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**Efficiency in Local Service Delivery**

Editor:
Juraj Nemec
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Capacity Building of NAPA for Open Local Governance

Efficiency in Local Service Delivery

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Content:

Teaching module: Efficiency in Local Service Delivery

*Juraj Nemec* ..............................................................................................................4

Case study 1: Delivery of Local Public Services in Slovakia

*Juraj Nemec* ..............................................................................................................17

Case study 2: Co-creation at Municipal Level in Slovakia

*Juraj Nemec* ..............................................................................................................22

Case study 3: Specific Factors Determining the Success of Contracting out in Transitional Countries

*Juraj Nemec* ..............................................................................................................27

Case study 4: Co-operation of Local Communities in Local Fire Protection

*Hryhorii Borshch* ...........................................................................................................31

Case study 5: Cooperation of Local Communities to Establish a Joint Municipal Enterprise "Shlyahrebud"

*Hryhorii Borshch* ...........................................................................................................34
Teaching module: Efficiency in local service delivery
Responsible experts: Juraj Nemec, Hryhorii Borshch

Planned time allocation: 2 hours lecture, homework, flexible number of hours for seminar (depending on the needs of the concrete case)

The purpose of the module: to provide systematic knowledge about the ways in which local governments should decide on the most important aspects of local public services delivery, with focus on deciding how to produce local services

After studying this module, students should:
- understand the essence of concepts of local public service delivery;
- be aware of the scope of local public services in Ukraine;
- be aware of the core aspects of local public service delivery
- be aware of the main principles of deciding between in house and external production of local public services
- be able to evaluate concrete local approaches and solutions.

Plan
Local public services in Ukraine – brief overview.
Delivery of local public services – summary of theory.
In-house versus external production.
Possible methods for evaluating local public service delivery.
Co-production of local public services.

1. Local public services in Ukraine – brief overview
   The legal base for local and regional governments in Ukraine contains, in particular, the Constitution of Ukraine, the European Charter of Local Self-Government (incorporated into Ukrainian domestic law on 15 July 1997), the Local Self-Government Act, the Local State Administration Act, the City of Kyiv Act, the Budget Code of Ukraine and the Tax Code of Ukraine.
   Local and regional government structure is based on a three-level territorial division of Ukraine. The first level, according to the constitution, includes villages, settlements and cities.
Each of these units elects its own local authorities. There were slightly fewer than 30,000 such communities with different population sizes and resources prior to the amalgamation process.

The local self-government structure at the first level of territorial division contains a mayor, a local council and the executive bodies (administration). The mayor is elected directly for a 5-year term and is the highest official of the territorial community, the head of the local council and the head of the system of executive bodies (administration).

The local council is a representative and decision-making body of the territorial community. It is elected directly for a 5-year term by the majority (one-half of councillors) and proportional (one-half of councillors) system, apart from village and settlement councils which are elected by the majority system.

The local council is responsible, especially for the formation of the executive committee of the council, approval of programmes for socio-economic and cultural development, and approval of local budgets; taking decisions on local borrowing, transfer of communal property, and approval of contracts concluded by the mayor on behalf of the council, on matters within his/her exclusive competence etc. The local council is entitled to abolish acts of the executive council where they are contradictory to the constitution or the laws of Ukraine, other legislative acts, or the decisions of the council.

The material and financial basis for local self-government, according to the constitution, is movable and immovable property, revenues of local budgets, other funds, land, and natural resources that are the communal property. However, in fact, only the local authorities of cities of regional significance have relatively good capacities to perform their tasks and functions.

The Constitution of Ukraine (Article 19) stipulates that local authorities and their officials can only act on the basis of the Constitution and the law, within the powers and in the manner determined by it. According to the Local Self-Government Act, local councils of the first level have exclusive competences covering decision-making in different areas of local affairs, for example: socio-economic and cultural development; budget, finance and prices; communal property management and powers in the field of:

- housing and communal services,
- consumer and trade services,
- catering,
- transport and communications;
- in the construction industry;
- in education,
The executive bodies have both their own and delegated competences (in this module we do not deal with delegated responsibilities – “administrative services”).

Fees for communal services in Ukraine are established mainly by national regulators. For example, rates for such communal services such as electric power, central heating services, centralised supply of cold water services, services for centralised supply of hot water, and sewerage services are established by the National Commission for state regulation in the energy and utilities. Rates for natural gas are established by the Cabinet of Ministers of Ukraine.

2. Delivery of local public services – summary of theory

Public sector and public management reforms focus on very similar goals, especially making public expenditure savings, increasing the quality, efficiency and effectiveness of the delivery of public services and providing social protection for people. The methods applied to achieve these targets differ between countries. However, there is no country where a system of “public-private-civil sector mix” or “public-private-civil sector partnerships” in public service delivery has not been introduced.

The basic theory behind this pluralisation of the delivery of public services is described in Cullis and Jones (1992) or in Bailey (1999) - see Table 1. The main principle is a careful move away from the classical system of delivery of public services. This is achieved by enabling the private for-profit and not-for-profit sectors to be involved in all processes connected with the provision of public services, and to some extent also with the provision of social welfare.

<table>
<thead>
<tr>
<th>Financing</th>
<th>Production</th>
<th>Public</th>
<th>Mixed</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Classic form</td>
<td></td>
<td></td>
<td>Alternative</td>
</tr>
<tr>
<td>Mixed</td>
<td></td>
<td></td>
<td></td>
<td>service delivery arrangements</td>
</tr>
<tr>
<td>Private</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1    Public-private mix in the delivery of publicly provided goods

Source: authors, based on Cullis and Jones, 1992

Traditional delivery - where the service was financed from public funds and produced by public institutions - is replaced by a more tiered system, with clear borders between finance, procurement and production functions (Pollitt –Bouckaert, 2000). The idea behind a purchaser – provider split is the analysis of public choice theory (Niskanen, 1971) on the inefficiency
of bureaucratic production. That is that a monopolistic bureaucracy will produce more services than necessary, and at higher unit costs.

Contracting out public services is one of the alternative service delivery solutions to switch from classic delivery to a mixed form.

Under this arrangement, which is most commonly found at local government level, government retains the responsibility for the provision of a service, but hires private firms to produce it (Nemec, 2002). Contracting out can also be defined as a binding agreement in which a public institution pays a private firm or non-profit organisation to provide a specific level and quality of public service. Citizens as customers, through their taxes or user fees, pay the government, which in turn pays the contractor.

According to Savas (1987), since the provision function is retained by the government, contracting out represents a conservative approach to increasing the role of the private sector.

The potential beneficial impacts of contracting out are connected mainly with increasing individual choice, and improving cost-effectiveness, quality and equity (Bailey, 1999; Øvretveit, 1995; Lane, 2000; and many others). This potential has not been fully confirmed by hard data, however, and many empirical studies (e.g., Bel and Costas, 2006) cannot even confirm the effect of the mode of production on costs, which has been the main positive argument for contracting out. Moreover, some authors stress the barriers to effective contracting out as well as the negative impacts connected with the use of competition and contracting out (Bailey, 1999; Pollit and Bouckaert, 2000; Lane, 2000, and many others). Lowery (1998), for example, discusses three types of quasi-market failure, two of which - market formation failure and preference error - are closely connected with contracting out. Market formation failure results from a lack of competition, often due to the small number of potential suppliers for many public services. If privatisation merely substitutes a private monopoly for a public one, then savings will likely disappear after the initial contract. Preference error failure is connected with limited information, and one of its dimensions—principal-agent theory—is discussed below.

According to Prager, the general rule of public sector organisations is to “internalise operations to the point where the costs of further expansion are perceived to be greater than the costs of acquiring the components or services in the market” (Prager 1994, 84). In addition, production should be internalised when there is a need for close control of the production process.

The theoretical basis for assessing the potential of contracting out in developed countries comes from both management sciences and the new institutional economics (Gruening, 2001).
The latter views governmental decision-makers as self-interest-seeking individuals working in an environment in which information asymmetry, bounded rationality and opportunism leads to problems of transaction costs and agency costs.

The issue of factors determining the success of contracting out/outsourcing is not new in economic literature. The main focus of existing studies is on the following aspects:

- the degree of competition for awarding the contract (Savas, 1987; Kettl, 1993),
- the quality of ex-ante evaluation of the contractor/agent (Rehfuss, 1989),
- the clear definition of the contracted out/outsourced service – contract specification (Marlin, 1984),
- the quality of contract monitoring (Rehfuss, 1989; Marlin, 1984; Prager, 1994; Brown and Potoski, 2003),
- sanctions (DeHoog, 1990),
- the experience of the public body/government/principal responsible for contracting out/outsourcing with contract management (DeHoog, 1990; Rehfuss, 1989),
- the technical knowledge of the contracted out service (Kettl, 1993).

In the following text we briefly introduce two core theoretical concepts important for evaluating the potential of contracting out: principal-agent theory (Arrow, 1985) and the theory of transaction costs (Prager, 1994).

**Principal-Agent Theory and Contracting**

Establishing and maintaining a legal contractual relationship between principal and agent leads to many problems and risks. According to Shetterly (1998), this process occurs in three phases: pre-solicitation, contractor selection and contract management. All three phases potentially suffer from the classic “principal-agent” problem situation in which the relevant characteristics and actions of agents are not directly observable by principals.

Arrow (1985, 37) notes two subsets of the principal-agent problem: “moral hazard or the problem of hidden action and adverse selection or the problem of hidden information.”

Moral hazard can occur in contracting out because the behaviour of the private partner is difficult to control and the private partner does not bear the full risks of their actions or inaction. These conditions create a situation whereby either shirking in the performance of duties or the inappropriate choices made by the private partner adversely impact the goals (and, potentially, the reputation) of the public partner.
In an adverse selection problem, agents within the private firm have information that is not shared with the public sector organisation, and they use that information to make decisions that affect the public organisation. The public organisation, however, cannot check to see if the information is serving the public interest. For example, consider a public sector organisation which wants to hire the best private partner. The private firms bidding for the contract know more about their own qualifications than the public sector organisation ever will, and this information asymmetry may render a full ex ante evaluation of the private offers impossible. Bailey (1999) examines the effects of such public services contracting out problems.

According to More, “The principal must weave these interrelated components into a contractual framework that, in mitigating the informational asymmetries and structuring rewards, prompts the agent to behave as the principal himself would, under whatever conditions might prevail” (More, 1984, 756–757).

**Transaction Costs and Contracting**

The transaction costs associated with contracting out and the relationship of these costs to benefits derived from external delivery are essential elements of the contracting relationship. When contracting out services, governments incur contracting costs which are implicitly or explicitly part of the make-or-buy decision.

The transaction costs of contracting out are of two-fold: “those associated with the contract formation stage and those associated with the contract performance stage” (Hirsch, 1991, 56–57).

Changing service delivery from public production to contracting out involves changes to both production and management systems, all of which entail transaction costs. These changes require establishing new performance criteria, constructing monitoring systems, changing job responsibilities, and reducing the number of public employees. Activities such as crafting requests for proposals, establishing systems and protocols for reviewing proposals and selecting vendors, crafting contracts, negotiating with vendors, and installing contract monitoring systems must be undertaken before the internal delivery system can be taken off-line. These transaction costs are important to the make-or-buy decision. Different services have different levels of transaction cost factors, in part determined by asset specificity and ease of measurement explained by the transaction cost theory noted above.
Contracting Out In Transitional Countries

The theory summarised above predicts that, in developed countries, contracting out may but need not, improve the performance of the public sector. The final outcome depends on local conditions, including the capacity of the implementing body to execute the contracting out process.

The situation is much more complicated in transitional countries, where several socio-economic preconditions for successful contracting out are insufficiently developed. In such situations - due to non-mature markets and democratic institutions - internalisation may be the best decision. The following discusses the status of each precondition for effective contracting out in transitional countries.

3. In house versus external production

Contracting out stems from the “organisational decision to make or buy a good or service” (Prager 1994, 176). Modern public organisations are expected to decide whether to produce goods and services internally or to contract them out. The guiding principle behind the choice is to increase efficiency, whilst maintaining or increasing the quality of the delivery of a public service (Epstein, 1984).

The theory does not provide concrete solutions for such a decision-making process. It may be that the most important theoretical input is by the Brown-Potoski model (Table 2).

Table 2: Typology of Services by Asset Specificity and Metering

<table>
<thead>
<tr>
<th>Low Asset Specificity</th>
<th>High Asset Specificity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy Metering</td>
<td>Meter-able Market Services</td>
</tr>
<tr>
<td></td>
<td>Low transaction costs</td>
</tr>
<tr>
<td>Difficult Metering</td>
<td>Non-Meter-able Market Services</td>
</tr>
<tr>
<td></td>
<td>Moderate transaction costs</td>
</tr>
</tbody>
</table>

Source: adapted from Brown and Potoski, 2000

This model indicates the relationship between the type of service and the expected transaction costs of externalisation. It proposes that services with high specificity and limited possibility to measure outputs and outcomes should not be contracted out, because of too high transaction costs.
Model of the decision-making process

The basic model on how to decide and how to proceed with contracting out may have the following phases:

A: Evaluation
B: Market testing
C: Selection and contract signature (public procurement)
D: Contract execution
E: Contract evaluation

During the evaluation, the local government should obtain all possible information about the costs and quality resulting from the existing service delivery arrangements (see next part). As of today it is almost impossible to know the exact costs for the in-house production of local services, because of the non-application of the full costs accounting approach at local government level (not only apparent direct (cash) costs shall be included, but full costs, including indirect costs and overheads).

During the phase of market testing, the local government should obtain as much information as possible about the supply potential – to prevent any risks from starting up procurement under conditions of no effective potential supply.

If the local government has evidence that the existing internal delivery form is not effective and of good quality and the contracting out can potentially improve the situation, it should select the relevant public procurement method (preferably open tendering) to select the future supplier.

Depending on the current legislation, the option to reject all offers (if not effective) should be included in tender documentation. The contract should be part of the tender documentation and shall not be amended after signing the contract. The length of contract should reflect the specificity of the service – services with high fixed costs (waste collection) require longer contracts, compared to services with low fixed cost (public green). The contract should include contract monitoring and sanction parts, except for the basic parts.

Contract monitoring is standard process and should be executed according to the contract conditions. As for any contract, the results shall be evaluated at the end, to provide lessons for the future.

4. Possible ways of evaluation of local public service delivery.

The basic method for evaluating the efficiency of local service delivery is simple cost minimisation analysis – service costs per inhabitant or per volume of production (e.g. per ton of collected waste). The example of such an evaluation is provided in Table 3.
Table 3 Average costs of waste collection and refuse disposal through service delivery: Slovakia

<table>
<thead>
<tr>
<th>Form of delivery</th>
<th>Number of municipalities</th>
<th>Average yearly costs per inhabitant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Municipal employees</td>
<td>2</td>
<td>136,29</td>
</tr>
<tr>
<td>2. Brutto budgetary organisation</td>
<td>2</td>
<td>295,34</td>
</tr>
<tr>
<td>3. Netto budgetary organisation</td>
<td>7</td>
<td>420,36</td>
</tr>
<tr>
<td>4. Municipal limited company</td>
<td>9</td>
<td>538,35</td>
</tr>
<tr>
<td>5. Municipal joint stock company</td>
<td>2</td>
<td>701,35</td>
</tr>
<tr>
<td>Average for internal forms</td>
<td>22</td>
<td>398,34</td>
</tr>
<tr>
<td>Contracting out 1</td>
<td>11</td>
<td>351,14</td>
</tr>
<tr>
<td>Contracting out 2</td>
<td>9</td>
<td>251,44</td>
</tr>
<tr>
<td>Contracting out total</td>
<td>20</td>
<td>301,29</td>
</tr>
</tbody>
</table>

Contracting out 1 – citizens pay fees only to the municipality
Contracting out 2 – citizens pay fees to both the municipality and the supplier
Source: Merickova et al, 2005

A more sophisticated method is the multi-criteria analysis – such as the method of best values of indicators (MBVI) to construct composite efficiency scores. MBVI is one of the non-parametric multidimensional approaches to the evaluation of efficiency of Decision-Making Units (DMU) based on a weighted sum algorithm. Here we designated the service delivery method as a DMU. According to some authors (Fiala, Jablonsky and Manas, 1994), this method makes it possible to express the efficiency of evaluated DMUs, taking into consideration multiple indicators, measured in different units.

The method is simple to apply and easy to interpret. Following Zizka (1988, 146–147), we consider m service delivery alternatives Ai (i = 1 … m), and n indicators of evaluation Kj (j = 1 ... n). When we assign empirical values for all delivery alternatives and evaluation indicators, we obtain the evaluation matrix X. Because indicators use different measurement units we normalise their values xij as follows:

If the best value of the indicator is its maximum value, we normalise by:

\[
a_{ij} = \frac{x_{ij}}{X_{max}}
\]

(1)

If the best value of the indicator is its minimum value we normalise by:

\[
a_{ij} = \frac{x_{min}}{X_{ij}}
\]

(2)
Thus we generate a matrix of normalised indicator values (A), which fall in the interval \((0, 1]\). Then we assign the weights \(v_j\) to the indicators, where:

\[
\sum_{j=1}^{n} v_j = 100
\]

The final evaluation of the efficiency of each alternative is obtained by multiplying matrix A by the column vector of weights \(v_j\):

\[
\text{Indicator} \quad \text{Weight of Indicator} \quad \text{Final Evaluation}
\]

\[
K1 \quad K2 \quad K3 \quad K4 \ldots \quad Kn
\]

\[
\begin{bmatrix}
ap_1 & a_12 & a_13 & a_14 & \ldots & a_1n \\
ap_2 & a_22 & a_23 & \ldots & a_2n \\
ap_3 & a_32 & \ldots & a_3n \\
\vdots & \vdots & \ddots & \vdots \\
ap_m & a_m2 & \ldots & a_mn
\end{bmatrix}
\]

\[
\begin{bmatrix}
v_1 \\
v_2 \\
v_3 \\
\vdots \\
v_m
\end{bmatrix}
\]

\[
\begin{bmatrix}
h_1 \\
h_2 \\
h_3 \\
\vdots \\
h_m
\end{bmatrix}
\]

The most efficient service delivery alternative is the option with maximal composite score \(E\). The composite efficiency of other options is given proportionally to \(\text{Alternative}_{\text{Emax}}\).

Part of the inputs for such multi-criteria analysis is the service quality survey. To obtain data requires time and responsiveness by citizens. The research methodology is proposed by several existing studies in this area (Loffler, 2002). The citizens’ satisfaction with local public services is the measure of local public services quality in these studies. Data on service quality are provided by the users, the citizens of different municipalities, through a questionnaire.

Citizens normally evaluate local public service quality using the following scale:

<table>
<thead>
<tr>
<th>Absolutely satisfied</th>
<th>100 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfied</td>
<td>80 %</td>
</tr>
<tr>
<td>More satisfied than unsatisfied</td>
<td>60 %</td>
</tr>
<tr>
<td>More unsatisfied than satisfied</td>
<td>40 %</td>
</tr>
<tr>
<td>Unsatisfied</td>
<td>20 %</td>
</tr>
<tr>
<td>Absolutely unsatisfied</td>
<td>0 %</td>
</tr>
</tbody>
</table>
5. Co-production of local public services.

A new concept of modern governance is defined as the sum of interactions where there is cooperation between actors from the public and private sector in solving social problems. The emphasis is on the citizen and on building a civil society. The concept of governance also appears in documents of the European Commission which define principles of good governance: openness, participation accountability, effectiveness and coherence.

Participation of citizens, as final consumers of public services, has an irreplaceable role in the governance process (Osborn and Brown, 2011). This innovation aims to “shape” the public service, following the needs of its consumers – citizens. Therefore the direct participation of citizens in the service “policy” process and consequently its introduction and realisation in practice are of great importance.

In co-production, the production process of public services is considered as 1) an open process, with the involvement of end-users in the design and development of goods and services and 2) a change in the relationship between the stakeholders involved (see for example Sorensen and Torfing, 2011). One of the central elements in the concept of social innovation is the active participation of citizens and grass roots organisations in order to produce social outcomes that really matter (Pestoff, 2014). Hence, social innovation can be considered as a process of co-creation.

Co-creation is regarded as a promising concept against austerity, ageing and the erosion of legitimacy of public institutions. There are three types of co-creation (see especially the results of the LIPSE project – www.lipse.org):

- Co-initiation, in which citizens act as the initiator,
- Co-design, in which citizens are invited to co-design and
- Co-implementation in which citizens are ‘just’ invited to implement public services (instead of public organisations).

According to Sorensen and Torfing (2011), co-creation as a public innovation takes place through collaboration with different stakeholders. As a result, it is always relative to its context, because this context consists of elements such as 1) the political and administrative context, 2) the legal culture within the public sector, 3) state governance and civil service tradition and 4) resource allocation and resource dependency.

According to theories of decentralisation, local governments that are closest to the citizen are expected to serve local needs. This should mean that in the area of social innovations, local self-governments are at the level whereby many co-creative innovations happen.


**Practical exercise**

Students are expected to visit a selected municipality and evaluate how selected local public services are delivered – the findings will be submitted in the written form of an essay. This exercise can be realised with different time requirements. In simple cases, one service is selected and one year’s data requested. In most comprehensive cases, the complete (all services, long-term data, process and contract evaluation) audit of contracting for local public services (or outsourcing of internal services) can be realised in the form of a final thesis.

**Seminars**

During the seminars students should present their findings and discuss them. The number of seminars depends on time available and the number of students in the group.

**References**


Case study 1: Delivery of Local Public Services in Slovakia
Juraj Nemec

Introduction

Public sector and public management reforms focus on very similar goals, especially public expenditure savings, increasing the quality, efficiency and effectiveness of delivery of public services, and providing social protection for people. The methods applied to achieve these targets differ between countries. However, there is no country where the system of “public-private-civil sector mix” or “public-private-civil sector partnerships” in public service delivery has not been introduced.

Municipalities in developed countries have normally complete freedom to decide how to deliver local public services under their responsibility. This is also the case of Slovakia, but not so much in Ukraine (in particular, the levels of service fees are, to a large extent, centrally regulated).

This case focuses on the externalisation of municipal public services and shows the experience from Slovakia.

Description of the case

Our data show that there is no standard pattern for local service delivery in Slovakia. A variety of options is available, including municipally-owned enterprises, joint provision by neighbouring municipalities, contracting services from larger neighbouring municipalities, or contracting from private organisations, NGOs or community groups. Table 1 shows the scale of contracting-out of selected local public services, based on different statistically significant samples (minor differences between findings can be explained by standard error).

Table 1: Scale of contracting out of the delivery of selected local public services in Slovakia (% of contracted services)

<table>
<thead>
<tr>
<th>Service / Year</th>
<th>2001</th>
<th>2005</th>
<th>2006</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste</td>
<td>49</td>
<td>64</td>
<td>69</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Cemeteries</td>
<td>27</td>
<td>12</td>
<td>16</td>
<td>13</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>Public green areas</td>
<td>16</td>
<td>18</td>
<td>33</td>
<td>14</td>
<td>6</td>
<td>34</td>
</tr>
<tr>
<td>Communications</td>
<td>21</td>
<td>41</td>
<td>45</td>
<td>38</td>
<td>55</td>
<td>48</td>
</tr>
<tr>
<td>Public lighting</td>
<td>30</td>
<td>35</td>
<td>40</td>
<td>39</td>
<td>38</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: Merickova et al, 2010
According to the collected data, external delivery of local public services was already used to a medium degree in Slovakia at the beginning of this century. The scale of local public services contracted out by municipalities apparently increased during the period 2001-2010, mainly in the case of the management of waste collection and disposal. This means that we can state that external delivery of local public services is a frequent solution in Slovakia.

The efficiency of contracting local public services

To assess the efficiency of contracting we use a cost-minimisation approach – comparing the unit costs, as the simplest benchmark of efficiency in service delivery (this means that we assume equal qualitative aspects of the service). The results of such an efficiency benchmark are presented in Table 2. The Table compares costs of internal delivery and for contracted services per inhabitant. The costs of internal delivery are 100%. This means that external delivery is more expensive if its efficiency “rate” is over 100.

Table 2: The efficiency benchmark of contracting (internal form = 100%) in Slovakia

<table>
<thead>
<tr>
<th>Service</th>
<th>2001</th>
<th>2005</th>
<th>2006</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste management</td>
<td>94</td>
<td>94</td>
<td>125</td>
<td>184</td>
<td>100</td>
<td>138</td>
</tr>
<tr>
<td>Cemeteries</td>
<td>64</td>
<td>13</td>
<td>67</td>
<td>146</td>
<td>87</td>
<td>84</td>
</tr>
<tr>
<td>Public green</td>
<td>82</td>
<td>192</td>
<td>150</td>
<td>151</td>
<td>120</td>
<td>97</td>
</tr>
<tr>
<td>Maintenance of local communications</td>
<td>70</td>
<td>109</td>
<td>119</td>
<td>114</td>
<td>100</td>
<td>84</td>
</tr>
<tr>
<td>Maintenance of public lighting</td>
<td>100</td>
<td>138</td>
<td>128</td>
<td>156</td>
<td>104</td>
<td>103</td>
</tr>
</tbody>
</table>

Source: Merickova et al, 2010

The data presented in Table 2 are again provided for different statistically significant samples and may suggest that contracting out public services is apparently more cost-intensive than internal delivery of public services. In the majority of cases, external delivery costs are higher (over 100) compared to internal delivery.

However, the real picture is bit more complicated. There might be several factors influencing calculated results, especially:

1. The inaccuracy in calculating the real cost of service delivery by the local self-government (13% for cemeteries in 2005 is a good example of real problematic value).
2. Because there is no full costs accrual accounting at the level of local self-government and thus no possibility to measure the real costs of service delivery, internal delivery costs are underestimated (if external costs are, for example 110%, this solution is with high probability, cheaper).

3. The assumption of the same quality (to be able to use costs – minimisation analysis) is non-realistic and real over-simplification. Different local characteristics, different citizens’ requirements for services and higher quality standards are the reality.

Summary and discussion issues

The collected data demonstrate that contracting in Slovakia delivers less positive outcomes compared to the expectations in the existing (New Public Management based) literature. Data suggests that the direct supply by municipalities may, in many cases, be more efficient and of a higher quality compared to outsourcing.

Data collected also evaluate the main barriers to successful contracting in Slovakia. We mention two of them.

First: Contracting is expected to produce major efficiency gains because of competition in the service delivery market. Data indicate that this potential is not fully realised in Slovakia because of two problems limiting competition:

1. In many areas there are too few potential private suppliers.

2. The most important - even if competitive selection is mandated - often does not happen.

Table 3 illustrates the second problem and shows the limitations to the rule of law in Slovakia. Open public tendering is the preferred (almost prescribed) supplier selection method according to the law, but it is, even today, used in less than 50% of cases.

<table>
<thead>
<tr>
<th>Procurement method used</th>
<th>2001</th>
<th>2005</th>
<th>2006</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open procedure</td>
<td>16</td>
<td>17</td>
<td>27</td>
<td>32</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td>Restricted procedure</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>3</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Negotiated procedure</td>
<td>0</td>
<td>13</td>
<td>30</td>
<td>0</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Price bid</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Direct purchase</td>
<td>31</td>
<td>17</td>
<td>38</td>
<td>30</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Municipality was not willing to provide information</td>
<td>48</td>
<td>55</td>
<td>–</td>
<td>25</td>
<td>66</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Merickova et all, 2010
Second: The specific key barrier to effective contracting is the poor quality of contract management skills of those officials responsible for contracting. To analyse this dimension, Merickova et al (2010) calculated the quality of contract management (using data from the representative sample of 141 municipalities, of varying sizes, from 2010).

The following indicators were calculated:

- $x_1$: level of competitiveness of the award,
- $x_2$: selection method,
- $x_3$: frequency of contract monitoring,
- $x_4$: sanctions,
- $x_5$: method of payment to supplier/agent.

All five factors have a qualitative character, thus we transformed them into quantitative data as follows (Table 4).

Table 4 - Conversion of qualitative criteria to quantitative data

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1 – Level of competitiveness of the award</td>
<td>Open tender</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Restricted procedure</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Negotiated procedure</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Price quotation</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Direct award</td>
<td>0</td>
</tr>
<tr>
<td>X2 – Selection criteria</td>
<td>Best bid</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Lowest price</td>
<td>50</td>
</tr>
<tr>
<td>X3 – Frequency of monitoring of the contract fulfilment</td>
<td>Regular</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Irregular</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>No monitoring</td>
<td>0</td>
</tr>
<tr>
<td>X4 – Contract sanctions for not following agreed standards</td>
<td>Cancellation of the contract</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Financial sanctions</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Financial sanctions</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Right to request improvements</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>0</td>
</tr>
<tr>
<td>X5 – Method of payment to supplier</td>
<td>Performance based payment</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Mixed performance and lump-sum payment</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Lump sum payments, not related to performance</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Merickova et al, 2010

The calculated final estimates for the quality of contract management are provided in Table 5:
Table 5: Quality of contract management for contracting local public services (100 = max)

<table>
<thead>
<tr>
<th>Service</th>
<th>Competitiveness</th>
<th>Ex-ante evaluation</th>
<th>Monitoring</th>
<th>Sanctions</th>
<th>Payment conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste</td>
<td>42.84</td>
<td>67.12</td>
<td>70.32</td>
<td>42.08</td>
<td>65.65</td>
</tr>
<tr>
<td>Public lighting</td>
<td>47.11</td>
<td>72.73</td>
<td>65.26</td>
<td>45.20</td>
<td>63.72</td>
</tr>
<tr>
<td>Local communications</td>
<td>50.12</td>
<td>64.40</td>
<td>64.13</td>
<td>43.50</td>
<td>74.15</td>
</tr>
<tr>
<td>Public green</td>
<td>58.89</td>
<td>66.39</td>
<td>54.72</td>
<td>46.81</td>
<td>75.90</td>
</tr>
<tr>
<td>Cemeteries</td>
<td>29.43</td>
<td>68.27</td>
<td>64.29</td>
<td>45.18</td>
<td>45.79</td>
</tr>
<tr>
<td>Average</td>
<td>45.68</td>
<td>67.78</td>
<td>63.74</td>
<td>44.55</td>
<td>65.04</td>
</tr>
</tbody>
</table>

Source: Merickova et al, 2010

Questions:

1. Slovak data, similar to some other research, indicate that the most cost-effective form of production is inter-municipal co-operation (joint municipal bodies). Any explanation?

2. Are the contract management factors limiting the success of contracting out (potentially) similar for Ukraine and Slovakia?

3. Tables 1 and 2, obtained by investigating statistically significant samples, include some non-realistic figures. How is it possible (what are the limitations of quantitative methods)?

References

Case study 2: Co-creation at Municipal Level in Slovakia

Juraj Nemec

Introduction
The participation of citizens, as the final consumers of public services, plays a very important role in local governance and supports innovation processes. Co-creation is one specific form of participation and includes three types of co-creation (Osborne and Brown, 2011):

1. Co-initiation, in which citizens act as initiators,
2. Co-design, in which citizens are invited to co-design, and
3. Co-implementation, in which citizens are invited to implement public services.

This case focuses on the issue of co-production at the municipal level and shows the Slovakian experience.

Description of the case
When realising the EU research project LIPSE (Learning from Innovations in the Public Sector) the Matej Bel University researchers comprehensively mapped the co-creation processes at local government level in Slovakia in the welfare and environment sectors and identified examples of good practice as presented in Table 1.

Table 1: List of cases of co-creation at local government level

<table>
<thead>
<tr>
<th>Case</th>
<th>Goals and brief description of co-created initiative</th>
<th>Main actors/stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conciliation councils</td>
<td>Conciliation council is a citizen initiative, association of citizens (mediators) ready to help with solving of all kinds of conflicts. The goal of this project is to support positive relations and positive conflict-solving between the majority and ethnical minority (Roma). All types of conflicts are involved – ethnical conflicts, conflicts between minorities and administrative offices, conflicts between citizens (neighbours). The institution of “conciliation councils” has been created as a citizen structure in multicultural regions (cities Levice, Nové Zámky, Kežmarok, Rimavská Sobota, Prešov and surroundings).</td>
<td>Citizens, NGO PDCS, C.S. Mott Foundation, municipalities in given areas</td>
</tr>
<tr>
<td>Kojatice Social Housing</td>
<td>The goal was to build social houses for Roma citizens who live in very poor social conditions. The main idea is to provide them with affordable housing with the lowest support from state, government or other parties – and to allow/motivate them to participate in building and financing their houses directly. The results are small plain houses financed by various sources (diversification of funding, multi-sourcing). Housing is a key element of a valuable life. For marginalised Roma citizens, local self-government and its mayor, NGO ETP Slovakia</td>
<td>University students, Roma citizens, local self-government and its mayor, NGO ETP Slovakia</td>
</tr>
</tbody>
</table>

Project “Capacity Building of NAPA for Open Local Governance”
groups of populations living in poverty, such as the excluded and segregated Roma localities, providing of satisfactory (relatively satisfactory) housing, produced with their participation, can serve as a good start to their “race” towards a better life.

### Godmothers

This voluntary activity focuses on the creation of a supportive network for young mothers living alone. Citizens associated via the NGO “Sanca pre nechcenych” are key to this initiative. Individual volunteers (ladies) “godmothers” serve as long-term mentors to young women/mothers in social need (living alone in difficult social conditions). They become friends with them and help them in all difficult life situations – care for their children and managing households. Other parties, such as government and private organisations, also participate. They provide material and non-material support to young mothers with social needs for their inclusion in society.

NGO ‘Sanca pre nechcenych’, SPP Foundation, VUB Foundation, Orange foundation, municipalities that decided to support the project

### Electronic Guard

The Electronic Guard works via an electronic connection between localisation device users and the dispatch centre administered by municipal police. Senior or disabled citizens/users carry the localisation device, which gives out a GPS signal, calculates its location and sends the data to the dispatcher application. If in need, the user presses the ALARM button and alerts the dispatch operator. This Electronic Guard also works as a mobile phone: the user can receive phone calls, send text messages about his location and dial preconfigured phone numbers (1 to 4). The dispatcher operator/municipal police employee monitors the real-time position of the user with the localisation device. If a user sends an alarm, the operator receives a notification in the application, including a sound alert. He knows immediately which of the users needs help, where he is, including other information such as age, health concerns, blood type, emergency instructions, etc. If the user does not respond to the call, the operator sends out the emergency services. Senior citizens and citizens with disabilities, people with dangerous diagnoses, whose health changes suddenly, appreciate the Electronic Guard service, which gives them a constant connection with an operator and the security that if in need they can immediately press an alarm button to call for help. Compared to using a standard mobile phone, the emergency service is sent out by a dispatch operator to the user of the localisation device even in cases where the user cannot communicate and describe his/her health problem or location.

Involved local governments, private IT company YMS, private telecommunication company Orange

### Martin Relaxation Path

The goal was to build a barrier-free public relaxation infrastructure – a path for the relaxation of elderly people. The path also has an educational function – training places are equipped with a basic infrastructure to exercise, but also with information tables describing fauna and flora in the area. One of the outputs is also a publication describing simple exercise activities for the elderly. The path is so well placed and built that it is also regularly used by other age groups for relaxation.

Municipality of Martin, several citizen initiatives (Joga v dennom živote, DIAMART – club of people with diabetes and the Martin Pensioners Club)
| ‘Green Patrol’ | “Green Patrons” directly clean selected localities through their members’ own initiative. Besides direct cleaning it also aims at increasing attention on all aspects of environmental pollution in the city and provides information to the municipal bodies about any problems in this area. The aim is not to replace municipal services, but to increase citizen participation for a healthy environment. | ‘Green Patrol’ citizen initiative, municipality of Bratislava and its local parts, inhabitants of Bratislava |
| ‘Green Patrol’ Interactive Portal | The portal provides virtual space for different initiatives in the environment area. It maintains an interactive map, where any information about problems with public spaces (such as illegal dumping) can be placed and reported. It includes the database of individuals and organisations willing to participate in the maintenance of public spaces, to communicate existing problems and to invite city hall to react. It organises media campaigns to promote awareness on the importance of volunteerism and its impact on the local physical environment. As with special services it allows the borrowing of any material required for the voluntary maintenance of public spaces – and it maps where such activities have been carried out. | ‘Green Patrol’ citizen initiative, municipality Bratislava, citizens in the social network |
| Trash Out | Citizens can, free-of-charge, install the Trash Out application available for Android, iPhone and Windows Phone and report illegal dumps by taking a photo of them, defining the size and type, or adding a comment. The report will appear in the TrashMap. Trash Out cooperates with local governments, environmental organisations and waste companies in the citizen’s region and notifies citizens about the progress in cleaning up the reported illegal dump. The application is available in English, Spanish, French, German, Czech and Slovak languages and works in Slovakia, Czech Republic, Poland, Germany, Italy, Ireland, Austria, Romania, Albania, Canada, Australia and New Zealand. | Involved local governments, environmental NGOs (Greenpeace, Let’s do it, Enviwebcz, Emerald Planet, Priatelia zeme, Greenoffice sk), waste management companies, Ministry of Environment of the Slovak Republic and the environmental fund of the Slovak Republic |
| Mobile City | The service is based on a mobile application allowing for direct and permanent contact and communication between the municipality and its citizen via mobile phone. It includes more modules, one of which is the functionality “Podnet” covering urban/rural regeneration. Citizens from participating areas can inform municipal halls about any environmental problem – the application allows for sending photos, GPS localisation, plus a text message. | Private company Datalan, a.s, municipalities in Bratislava self-governing region and their inhabitants |
| PrieStory | The goal was to complete low-cost local physical infrastructure investment projects executed by volunteers living in the area. The tasks included the establishment of a working team, securing the material and tools needed for the construction or joint construction with volunteers during the weekend. Reconstruction of the new public space was completed with a joint opening event, enabling citizens to informally celebrate the results of their efforts and formally introduce the public Ekopolis Foundation, citizens, participating municipalities, CSOB bank, local companies (as sponsors providing |
Table 2 analyses the role of the main actors in the selected co-creation initiatives for three core phases - initiation (marked as 1 in Table 2), design (2) and implementation (3):

<table>
<thead>
<tr>
<th>Role</th>
<th>Citizen initiative(s)</th>
<th>Formalised NGOs</th>
<th>Private sector</th>
<th>Local government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 2 3</td>
<td>1 2 3</td>
<td>1 2 3</td>
<td>1 2 3</td>
</tr>
<tr>
<td>Conciliation councils</td>
<td>Yes Yes Yes</td>
<td>Yes Yes Yes</td>
<td>No Yes Yes</td>
<td>No No Partly</td>
</tr>
<tr>
<td>Kojatice Social Housing</td>
<td>Yes Yes Yes</td>
<td>Yes Yes Yes</td>
<td>No No No</td>
<td>Partly Partly Yes</td>
</tr>
<tr>
<td>Godmothers</td>
<td>Yes Yes Yes</td>
<td>Yes Yes Yes</td>
<td>No No Yes</td>
<td>No No Partly</td>
</tr>
<tr>
<td>Electronic Guard</td>
<td>No Yes No</td>
<td>No No No</td>
<td>Yes Yes Yes</td>
<td>No Yes Partly</td>
</tr>
<tr>
<td>Martin Relaxation Path</td>
<td>Yes Yes Yes</td>
<td>Yes Yes Yes</td>
<td>No No No</td>
<td>No Yes Yes</td>
</tr>
<tr>
<td>Green Patrol</td>
<td>Yes Yes Yes</td>
<td>No No No</td>
<td>No No No</td>
<td>No No No Partly</td>
</tr>
<tr>
<td>Green Patrol Interactive Portal</td>
<td>Yes Yes Yes</td>
<td>No No No</td>
<td>No No No</td>
<td>No No No Partly</td>
</tr>
<tr>
<td>Trash Out</td>
<td>No Yes Yes</td>
<td>No Yes Yes</td>
<td>Yes Yes Yes</td>
<td>No Yes Partly</td>
</tr>
<tr>
<td>Mobile City</td>
<td>No No Partly</td>
<td>No No No</td>
<td>Yes Yes Yes</td>
<td>No Yes Partly</td>
</tr>
<tr>
<td>PrieStory</td>
<td>No Yes Yes</td>
<td>Yes Yes Yes</td>
<td>No No Partly</td>
<td>Partly No Partly</td>
</tr>
</tbody>
</table>

Source: Voorberg, 2014

**Summary and discussion issues**

Results indicate that local governments in Slovakia do not usually initiate co-creation (none of the local governments fully participated in the initiation of co-creation) and are not very active in the design (one fully, four partly participating municipalities) and implementation phases (two local governments participated fully and eight were partly involved).

The actors who initiate co-creation in Slovakia can be divided into two types: the private sector and formal or informal third-sector structures (NGOs or citizens). The private sector is active, especially in the area of information technologies, as implementation of co-created initiatives in that field also improves their sales and profits.
Despite existing research from other countries (Bekkers et al, 2013) indicating that, amongst other factors, local governments are expected to use the quality of services as a source of competitive advantage in order to be attractive, this does not work in Slovakia.

Questions:

1. What is your experience with co-creation at the local level in Ukraine?

2. Try to identify the reasons for the limited will of local self-governments in Slovakia to initiate or maintain co-creation projects.

References


Case study 3: Specific Factors Determining the Success of Contracting out in Transitional Countries

Juraj Nemec

Introduction

Existing research tries to explain the reasons why contracting out does not deliver visibly positive results and what the reasons are for the situation (similar to Slovakia) when the results fully depend on concrete local conditions and solutions. The existing research indicates that the success of contracting out depends on a number of factors. These factors can be divided into two main groups:

1. **External environment factors**, such as the level of corruption, level of competitiveness, rule of law situation, social attitudes, etc.

2. **Internal organisational factors**, such as the quality of contract management.

This case focuses on the issue of external factors and their specific situation in a transitional environment.

Description of the case

The chance for successful externalisation is much more complicated in transitional countries compared to the developed world. Several socio-economic preconditions for successful contracting out have been insufficiently developed, as shown in the following text.

**Competitive markets** may not be well developed yet, and may be characterised by monopolistic or oligopolistic structures and behaviour. Under these conditions, it is rather optimistic to expect a comprehensive supply of competitive bids, and therefore, the argument about possible unit cost savings is far more controversial than in developed countries.

**Corruption** also reduces the efficiency-enhancing potential of contracting. It is difficult to measure corruption, but all data indicate higher risks of corruption in transitional countries compared to developed countries.

The system of **democratic control of government**, at central and local level, includes several malfunctions. Citizens still need to learn how and when to execute effective participative democracy. Many scandals in the Czech Republic and in Slovakia, comprehensively reported by both national and international media, indicate that the connections between economic lobbies and public officials are too close. Stiglitz (1997: 28) warned about the limited capacity of politicians to serve the public interest.
Other problems are **paternalism, fiscal illusion**, and the lack of a sense of individual responsibility, all of which remain important features of citizens’ behaviour. In Slovakia 67% of respondents believed that their problems should be solved by the state (Buncak et al., 2009).

The possible success of externalisation is also connected to the quality of the **rule of law**. If the state switches its role from provider to regulator, efficiency improvements are impossible where regulatory guidelines do not exist, and where the law is not respected.

The **administrative base** is also inadequate. Outsourcing occurs with no explanations, recommendations or guidelines for users. The transition countries have only recently begun to switch to accrual accounting rules, but this is still insufficient because full cost accounting is confined to only a few public organisations, for example universities and hospitals.

To be effective, externalisation also needs to be supported by new **control and audit approaches** that focus on legality and results. But the current systems of public sector control/auditing employed in most, if not all CEE countries, are predominantly the old-fashioned administrative procedural type of control. New laws on financial control were passed by national parliaments under pressure from Brussels, but in reality, successful mechanisms to measure and create real efficiency, effectiveness, and quality in public sector institutions and processes are still missing (Pavel, 2007).

Tables 1 and 2 summarise selected data describing the “external environment” in selected countries, collected from different international sources. It clearly documents to what extent the main pre-conditions for successful contracting differ between countries. Outsourcing is a risky solution in standard conditions; what might we expect in an “under-developed” environment?

**Table 1 Selected macro-indicators: Part A (higher=better) (author from different sources, concrete methods of calculation can be found here – see references)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Functioning of government</th>
<th>Impartial public administration</th>
<th>Government effectiveness</th>
<th>Regulatory quality</th>
<th>Control of corruption</th>
<th>Professional public administration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Selected developed countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>12</td>
<td>1.71</td>
<td>2.07</td>
<td>1.87</td>
<td>2.91</td>
<td>4.45</td>
</tr>
<tr>
<td>Denmark</td>
<td>12</td>
<td>2.13</td>
<td>2.64</td>
<td>2.26</td>
<td>3.50</td>
<td>5.67</td>
</tr>
<tr>
<td>France</td>
<td>11</td>
<td>1.61</td>
<td>1.83</td>
<td>1.57</td>
<td>2.52</td>
<td>4.83</td>
</tr>
<tr>
<td>Germany</td>
<td>12</td>
<td>1.46</td>
<td>1.92</td>
<td>1.88</td>
<td>2.82</td>
<td>4.52</td>
</tr>
<tr>
<td>Norway</td>
<td>12</td>
<td>2.25</td>
<td>2.10</td>
<td>1.77</td>
<td>3.10</td>
<td>3.75</td>
</tr>
<tr>
<td>Sweden</td>
<td>12</td>
<td>1.99</td>
<td>2.39</td>
<td>2.06</td>
<td>3.39</td>
<td>4.26</td>
</tr>
<tr>
<td>UK</td>
<td>12</td>
<td>1.98</td>
<td>1.85</td>
<td>1.95</td>
<td>2.66</td>
<td>5.40</td>
</tr>
<tr>
<td>USA</td>
<td>11</td>
<td>1.65</td>
<td>1.75</td>
<td>1.75</td>
<td>2.38</td>
<td>4.41</td>
</tr>
<tr>
<td><strong>Selected large developing countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>7</td>
<td>0.90</td>
<td>0.55</td>
<td>0.49</td>
<td>1.01</td>
<td>3.92</td>
</tr>
<tr>
<td>China</td>
<td>1</td>
<td>0.08</td>
<td>0.48</td>
<td>0.16</td>
<td>0.58</td>
<td>4.13</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2</td>
<td>0.12</td>
<td>0.14</td>
<td>0.02</td>
<td>0.21</td>
<td>3.75</td>
</tr>
</tbody>
</table>
Table 2 Selected macro-indicators: Part B (author from different sources, concrete methods of calculation can be found here – see references)

<table>
<thead>
<tr>
<th>Country</th>
<th>Corruption perception index (10 = best value)</th>
<th>Rule of law (higher=better)</th>
<th>Independent judiciary (yes or no)</th>
<th>Economic freedom index (higher=better)</th>
<th>Ease of doing business (in world ranking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected developed countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>7.90</td>
<td>2.66</td>
<td>1</td>
<td>71.60</td>
<td>28</td>
</tr>
<tr>
<td>Denmark</td>
<td>9.30</td>
<td>2.69</td>
<td>1</td>
<td>77.90</td>
<td>5</td>
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<tr>
<td>France</td>
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<td>2.24</td>
<td>1</td>
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<td>Germany</td>
<td>8.00</td>
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<td>71.10</td>
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<td>2.68</td>
<td>1</td>
<td>69.40</td>
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<tr>
<td>Sweden</td>
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<td>2.73</td>
<td>1</td>
<td>72.40</td>
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<tr>
<td>UK</td>
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<td>2.52</td>
<td>1</td>
<td>76.50</td>
<td>6</td>
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<tr>
<td>US</td>
<td>7.50</td>
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<td>1</td>
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<td>Selected large developing countries</td>
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<td>Brazil</td>
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<td>0.58</td>
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<td>55.60</td>
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<td>61.00</td>
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<td>Russia</td>
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<td>1</td>
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<td>South Africa</td>
<td>4.70</td>
<td>0.86</td>
<td>0</td>
<td>62.80</td>
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<tr>
<td>Selected CEE EU member countries</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech R.</td>
<td>4.90</td>
<td>1.74</td>
<td>1</td>
<td>69.80</td>
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<tr>
<td>Hungary</td>
<td>5.10</td>
<td>1.57</td>
<td>1</td>
<td>66.10</td>
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<td>Poland</td>
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<td>1.41</td>
<td>1</td>
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<td>74</td>
</tr>
<tr>
<td>Slovakia</td>
<td>4.50</td>
<td>1.33</td>
<td>1</td>
<td>69.70</td>
<td>46</td>
</tr>
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</table>

Summary and discussion issues

The evaluation of the external and internal (Case Study 1) environment for contracting at the local level indicates several major risks, specific to a transitional environment.

Questions:

1. What is your opinion on the external environment for contracting out in Ukraine?
2. Which factors of the external environment may be the most important in Ukraine?
References


THE QOG STANDARD DATASET 2016. January 2016. Prepared by the QoG Institute University of Gothenburg

World Bank Governance indicators

Transparency International CPI index
Case study 4: Co-operation of Local Communities in Local Fire Protection

Hryhorii Borshch

Introduction

Public sector and public management reforms focus on very similar goals, in particular, public expenditure savings, increasing quality, efficiency and the effectiveness of delivery of public services and providing social protection for people. The methods applied to achieve these targets differ between countries. However, there is no country where the system of “public-private-civil sector mix” or “public-private-civil sector partnerships” in public service delivery has not been introduced.

Municipalities in developed countries have normally full freedom to decide how to deliver local public services under their responsibility. This is the case for Slovakia, but not so much for Ukraine (especially the levels of service fees are, to a large extent, centrally regulated).

This case focuses on externalisation of municipal public services and shows the experience from Ukraine.

Application of theory in practice

The local fire department (LFD) of Nova Borova of Volodarsk-Volyn rayon of Zhitomir region settlement dates from 2010.

In 2010-2012 LFD funding was conducted through the Novoborivska village budget and, in fact, the LFD also served the adjacent village councils. Therefore, there was a need to find a mechanism within the law for co-financing LFD to provide fire protection for the village community and neighbouring villages.

During 2013-2015, i.e. prior to the advent of the Law of Ukraine "On Cooperation of Local Communities", Novoborivska village council signed an agreement, under the current legislation and implemented agreements, together with six neighbouring village councils, the joint maintenance of the local fire protection.

Goals of the case study

The goal of this case study is to evaluate the prospects for the externalisation of local public services in Ukraine, to assess the potential for inter-municipal cooperation in improving the efficiency of local public services delivery, and to consider that factors which may limit the success of contracting out local public services in Ukraine.
Description


Contracts were concluded under Articles 140 and 143 of the Constitution of Ukraine, Article 28 of the Law of Ukraine "On Local Government" and in accordance with the Budget Code of Ukraine. According to Articles 92, 104, 106 of the Budget Code of Ukraine, local governments have the right to join or enter into agreements to conduct joint programmes and joint projects on a contract basis within the framework of their powers.

Information on LFD:

The LFD has 9 staff. They work around the clock. Their technical equipment consists of a fire engine, rescue vehicle UAZ, electric generator, searchlights, chainsaws, grinders, hammers, and petrol mowers. In addition to telephones, LFD has its own call sign, and fire and emergency vehicles have stationary and four portable radios, which makes it possible to keep in communication with the dispatch service of the Ministry of Emergency Situations (MES) of the cities of Zhytomyr and Korosten. Such equipment enables LFD not only to protect people from fires, but also to carry out rescue activities.

The head of the team of fire fighters, Oleg Zhuravsky, is a skilled manager and a good business manager. The team consistently maintains the LFD area in perfect order and has built its own boiler room, shower room, and a gazebo for relaxing.

The service area of Novoborivska LFD is made up of 31 settlements that are home to 12,500 people. The distance to the most remote village is 16 km.

Once a year, Novoborivska LFD, together with Irshansk State Fire Department carries out testing activities in extreme situations on the basis of various social institutions, including homes for the elderly and orphanages.

Well aware that fire is easier to prevent than to extinguish, workers in LFD conduct educational activities as part of the training course "Safety of Life Activity". Frequent guests of LFD are students of local kindergartens, gymnasium, and lyceum.

During 2.5 years of collaboration within the settlement and 6 village councils, the total funding of LFD amounted to almost 800,000 UAH, including funds from the settlement budget – about 600,000 UAH, and co-financing from rural budgets – 200,000 UAH.
Results

The establishment and operation of local fire protection is a bright example of practical cooperation between local communities concerning their vital issues.

They work around the clock in LFD and their actions are coordinated with the state Fire Department.

LFD received its call sign and radio. Fire vehicles and rescue vehicles UAZ were restored and maintained in good condition and were provided with sufficient fuel and lubricants.

The creation of LFD significantly reduced the time of arrival of the fire brigade to a fire, and this contributes to maintaining the health and property of residents in the local communities.

Cooperation between communities to retain the local fire service was fertile soil for the process of the voluntary amalgamation of communities. In March 2015, at a meeting of the citizens of the settlement of Nova Borova, the village head was requested to initiate a voluntary amalgamation of the community with the centre in the settlement of Nova Borova. Village councils, which signed a cooperation agreement, were invited to unite into one local community. Four communities (Nebizka, Fasivska, Kropyvnyanska, Jahodinska) gave their consent and, after passing through all the legal procedures, in 2015 they formed the Novoborivska amalgamated local community and elected its head.

Conclusions

The practice described is a real example of how from the cooperation between communities can lead to their union.

Questions:

1. What are the main strengths and weaknesses of inter-municipal cooperation as a form of production of local services?
2. Which other areas are in perspective for developing inter-municipal cooperation in providing local services and why?

References

https://www.coe.int/uk/web/kyiv/-/small-stories-of-great-achievements
http://zhytomyr.dsns.gov.ua/ua/Ostanni-novini/7692.html
Case study 5: Cooperation of Local Communities to Establish a Joint Municipal Enterprise "Shlyahrembud"

Hryhorii Borshch

Introduction

Public sector and public management reforms focus on very similar goals, especially public expenditure savings, increasing the quality, efficiency and effectiveness of delivery of public services, and providing social protection for people. The methods applied to achieve these targets differ between countries. However, there is no country where the system of “public-private-civil sector mix” or “public-private-civil sector partnerships” in public service delivery has not been introduced.

Municipalities in developed countries have normally full freedom to decide how to deliver local public services under their responsibility. This is the case of Slovakia, but not so much of Ukraine (especially the levels of service fees are, to a large extent, centrally regulated).

This case focuses on the externalisation of municipal public services and shows the experience from Ukraine.

Application of theory in practice

In 2014 in the Vinkovetsky district of the Khmelnitsky region, the district road maintenance authority was abolished, resulting in significant problems arising from repair and maintenance of local roads. Communities of the District Centre and nearby villages, in search of solutions to this problem, initiated a municipal enterprise "Shlyahrembud", using the new opportunities for cooperation that the Law of Ukraine "On cooperation of local communities" opens.

After completion of the company creation it was decided to implement an investment project: to attract additional financial resources for its functioning and to buy road repair special equipment.

Goals of case study

The goal of this case study is to evaluate the prospects of externalisation of local public services in Ukraine, to assess the potential for creating joint municipal enterprises in improving the efficiency of local public services delivery, and to consider the factors that may limit the success of contracting out local public services in Ukraine.
Description

The project, to create a joint municipal enterprise (JME) "Shlyahrembud" (Ukrainian abbreviation for “Repair and construction of roads”) with the use of the Law of Ukraine "On cooperation of local communities", became the first and only such project in Ukraine.

On December 5, 2014, eight subjects of cooperation of local communities (1 settlement council and 7 village councils), followed by all the necessary procedures, provided by the said law, signed an agreement on the cooperation of local communities to create a common municipal enterprise.

The agreement was signed by Vinkovetska, Velykooleksandrivka, Karachiyevetska, Maidana-Alexander, Ohrimovetska, Petrashivska, Pokutynetska, Yasnozirksa village councils.

Vinkovetska District Council initiated the project and has coordinated the agreement between the various actors of cooperation. Experts of the District Council developed a package of documents required for the project.

On December 12, 2014, by joint order of the subjects of the cooperation, a charter for the company was approved and its head was appointed.

On December 15, 2014 the state registration of JME "Shlyahrembud" was entered into the state register of entrepreneurs under number 650989.

In March-May 2015, the subjects of cooperation approved the programme "Cooperation of local communities as a tool for their constitutional rights implementation" and specified the amounts of co-financing of the project.

The various stages of the process of creating JME "Shlyahrembud" were highlighted in the local newspaper "Village News" and on the website of Vinkovetsky district council.

The investment project "Creation of conditions for the joint municipal enterprise "Shlyahrembud" of Vinkovetsky district of Khmelntsksy region as a form of cooperation of local communities" dually submitted to the Regional Commission, the assessment and provision of a preliminary competitive selection of investment programmes and regional development projects that can be implemented through the State fund for regional development. Unfortunately, it was not supported by the Commission, and consequently the practice remained "on paper".

Results

The initiative on cooperation of local communities to form a joint municipal enterprise for repair and maintenance of roads is useful and important for the implementation of the majority of
local communities, especially in view of the trend of reforming the system of maintenance of public roads and local importance, so that should occur transfer of public roads in the municipal property. The procedures implemented in communities within the practice and decisions taken with a view to forming a joint venture, may be used by other communities.

Conclusions

Unfortunately, the cooperation between local communities is not receiving sufficient attention from the state. It leads to doubt about the practical efficiency of regulations of the applicable law. The idea of cooperation between communities currently cannot compete with the idea of amalgamating local communities and thus is partly ignored by regional administrations and overlooked by the regional commissions for the selection of projects for funding from the State Fund for Regional Development.

However, there is hope that this investment project, based on practice, which fully implemented the idea of the cooperation of communities, still receives support from the state or from international financial institutions.

INFORMATION

The budget of the project (amounts and sources of financing, partnership, co-financing, community contribution, etc.)

<table>
<thead>
<tr>
<th>The amount of co-financing the project from the local budget, in thousand UAH</th>
<th>1st year</th>
<th>2nd year</th>
<th>3rd year</th>
<th>Together</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>500</td>
<td>500</td>
<td>1 500</td>
<td></td>
</tr>
</tbody>
</table>

Expected project funding from the State Fund for Regional Development, in thousand UAH

<table>
<thead>
<tr>
<th>1st year</th>
<th>2nd year</th>
<th>3rd year</th>
<th>Together</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 500</td>
<td>4 500</td>
<td>4 500</td>
<td>13 500</td>
</tr>
</tbody>
</table>

Expected results of the project (qualitative change, quantitative indicators)

<table>
<thead>
<tr>
<th>Indicators of project success</th>
<th>The value of indicators at the beginning of the project</th>
<th>The value of indicators as of fiscal year end</th>
<th>Sources of information on indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>1</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>The length of repaired roads (km)</td>
<td>0</td>
<td>10</td>
<td>50</td>
</tr>
</tbody>
</table>
Questions:

1. Is amalgamating local communities always better than cooperation between communities from the point of view of organising the delivery of services to citizens? Why?

2. Could you propose a third (a fourth, …) way to organise the service delivery in this situation (in addition to joint municipal enterprise and amalgamating of communities)?

References


http://dfrr.minregion.gov.ua/Project-annotation?PROJT=1766