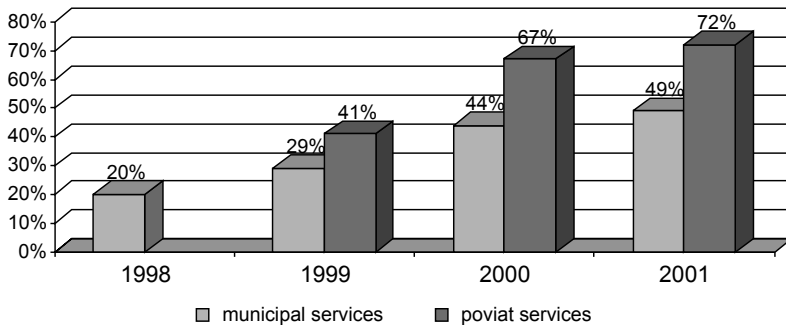
#### **Local authorities websites**

The majority of local administrations have an Internet presence with a website. The first research on local government websites was conducted by Krzysztof Głomb in 1998 and referred to the level of municipal authorities. In 1998 only 20% of municipalities had active websites. In 1999, new territorial units (poviats) were introduced into the administrative reform and among them 41% had their web services in the first year of existence. In 2000, the number of websites increased dramatically. However, this process slowed down in 2001. According to latest analyses, almost half of all municipalities (1220) have websites and 72% (267) of poviats.

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<sup>6</sup> Samorzady w Internecie – statystyka, <http://www.infoport.pl/content/fs/?dn=2%2C3>, 02.02.2002

**Figure 1.**  
**Percentage of Municipalities and Poviats with their own Website**



Source: Krzysztof Głomb, presentation at the E-democracy Conference, Zakopane, June 20 – 23, 2001, [www.miastawinternecie.pl](http://www.miastawinternecie.pl).

The differences between regions are considerable: while the largest percentage of municipalities with their own web site was recorded in the Opole region (93%), the remainder are 28% in Podlaskie and 26,5% in Łódzkie region<sup>7</sup> (Figure 2). On the whole, municipalities in the west and north of Poland have dominated the scene.

**Table 1**  
**Responses to Question on what Methods of Communication Exist Between Cities, Inhabitants and Local Institutions (N=128)**

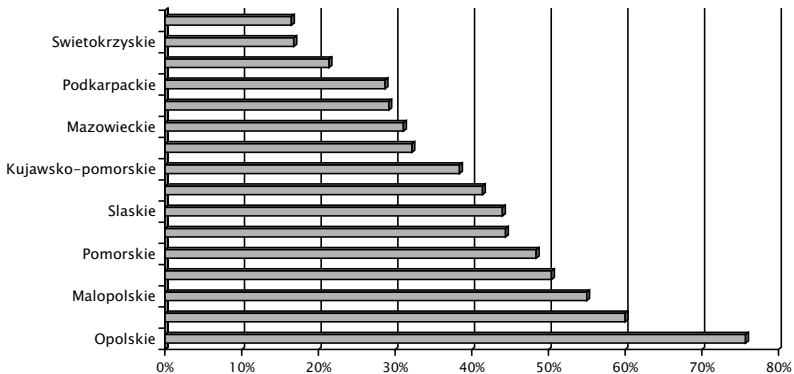
	Form of communication	Number of cities	Percentages
1.	Local councillors visiting hours	96	75%
2.	Executive board members visiting hours	80	64%
3.	A newspaper published or supported by local authorities	78	61%
4.	An independent local newspaper	93	73%
5.	Billboard in the office	123	96%
6.	Radio	88	69%
7.	TV	91	71%
8.	Web site	115	90%
9.	Electronic mail	99	77%

Source: Own calculations based on 128 questionnaires.

<sup>7</sup> Data calculated by Krzysztof Głomb (May 2001) – presentation at the E-democracy Conference, Zakopane, June 20 – 23, [www.miastawinternecie.pl](http://www.miastawinternecie.pl).



**Figure 2**  
**Percentage of Web Services Provided by Municipal Authorities**  
**(by regions in 2000)**



*Source: Login, Samorządowa Internetowa Sieć Informacyjna, Municipium S.A., Tarnów 2001.*

Local authorities tend to benefit from www presence in various ways. Web services allow local officials to promote their municipality, attract domestic and foreign investors, and communicate with citizens. But still, most of the websites run by local authorities are static and provide basic information about a given municipality, local authorities and their activities.

The vast majority of surveyed cities place investment offers and tourist information on their websites. Data presented in Table 2 confirm the assumption that in the first stage of website development, local authorities focus foremost on promoting and attracting investors. Councils' resolutions, highly important for local citizens, may be found in 64% of surveyed cities. Less common are city budgets and development strategies, which can be found in one out of two cities' websites. The least popular is information about the local environment and local spatial plans.

From the citizen's perspective

In August 2001 SMG/KRC conducted a survey of 1000 citizens on their opinions on local administrative staff performance in the field of information policy (SMG/KRC, 2001). Those interviewed in the course of this study stated that they consider local newspapers, local TV and radio as the most important source of municipal information. After the media channels, talking to friends and acquaintances was the best way to obtain information about local authori-

ties' activities. Less important were advertisements in offices and local authorities' websites. As for the latter, only 16% of respondents admit that municipal web pages are an important source of information on local authorities compared to more than 70% declaring local newspapers to be the most vital source.

**Table 2**  
**The Content of Poland's Cities Websites (n=123)**

		<b>Number of cities</b>	<b>Percentages</b>
1	Resolutions of local councils	79	64%
2	City budgets	66	54%
3	Development strategy	65	53%
4	Information about local environment	43	35%
5	Tourist information	108	88%
6	Investment offers	113	92%
7	Spatial plan	27	22%
8	Real estates offers	100	81%
9	Tendering for services and products	76	62%

*Source: Own calculations based on 128 questionnaires.*

However, studies from other countries indicate that the websites of Polish cities have the potential to become a significant source of municipal information. For example, in Sweden an average of 22% of those who had access to the Internet visited municipal websites during September 2000 and March 2001 (Rosén, 2001: 3). This is the highest figure by far for the websites of public authorities. By comparison, only 4% of Swedes visited websites set up by county councils or regions.

### **Interaction between Local Authorities and Citizens**

If the point is that good governance requires the engagement of citizens in policy making, then the flow of information in one direction from government to citizens is not sufficient. The essential issue is whether local authorities receive feedback and analyse the citizens' opinions. In an APC survey, more than half of responding cities carried out some sort of questionnaires, ballots or polls either by means of external firms (29%) or within own resources (56%). Other ways of finding out people's needs are: monitoring of the press, phone calls and e-mail contact. Almost in every third municipality there are meetings with inhabitants. In some cases, consultation with citizens in the form of group meetings is carried out. The latter refers to the implementation of projects, which considerably affect the local community. For example, the success of Elk pro-environment investments results from the wide participation of inhabitants in discussion groups focused on ecological issues.

As for on-line questionnaires, ballots or polls, only 26% of cities use this form of interaction for receiving feedback. Other Internet enabled applications like chats or discussion fora are becoming popular in a number of cities. An interesting initiative was launched in Lublin. Thanks to a special ‘chat-service’, inhabitants can discuss issues with local authorities. Every day, from 2 to 3 p.m. one may contact a member of the executive or deliberative body of Lublin authorities.

### ICT in the public service delivery

The approach *Let us know what is good for you* (Lips, 1998: 329) allows inhabitants to voice their opinions. It strengthens democracy, but at the same time it facilitates the provision of services. Without the recognised preferences of their constituencies, local authorities cannot fulfil its inhabitants’ needs. Therefore, in many countries the objective of public administration reform is to organise public service delivery from the perspective of the citizen, i.e. the demands and needs she/he wants.

Looking at the goals and visions of public service delivery with the use of Internet-enabled technologies, we might ask to what extent these objectives are put into practice and what kind of changes are actually taking place. It is very likely that in the near future one service counter will replace the traditional fragmentation of bureaucratic administrations.

For this purpose, administrations will be reorganised into a separate front office where public services will be offered and a back office where policy development take place. ICT should be particularly used in public service delivery where paper-based functions can be easily automated and duplication and fragmentation of data can, to some extent, be reduced within functional policy areas. Benefits of receiving government services via the Internet are efficiency, time-saving, cost-effectiveness, convenience and speed. Research indicates that Polish cities are embarking upon offering some on-line services.

**Table 3**  
**On-Line Services Offered By Cities**

		Number of cities	%
1.	Downloading forms	44	36
2.	Possibility of sending back forms to the office	22	18
3.	Consultations on handling an issue	33	27
4.	On-line services will be implemented in the near future	22	18

*Source: Own calculations based on 123 questionnaires.*

In more than one-third of the surveyed municipalities, citizens can download different forms via the Internet. However, only in one out of six APC cities, can

clients send forms back to the office. It is worth noting that the practical realisation of this function will be possible when the electronic signature law comes into force. Only 27% of surveyed municipalities provide on their websites the information on how to deal with given matters.

### **Hierarchical and Horizontal Co-Ordination**

Another barrier to a broader use of ICT within public administration was the relatively decentralised approach that has so far been adopted. This has led to little standardisation or integration of systems between ministries, departments and to numerous problems of incompatibility. The same problem affects information systems of local administrations. In many local authorities, there are a number of register and data retrieval systems. As a result, such systems cannot guarantee an effective exchange of data.

Equally fundamental to top down is the horizontal co-ordination of the flow of information. An e-mail system would break through the traditional boundaries of different, vertically organised government departments, and stimulate horizontal communication. The resulting electronic 'spider web' could lead to more information sharing between government organisations. In the survey of Polish cities, 75% of respondents acknowledged that they use email to contact and send information within the office. As far as Intranet is concerned, it operates in almost every other APC city. In the study of municipalities from the Małopolska region, Jaworski-Grzanka (2001: 100) expresses the opinion that internal networks are not sufficiently used and that there are no effective regulations to improve internal document circulation.

### **Case Studies**

#### **Szczecin – The Best Practice of Making Budgetary Information On-Line**

Szczecin, inhabited by 420,000 people, is the capital of the *Zachodniopomorskie* region. Local democracy in the city is based on the full disclosure and transparency of financial management and a dialogue between citizens and local government. Szczecin's authorities are aware that unrestricted public access to the information is a foundation for local democracy and therefore consequently pursue the principle of full disclosure and transparency of municipal financial management. In particular, this refers to the budget planning and controls process. In ten years, local authorities made a tremendous shift, from unrestricted information about finance to a situation whereby information is available to citizens and local authorities in the same scope.

Under authoritarian rule, information about city management procedures was constrained. At the beginning of the 90's, budget resolutions were available only

to the top municipal management. Since 1998, a programme of full disclosure has been implemented. In effect, continuously updated, analytical budgetary and property data are available in printed and electronic versions. A significant evolution has come about in the forms of publicising this information – commencing with the traditional, printed-out materials through electronic versions published on the city’s Internet website: *www.szczecin.pl* .

Szczecin won the prize of the “golden @” (the best www site) – competition organised by the association “Cities on Internet” in 2001. Szczecin on-line service provides very accurate and broad information on the overall performance of the city, on finance and local law, and includes the possibility for inhabitants to voice their opinions. But Szczecin’s remarkable achievements are the result of very transparent and effective information on the city’s finances.

Szczecin City’s website on its finances was launched on 26 February 1998, publishing the city budget for the first time ever in Poland. Apart from full disclosure of procedures in the decision making process, resolutions taken by the City Council and City Executive Board, the website provides a wide and unrestricted public access to budgetary data. These include: budget project and the budget itself, budget reports over the last year, multi-year capital improvement programme, a list and the value of updated communal stock property, monthly publication of budget performance reports, evaluation made by rating agencies and an evaluation carried out by the Regional Auditing Agency. During 50 days in the fall of 2001 over 3500 visitors have visited the financial services on-line. An interesting fact is that citizens have become accustomed to having such documents as the city 2002 budget project or a list of municipal property being published on the website before these documents are actually printed.

Publishing a local budget in itself can say little about where the local funds will go and how the local community will benefit from the budget implementation. Therefore information about finance is provided in an easy to understand manner. Since 1994, the city has published brochures informing citizens about the financial situation of the city, which are delivered to every Szczecin family. What is more, brochures describe local finance comprehensively and with a good deal of humour, making financial issues understandable to the average citizen. Since 1995, information on the city finances has been distributed on CD-Roms and from 2000 in the form of budget cards. For those who do not have access to the Internet, the City provided multimedia kiosks.

Szczecin citizens also have the possibility of consulting and assessing the city authorities’ decisions. Local authorities encourage citizens to voice their opinions about the city budget, its development strategy and major local events. For this purpose officials use both on-line and off-line questionnaires and polls. As for electronic delivery of services, due to the implementation of DMS, inhabitants

are offered on-line services such as registering businesses, electronic circulation of documents and a register of matters system.

### Sokołów Podlaski – from Tiny Website to 24 Hour E-Services

Sokołów Podlaski, with a population of almost 20,000 inhabitants, is situated in the eastern part of the *Mazowsze* region. The town is a seat of municipal and *poviat* authorities. Evaluation of ICT usage by the municipality of Sokołów Podlaski was carried out between June 2001 and February 2002. This included interviews with local politicians, officials, journalists and entrepreneurs.

In the spring of 2000, the Town Executive Board decided to create its own website. The Mayor of the town, Zbigniew Karakula, when asked what the critical factor was for launching a website, said: “Time has changed, we live in the XXI century and there is a need for this kind of undertaking”. Initially, *www.sokolowpodl.pl* provided basic information about the town, local authorities and their activities. A year after its launch, the website won the prize “golden @” for the best in the category of small towns and municipalities. An interesting fact is that this success is mainly the result of the work of one person – the webmaster of the office. Hardly had the web site been given this award when officials, local institutions and neighbourhood municipalities manifested more involvement in enhancing this service. Furthermore, much vigorous involvement in providing the contents of the web site indicates that young people become involved, but that they very often quickly give up. However, not everything was a success from the beginning. For example, a discussion fora was created but was used to make fun of or to disseminate vulgar words.

Nevertheless, the web site was constantly updated and became a crucial element in improving the provision of services. Apart from putting into practice ISO 9001:2001 the on-line service fosters the accomplishment of its strategy *Municipal office friendly to the citizens*. However, a new standardised system of quality in administration has aroused criticism and controversy amongst some local journalists. In spite of this, the implementation of ISO has had a positive influence on on-line services. Thanks to ISO, it was easier to elaborate on procedures and involve all officials to work on the e-service project. Finally, not all interviewers are satisfied with the way municipal information is distributed but even the strongest opponents of local authorities admit that the website is a remarkable step towards the transparent and effective work of local authorities.

### Conclusions and Recommendations

As a result of ICT applications, the communication relationship with government has become more flexible from the citizen’s point of view, providing more opportunities for contact with government about public services and information.

However, taking into account the various developments, the rate and the extent to which ICT is actually bringing about changes in the relationship between government and citizens, is limited. Therefore the revolutionary renewed public service delivery does not seem to be happening and it is difficult to determine the effects that ICT will finally have on the relationship between local authorities and citizens. We may conclude that electronic democracy and service delivery is still in its infancy.

There is no other way out but for local authorities to continue their use of ICT. Polish local governments must enhance the services they already have, make it user-friendly and easier to access the appropriate information. In order to achieve this, the goals should be clarified. First of all, local authorities should ensure that on-line government information and services are fully accessible to all that wish to have this. As for managing information, they should undertake all efforts to ensure that it is current, accurate, understandable, trustworthy and available in a timely manner. It is clear that trust is a key issue that must be resolved before e-government is widely adopted.

Undoubtedly, local authorities' efforts in applying ICT must be supported by central government actions and programmes. In the second half of 2001 Poland, adopted several vital legislative measures, programs and strategies strengthening access to public information and the use of ICT. These include the law on public sector information, law on electronic signature and The Action Plan for the Information Society Development in 2001 – 2006 (E-Poland strategy). But whether the adopted measures guarantee truly effective access to information and contribute to the creation of a knowledge economy and effective e-government is debatable.

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# THE ROLE OF E-GOVERNMENT IN THE DEVELOPMENT OF THE NEW ECONOMY IN LITHUANIA

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This paper deals with the application of an e-government framework in Lithuania and the potential role of e-government in the development of the new economy there. It is not only concerned with the way an e-government model can be adapted to Lithuania, but also clearly explains its potential impact on society's life, the business sector and its economy as a whole.

## Introduction

In the 21<sup>st</sup> century, information is becoming the main driving force behind the development of every field of human activity. It brings the scale of economic values together with capital, technology and the workforce by partially replacing materials, energy resources and labour. Possession of information and knowledge is becoming the principal factor for the growth of the economy and the creation of values. Together with the stabilisation of principles and the processes of the new information economy, society's ability to create knowledge and to use it for any process and activity has the potential to become the base for development in Lithuania.

For Lithuania, as a small country with an open economy and limited resources, the improvement of the level of society's knowledge; the establishment of a favourable business environment; the development of an advanced infrastructure; the restructurisation of the national economy and the attention to knowledge and innovation are of crucial importance.

The public administration sector is being constantly criticised in Lithuania as happens all over the world: taxpayers everywhere want to see an efficiently functioning and less expensive executive power. The wish of Lithuanian citizens is expressed more clearly as the bureaucracy and the style of work inherited from the former Soviet Union times can be still felt in society.

The improvement of services and culture is already visible everywhere: in banks, insurance companies, even trade centres – accomplishments that public institutions cannot boast yet. People still wonder why bureaucratic public institu-

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tions cannot solve their problems, why they have to visit several institutions in order to receive information and why they have to make so many phone calls to have their problems solved.

The performance of public institutions in Lithuania raises serious doubts. Very few people have any trust in them or in the effective use of their resources. The Government established the Sunset Commission, which set out public administration reform guidelines in order to solve these issues and outline certain public administration rules.

Therefore, the driving force of e-government might be the application of business management for public administration purposes and the use of modern information technology for effective information management and the establishment of improved relations with consumers, partners and suppliers. These public administration reforms could also help to initiate decisions and their implementation, co-operation between citizens and the government and implement transparent management and proper accountability. The application of e-government as a new business model for public administration will also provide Lithuanians with the opportunity to co-operate and work with public institutions at any time and anywhere. Establishing public sector services and programs online, as well as public procurement is direct promotion for the competitiveness of e-government in the business sector.

At the moment, e-commerce promoters define the shortage of on-line purchases and lack of users as key reasons for precluding the development of e-commerce. Lithuanian online information is rather scarce: even some of the companies that have web pages do not renew the information they contain on a continued basis and it therefore quickly becomes useless.

Therefore, a vicious circle commences. A relatively small number of users do not promote e-commerce and, on the other hand, slow business does not produce more users. The implementation of the e-government projects would create the Internet services that would facilitate easy access to public institutions. Soon there would be a relatively large number of users willing to receive government services via digital channels and become familiar with these services along the way.

It is reasonable to suppose that Internet users and receivers of government services online would soon expect to receive the same quality of services from businesses. This would mean a sizeable increase in the number of customers and the demand for Internet services. This increase would lead to e-commerce growth and a supply increase. It would encourage those who do not have a computer to purchase one and begin using e-commerce services. In this way the vicious circle could be broken.

## **E-government and e-governance in Lithuania.**

E-government is the ability to obtain government services through non-traditional electronic means, enabling access to government information any time, any place. The emergence of e-government offers the potential to reshape the public sector and build relationships between citizens and the government. It can be also described as the way for government to use the new technologies to provide citizens and businesses with convenient access to government information and services, to improve the quality of the services and provide greater opportunities to participate in the democratic institutions and processes.

E-government can improve the quality of government and citizens participation in it in four important ways:

- it can facilitate citizens having their say in government;
- people can receive improved services from government organisations;
- people can receive more integrated services because different government organisations are able to communicate more effectively with each other;
- people are better informed because they are able to receive up-to date and comprehensive information about the government laws, regulation, policies and services.

E-government brings administration closer to citizens and businesses through the use of the Internet. The electronic public administration can make a major contribution to accelerating the transition to a knowledge-based economy in Lithuania by stimulating access to and use of basic online government services. Furthermore, by contributing to a transformation of the organisation of the public sector, e-government can improve public services making them faster, as well as more accessible and responsive.

Business in Lithuania, as an EU Candidate country, can also benefit from a lesser administrative burden which, can therefore contribute to efficiency and economic growth. Even more importantly, a more transparent and interactive government would also stimulate the participation of citizens in the democratic process.

The changeover to electronic interaction involves major changes to the internal workings of administrations, which can be complex to manage. The challenge for the administration is to adapt itself and introduce innovative ways of working, including proper and stable partnerships with the private sector. (eEurope+ Action Plan 2001)

Lithuania, as an EU Candidate country, should recognise the importance of improving access, dissemination and exploitation of public sector information and ensuring that citizens have easy access to essential public data, as well as promoting online interaction between citizens and the government. The govern-

ment of the country has to understand that the exchange of good practices with EU Member States in this area is of the utmost importance. Participation in European conferences and workshops as well as the association with the existing working groups to benchmark progress on bringing basic public services online, could further enhance collaboration and exchange of best practices. (eEurope+ Action Plan 2001)

In every e-government system, four different groups of possible clients should be considered: the government itself (G2G), the employees (G2E), the private sector (G2B) and citizens (G2C). As mentioned above, one of the most promising aspects of e-government is its ability to bring citizens closer to their government. While the technology to facilitate this connection is widely available, many government sites in Lithuania have not taken full advantage of its benefits. Enabling conversation between citizens and government is not the only way to bring citizens and government closer together. Making government more easily accessible is another component of this endeavour. There are a few features that make this possible. One of them is the ability to search a particular web site. Another is to offer live broadcast of important speeches through the web. Another way is by enabling citizens to adapt available information to their particular interest.

The benefits of e-government integration can be described as follows:

- lower costs as well as improved efficiency and quality of service;
- more effective linkages between citizens and government;
- improved efficiency of government workers;
- facilitated transparency and accountability.

Table 1 demonstrates what types of services are currently provided both by the government and the public institutions of Lithuania.

In Lithuania, with a transition economy, the concept of e-governance is extremely important. While e-government is the application of IT to the process of government and is usually defined as digital information and online transaction services to citizens and businesses, it however, represents a broader concept. It does not simply mean the transfer of existing procedures to an electronic medium, but implies a new definition of and approach to public governance. The e-governance concept represents a new paradigm shift to the new information age.

The application of e-governance implies the action of the State and its agencies at two levels: the promotion of information and communication technologies, particularly e-commerce, and the adoption of these technologies for the establishment of open systems for the government, citizen interaction and development. The developing countries and the economies in transition require not only a policy and legal framework for e-commerce, but also the resources and infra-

**Table 1**  
**Examples of Current Online Services provided by the Government of Lithuania and Public Institutions.**

<b>Institution</b>	<b>Online services</b>
Economic information centre	Information on customs tariffs in Lithuanian Republic
Lithuanian development agency	Information for exporters and investors
National service of Geodesy and Cartography under Government of Lithuanian Republic	Geodetic and Cartographic Control Information System (GCCIS)
Department of Cultural Heritage Protection	Information about the most attractive investment objects of cultural heritage
Ministry of Economy of Lithuanian Republic	Information on the bankruptcy process, auctions and property on sale; Import, transit and export control system of strategic goods and technologies
State Tax Inspectorate under the Ministry of Finance	Information on VAT payers Information on enterprises not registered Information on accounting blanks
Customs Department under the Ministry of Finance of Lithuanian Republic	Information on the queue of vehicles at the Lithuanian border
Lithuanian Standards Board	Standards catalogue
Certification Centre of Building products	List of certified products
Department of Statistics under the Government of Lithuanian Republic	Main statistic indices of social and economic development of the country; Forms of statistic reports; Statistic indices, published in Informaciniai pranesimai Statistic classification Statistics-analysis system Information on economic subjects registration, etc.
Lithuanian Development Agency for Small and Medium Sized Enterprises	Business information resources
Inspectorate of Territory Planning and Construction under the Ministry of Environment	Information on design and construction companies
Law Information Centre	LITLEX base of judicial acts
Lithuanian State Department of Tourism	Data of State tourism services registration Tourism information about Lithuania in English
Ministry of Foreign Affairs of Lithuanian Republic	Consul information
Ministry of the Interior of Lithuanian Republic	Search in the database for : - potentially stolen vehicles; - invalid identity documents; - wanted criminals.

structure. They also require a commitment to transparency, citizen participation and democratic functioning. All these needs can be satisfied by the successful implementation of an e-governance model.

The conception of e-governance in Lithuania was created with reference to the European Commission initiative “e-Europe 2002 – Information society for all” published on the 19<sup>th</sup> of June 2000. This was the concept of Development of a National information society accepted by government on the 28<sup>th</sup> of February 2001; the UK initiative “E-Government: a strategic framework for public services in the Information Age” as well as other countries’ conceptual documents describing the trends for the development of e-government.

According to decision No. 164 of the Lithuanian Prime Minister, dated 18<sup>th</sup> April, 2000, a working group was created in order to prepare the concept of e-government and public Internet pages. The concept of e-government was created by the Information Society Development Commission and submitted to the Prime Minister on the 20<sup>th</sup> of April 2001. The programme identifies the measures that have to be implemented at the highest state level. Every sixth months the Co-ordinator of the Commission has to report to the Strategic Committee and to the public about the development and implementation process of e-Government projects. The government of Lithuania in the short term has to analyse, adjust and approve this.

The Lithuanian version of E-government gives a brief outline of strategic guidelines on the nature of changes in the public administration sector once the business management model and IT have been applied and utilised. When creating this concept in Lithuania the centralisation principle was omitted. It is oriented towards the creation of many discreet and autonomic projects, but not to the large one. This is in order to solve several problems such as:

- the smaller projects are easier to manage, whilst Lithuanian specialists lack the expertise in large projects management;
- the smaller projects can be implemented in a shorter timeframe;
- the realisation of every small project will give partial functionality. Therefore, the results will be seen almost immediately. This will increase the trust in the process and the motivation to continue it.
- the failure of separate projects will bring relatively low financial losses and will not deter the total process.
- it will be possible to compare the effectiveness of the separate projects;
- it will be possible to distinguish between the successful and unsuccessful institutions and executors.

The implementation of e-government and e-governance projects should bring vast changes to the existing life style of public institutions. The experience of

other countries clearly shows that changes such as these cannot be implemented without the political will and the necessary structures which co-ordinate these changes.

In Lithuania, to co-ordinate these projects a special co-ordinating institution should be established which would have sufficient political support to pool the existing and find new resources for the implementation of the goals set. E-government projects have an inter-institutional dimension and are applicable to all public institutions and therefore cannot be efficiently carried out by one ministry alone. Participation of business in the development of this concept and its further implementation is one of the most important factors for its success.

The possible participation of Lithuanian commercial organisations in the implementation of the e-governance project could take the following form:

- delivery of services directly or through co-operation with public institutions. This includes commercialisation of public services, such as the adjustment of a basket of services to special needs and creation of value added;
- showing an example of good practice to public institutions through the introduction of e-business models;
- co-operation with public institutions by creating an infrastructure and services for their needs;
- joint work in implementing e-government projects.

E-government in Lithuania is implemented at two separate levels that basically differ in the implementation of the execution mechanisms, the necessary funds and the performance. However, the implementation of one level regardless of the other would be ineffective or even impossible.

The levels of e-government implementation are as follows:

1. The computerisation and integration of public institutions information. The information system(s) for the effective use of information available must be put into place. The next step is information integration between institutions. Lithuania has made significant progress in the above-mentioned area. The majority of public institutions has been computerised and now uses various databases. Institutions usually have a local area network and through the computer network of public institutions have the possibility to exchange data and access the Internet. Some institutions have already installed workflow systems within the framework of the VADIS project, whilst others are still in progress. On the other hand, there have been no standard data exchange procedures or protocols so far; the security requirements of computer networks have not been met and the integration of the databases in various agencies is still lacking. It all precludes the wider use of information management. (E-government Concept Development Task Force 2001)



2. The delivery of services for consumers via digital channels outside the institution. The system interface must be developed to give access to all the necessary public information for either a company or a citizen and would allow for placing an order online and/or receive Internet services. This field is still a novelty in Lithuania. So far, the use of Internet has been focused on the information aspect only. Internet services are still very rarely used. Nearly all government services on the Internet are free of charge. However, the mechanism of links with customers (delivery of services) and suppliers (e-purchases) must be developed soon. The execution of the same services model will give rise to security and identification problems (Public Key Infrastructure), which are essentially a new kind of difficulty in the contacts between public servants and customers, and the need for reducing state involvement in addressing service delivery issues. (E-government Concept Development Task Force 2001).

In order to establish the basic principles of e-government in Lithuania, the development of a national integrated information system and the exchange of electronic documents between state and municipal institutions must be intensified. Every citizen and enterprise should have the opportunity of receiving personalised and client oriented public sector information and services through Internet. It is important to create the public sector information portal as a non-stop access point to every public institution and service.

Public servants must acquire a good understanding of information technology, new knowledge and skills as well as business and project management experience in order to successfully implement an e-government framework in Lithuania. Furthermore, attention has to be paid to the situation of the local administration units.

The assessment of information technologies in Lithuanian municipalities, sponsored by the Open Society Fund, showed that the number of computers used in the Lithuanian municipalities has increased compared to four years ago. Moreover, new local computer nets have been created, the municipalities have begun to create their own websites and the number of Internet and e-mail users in the municipalities has also increased significantly.

However, results of the same research also indicate that there are still many problems to be solved. First, most of the municipalities in Lithuania do not include IT development in their strategic planning. Prioritisation of IT development is mainly at the technical and technological levels. Furthermore, the information infrastructure of Lithuanian municipalities is rather weak. Only 15,3% of municipalities' personnel have the possibility of using local networks and insufficient attention is paid to the security of the networks. Only 26% of municipality personnel have personal computers in their work place and only

10,8% of municipality personnel have the possibility of using e-mail. Development of information systems is also slow: they have only been wholly introduced in 5,9% of the relevant municipalities' work places. The aspiration for an electronic democracy, the provision of electronic services and the creation of the information systems are hardly noticeable. Information systems are primarily used for the solution of internal tasks. Therefore, it is of vital importance to take into account the real situation in the local municipalities and prepare strategic solutions based on this. (Adamonis 2001)

The implementation of e-government projects will not be effective if a portion of society is unable to access government services. This situation will remain as long as part of society is not computer literate or unable to access the Internet. In order to ensure that the entire population has access to the Internet, it is necessary to focus on group access – to connect all libraries, schools and municipalities to Internet and to install public terminals in the near future. Attention must be focused on remote and specially supported regions. The information and telecommunications market must be completely liberalised according to EU principles, encouraging the services to increase quality and availability at cheaper prices.

The IT sector is one that is fast growing in Lithuania. During the period 1995 – 2000 it grew at an annual rate of 17 %. Although due to an economic slowdown, the IT sector decreased by 15.2 % in 1999, it is expected that in 2000 the growth rate will be 15 – 20 %. According to the INFOBALT association, in 1999 the total value of the IT market was USD 239 millions, and that of the telecommunications market – USD 568 millions. (The National Development Plan for 2001 – 2003, Republic of Lithuania, November 2000)

The SWOT analysis of the IT sector in Lithuania is shown in the Table 2.

Despite the fast growth in recent years, Lithuania is lagging behind in the IT sphere compared to the EU Member States, Estonia and Latvia. There is a risk that accelerating IT development will widen the IT gap between Lithuania and other countries.

In 2000, the number of personal computers was estimated to be 260,000, whereas the number of computer users was estimated to be 540,000. The number of computer users increases by an estimated 50 – 60,000 each year. It is estimated that in Lithuania, 100 users share 6 computers and 4 % of the residents are Internet users, compared to 6 % in Latvia and 21 % in Estonia.

The IT gap is particularly evident in public schools: 76 pupils share 1 PC in Lithuanian schools, compared to 10 pupils in Western Europe, 28 pupils in Estonia and 47 in Latvia.

**Table 2**  
**SWOT Analysis of the IT Sector in Lithuania**

<b>Strengths</b>
Well developed infrastructure of communication and data transmission network in the cities High percentage of students in the IT field Cheap and professional IT labour force
<b>Weaknesses</b>
Small percentage of IT users among Lithuanian population Weakly developed IT infrastructure in the countryside Relatively high price for Internet access IT teaching base is insufficient in secondary and high schools Shortage of qualified IT specialists Slow development of E-business Shortage of public access to Internet Slow data interchange (transmission) Insufficiently developed IT as economy sector Unsatisfactory functioning of State information system and registers Low computer literacy of public and municipality servants Almost impossible to get government and municipalities services using IT Shortage of IT regulatory base Data security problems
<b>Opportunities</b>
Rapid growth of IT sector Growth of demand for e-business Use of e-signature Decrease in hardware and software prices Export of IT services Attraction of foreign investments Broader application of IT in the business, public administration, education and other spheres
<b>Threats</b>
Brain flowing Diminishing opportunities to compete in the European and world markets Threat for the Lithuanian language, cultural identity

Computer science and IT specialists are currently being trained in at least six universities, in several colleges and professional schools. The University of Vilnius and the Kaunas University of Technology (KTU) have the longest traditions in this respect. Lithuanian universities score better in terms of PCs per student, but business surveys illustrate that graduates from Lithuanian universities have a shortage of IT skills.

Data transfer networks cover the entire Lithuanian territory. The communication capacity accessible from every phone is up to 2 MB/s. Both local call and Internet charges are applied to Internet users.

High Internet costs are hindering the development of IT services and technology. This is illustrated by the fact that Lithuania is lagging behind in terms of the number of domain names (or devices connected to the Internet): there are 16,265 domain names in Lithuania, compared to 33,286 in Estonia and 19,724 in Latvia. (The National Development Plan for 2001 – 2003, Republic of Lithuania, November 2000)

There are 7 Internet service providers and several backbone Internet providers (LITNET, VIKT, Delfi, Omnitel, Lithuanian Telecom, Eunet, 5ci) in Lithuania. The number of secondary Internet service providers is estimated to be about 23, but this figure is subject to constant growth.

The qualitative connection to the information and telecommunications networks for each individual and business in Lithuania at affordable prices is one of the basic preconditions for the development of the information society. The existing price for the Internet connections is too high for individual users and even for municipalities, as well as for small and medium size enterprises. Therefore, access to the Internet information resources is still unsatisfactorily used.

Moreover, it is necessary to increase the level of Internet security. The State must eliminate the existing legal loopholes and must encourage fair competition in the provision of Internet services. It is important to establish Internet regulations in order to ensure protection of the information resources according to the security requirements for information systems.

## **Results and Conclusions**

The changes brought about by implementation of e-governance projects in Lithuania and modernisation of the public administration will be very significant. The application of information technologies and their use will drastically change society's understanding about administration, the ways and means of control, the ways of reporting results and the assessment of the efficiency of staff work.

The changes in understanding will strongly influence private and public institutions. These changes will be significant both in the client service field and the information management and decision-making areas.

The potential role of e-government in the development of the new economy in Lithuania can be well described by the changes for the society, business and the public sector.

The changes for citizens. The downturn of prices for using the Internet and hardware/software and their availability will quickly change the lifestyles for

many people. New services will be offered and existing services will be delivered using new methods. The correct application of information technologies will allow the establishment of:

- improved access to information and services;
- improved delivery of services via different channels (over the counter, via call centres, online, etc.);
- distribution of services according to market demand by responding to the needs of various target groups;
- more efficient reaction to clients' remarks concerning the quality and content of services;
- grouping of services according to life cycles and general events;
- involvement of users in the restructuring and improvement of services.

The application of information technologies and emerging possibilities to deliver government services via electronic channels will open up avenues towards better customer service. The necessity to go to and wait in queues at a public institution will no longer be necessary. It will no longer be necessary to adhere to the working hours of various public institutions as the services will be delivered round the clock, seven days a week. Citizens will have access to services from public institutions at a time and place that is convenient to them. These are some of the possibilities that will be opened up using Internet.

### **The Changes for Public Administration**

E-government is, and will remain, a tool for the implementation of public administration reform. Its ideological foundation is orientation towards the customer and application of business models in the daily work of public institutions.

More transparent public administration, the personal responsibility of civil servants, a clear-cut reporting system and transparent decision-making mechanisms – all these are just a few examples of the benefits directly related to the administration.

The implementation of e-government projects will allow public administration to introduce significant structural changes. Administration's structure will change and better quality services as well as higher production capacities will be demanded from public servants. The implementation of the projects will avoid an increase in payment funds for staff.

The implementation of the projects will be a great challenge for the public administration sector. Inevitable difficulties may emerge in the fields of changing models of decision-making, insufficient skills, and the problems of creating an information and communication infrastructure. Public institutions will have to closely co-operate with the private sector by creating business models, infrastruc-

tures and by providing services to end-users. These goals will demand substantial public investment. Project financing will require finding new alternative financial models, especially with a view to involving businesses into co-operation with the public sector. The public administration sector will be required to put much effort into adjusting to all these changes but the results achieved should more than pay off the efforts and the resources invested.

### **The Changes for Business**

Implementation of an e-government framework in Lithuania will create new possibilities to raise the efficiency of business-to-government communication. The aim will be to increase communications between businesses and governmental institutions via Internet as much as possible cutting down time wasted as much as possible.

However, these changes will demand new challenges in the business world. Information technologies will change the business environment – the principles of work organisation, understanding of teamwork and the methods for reaching a customer and ways of purchasing goods. The notion of “production” in many cases will also change.

The implementation of an e-government model will increase the demand for services offered on the Internet in Lithuania. Customers will assess the quality and convenience of services delivered via the Internet and will demand better quality, new thinking and additional investment from those sectors of the Lithuanian business community that offer services on the Internet. European and American business has already gone through such changes and have become accustomed to it to a lesser or greater extent. This can be a difficult challenge for Lithuanian business, though reorientation results will allow participating in global markets for goods and services in a simpler and more efficient manner.

Moreover, the introduction and promotion of Internet-based services by the government provide opportunities for collaboration and joint projects. The commitment of the government and the provision of funds for this purpose will send positive signals to investors in IT and e-commerce. When it extends to procurement, the benefits to businesses will be very significant. The government promoting e-governance will also promote e-commerce in terms of the infrastructure (telecommunications and connectivity), e-literacy, e-services and an e-friendly framework for e-commerce as well. Therefore, this will encourage investment in e-commerce and the infrastructure required for it as well as helping to create a better environment for business and trade competitiveness in the new information economy.

Finally, the greater the use of information technology by the public sector, the more conducive the national environment will be to the development of e-

competency within the business sector. The implementation of an e-government model would contribute directly to Lithuania's international competitiveness. Government services are expected to become more easily and quickly accessible. The implementation of e-government and e-governance concepts would promote the development of e-commerce, society computerisation and the use of Internet. Development of e-commerce will be furthered and strengthened because the government's promotion of business online will facilitate the delivery of information, goods and service. This will in turn encourage further infrastructure development. Moreover, the implementation of e-government is closely related to the creation of a better business environment and trade competitiveness of Lithuania in the new digital economy.

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