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# **The Two Futures of Governing: Decentering and Recentering Processes in Governing**

*B. Guy Peters<sup>1</sup>*

## **Abstract**

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Reforms of the public sector have helped create a more efficient and effective public sector, but they have also created a number of problems. Both the New Public Management and “governance” reforms have contributed to the contemporary problems in governing. These problems have been political to a great extent, reflecting the tendency to emphasize administrative rather than democratic values. Governments have begun to react to the real and perceived problems within the public sector by developing a number of “meat-governance” instruments that can help steer public organizations but which involve less direct command and control. This paper addresses the contemporary governance tasks of restoring political direction and policy coherence while at the same time supporting the autonomy of public organizations, and the involvement of policy networks, in governing.

## **The Two Futures of Governing: Decentering and Recentering Processes in Governing**

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The public sector in most of our countries has undergone significant change during the past several decades. Whether the changes have been described as “reform”, “modernization”, “reinvention” or whatever, most governments now are vastly different from what they were even a few years ago. These changes have, in general, produced governments that are more efficient and effective. Further, although most of the reforms implemented have been conceived largely within the market model (Peters 2001), public administration is now also more open to public participation in many countries and also has been opened to greater participation by lower echelon public employees.

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The dominant pattern of reform of the public sector over the past several decades has been discussed as the “New Public Management” (Hood 1991; Christensen and Laegreid 2001), or simply NPM. The basic idea of NPM has been that government should be made to be more efficient and effective, and that the best way of achieving these goals is to make the public sector perform more like the private sector. One component of these reforms has been to enhance the autonomy of managers and their organizations, with the assumption that if managerial talent were unfettered by internal rules then the public sector would be more efficient (DiIulio 1994). In addition, this autonomy was to be enhanced by creating numerous autonomous organizations (see Niskanen 1971) such as the “Next Steps Agencies” in the United Kingdom.

Although the participatory dimension of change may have been discussed *sotto voce* in many reform processes, it has become a more central conception of reform. In particular, while many of the initial stages of reform were discussed as the New Public Management<sup>2</sup>, the increased interest in “governance” styles of reform has enhanced the participatory dimension of change (Peters 2005). Like the idea of the New Public Management, “governance” as a concept can be extremely vague (see Pierre and Peters 2000), and has been the subject of significant academic contestation. That having been said, most of the “governance-style reforms” implemented by governments have emphasized the role of social actors in making and implementing policy and especially emphasized the role of networks and analogous structures in the processes of governing societies.

While both the New Public Management and governance styles of reform have made significant contributions to the performance of the public sector, they have also created a number of significant problems within government. In particular, both styles of reform have tended to create problems of incoherence and poor coordination in the public sector (see Bakvis and Juillet 2004), and, in addition, those reforms have created extensive accountability problems (Mulgan 2000). Therefore, like almost every other reform initiative before them, both NPM and governance reforms have engendered a host of new reforms, and the process of attempting to “make government work better and cost less” continues unabated.<sup>3</sup> Very much like Herbert Simon famously argued approximately 60 years ago, most of the adages used in public management (and indeed private management) have opposites that are equally valid in the right circumstances.

Given the above discussion, we are dealing with several alternative futures for the public sector in most industrialized democracies. Both of these futures will

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2 This term was, and is, extremely broad and to some extent included participatory ideas as well as the market-based efficiency concepts. See Hood (1991).

3 This phrase was, of course, the sub-title of the National Performance Review (Gore Commission) in the United States but came to represent a general ambition for reformers in the public sector.

involve change, and both will require continuing investment of political capital in order to be effective. Further, the central feature of these two futures is that one need not make a definitive choice between them. Both are feasible, and their effects will be complementary. The central political question is not so much one of making a choice between the two, but rather finding a way of making the two fit together in an effective, and democratic, manner.

## **One Future – Continuing the Current Patterns of Reform**

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Although I have been discussing them as alternative models of the public sector, as indeed they are, the patterns of reform that have shaped contemporary government have a number of things in common. Phrased in the most general manner, these reforms have tended to move the process of governing out of the center of government. These reforms have involved a number of different changes in patterns of governing, including:

- 1) **Deconcentration.** One of the most important changes associated with the New Public Management has been creating a number of new autonomous or quasi-autonomous organizations – often referred to as agencies (Pollitt and Talbot 2004; Verhoest, Rubecksen and Humphreys, forthcoming). A good deal of policy-making and implementation in contemporary political systems has been delegated to these organizations, under the assumption that single-purpose organizations with managerial autonomy will allow skilled public managers to improve the quality of public services. This deconcentration also represents some denigration of politics and politicians in the process of governance.
- 2) **Decentralization.** As well as moving some of the functions of the public sector out to devolved organizations within central government, another strategy has been to decentralize activities and give greater responsibility to sub-national governments. The logic of decentralization is in part to improve efficiency, given an assumption that smaller units will provide services better. Also, decentralization can be justified on democratic grounds, with the public having perhaps greater opportunity for involvement at lower levels of governing.
- 3) **Delegation.** A final strategy for reforming the State has been to delegate public authority to a variety of other actors (for general models see Huber and Shipan 2002). In the market approach to governing, much of that delegation has been to contractors and to other market actors. In the governance model, much of the delegation would be to networks and to not-for-profit organizations. Both types of delegation can be thought to improve the efficiency of the public sector, and the use of networks of social actors also generally is argued to be important for enhancing the democratic element of governing.

We might be able to add to this list of descriptions of change, but taken together, all the reforms mentioned here involve “decentering” the governing process (see also Peters 2004). Although obviously different in terms of their details, and in terms of their justifications, the impact of all of the changes in the public sector has been to minimize control from the center of government – presidents, prime ministers and even individual ministers.<sup>4</sup> Thus, they all have at their heart an assumption (explicit or implicit) that government will work better if the political center is devalued and if public administrators and private sector actors are more responsible for delivering services.

## **From Reform to New Problems Created by Reform**

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The above changes in the public are often justified by the familiar “steering not rowing” logic (Osborne and Gaebler 1991), assuming that governments are better at setting directions for policy than they are at actually delivering those policies. In reality, however, these reforms may also have reduced the steering capacity of the public sector, and in particular have reduced the capacity that political officials have enjoyed in the past for exercising control over the policies of their governments. This reduction of the “primacy of politics”<sup>5</sup>, has in turn created several governance problems:

- 1) **Politics and Steering.** As already implied, the emphasis on moving activities away from the center of government has reduced the capacity of elected officials to exercise control over these policies, even though in democratic politics, we assume that elections are about choosing policy (see Rose 1974; Caplan 2007). To the extent that so much of government activity is delegated, then political leaders are left with few levers, and often poor-quality levers, with which to affect the course of their own governments. Any number of prime ministers have expressed their feelings of impotence in the context of contemporary patterns of governing, but significantly fewer have actually done anything about attempting to redress that balance (but see below).
- 2) **Coordination.** A second difficulty resulting from the decentering of the public sector have been reduced levels of coordination among policies and organizations. The notion of first splitting up large organizations into a number of small organizations, and then giving organizations greater autonomy has been central

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4 This argument appears to be in direct contradiction to that usually found in comparative politics which emphasizes the decline of parliamentary and even cabinet government in favor of prime ministerial domination – often incorrectly called the presidentialization of parliamentary regimes (see Von Mettenheim 1997; Heffernan 2003). That argument, however, focuses more on the political control of the process within government and changes in media focus rather than on the actual capacity of political executives at the center of government to control service provision by their own governments.

5 This term has come to be commonly used. For one of the earlier uses see Pollock (1951).

to reforming, especially the creation of agencies. The numerous organizations operating with increased has, however, tended to exacerbate the familiar problems of coordination and coherence in the public sector. The proliferation of organizations, in turn, also contributes to the difficulties in exercising political control.

- 3) **Complexity.** The larger number of organizations involved in governing, and the multiple ways in which they are linked to the more conventional parts of the public sector, also increase the complexity of governing. While complexity is not per se detrimental, it may counteract some of the efficiency gains generated through management changes. That is, the increased number of veto points in the system, and the difficulty in gaining acceptance at all those points does reduce chances of success. Further, complexity does tend to reduce the transparency of the public system and therefore affects accountability (see below).
- 4) **Capture.** By separating public organizations from direct connections to political authority, the decentering reforms tend to make those organizations more vulnerable to capture by other interests. This is a classic problem in the analysis of independent regulatory agencies in the United States and elsewhere, but the logic can be extended to cover a range of other organizations that have been detached from political support. The capture may be by local geographical interests (Whitford 2002) or by functional interests, but the idea of depoliticizing government tends to lead to other forms of politicization, often of a less desirable sort.
- 5) **Accountability.** Finally, and perhaps most importantly, the reforms in the public sector have generated major accountability problems. One virtue of the “primacy of politics” is that it identifies clearly a hierarchy of accountability in the public sector and also identifies a number of mechanisms for enforcing that accountability. When there are a number of alternative relationships between elected politicians and service provision, and many of the service providers assume that they are meant to act autonomously, then identifying responsibility for actions is difficult.

Thus, both from the perspective of democratic theory and from the perspective of policy capacity, the reforms associated with the New Public Management approach, as well as those coming from the governance approach, have generated a substantial need for further change. As I will point out below, these changes can not be a simple return to the *status quo ante* with public sector dominance, although some scholars are arguing for a return to more traditional forms of public management (Olsen, forthcoming). Too much change has occurred, and governments have learned too much about alternative mechanisms for delivering services to be able to make a simple return to the bureaucratized, hierarchical model of governing (see Walsh and Stewart 1992). In part, the changes in the public sector associated with

these two reform movements have created substantial improvement in the functioning of the public sector, at least at the levels that are more micro.<sup>6</sup>

That having been said, however, the movement away from that style of governing has to some extent been exaggerated, and much of the old system remained in place, if subsumed under the facade of new forms of governing (Schofield 2001). Further, some scholars are also discussing the return to a Weberian style of governing in many settings, with a perceived need to reinvigorate some of the mechanisms for control and probity that were components of more traditional forms of governing. This is far from just being reactionary, but represents the need to recreate some values that were central to making governments both effective and accountable, and which have not been replaced adequately by the products of reform.

Leaving aside the return to a more Weberian style of governing, most of the problems generated by the NPM and “governance” reforms can be encapsulated in the problem of democratic government. Again, if elections are about selecting policy as well as leaders, and if those leaders once elected find that they have less influence over policy than they, and probably their voters, believe is appropriate, then there is a fundamental democratic problem. Even if the elected leaders are able to do some of their steering without the rowing, their level of policy control may not be as great as desired. This loss of control is true for policy choices, but is even more true given the crucial role that implementation plays in determining the true meaning of policy (Meyers and Vorsanger 2004).

## **The Center Strikes Back**

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Having recognized their own difficulties in exercising control over the public sector, a number of governments have begun to take action to attempt to restore control over the public sector. In some instances, this shift in ideas about governing has reflected particular political circumstances, including changes in the political parties controlling the public sector. In other cases, the attempt to reimpose greater political control has reflected more fundamental changes in ideas about governing. These changes reacting to the problems created by NPM et al. have not had the generality of either NPM or governance ideas, but they do reflect the perceived need to recapture some of the political steering that has been lost.

Some of the attempts to reimpose control over governing have tended to run counter to many of the canons of “good governance”. In particular, when faced with the a number of organizations and programs over which they perceive themselves to have little direct control, political leaders have tended to politicize the management

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6 By that I mean that the closer one gets to the actual delivery of services, and especially to the operations of individual organizations, the greater the benefits of reform have been. When more systemic factors in governing are considered, the benefits of the reforms may be negligible, or indeed the costs may outweigh any benefits.

of those programs. A number of studies of the public sector in the industrialized democracies (Peters and Pierre 2004) have shown that political leaders have found themselves in the position of having to take political responsibility for programs that they have little capacity to influence directly, and that this is an extremely uncomfortable position for those leaders. One of the simplest means of attempting to gain such control is to have one's own people managing the programs, e.g. to move toward higher levels of political appointment. Somewhat paradoxically, the internal deregulation of public employment fostered by NPM has facilitated those appointments.<sup>7</sup>

In addition to politicization, the decentering of the State has tended to engender the identification of scapegoats and denial of responsibility. As noted, political leaders may believe that they are being held responsible without justification, and in turn attempt to shed that responsibility. To some extent the complaint is justified, given that many of the linkages associated with effective responsibility and accountability have been weakened, and many of the levers for control have been eliminated. In fact, even some of the mechanisms being used in an apparent attempt to create responsibility for service provision may, in the end, dilute that responsibility. For example, the increasing use of "czars" for problem areas of public service tend to deflect attention, and potentially accountability, away from the political leaders and in the direction of the "czar".<sup>8</sup>

Not all of the reactions to the perceived loss of political control have been as negative as those already discussed. Perhaps most obviously, a number of governments have been attempting to build mechanisms for coordinating the numerous programs and autonomous organizations that have been created. One of the more obvious of these attempts has been the movement of "joined up government" in the United Kingdom, but there have been analogous programs in a number of other countries (Pollitt 2005; Christensen and Laegreid 2007; Gregory 2004). The basic idea has been to attempt to integrate government after it had been disaggregated by previous regimes. In some cases, the attempt was structural, but in others, there was a more intellectual thrust of attempting to create more "holistic" government that could provide a relatively seamless web of services (6, Leat, Setzler and Stoker 2004).

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7 It is quite possible that these appointments are perfectly qualified as managers, but it is very clear that there are more political forms of appointment, and that those appointments give the appearance of politicizing the public sector in ways that have been unacceptable in many political systems.

8 The Blair government in the United Kingdom was the most enthusiastic user of czars for problems such as the railways, several aspects of the National Health Service, and for children's services, among others. This mechanism enables the Prime Minister or a minister to argue that something has been done and thereby to (attempt to) escape personal political accountability for the outcomes.

To some extent the notion of joining up government, while certainly a valuable contribution to governing, missed some of the crucial elements of the decentering reforms. The attempts to improve coordination were indeed joined up *government* and apparently, they were less interested in joining up the other non-governmental aspects of governing that had become so important. In fairness, attempting to produce integration at that level would be more difficult, and might even be counter-productive, if viewed from rather conventional perspectives of governing. That is, simply attempting to bring the various relationships with social actors into a single format, and/or to reduce autonomy, may eliminate the gains from the previous reforms without necessarily creating commensurate benefits.

## **The Gap**

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The discussion to this point reveals the presence of two distinct formats for contemporary governance. As already noted, these two styles, while distinct, are also to a great extent complementary. One governance style emphasizes the need to improve the quality of service delivery, the management of individual organizations and the democratization of those services. The reforms associated with both NPM and with “governance” have been successful in a number of cases, but then created the need for the second pattern of change, one that emphasizes the need to coordinate, create greater coherence and to restore the primacy of politics. Each of these approaches to governing constitutes an important contribution to the capacity to provide better governing, but they are rather different. The major task in governing, therefore, may become to “knit” together the two alternatives.

In addition to the practical issues of governing involved, these two approaches to governing represent interesting theoretical concerns. On the one hand, there have been important theoretical developments in the area of “governance” (Sørensen and Torfing 2000; Klijn and Koopenjan 2005). As implied above, this term has come to mean a number of different things, but perhaps the dominant strand has emphasized the need to consider the process of providing direction to society, and providing public services, as involving actors well beyond those nominally in the public sector. Thus, the “governance” reforms mentioned above address the involvement of a wide range of actors in making and delivering services, and that involvement is reflected as justified in a growing body of social scientific literature.

One could argue that the concern with governance is old wine in new bottles given that, especially in Northern European countries, varieties of corporatism and corporate pluralism (Rokkan 1967) have been in existence for decades, if not centuries. The reality of the involvement of social actors with the public sector has to some extent changed as networks have strengthened. Further, the theory surrounding that involvement of private sector actors has certainly changed. For example, rather than much of the involvement being motivated by the State itself (even in the

corporate pluralist model), contemporary modes of “governance” allow for greater autonomy exercised by the social actors, and more autonomous self-organization of the networks that are to provide governance.<sup>9</sup>

While governance theory, and its development of the logic of networks, has made a number of contributions to our understanding of the processes of steering the economy and society, it also has a number of internal problems. One of the most important of these problems has been the assumption of decision-making capacity of networks. The network model appears well-suited for conditions in which the principal actors agree on goals and on means, but paradoxically if there were that level of agreement then there might be no need for the networks in the first instance.<sup>10</sup> While the networks are advanced as alternatives to conventional forms of governing, they lack pre-determined decision rules that both enable decisions to be made in the most difficult of circumstances and also legitimate those decisions.<sup>11</sup>

In addition to the problem in making decisions at all, the absence of clear decision rules may lead to the decisions that possible being sub-optimal. Much as Fritz Scharpf (1988) argued about decision-making in multi-level governance systems, the need to reach consensus may lead to decisions by the lowest common denominator. If there are multiple constituencies with potentially extremely different ideas about policy, then the only way to resolve the conflicts may be to find the few points of agreement. The more or less incremental outcomes from that type of decision-making process may please established interests within the networks, but may add little to the capacity for innovation and for major policy change (but see Dente, Bobbio and Spada 2003). That having been said, assuming that such incremental decisions could be made, implementation would be facilitated because the potential opposition to change would be coopted into the decision.

Finally, and most importantly perhaps, the delegation of substantial amounts of authority have led to major problems of democracy. These democratic problems involve not only accountability but also representation – both fundamental democratic values. This is, of course, rather paradoxical given that one of the principal justifications for at least some aspects of delegation has been to enhance public involvement. Despite those good intentions only members of certain groups may be

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9 That being said, some scholars of governance do note the extent to which the State is crucial for establishing the framework under which the involvement of those actors are granted powers to make and implement policy. Likewise, networks might have little *raison d'être*, were State authority, even if delegated, available for the implementation of the decisions made. These factors are crucial for the meta-governance arguments presented below.

10 The most obvious case would be epistemic communities in which there is an agreement based on a common professional or scientific body of knowledge (see Adler 1992).

11 Majority rule in legislatures, for example, permits decisions to be made even in the face of conflict, while the more consensual logic of networks may make such decision-making difficult. Further, as these constitutional decision rules are known in advance, they tend to legitimate those decisions, at least in the procedural sense of the term (Buchanan and Tullock 1962).

involved in the networks, and especially “potential groups” with low levels of organization may not be represented adequately.

These challenges to governance theory mirror very closely the problems faced by governments in the “real world” discussed above. Delegation to networks, contractors, sub-national governments or whatever other actor may be used to make and implement policy creates agency problems, so that the political principals can not produce effective control (Huber and Shipan 2002). Whether the problem is phrased in terms of principals and agents, or in terms of more overtly political control issues, critics of governance have questioned the capacity of these models to explain adequately the actual selection and delivery of services, especially when considered in a democratic framework.

## **Bridging the Gap: Meta-Governance**

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The theoretical development in governance has now extended to the idea of “meta-governance”, meaning in essence the governance of governance (see O’Toole 2007). The weaknesses of governance as an encompassing concept for describing what occurs within the contemporary processes of governing have become more apparent, even to some advocates of the approach. This awareness has generated the need to think about the means of building into governing processes increased control, while at the same time permitting some autonomy for the networks and other forms of decentered governing. Any reasonable conceptualization of contemporary governance processes must contain a great deal of decentered activity and recognize that it is impossible to return to the *status quo ante*. At the same time, however, that conceptualization must also recognize that all of the requisite functions of governing a society can not be fulfilled by those decentered processes.<sup>12</sup>

Developing a working conception of meta-governance therefore helps to bridge the gap between the disaggregated processes within the contemporary public sector and the desire of many political principals to restore some direct control. In the most blunt terms then, meta-governance would simply be reneging on the delegations of power and recentralizing controls in the structures associated with the “conventional” public sector. As already argued, such a simplistic response is unlikely to be successful and may not be politically viable.<sup>13</sup> The reforms of the past several decades are not unpopular with many people in and out of government and have created their own constituencies. Further, the ideology of New Public Manage-

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12 Yes, this is a functionalist approach to politics and government. Although often denigrated, functionalist approaches do have the capacity to identify important issues and also to identify the possible solutions to those problems. In particular, in this instance, knowing what must be done to govern helps to understand why the decentered formats may be inadequate.

13 The politics involved here are more likely institutional politics, defending the prerogatives of some organization or program or other, rather than partisan politics. Those institutional interests may, of course, be connected to the social interests being served by the organizations involved.

ment continues to be widely accepted, and those ideas continue to motivate policy choices concerning internal management. The discourse surrounding public management has been altered in a fundamental manner so that any simplistic atavistic response is unlikely to be acceptable.

As well as thinking about meta-governance as a simple reaction to changes in the public sector and an attempt to recreate the past, it must also be understood as creating the conditions under which governance models can perform effectively. For example, much of the governance literature assumes that networks are self-organizing and autonomous, but in many cases, they must be created and fostered, often by the State. Likewise, in order to be effective, a network must have a point of access in the public sector that legitimates and motivates the involvement of the members, with public bureaucracies providing most of those points of access. In addition, the actions of any policy network may have to be legitimated, and the formal institutions of the public sector themselves may be crucial for that legitimation. In short, no matter how substantial the internal capacity of the network may be, it may not be effective without the active involvement of government.

## **The Instruments of Meta-Governance**

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Governments have at their disposal much of the same toolbox for meta-governance that they have for coping with other policy problems, but those tools are available in somewhat different mixtures. The mixture has changed in part because of the specific tasks, that of meta-governance as opposed to attempting to influence society. Importantly, meta-governance involves attempting to shape behaviors of organizations that have some political legitimacy of their own so that some of the usual authoritative relationship may not be as viable. The mixture of tools is now also different for meta-governance because there has been some general move toward “New Governance” (Salamon 2001), implying using negotiation, bargaining and broader ranges of compliance than in conventional command and control styles of intervention. Given the general differences in meta-governance from governance, it is necessary to consider some range of alternatives, or complements, to those conventional mechanisms.

### **Priority Setting**

Perhaps the fundamental strategy for meta-governance is establishing priorities, and establishing them politically. A fundamental weakness in the network and other decentered forms of governing is that all programs and goals are virtually equal. This equality is largely a function of delegating authority to organizations, all of whom presume that their programs are at least as valuable as everyone else’s program. Likewise, even if the decentered aspects of government are autonomous and quasi-autonomous organizations, they still assume that they have been granted that

autonomy in order to pursue their own goals, rather than any more comprehensive goals for the “Whole of Government”.<sup>14</sup>

Priority setting can be accomplished in a variety of ways. Most involve enhancing the capacity of presidents, prime ministers and their central agencies. This need to strengthen the center may appear somewhat ironic, given the tendency of parliamentary regimes to discuss the “presidentialization” of politics, but the focus on the chief executive is often more a media event than a reflection of the capacity for governance (Peters 2007). There are some real attempts to strengthen the center and establish priorities. For example, the Finnish government now creates several cross-cutting programs as components of the coalition documents for each new government (Bouckaert, Ormond and Peters 2000). Other governments have attempted to restore some capacity to govern from the center (Savoie 2004), but the capacity to govern from the center still appears weaker than might be expected.

### **Soft Law**

If conventional uses of authority are not appropriate for the tasks of meta-governance then some “softer” alternatives may be necessary response. The shift to soft law has been evident not just for meta-governance but like other elements of new governance has been applied to a range of situations (Morth 2003). The basic notion of this approach to governing has been to use instruments such as benchmarks, guidelines, frameworks and a host of other mechanisms that establish ranges of compliance rather than specific points of compliance. Further, these instruments tend to be the products of discussions and negotiations rather than imposition from above.

The nature of soft law is to establish ranges of compliance and provide direction rather than command action. This response to the meta-governance problem reflects the need to steer but continue to do so at a distance, allowing a range of responses from networks or local governments. The “softness” of the law may vary depending upon the object of the steering. For example, attempting to control sub-national governments that have some political base of their own may be more challenging than attempting to control the private members of a network. Further, the capacity to use soft law effectively may vary across policy areas, with those involving more directly the formal powers of the State being less amenable to informal styles of steering and governance.<sup>15</sup>

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14 This term has been used by the Australian government and several other national governments to indicate the importance of creating more comprehensive approaches to governing. Even in those cases, however, the links to private sector organizations, and even sub-national governments, delivering public services often are not adequately institutionalized.

15 For example, see the discussion of informal governance mechanisms by Helmke and Levitsky (2004).

## **Maintaining The Golden Thread**

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Strategies of decentering government and loosening control involve minimizing direct controls over organizations and networks. For actors at the center, however, reducing levels of control may not mean totally abandoning it, and some means of control may still be maintained while simultaneously permitting autonomy in other areas of activity. Indeed, one of the more interesting aspects of the contemporary discussions about autonomy and control within the public sector is the dance being danced by central control structures and agencies, quangos and sub-national governments to whom substantial autonomy has been granted, at least in theory (see Yesilkagit 2007).

Analytically, we (Bouckaert, Peters and Verhoest 2007) have discussed elsewhere the autonomy of public organizations as involving three substantive dimensions – financial, human resources and policy. Thus, an organization may be given the latitude to make its own decisions about personnel and about spending, but the center may retain controls over the policy choices of the organization. The available evidence, albeit generally not expressed in terms of meta-governance is that central governments tend to maintain the financial purse strings and use those to ensure adequate compliance along other dimensions of activity (Wanna, Jensen and De Vries 2004). As well as varying substantively, the maintenance of controls from the center may also be strategic or operational. That is, the control organizations may attempt to either control the frame of action of the (presumably) autonomous organizations, or they may attempt more direct management of the day-to-day decisions made by the organizations. The former may more clearly approximate the logic of “steering at a distance”, but both represent some diminution of the real autonomy of the organizations.

The point of this discussion is that autonomy and control may not be as incompatible in practice as they may appear conceptually. The logic of meta-governance, and the “knitting” to which I alluded above, is that both these concepts must co-exist, and are beginning to co-exist more effectively, within contemporary political systems. As argued concerning the utilization of soft law as an instrument for meta-governance, the actual mixture of autonomy and control is likely to be contingent and may also be dependent upon the particular political system. The task for both the academic analyst and the practitioner is to identify mixtures that can at once deliver effective political (democratic) control and maintain the efficiency gains that appear to have resulted from many of the NPM reforms. To square this circle, maintaining one or a few primary controls, usually the budget, may be an effective strategy for meta-governance.

## **Performance Management**

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Finally, the increasing use of performance management in almost all developed democracies, and many other systems, provides a means of controlling potentially autonomous organizations (see OECD 2007; Peters 2007). Although the term may be used in a variety of ways, the fundamental idea is that by using measurable targets for the results of public programs, central control organizations can monitor and control the behavior of those organizations. This technique therefore shifts the mantra of New Public Management from “Let the managers manage” to “Make the managers manage”, meaning that some of the latitude inherent in the management ideas of NPM.

Performance management has some attributes in common with soft law as an instrument for meta-governance. In particular, this method relies on negotiating frameworks and contracts to impose control over the organizations delivering services, as well as the individuals involved in those programs. The targets that are established in performance management tend to be flexible, or tend to be progressive, so that the steering is rather “soft”, and permit the organizations involved to have some latitude in how they reach the performance targets. In addition, levels of compliance tend to be progressive so that the levels at which any organization must perform tend to be negotiated year after year, with some continuing ability to affect the outcomes of performance management.

Performance management can help to solve several of the problems created by earlier reforms of the public sector. For example, when performance measurement and management are used internally between ministries and their components (including perhaps contractors as well as formal institutions within the public sector), they are important elements of internal management and steering. However, when applied more directly by external organizations – parliaments, auditors, central agencies – then performance management can be a very useful component for accountability. Especially when the performance standards are made public, these indicators are important for accountability as well as for establishing general democratic frameworks for action.

## **Conclusion**

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Governance has been and continues to be a scarce commodity in most countries. In many ways, the capacity to govern has been enhanced significantly over the past several decades through the spread of the ideas of both New Public Management and the ideas of governance. These approaches to governing both tended to enhance the autonomy of lower-level components of the governing system, whether sub-national governments, agencies or networks linking public and private actors. The capacity of organizations to make more of their own choices, and the capacity

to employ management techniques not familiar to the public sector, have tended to make government more efficient and effective in service delivery.

Despite the successes of many aspects of reform in the public sector, the problems of accountability and control that were inherent in these reforms have engendered a subsequent round of change. Although it is impossible to return to the governance models that were the object of the NPM and “governance” reforms, some mechanisms for addressing the accountability and other fundamental democratic issues raised by the first round of reforms are required. The perceived negative consequences of reforms have produced some new types of governing, discussed here as “meta-governance”.

The primary governance task, as outlined in this paper, therefore is to knit together these two strands of change in the public sector. While the one strand represents the efficiency drives of governing, the other tends to represent better the political, and especially democratic, aspirations for governing. The fundamental point here is that these two can be knit together effectively, but that the knitting will depend upon a number of contingent factors. The first rounds of reform (and especially NPM) tended to assume that one size fit all, but the ability to use management techniques as well as the types of meta-governance that are viable are dependent upon a number of political and policy factors that require additional explication. Thus, the task of coping with governance will continue to require extensive research and analysis by both practitioners and academic analysts.

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# Politics and Policy in East-Central Europe in the Early 21<sup>st</sup> Century: Synergies and Conflicts Between Policy Regimes and Political Systems

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Attila Ágh<sup>1</sup>

## I. Introduction: the great adventure of reforms in ECE

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1. *Theoretical considerations – the conceptual frame.* The proper assessment of the East-Central European (ECE) political and administrative reforms and their perspectives presupposes a conceptual frame suitable for their particular conditions, actual timing and concrete stage in the Europeanization process. On the mental map of the current European developments in the former EU member states (EU15), as a conventional wisdom, there have been some conceptual misunderstandings or misnomers concerning the new member states that can bias the assessment of current reforms. First of all, the mainstream literature in the West tends not to recognize the post-accession crisis as a new phenomenon in ECE, which has been provoked by the dual pressure of the entry into the EU and the missing social consolidation. Therefore, it is necessary to clarify the basic conditions under which the ECE reforms have taken place and to set up the special conceptual frame within which the description and evaluation of the ECE reform process takes place.<sup>2</sup>

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2 This paper is a short summary of my writings on the ECE reforms (see References). The focus of this research has been “complying with Europe”, i.e. the necessary transformations in ECE due to the Europeanization process. The public administration reforms in ECE have been discussed in a rich literature, for instance Crawford and Lijphart 1997; Dimitrova and Toshkov 2007; Goetz and Margetts 1999; Goetz 2001; Goetz and Wollmann 2001; Grabbe 2006; Nunberg 1999 and 2000; Lazareviciute and Verheijen 2001; Lippert and Wessels 2001; Meyer-Sahling 2008; O’Brennan 2006; Pridham and Ágh 2001; Pridham 2008; Verheijen 2001 and White et al. 2007. The Europeanization of the political institutions proper would be an interesting topic but I do not deal with it in this short paper; I refer only to the recent seminal papers of Ladrech 2007 and Poguntke et al. 2007 on the Europeanization of the parties.

2. *The institutional reform cycles in Europe.* Coming down from the sky to the earth, the reality is that the reforms are hardly success stories throughout Europe. Institutional reform cycles come in 20–30 years, although not simultaneously but at different times in all developed countries. They do not all move at the same pace, for instance the UK was lagging behind for a long time in the post-war period, then it became the most reformed country, at least according to its own PR. Germany was reformed in the sixties and had serious difficulties in the nineties, coping with the radical reforms in the 2000s. The recent reforms have been slow and painful everywhere in Europe. The best cases are the consensual democracies of Northern Europe, while Italy and Greece are just the opposite, with success stories in Spain and Ireland, and with a very slow, long reform process without a real national consensus so far in France. In any case, the painful domestic reforms have moved ahead in the individual member states and they have pushed for the reform of the European governance or, vice versa, European governance has induced deep reforms in the member states. In this respect, the reform processes are not unique in the ECE countries but they have to face problems very similar to those in the West (state overspending, aging society, retirement schemes, health care regimes, lifelong learning and oversized, ineffective public administrations etc.).<sup>3</sup>
3. *The over-generalized common features of globalization.* Globalization is usually a mental trap, since seemingly all countries face the same problems, so they could have a common recipe, “one size fits all”, as has always been the slogan of the international financial organizations (IMF, WB), which has caused a lot of damages in the design and execution of reforms. Although the philosophy of managing global problems changed basically from the idea of the “lean state” to the “effective state” in the late nineties, in the 2000s there has been a need for a further, additional change of paradigm: (sub-continental) *regions matter* and the country’s regional specificities have also to be taken into consideration because the given stage of development and the regional cooperation matter a lot (see Telo 2007). The ECE countries form a regional group, taking experiences from the West and offering experiences to the Balkans and Eastern Europe. Thus, for a proper analysis, one has to find the narrow path in comparative politics between the common features of the EU countries and the regional and/or country specificities of the ECE member states.<sup>4</sup>

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3 These mutual reforms have been described e.g. by Bernhagen and Marsh 2007; Cini and Burne 2006; Falkner 2000; Falkner et al. 2005; Goetz and Hix 2001; Holzhacker and Albaek 2007; Kohler-Koch and Eising 2007; Knill 2001; Schimmelfennig and Sedelmeier 2006.

4 I have always been against over-generalizing about the 28 “post-communist” states in what I call the “Prague-Vladivostok hypothesis”, which means that this huge area would be basically the same in the democratization process. Therefore I restrict my analysis as usual to the East-Central European region.

4. *Beyond the institutions: a complex approach needed.* The usual institutional approach is very good to assess this transformation process and the present reform capacity in ECE but it has two weaknesses. First, it neglects the socio-economic changes with their huge social conflict potential that has created “roadblocks” to reforms. Second, the cultural-psychological factors also matter, since after two decades of permanent change, the “reform fatigue” makes all reforms terribly difficult. Thus, beyond the analysis based on historical and sociological institutionalism, these two other important factors have to be taken into consideration to evaluate the reform capacity in ECE. The ECE governments have tried to carry out radical reforms but they have met a big social resistance, since the living conditions are still poor for the large part of the population as the absolute or relative losers of systemic change (see e.g. Tang 2000 and Berend 2007). The “silent” majority has lost their patience, thus they are not silent any longer, and they want better life instead of a stream of new reforms. The final result is the split between state capacity and social capacity, which may jeopardize the reforms. The readiness or resistance of the population is an important part of the reform capacity; without this factor the institutional analysis may remain only on the surface because the reasons behind the particular actions cannot be discovered. The ECE governments – and the whole countries – were overwhelmed in the nineties with too many transformations in their economies and with the basic changes in the state functions. Hence, at the beginning, they were not able to start new radical reforms but later on, they were less and less brave to undertake these measures, since they knew that it would lead to failure at the next elections.
5. *Treasury of the ECE reform experiences.* Since the late eighties, the ECE experience has been that *political leadership*, personality and innovative reform elite matters, with reform courage on the part of the leaders who are willing to take risks in their political career. All reforms comprise
  1. a *legislative package* (with a policy register behind what has to be reformed) to design and implement the desired reforms,
  2. a *reform architecture* as a system of institutions to carry out and manage the reforms (the basic institutions set up for reforming the system of institutions as a whole)
  3. a *reform management* (as social engineering with a strategy) by the given reform elite.<sup>5</sup>

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5 Between 2002 and 2007, I was the president of IDEA (Integration, Democratization, Europeanization and Autonomy), which was instrumental in the Hungarian public administration reform, so I also refer here to some practical experiences in carrying out public administration reforms.

The ECE reform agenda with its synergies and conflicts between policy regimes and political systems as its strengths and weaknesses – opportunities and threats can be summarized as follows:

1. There has been a separation of the political and administrative systems in the ECE democratization process but its contradictions have reproduced the politicization of the public administration to a great extent.
2. The ongoing Europeanization of the national systems in the new member states have led to a duality of the Europeanized and national regimes in both political and administrative systems with various national styles in the ECE countries.
3. The performance of the national political and administrative systems has been tested as the absorption capacity of the EU transfers in the newly created developmental institutions with the criteria of effectiveness, efficiency and efficacy.
4. The transition from cultural codes to policy packages, from “ideology” to modernization has not yet taken place, so the popular feedback in the national systems at the parliamentary elections has still appeared as symbolic political action and not yet as issue voting.
5. National administrative systems are still in the making, so they have shown very marked signs of birth pangs, i.e. huge institutional and human capacity deficits, but they have proven to be more or less successful in the early membership period. The perspectives for the early consolidation in ECE are relatively good but the “backsliding” cannot be ruled out yet.<sup>6</sup>

## **II. The Road Map of ECE reforms**

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### **1. The ECE “deficit democracy” and confronting the EU requirements**

The most urgent problem “externally” for the new member states after having reached the formal membership is how to develop it into an effective membership. It can be paralleled “internally” with the transition from “politics” to “policy”, since the transition from EU compatibility to EU conformity brings about the completion of the democratic institution-building in order to produce a new system of institutions with high performance. In order to start its systematic analysis, one has to outline first that these new democracies with their achievements and specific deficiencies are “deficit democracies”. There are many institutional and policy deficits, which are two sides of the same coin. Beyond the inherited deficits from the remote and recent past as the “absolute” deficit, the entry into the EU has raised many new requirements, such as building new institutions and importing new policies, i.e. getting integrated into European governance, which is a new,

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<sup>6</sup> See the special issue of the *Journal of Democracy* with the papers of Bútora, Greskovits and Rupnik 2007 and also Goehring 2007.

“relative” deficit. These two effects have caused the general crisis of the emerging democratic institutions in the asymmetrical and fragmented democracies that will be analyzed below in some detail.<sup>7</sup>

Turning to a more detailed description, the starting point is, again, that there have been two reform waves in ECE. The first major institutional reform wave in the early nineties was the constitutional reform radically changing the political system as a whole and carrying out the basic democratization measures. Thus, the Great Transformation as the first generation of reforms has brought about a stable system of democratic institutions. This first reform wave as a profound transformation of institutions designed by the early democratic constitutions was finished by the mid-nineties. In the first reform wave, the four parallel processes – namely the “triple transition” of political, economic and social transformations, and the nation-building – have to be taken into consideration as basic tasks of democratic transition. Through the quasi-completing of the macro-institutions, it created the first institutional deficit in meso-governments, since it regulated the macro-political system in great detail but left meso- and micro-politics mostly unregulated. Thus, the first reform wave has produced an asymmetrical democracy with a well-established and extended macro-political system on the one hand and with a weak meso- and micro-political system that has only low institution density on the other.

Due to the economic crisis management with fiscal recentralization, the second reform wave in the nineties was not successful at breaking the exclusive power of the centralizing state in its first attempt. After this failed first attempt, the second reform wave, however, has come back within the EU, and the ECE countries have tried to cope with its tasks in the second attempt of completing the institutional reforms. The second generation reforms are necessary in all democratization processes in order to move on to the tasks of fine-tuning in the final institutionalizing of the reform process. The main components of second generation reforms are the institution-building initiatives aimed at good governance and at the citizens’ increasing input into the policy-making process. The quest for good government includes the creation of a more professional civil service, the modernization of local and/or regional self-governments, judicial reforms and the establishment of a more constructive dialogue with civil society.

The concrete itinerary of institution-building has been determined by the internal nature of the institutionalization process, going necessarily from the transformation of macro-politics through meso-politics to micro-politics. In this respect, the *first* stage dealt with the constitutional arrangements of the relationships between the major power sub-centres of parliament, president, and government, starting with the regulation of parliament itself as the mother and model institution

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7 I apply here the distinction between deficit and defective democracies. Deficit democracies are stable democratic system with some transitory features and defective democracies are semi-liberal or illiberal regimes (see Merkel 2004).

of “parliamentary” democracy. The *second* stage is the transformation of government, its reorganization and the modernization of the central government machinery (ministries) with the entire state administration, also in its connections with the functional or “private” governments of the major interest organizations. The two institution-building processes above were more or less arranged by the first reform wave. The *third* stage, however, concerning the so far relatively neglected or just abstractly regulated sector of the meso-governments, local self-governments and civil society associations, was supposed to come to the fore only afterwards in the second wave that failed in the nineties. Thus, this task of institution-building in meso- and micro-politics has come back in the 2000s in order to create the social capacity for Europeanization.

These three stages of institution-building, of course, can be separated only analytically. In the real world, they have run parallel to some extent and/or overlapped to a great extent, but the focus of institutionalization was clearly changing between them, which delineates this itinerary of democratization unambiguously. The obvious internal logic of democratic institutionalization is that the macro-political institutions can and have to be shaped first, before those in meso- and micro-politics, since the latter can only be articulated in a political space more or less already arranged by the macro-political institutions as parliament, president and government. This asymmetrical institutional building has reinforced the traditionally centralized character of the ECE political systems. The constitutional arrangements have stipulated the legal autonomy of the meso-governments of social and territorial actors and that of the micro-system of the organized civil society. But these two weakly institutionalized sub-national levels in their actual relationships to macro-politics have kept up the strong financial and political dependence on the central state, and this institutional deficit has not yet allowed for “good governance” with high performance of the new democratic polity.

The ongoing, painful second-generation reforms in the 2000s are the way of coping with the twin challenges of the post-accession phase and early consolidation. After the *anticipative* Europeanization, the *adaptive* Europeanization began in 1998 with the accession negotiations, and it raised the need to overcome the “*relative*” institutional deficit by building the EU-related new institutions. The demand for EU capacity with an increasing stress on implementation and effectiveness has jointly appeared with the requirements of democratic consolidation. Namely, in democratic transition, the main task was to democratize the whole society and to establish the constitutional state. In democratic consolidation-cum-adaptive Europeanization, the performance of these institutions as modernization, i.e. the improvement of the quality of democracy comes to the fore. It is not enough any longer to “import” an institution from the West; the major issue is how it can work properly or efficiently as “good governance” in the EU or in “European governance”. For the full implementation of the *acquis*, it was not the political will that was missing in ECE

in the early 2000s but the administrative capacity to domesticate and implement them properly.

Adaptive Europeanization as a detailed regulation should proceed not only in the general spirit of democratization but of necessity according to the very detailed regulations of Europeanization, moving, so to say, from the “economic” through the “political” to the “social” Europe. The EU membership has made evident that the new member states are still deficit democracies, since the EU requirements have demanded the accomplishment of institution-building – the NUTS system in particular and multi-level governance in general – that has been postponed to the post-accession period. The “missing middle”, i.e. the very weak institutional meso-structure or meso-governments, is a historical tradition in ECE that has not yet been overcome in the democratization process. What is more, it has been aggravated and become imbalanced by the rapid growth of the institutional macro-structure. In general, the ECE countries still have a weak institution density and only a half-developed “civicness” as an organized civil society at the micro-level. No doubt, these problems have also been the ECE countries’ built-in weaknesses that bring with them the main negative features of the immature democratic consolidation.<sup>8</sup>

The Copenhagen criteria already emphasized “the candidate’s ability to take on the obligation of membership”, i.e. in a shorthand, the EU capacity. This obligation of membership should not be reduced to the readiness to accept the EU regulations and new policies but it includes also the “ability” to implement them, therefore the EU capacity has both institutional and policy aspects (institutional fit and policy fit). The divergence between the formal and substantial institutionalizations was detected by the European Commission because the legal harmonization showed the “implementation gap” between the formal rules and non-adequate practices. Yet, among the parallel processes of institution transfer and policy transfer, the former was easier and more regulated as a “hard” requirement that was mostly tied to the first institutional reform. In the accession process, the EU focused upon the institutional developments, therefore the institution transfer was the easiest way to cope with this task in ECE. Policy transfer with its much more complicated “soft” requirements has come to the fore much more in the post-accession period, and it has been closely connected with the second wave of institutional reforms aimed at completing the democratic institutionalization on the meso- and micro-levels. Without radical decentralization-cum-regionalization of public administration, the ECE countries may not yet be ready to absorb optimally the EU transfers as has so often been argued by the old member states in the debates about the new Financial Perspectives (2007–2013) (see first in Keating and Hughes 2003).<sup>9</sup>

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8 The ECE institutional systems have been assessed as not proper enough for the Lisbon targets several times by the EU, see recently Barysch et al. 2007.

9 It is interesting to note that even the most developed accession states in the EU enlargement history, the Nordic states, had to cope with some kind of post-accession crisis, e.g. they also first developed a “dual bureaucracy”, see Damgaard 2000.

### III. The particular conditions in Hungary for the hectic reform period

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In Hungary, there was a long historical tradition of importing-copying-domesticating Western models and institutions, and it worked in the late eighties in Hungary very well. The institution and policy transfer, however, with the happy domestication of Western models and through elaborating their Hungarian varieties stopped working later in the mid-2000s because of the pressure of Europeanization was too high and reform fatigue set in. Afterwards, the political polarization has produced an opposition turning against reforms and the EU models and turning back to social and national populism as a past-oriented navel gazing (the Glorious Past that Never Was). Thus, the radical reform started in mid-2006 with great difficulty. The reform has begun as a top-down strategy to build state capacity, and its fate as the sustainability of reform depends on whether it will be continued with a bottom-up phase by mobilizing the social capacity. In general, the government's strategic capacity and strategic planning has improved to introduce and carry out radical changes, advancing from one step to the next in modernizing the political system and the policy-making process from legislation to implementation.<sup>10</sup>

The breakthrough to the reforms came in June 2006 when the new Gyurcsány government stepped in and took the risk of launching the radical reforms. In order to explain the reform dynamics, first the starting conditions as the "prehistory" have to be outlined – how to arrive at the pressing needs of the present reform. Hungary, like all ECE countries, is in a post-accession crisis nowadays, which has produced the second big social crisis in Hungary in twenty years, since the first was provoked in the early nineties by the beginning of systemic change. Correspondingly, in recent Hungarian history, there have also been two reform challenges with two reform waves. Hungary was a pioneer in the first reform wave as early as the late eighties but suffered the same stalemate as the other ECE countries concerning the second reform wave in the nineties. It has brought a cumulated task for Hungary to cope with the backlogs of the missing democratic institutionalization and the new demands of EU-related institutionalization at the same time. The main question is whether there will be a breakthrough now by completing the process that can be called a move from the simple EU compatibility to the EU competitiveness.<sup>11</sup>

The real turning point is May 2004 with the entry into the EU, which had almost coincided with September 2004, the inauguration of the first Gyurcsány government. Thus, discontinuity and continuity have to be carefully combined at both the EU and domestic levels. On the one hand, there was also a sharp *discontinuity* with the entry into the EU in the decade-long continuity of the Europeanization

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10 About the political polarization and the rising populism in ECE, see Meseznikov et al. 2008.

11 This brief assessment of the Hungarian reform has been based on my country report on Hungary for the Bertelsmann Transformation Index (2008).

that changed the domestic conditions drastically. This discontinuity has radically reinforced the pressure for reforms within the EU that has provoked the post-accession crisis. Therefore, the reform process has to be analyzed against the background of the post-accession crisis. The entry into the EU has necessitated the reforms and represented a terrible reform challenge, with some *direct* EU requirements – first of all with the EU convergence programme – as well as with the *indirect* but very wide and powerful pressure for EU adaptation. The EU membership has significantly worsened the domestic conditions for a radical reform in the short run, although it has facilitated them in the mid and long run. A large part of the Hungarian population has been frustrated by the consequences of the EU membership, and Hungary has become one of the most pessimistic countries of the EU. According to the Eurobarometer 69 (2008), only 39 per cent of Hungarians have a positive image of the EU, and only 32 per cent think that the EU membership is a “good thing”.<sup>12</sup>

On the other hand, there was also a long period of *continuity* between the two subsequent Gyurcsány governments combined with a discontinuity, since the first Gyurcsány government had not enough time before the election to start radical reforms. This was the period when the necessity of the reforms was recognized, yet beyond the so called “hundred steps” – small reform measures after April 2005 –, the basic reforms were still missing. However, in June 2006, a hectic and stormy reform period began in Hungary, since with the second Gyurcsány government, a sharp turn occurred and the radical reforms were put high on the agenda. In late May 2006, after having won the elections, the prime minister said at the first meeting of the Hungarian Socialist Party (HSP) faction that “nothing has happened to Hungary in the last sixteen years” meaning that no real, profound reforms had been passed after the former stormy period of reforms in 1988–1990. So he declared at this conflictual meeting that a new reform period would come again and assumed the obligation that his own political career would be closely connected to the success of this reform; thus, political leadership and personal political commitment were given.

Consequently, the reform period came not before the April 2006 elections, i.e. during the first Gyurcsány government, but after these elections, during the second Gyurcsány government. The government had a very quick start in 2006, first of all in the first three months before the Summer period, but the legislation until the end of the year 2006 was very hectic. As to the *legislative package* after June 2006, the second Gyurcsány government launched a very intensive legislation process both at the level of parliamentary legislation through legislative acts and through government decrees and decisions. In a very short period, about seventy legal regulations were passed; this was a quick start, indeed. As to the *reform architecture*, the new structure of the Gyurcsány government had as its two institutional reform pillars

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<sup>12</sup> The same figures are for Poland (58–65), for Slovakia (53–57) but for the Czech Republic only 43–48, see Eurobarometer 69, 21, 24.

the State Reform Committee (ÁRB) and the Development Policy Steering Board (FIT). The basic document of reforms – *The New Hungary Development Plan* – was published in October 2006.<sup>13</sup>

At the midterm of the government cycle, the political fate of the reforms may also be questionable in Hungary because of the sharp political polarization and tough resistance of the opposition to institutional reforms. History proves, in general, that the stormy, revolutionary periods and the more relaxed, evolutionary periods or the consent and dissent periods follow each other. It is true that there is still only a negative consensus regarding the necessity of reforms that can turn, however, into a positive consensus after the first successes of the reforms. The same may be the case in all ECE countries.

#### **IV. Conclusions: further reforms ahead**

The ECE polities as deficit democracies have some characteristic features in the early 21<sup>st</sup> century that can be enlisted below in a nutshell:

1. ECE countries have a consensual constitution, but they have developed a majoritarian decision-making practice that has resulted in a political polarization, which has proved to be the biggest obstacle to the reforms.
2. The unfinished democratic institution-building has created a fragmented and asymmetrical system of institutions in which social and territorial actors and their meso-governments are rather weak.
3. There is a split between procedural and performance democracy, or between democratization and modernization, that has led to a performance crisis in the new democracy as yet with a missing transition from “politics” to “policy”.
4. Deficit democracy has developed two faces; namely, the absolute deficit leads to missing/weak institutions as a historical legacy, while the relative institutional deficit indicates the new need for the EU-related system of institutions.
5. ECE countries have met the basic institutional preconditions by becoming EU-compatible but not yet EU-conform, i.e. not yet competitive enough, since they have not yet reached the complete and effective membership.
6. The main stages of Europeanization, the anticipative and the adaptive periods, have not been able to produce a breakthrough in the institutional reforms that

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<sup>13</sup> As far as public administration reforms are concerned, the incumbent Hungarian government presented a draft bill on regionalization for creating elected legislative regions in Hungary, but this bill was voted down by the opposition in June 2006. Earlier, there had been an attempt to overcome the extreme fragmentation of settlements – there are 3,200 independent settlements in Hungary with their own public administration – but this had also been denied by the opposition, and both bills needed two-third majority.

has been left for the post-accession period leading to a deep socio-economic and political crisis.

7. For a strategic vision, the present post-accession period with complete membership has to be followed by a take-off period that would speed up the catching-up process in the EU in order to follow the Irish or Spanish model.

Altogether, the ECE situation contains a deep duality between high marks for (the procedural) “democracy” and relatively low marks for (the effective) modernization. ECE countries are democratic states with a relatively low performance in their workings that also undermines their democratic character at some points, since the democratic rights and features cannot be fully functional or implemented. The same duality appears between the relatively high state capacity and the relatively low social capacity, so the increase of social capacity will be high on the agenda for the coming years in the spirit of the Lisbon Strategy. Finally, the ECE countries can only be successful in their EU adaptation and catching up process if they overcome the conflicts between policy regimes and political systems, and if they can fully develop the synergies between policy and politics.

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**Cases and  
Discussion  
Papers**





# Role of Interest Groups in Brokering Health Policy: The Case of Czech Health-Care Reform

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## Abstract

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With respect to an experience from a health-care reform process in the Czech Republic, the authors (corresponding to similar views of other authors) assume that failing health-care reforms can be explained by studying the roles and positions of key interest groups (health-care providers, insurance funds, pharmaceutical industry, etc.) in the health-care sector. From this point of view, a successful reform policy has to take into consideration not only objective concepts (such as need, access, quality and/or cost-control) but also the level of satisfaction of each key interest group involved in the service delivery. The aim of the paper is (1) to reveal economic interests of the principal Czech health-care sector actors and (2) to deduce whether the latest reform proposal could be successful.

## Introduction

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The necessity of a health-care system reform has been discussed in the Czech Republic for over a decade. The reasons are – as in the majority of European countries – growing costs of health care caused by the demographic situation, an introduction of ever more costly technology and medical procedures in diagnostics and therapy, defensive medical care or inflation connected with the system's debt. Another reform attempt, connected with the present Minister of Health, Mr. Julínek, has recently been launched in the Czech Republic. The reform stems from a long-term conception of changes in the system of health care, which the present Minister (at that time “merely” an opposition party representative, or a representative of involved specialists, respectively) participated in.<sup>2</sup>

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2 Hroboň, Macháček and Julínek 2005.

The repeating failure of attempts at reforming the system undoubtedly has its roots, to a large extent, in the unstable political environment of the Czech Republic during the past 10 years. The given reasons, however, are not (or need not be) the only ones. Even the fact that the opinion of the most significant interest groups that are present in the field of the Czech health-care system was not taken into account has considerably contributed to the failure of reform attempts.<sup>3</sup> Thus the primary motivation of our contribution is an attempt to assess the extent to which the current health-care reform can be successful. As we have mentioned above, we anticipate a crucial influence of interest groups on the final form, the very approval and the implementation of the health-care reform.

We base our contribution on the latest reform proposal and the attitudes of the players to this proposal. The objective is then to analyze three reform act proposals from the interest groups' point of view, to reveal economic interests of the principal Czech health-care sector actors, and to deduce if the reform proposal could be successful.

The first part of the paper supplies a brief summary of the theoretical framework. We define our approach to the concept of an interest group study. The second part summarizes basic facts about the current form of the reform (or the reform proposal) of the health-care system in the Czech Republic. We present the selected changes in the legislation that come out of the reform. The key players of the Czech health-care system are identified. We summarize the declared or supposed reactions of the key interest groups in the Czech health-care system to the above-mentioned reform proposal and we study the support of those players to the reform proposal.

## **1. Theoretical framework**

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An interest group<sup>4</sup> is considered to be a traditional participant on the supply side of the political market. There is a plethora of definitions of the "interest group" concept; our approach is based on a so-called functional definition of interest groups<sup>5</sup> which says that it is rather an interest or pressure than a formal group that prevails in the concept of an interest group. This definition makes it possible to include even corporations, individuals or ministries in interest groups since they share identical features of conduct in the political process. The mentioned definition is not restricted to citizens' membership in a group, which is – according to standard textbooks of politicalology – one of the common features typical of interest groups.

Thus in the case of health-care policy, an interest group can be any subject participating in forming and implementing health-care policy; this means any partici-

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3 For details see Malý 1998.

4 Player, interest group and actor are used as synonyms.

5 See e.g. Jordan and Richardson 1987.

pant trying to influence the final public policy within the framework of the political process. We understand the notions participant, subject, interest or pressure group as synonyms.<sup>6</sup>

Interest groups are very influential, especially in the case of agendas that the public is relatively poorly informed about. Politicians do not have feedback from their voters at their disposal in these situations and therefore they look for an attitude towards a considered reform in other sources. A situation where it is impossible to find unambiguous preferences of the public<sup>7</sup> is very common for health-care reforms. If patients have little information about a reform that is being prepared, they can be expected to try to identify themselves with some of the interest groups (which influence the public opinion).

An interest group can be defined in several possible ways. Besides the above-mentioned traditional economic concept of an interest group as a participant in the public choice, at least two additional approaches that are relevant to our analysis can be found in technical literature.

The first can be inferred from the classical theory of company management. An interest group is perceived here as a so-called stakeholder. The stakeholder approach sees an organization as a place for an encounter of relationships and interests of the company's stakeholders; it also assumes that an organization should maximize benefits for all stakeholders, or it will maximize its efficiency by maximizing benefits for all stakeholders.<sup>8</sup> However, an interest group defined in this way is connected primarily with running a company and thus with company management.

The other approach, which we will exploit more in our contribution as well as in the intended research, stems from the sociological approach to a large extent. It defines<sup>9</sup> an interest group as any organizational unit that is trying to influence the public policies, no matter if its membership is compulsory or voluntary, whether it is formally organized or not, or even if they are only individuals.

In other words, according to this approach, an interest group tries to influence policy-makers towards the view preferred by this interest group. The success or failure of an interest group at defending its interest is fundamentally dependent on its relative influence. The relative influence of an interest group is then derived

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6 In some cases, the mentioned subjects influencing the form of health-care policy are referred to as stakeholders and to a certain extent it refers to the stakeholder approach we discuss further. According to Mossialos and Allin 2005, "Stakeholders in an organisation are those groups or individuals who can affect or are affected by the achievement of the organisation's objectives or are those actors with a direct or indirect interest in the company." The cited definition of a stakeholder thus fully complies with our concept of an interest group and therefore we regard these two terms as equivalent.

7 The public itself could be regarded as a significant interest group (patients) – see further.

8 Částek 2007.

9 For further information see Baumgartner and Leech 1998, cited according to Song and Miskel 2002.

especially from the feeling (or assumption) of policy makers and other people affected by this influence. Therefore it is not so important whether a given group is really influential; it is sufficient if it is perceived as influential.

Influence, the key category for measuring the significance (or power) of an interest group, can be defined in several ways. Song and Miskel (2002) list several variant views, out of which Knock's, Bacharach's and Mudel's view is closest to our concept. They perceive influence as an informal expression of power consisting of attempts to influence relevant or decision-making people in favour of a certain decision in a given area based on an interest group's wish.

The influence of an interest group is usually derived from the following factors: size, resources, cohesiveness, leadership and techniques, especially the ability to contribute to candidates and political parties, as well as the ability to fund lobbyists. But the actual power of an interest group stems from the manner in which these elements relate to the political and governmental environment in which the interest group operates.<sup>10</sup>

However, even after defining the factors in the mentioned way, the measurement of an interest group's influence is very difficult.<sup>11</sup> When estimating the (perceived) influence of a concrete interest group, its position within a so-called social network of interests (or as we further refer to it, an interest network) is searched. An interest network maps the position of an interest group with respect to policy-makers as well as the potential interconnection of interests among individual interest groups.

In the case of political or economic reforms, the power of an interest group stems<sup>12</sup> from its ability to become a broker of an agreement between other interest groups. This approach comes from a model of an interest network in a given field that is concerned with the reform.

The key task for maintaining the power of an interest group is to find its position within an interest network and to search for links to other interest groups within this network. More frequent links usually mean a higher influence in the studied field (i.e. the health-care system in our case). However, Heaney (2005) states that the broker theory attributes a similar if not even higher influence to those groups which are able to mediate an agreement (or arrange contacts) between distinctively antagonistic groups.<sup>13</sup>

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10 Magleby et al. 2006, a similar typology is also presented by Song and Miskel 2002. The authors do not even consider this list to be comprehensive either by far.

11 As Knoke 1990 states, an interest group's influence itself is practically an immeasurable quantity. Therefore it is more traditional and practical to refer to measuring the perceived influence of a given interest group. The methodology we present further is also based on this assumption.

12 Heaney 2005.

13 Heaney lists several studies on page 889 that try to characterize which interest groups most frequently have the ability to mediate this type of relationships within an interest network.

An approach that derives the importance of an interest group from its ability to mediate an agreement or negotiations between other (uncommitted) groups assumes that the interest group which is the dominant broker in the interest network will also be the one to most likely formulate priorities and even the concrete form of a health-care reform.

In health care, where a vast network of (often contradictory) interests can usually be observed, an interest group that exists within this network as a relatively solitary unit can become the dominant broker. The fact that it is not (formally or informally) connected with other groups, political parties or interest group coalitions can affect the form of a health-care reform relatively significantly – by submitting compromise proposals or, more often, by the mentioned mediation of communication itself between the antagonistic interest groups.<sup>14</sup>

However, solitary interest groups need not be the only broker in the process of health-care reforms. An important role in this process can be played by the President (who is non-party or sufficiently independent of political parties) or another political leader.

Traditionally there are three ways of how an interest group gains the position of a broker:<sup>15</sup>

- by using informal communications networks (private dealings) – this means that an interest group should be able to establish, or even better to have, a sufficient number of personal relationships with other interest groups;
- by using a common approach within a formal coalition;
- by bridging (so far uncrossable) interest borders, establishing contacts between antagonistic (adversary) interest groups.

## **2. Health-care reform in the Czech Republic (2006–2010)**

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As was mentioned above, the first step in that formation of a network is the identification of key players in a given field (i.e., health care in our case). This is the reason why a study of the currently launched reform of the health-care system is part of this contribution. Its aim is to create the basic list of interest groups operating in the Czech health-care system, and it should be achieved through the analysis of interest groups' attitudes towards concrete reform measures.

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14 Such a role has been played by civil groups in the Korean Republic during the implementation of three local health-care reforms. These interest groups consisted especially of (or they were initiated by) academic researchers. Their role in the framework of health-care reforms was supported to a large extent by the President being the political leader of the reforms. For further information see Kwon and Reich 2005, 1014.

15 Heaney 2005.

The Czech Republic, like many other countries, is trying to reform its health-care system in the long run. It seems that after 15 long years of inactivity and incapability to get closer to enforcing a reform concept, a certain change has taken place in the Czech Republic after the elections of 2006. The current minister does not lack the will to enforce radical changes in the system (carefully prepared long before his entering the position) even in spite of the fact that the current government coalition is very fragile (102 to 98 votes). As early as autumn 2006, the minister presented the objectives of the Ministry of Health (MH) for the time period 2006–2010.

Reform measures are divided into two phases (or even two electoral terms, respectively); the aim of the first phase is to stabilize the system and reform institutions while the aim of the second phase includes the reform of financing and thus securing the long-term sustainability of the solidary system. The first phase of the reform (“Institution Reform” – from 2006) consists of four goals: (1) enhancement of citizens’ choices and responsibility, (2) an increase in the responsibility of health insurance companies, (3) modernization of the health-care facilities network, and (4) reimbursement of medicinal drugs according to the person’s asset. This stage of the reform can be viewed as a preliminary phase bringing partial changes to the existing system. It should be followed by a system change, which means the very transformation of the financial system of Czech health care (from 2010). The concept of this new system functioning also as the framework of this system change is now relatively clearly defined; nevertheless, in order to finalize its detailed form, there is a work team of specialists at the Ministry of Health within the so-called “Round Table” project.

The first phase of the reform can be viewed as initiated since in August 2007, the government managed to enforce amendments to key health-care laws in Parliament, aiming at fulfilling the objectives of the first phase of the reform. These changes were intended to contribute to the stability of the health-care system as well as to the preparedness for the reform. In January 2008, regulatory fees for using health-care services (including the protection of vulnerable groups of inhabitants through exceptions and a total limit for regulatory fees and additional payments for medicine) were, for instance, introduced within the scope of these amendments; the process of determining payments for drugs was changed in compliance with requirements by the EU, the relationship between the state and the General Health-Insurance Company was changed etc.<sup>16</sup>

Following the already implemented changes, at the end of 2007, the MH presented the projects of seven reform laws to the public. The force of these laws is supposed to begin in 2009:

- a) the project of the public health insurance act;
- b) the project of the health insurance companies act;

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16 For further information see for instance Darmopilová and Špalek 2007.

- c) the project of the act of the Office for Supervision over Health Insurance Companies;
- d) the project of the act of health-care services and conditions for their providing;
- e) the project of the act of specific health-care services;
- f) the project of the act of medical emergency service;
- g) the project of the act of university hospitals and university sites.

These further reform steps by the MH can be divided into three mutually linked sets of legislative and non-legislative measures that follow one another: (1) public health insurance (a, b, c), (2) providing health care (d, e, f) and (3) education, science and research (g).

With respect to the extent and especially the methodological orientation of this article, the authors present only the first set of measures (i.e., public health insurance)<sup>17</sup> out of all the ones mentioned above, and they look for reactions of the key interest groups on the proposed changes in this field. By analyzing the interest groups' attitudes, the authors will thus gain a list of key interest groups operating in the Czech health-care system.

## **2.1 Proposed measures**

As results from the previous text, three projects of laws (the act of public health insurance, the act of health insurance companies and the act of the Office for Supervision over Health Insurance Companies) were prepared within the set of measures connected with the public health insurance. Legislative changes in this field will be supported by non-legislative measures including the fundamental revision of the List of medical services as well as the support of more efficient ways of payments for health care provided by medical institutions including the classification DRG system for bed health care.

### *The project of the public health insurance act*

The existing law<sup>18</sup> governing this field is obsolete and inconsistent in terms of its conception; it was originally passed as a temporary solution (in 1997). According to the MH, it defines the insured persons' claims for health services imperfectly, and it does not provide them with tools for enforcing these claims. It is based on securing physical accessibility (i.e., building an over-designed network of medical institutions), and thus the real accessibility of medical services is not sufficiently guaranteed. Health insurance companies are not allowed to offer various health-care plans to their insured persons. The insured persons' autonomy is limited by this because they are not legally allowed to combine payments for services from public

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17 We consider public health insurance as an area where interest groups operated most actively.

18 Act number 48/1997 Coll., of public health insurance and amendments of several related laws.

and private sources. Furthermore, the existing legislation lacks sanctions for bad payers of public health insurance.

According to the statement by the MH, the project represents the following changes: (1) determining a clear definition of health care paid from public health insurance including its local and temporal accessibility; (2) introducing transparent waiting lists; (3) securing the insured persons' right to information about alternative methods of treatment (and at the same time tightening up sanctions for concealing possibilities of treatment); (4) making it possible for the insured persons to legally pay extra for a higher standard and to get a bonus for a healthy lifestyle or an active attitude to prevention; (5) granting the possibility for health insurance companies to offer plans of controlled care (based on the insured persons' voluntary decision), and (6) tightening up sanctions for long-term dodgers of health insurance.

A proposal on the transformation of the Czech health insurance companies will be introduced along with the paragraph wording of this act. The project of this transformation act has not been published yet.

#### *The project of the health insurance companies act*

The MH perceives the existing legislation<sup>19</sup> as insufficient, unsatisfactory and unsuitably fitted to the legal framework of the Czech Republic with respect to the importance of health insurance companies. Health insurance companies do not have a standard legal form used in the Czech Republic so they are corporate bodies *sui generis*, which means that there is a larger amount of ranges of problems (e.g. creation and liquidation, book-keeping, the lack of transparency in constituting bodies of a health insurance company, etc.). The conditions for granting permission for providing public health insurance are defined in an absolutely insufficient way (e.g. obligations to prove the source of finances serving as a deposit and used for covering expenses on the foundation of a health insurance company, trustworthiness and professional competence of future members of managing bodies and top management). Furthermore, the current legislation also clearly lacks specified claims for the activities of health insurance companies not only in the form of setting their clear duties towards their clients (especially requirements for the effective accessibility of medical services) but also in the form of conditions for their work including their operation and management. Roles and responsibilities of bodies of health insurance companies are unsuitably defined (the only statutory body is the director; health insurance companies thus represent an exception compared to other big financial institutions which are managed by a collective body, i.e., the board of directors). There is no subject that would be responsible for the activities of a

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19 The existing position and activities of health insurance companies providing public health insurance are regulated especially by Act number 551/1991 Coll. Of the General Health-Insurance Company of the Czech Republic (thereinafter as "Act number 551/1991 Coll.") and by Act number 280/1992 Coll., of departmental, line, corporate and other health insurance companies (thereinafter as "Act number 280/1992 Coll.").

health insurance company in the long run and that would have the motivation for supervising the efficient functioning and long-term prosperity of a health insurance company as well as the quality of its services for its clients. The next problem is the uneven position of the General Health-Insurance Company (GHIC) and employee insurance companies. Another problem is the insufficiently regulated and vaguely defined supervision over activities of health insurance companies.

The project will unite the positions, discretions and duties of all health insurance companies. It will also secure the reinforcement of their autonomy and competition through the transformation of existing health insurance companies to a different, more standard legal form, i.e. a joint-stock company. The aim of the transformation is to motivate insurance companies to act economically, to secure transparent book-keeping and to determine a clear responsibility of the management.

*The project of the act of the Office for Supervision over Health Insurance Companies*

The legislation is fragmented to many regulations in the field of supervising activities of health insurance companies. Supervisory competences are carried out by two main auditing bodies, i.e. the Ministry of Health and the Ministry of Finance. The supervision of public health insurance is thus entrusted to the responsibility of government members, and therefore it is necessarily influenced by political ambitions and the opinions of the government's political party or coalition of parties.

Since in the field of public health insurance, there is no exclusive, non-political and qualified supervisory body which would separately, expertly and independently guarantee a legal and cultivated background for subjects providing public health insurance, the Office for Supervision over Health Insurance Companies will be founded according to this project. This office will check the financial health of insurance companies, securing the accessibility of medical services for their insured persons as well as fulfilling other duties stipulated by legal regulations.

## **2.2 The reaction of key interest groups**

The 2006 reform is in many things different from other reform proposals which the Czech health-care system witnessed many times in the past few years. The main difference lies in the elaboration of the reform proposal and the political will to really put it through. After a long period of time, health care is really about to experience well-considered partial changes leading to the transformation of the entire system. This fact explains the prompt and strong reactions of key interest groups. As was mentioned above, the interest groups' remarks will only refer to the field of public health insurance.

### *Health-care providers*<sup>20</sup>

Health-care providers represent a group which is very inhomogeneous. Different interests are promoted by private physicians (sometimes even interests within this subgroup differ; practitioners have different interests from specialist physicians) and different ones by physicians-employees. Some interests of providers are almost antagonistic (there is competition between private physicians and hospitals) while others are common to all providers – especially an effort for a salary increase even though the way leading to achieving this goal is different for each group. Organizations that include all providers are the professional chambers (Czech Medical Chamber – CMC, Czech Dental Chamber). Both chambers defend by law the rights and professional interests of all physicians that practice their medical profession in the Czech Republic. Besides there are other associations defending the interests of individual groups of physicians, such as the Association of General Practitioners, the Association of General Practitioners for children and juveniles of the Czech Republic, the Association of Contract Physicians of the Czech Republic, or the Association of Private Gynaecologists, etc.

The further analysis will mainly deal with the opinions of the CMC. There are two reasons for this simplification: (1) CMC represents physicians-employees as well as private physicians, i.e. 37,824 people<sup>21</sup>, which represents approximately 84% of physicians, and (2) the CMC submitted detailed remarks on the proposed reform measures.

When studying the CMC's attitudes, it is possible to point out two things in the beginning. First, the CMC primarily criticizes bad communication with the MH. The CMC adds to it on its website that "without physicians' support it is impossible to enforce a reasonable health care reform". The CMC also confirms that it conducts negotiations with representatives of all parliamentary political parties, university rectors and trade unions. The aim of these negotiations is to enforce the fundamental remarks by the CMC.

Second, the CMC strongly warns that there is a missing transformation law here which was not published, and it is virtually impossible to assess the proposed changes without it.

The CMC above all misses determining the standard of health care, which it regards as the basis of a health-care reform. The chamber proposes to make a legislative framework for conciliation procedures about these standards between insurance companies and representatives of medical workers. According to the CMC, defining standards of health care paid from the public health insurance will make space for commercial supplementary insurance as well as for the competition

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<sup>20</sup> Remarks by the Czech Medical Chamber were processed according to Kubek 2008.

<sup>21</sup> The number comes from *UZIS* 2006.

of health insurance companies and medical institutions in providing this above-standard care.

The CMC refuses managed care. It disagrees with the idea that the patients' right for a free choice of a physician should be limited by an administrative decision (made by insurance companies or the state). In this sense, the chamber also requests either non-contractual relations between medical institutions and insurance companies (patients would thus freely choose their health-care providers based on their contracts with their insurance companies, and they would decide on the fact to whom their insurance company will pay for provided services) or permanent contractual relations (a contract between medical institutions and insurance companies for an unlimited time period).

The reform proposals reinforce the position of insurance companies in making contracts. The CMC refuses a situation where insurance companies would negotiate the amount and method of payments with individual medical institutions separately.

In the case of an interconnection of an insurance company and a medical institution (having a single owner), the physicians are afraid of the misuse of a dominant position by the insurance company and they see room here for corruption. Moreover, such an interconnection represents a threat for private physicians as it would lead to the liquidation of the majority of private physicians. They perceive an insurance company as a manifold stronger economic player.

The CMC refuses the setting of a maximum ordering time for individual medical services as an unauthorized interference of the state to the business environment. The CMC supports maintaining the plurality of insurance companies that should remain corporate bodies *sui generis* and not be transformed into joint-stock companies. Furthermore, the CMC in this respect refuses competition among private insurance companies that would have higher overhead costs, which would put a strain on finances from public health insurance. The CMC also casts doubt on the provision concerning profits of insurance companies from providing standard public health insurance; according to the chamber, the profits should be regulated permanently and not only for the period of 5 years as it is included in the project. The CMC strongly disagrees with founding the Office for Supervision as it assumes that even in the future, supervisory functions should be conducted by the MH and the Ministry of Finance.

As is clear from the above-mentioned, the MH is not significantly supported by health-care providers since they refuse most of the proposed measures. However, physicians are typically indicated in literature<sup>22</sup> as the strongest group whose (lack of) support strongly influences the success (or failure) of health-care reforms. We repeatedly call attention to the fact that the CMC is not the only

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22 Kwon and Reich 2005, Tuohy 1999, Wilsford 1995 etc.

institution defending physicians' interests and that it is important to consider a wider spectrum of medical associations or organizations when making the list of interest groups (as well as during the creation of the networks themselves through a questionnaire survey).

### *Payers*<sup>23</sup>

The interests of health insurance companies are defended by two associations while membership in the associations is voluntary. The Association of Health Insurance Companies associating six out of eight<sup>24</sup> employee health insurance companies and the Open Association of Health Insurance Companies which associates GHIC and the Health Insurance Company of the Ministry of the Interior. One insurance company is a member of neither of these associations. It is generally true that even within this group, there are distinct interests since different interests are being enforced by GHIC, which carries out some other functions for the needs of the whole system, and different interests are being enforced by employee insurance companies.

As far as the discussed reform is concerned, it is visible that the view of employee insurance companies, which are associated in the Association of Health Insurance Companies (AHIC) and which express their opinions of the proposed changes and try to apply their remarks, is different from the view of GHIC (and subsequently the Open Association of Health Insurance Companies), which is more reserved and does not comment on the reform very much (at least not publicly). For this reason, we will only deal with remarks by the AHIC from now on even though the position of the GHIC is crucial to the Czech system.

Similarly to providers, the Association criticizes primarily the fact that the transformation law was not submitted, which makes it in principle impossible to comment objectively on the project.

A new terminology of cash flows in the system of public health insurance (levies versus insurance payments) requires a strict separation of cash flows of "public money" from "private money of an insurance company". However, the proposal made by reformers does not indicate the moment when a levy becomes an insurance payment. The proposed definition can lead to a legal interpretation saying that until the money is public, its supervision is liable to the Highest Auditing Office.

The possibility of delegating the supervision over payments for insurance (levies) onto a third party is assumed. The Association warns that this delegated competence should be conducted solely by the insurance companies without the possibility of delegating it onto a third party. Moreover, penalty incomes will be redistributed whereas until now, they have been used for the creation of the prevention

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23 Remarks by AHIC processed according to Kothera et al. 2007.

24 In 2009, a new insurance company will start to operate in the Czech Republic, so there will be 9 of them.

fund, which was a very strong motivation for insurance companies to thoroughly check insurance payers.

The calculation of redistribution should be the competence of the Office for Supervision while the Association recommends entrusting its execution to some of the institutions that were founded by insurance companies for securing their common and helping activities. The Association supports the creation of various insurance plans although some provisions need to be developed. As far as making contracts is concerned, the Association states that identical behavior would not be allowed to insurance companies and medical institutions. It also warns about the possibility of the existence of cartel agreements.

Criticism appears in various places of the entire document by the AHIC saying that the project does not specify conditions for the Army of the Czech Republic. It disagrees with the proclamation of a neutral economic impact of the public health insurance act when saying that administrative and transaction costs of participants of health insurance (including insured persons' participation in the health-care costs) will definitely rise.

Insurance companies perceive the proposed central collecting of health insurance as unacceptable with respect to the specifics of this field, which cannot be compared to collecting taxes. Moreover, gradual individualization of contractual relations is in fundamental contradiction with this intention according to the AHIC. Insurance companies require the specification of the process of founding joint-stock companies. It is not clear whether a joint-stock company will be founded with or without a public offering of shares. They refuse to contribute compulsorily to the existence of the Office for Supervision since they think that the Office for Supervision as a body of state administration has to be fully financed from the state budget.

The Association also expresses a number of remarks on the concrete competences of the Office for Supervision (sanctions, deprivation of licenses or liquidation). Furthermore, according to the AHIC, it is impossible to prove that the administrative load and costs for insurance companies connected with communication and statistical statements will decrease by founding the Office. On the other hand, the administrative load of insurance companies will rise again with respect to the intended number of employees of the Office.

In the end, it can be said that payers could be marked to some extent as a "coalition" partner of the MH even though they express many remarks on the proposed reform intentions. What we see as a significant point is the fact that in principle they agree with the direction in which the Czech health-care system would develop after the reform. However, it is good to remind here again of the fact that the GHIC (whose position among payers is dominant) does not comment on the reform officially as it waits or eventually conducts unofficial negotiations.

### *Patients*

Citizens (patients) form the most numerous interest group in the entire system. This group is characterized by the lack of its organization. This relates to a large extent to the fact that citizens as the demanding side in the health-care system demand their care irregularly and often unpredictably; but when they request it, the demand is very intensive.

Their interests are defended by various patient organizations in the Czech Republic; the most significant of them is the Czech Association of Patients. This patient organization refuses the coming reform as a whole. This negative attitude stems from the fact that the Association views the health-care system as a public service to all citizens while the liberally conceived reform by Minister Julínek represents the decrease in solidarity in its eyes. The Constitution of the Czech Republic guarantees the citizens the right to health protection, and the citizens have, based on the Constitution, the right to free health care on the grounds of public health insurance. The Czech Association of Patients interprets this article in such a way that a patient does not pay anything at the time of receiving health care and therefore they perceive some of the proposed measures (regulatory fees) as unconstitutional and they declare their support to any initiative leading to a constitutional or international claim. They strongly disagree with founding the Office for Supervision over Health Insurance Companies. The Association of Patients also presents its own version of the reform and since September 2007, it has initiated negotiations at so-called square table dealing with this reform document.

The above-mentioned could imply that patients are a group that in principle does not support the reform proposals. However, such a perception of their attitude would be very imprecise and limited. It is necessary to realize that (1) in the Czech Republic, there exists a bigger number of patient organizations that will be included in the list of interest groups and (2) the number of patients (citizens) that really are involved in various organizations (or at least take to opinions by patient organizations) is probably insignificant and that the major opinion by patients is not precisely known. At this point, it is important to remember that the majority of public polls regard the health-care system reform as necessary. The necessity of a reform was for instance declared by more than 4/5 of respondents in a survey conducted by the Sociological Institute of the Academy of Sciences of the Czech Republic (2006). The prepared reform intentions are also largely discussed in the media, which also significantly influence the attitude of patients (citizens).

### *Trade unions*<sup>25</sup>

The Czech Republic is a country for which relatively strong unions are typical. There are two union associations in the field of health care (the Trade Union of Doctors

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<sup>25</sup> Remarks by trade unions processed according to Koňářková 2007, Pláničková 2007, Tomek 2007.

and the Union Association of Health and Social Care of the Czech Republic). Both union organizations refuse the proposed reform as a whole although they do not impugn the necessity to reform the Czech system. Currently they are prepared to go on strike.

Trade union members do not find the submitted proposals compact because of the absence of the project of the key transformation act. They also miss a precise description of key terms such as the minimum extent of payment, the description of individual types of medical plans or the specifics of bonuses. It is not clear at all from the project of the law, for instance, what advantages and disadvantages (discretions and duties) insured persons will obtain when choosing the individual types of medical plans.

They consider it unwise that the project does not offer a merger of the management of health-care insurance funds and sickness insurance funds and that it does not even deal with the information interconnection of both systems.

However, trade unions in general strongly disagree with the introduction of various insurance plans. In the opinion expressed by the Czech-Moravian Confederation of Trade Unions, this would represent breaking through the principle of equal access to using health care since insured persons with higher income or eventually bigger property would be unambiguously privileged. They also consider it unreal that insured persons would be able to choose the “correct” plan.

They also refuse the introduction of managed care into the Czech system because of the limitation of the principle of free choice of a physician. They regard managed care as space for corruption. Moreover, it could also bring an uneven access to health care between wealthy citizens and less wealthy ones since “standard care” has not been defined yet. In this respect they also point out that enabling people to pay extra for “above-standard” care means that finances from the system of public health insurance can be used in a different way than for reimbursing health care (e.g. the existence of the Office for Supervision over Health Insurance Companies). Generally speaking, trade unions refuse the possibility of paying extra for higher standard. They warn against the creation of vertical monopolies because of the possibility for a single owner to possess a medical institution as well as a health insurance company.

Trade unions also refuse the new terminology of cash flows in the system of public health insurance, i.e. payments for public health insurance as a source for a public fund used for financing public health insurance versus insurance levies as payments to a health insurance company for securing medical services paid from the public health insurance to a concrete policy holder. They regard this as an income and expenditure side of one activity.

Most of the fundamental issues (especially health-care standards) concerning the newly proposed health-care system are dealt with in the project by refer-

ring to still non-existing (or unpublished) appendices or implementing regulations; this is unacceptable for trade unions because these regulations would be arbitrarily amended according to the influence of various future interests of partial groups or according to the amount of financial sources on accounts of insurance companies and in the state budget.

Trade unions perceive the mechanism of making contracts between providers and health insurance companies as problematic and threatening to the economic stability of the public health insurance system. Trade unions expressively refuse the transformation of insurance companies to joint-stock companies.

In conclusion, it can be noted that trade unions fundamentally disagree with the basic premise of the proposals, i.e., that the system of public health insurance is a suitable field for business activities, competition, making a profit, etc.

### *Political parties*

The opposition is nowadays represented by the Czech Social Democratic Party and the Communist Party of Bohemia and Moravia. Both parties refuse the reform ideologically. They perceive it as precipitate, unpremeditated, not solving the problem of the public-budget deficit and significantly deteriorating the situation of a substantial part of the Czech citizens. According to these parties, the reform represents an individualization of health care as a business activity. The parties do not like the decreasing payments for insured persons whose health insurance is paid by the state and introducing regulatory fees; they refuse the privatization of insurance companies and hospitals, as well as establishing the Office for Supervision over Health Insurance Companies. At the same time, they criticize the small role of the state in influencing the salaries and wages of physicians. They promise to cancel the majority of the reform measures as long as they form a future Czech government.

Nevertheless, reservations towards the proposed reform occur even within the government coalition itself, which has not managed to find a consensus yet and to jointly back the proposed measures. Proposals become subjects of frequent negotiations and the government keep postponing the final negotiation concerning the (non-)acceptance of reform intentions.

## **3. Interpretation of the interest groups' reactions and results**

### **3.1 The methodology**

To evaluate the intensity and direction of the support of selected interest groups to the three act proposals mentioned above in a more formal way, we derive a simple model of interest group reactions to proposals and its attitude to it. The model arises from weighted indices measuring basic parts of interest group reaction. The overall support of a particular interest group to a reform proposal therefore consists of:

- (i) Value of interest group reaction
- (ii) Reform measure weight
- (iii) Interest group weight

**(i) Value of interest group reaction ( $V_{ij}$ )**

For every proposal (part of a proposal, i.e. reform measure)  $j$  and each interest group  $i$ , the value of the interest group reaction differs from -1 (interest group does not agree with the proposal at all) to +1 (group does agree). We construct  $V_{ij}$  as ordinal with the following five values:

**Table 1**  
Possible reaction of interest group  $i$  to proposal  $j$

<b>Interest group reaction</b>	<b>Value (<math>V_{ij}</math>)</b>
does not agree at all	- 1
does not agree, ready to negotiate	- 0.5
neutral, no reaction	0
supports in principle, criticizes the suggested form	0.5
does agree	1

Source: Authors

More formally, for each interest group  $i$  ( $i = 1, \dots, n$ ) and each reform measure  $j$  ( $j = 1, \dots, m$ ), there is a value  $V_{ij} \in \{-1; -0.5; 0; 0.5; 1\}$  which expresses the attitude of the interest group to the proposal on an ordinal scale. The variable  $n$  represent the number of interest groups considered and  $m$  is the total of reform measures which constitute the reform proposal.

**(ii) Interest group reform measure weight  $w_{ij}$**

It is clear that each reform measure has a different importance for each interest group, so the reform measure weight  $w_{ij} \in <0; 1>$  is introduced.

For each  $i$  (for every interest group)  $\sum_{j=1}^m w_{ij} = 1$  applies.

**(iii) interest group weight  $IGW_i$**

It is also evident that each player has a different influence in the Czech health-care system, so the interest group weight  $IGW_i$  for each interest group  $i$  is introduced. The sum of interest group weights is equal to 1.

$$\sum_{i=1}^n IGW_i = 1, \text{ where } n \text{ is the number of interest groups, } IGW_i \in <0; 1>$$

**Overall support**  $S_{ij}$  of a given interest group  $i$  to a given reform measure  $j$  is then:

$$S_{ij} = V_{ij} \cdot w_{ij}$$

$i = 1, 2, \dots, n$       number of interest groups which are analyzed

$I = 1, 2, \dots, m$       number of reform measures which are analyzed

As we stated before, prevailing acceptance of the reform by key interest groups is crucial for successful health-care reform. In a more formal way, this means that the sum of the support  $S_{ij}$  of all interest groups  $i$  to all reform measures  $j$  weighted by  $IGW_i$  is larger than zero. So, the total index of reform success  $S$  is equal to

$$S = \sum_{i=1}^n \sum_{j=1}^m (S_{ij} \cdot IGW_i)$$

And for a successful health-care reform, it should be  $S > 0$ .

### 3.2 Measuring overall support of current health-care proposals

As mentioned above, for our analysis, we selected three reform act proposals (the public health insurance act, the health insurance companies act, the Office for Supervision over Health Insurance Companies' act). For a more detailed analysis, we divide the enumeration of the total index of reform success into three steps (three partial indices). The total index, then, is the sum of three partial indices, i.e.

$$S = S_{\alpha} + S_{\beta} + S_{\gamma}$$

where  $S_{\alpha}$  is the total success index of the Public health insurance act proposal,  $S_{\beta}$  is the total success index of the Health insurance companies act proposal, and  $S_{\gamma}$  is the total success index of the Office for Supervision over Health Insurance Companies act proposal.

Our analysis is then split into three partial tasks consisting of computing three indices. For each partial analysis, we use the same methodology and the same number (six) of interest groups ( $i=6$  for  $\alpha, \beta, \gamma$ ). The proposals considered in the partial analysis differ in the number of measures ( $j$ ) we employ for computing the total index.

Table 2 summarizes the selected reform measures and the reactions of the chosen interest groups. For each of the three studied act proposals, we choose several concrete reform measures (the most controversial), and we study the reactions of the interest groups. The aim is to demonstrate whether the reform is supported by interest groups and to estimate if the reform could be successfully enforced and implemented.

**Table 2**

Selected health-care reform measures and the reaction of some interest groups

act proposal	measure (j)	interest group (i)	reaction
public health insurance act proposal	(1) insurance plans introduction	Labour unions	breaking through the principle of equal access to health care
		CMC <sup>26</sup>	support in principle (condition: standard definition)
		AHIC <sup>27</sup>	support, must be concretized
		CAP <sup>28</sup>	refuse the whole reform proposal
	(2) managed care	Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
		Labour unions	space for corruption; limiting the principle of free choice of a physician
		CMC	refuse
		AHIC	support in principle
		CAP	refuse the whole reform proposal
	(3) health-care standards definition	Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
		CMC	miss determining the standard of health care
		Labour unions	miss the definition of health-care standards
		AHIC	no reaction
	(4) vertical/horizontal monopoly threat	CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
		Labour unions	because of the possibility for a single owner to possess a medical institution as well as a health insurance company
		CMC	abuse of dominant position by the insurance company
		AHIC	possibility of cartel agreements
	(5) reimbursement method, level of reimbursement	CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
Labour unions		problematic and threatening the economic stability of the public health insurance system	
CMC		strengthen the position of insurance companies in making contracts	
AHIC		identical behaviour would not be allowed to insurance companies and medical institutions	
	CAP	refuse the whole reform proposal	
	Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus	

26 Czech Association of Patients.

27 Association of Health Insurance Companies.

28 Czech Association of Patients.

act proposal	measure (j)	interest group (i)	reaction
health insurance companies act proposal	(1) centralized collection of health insurance premiums	Labour unions	refuse the whole reform proposal
		CMC	no reaction
		AHIC	do not accept
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
	(2) compulsory contribution to the OSHIC functioning	Labour unions	refuse the whole reform proposal
		CMC	no reaction
		AHIC	refuse
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
	(3) HIC transformation to joint-stock companies	Labour unions	refuse the whole reform proposal
		CMC	do not accept the transformation
		AHIC	require the specification of the process of founding joint-stock companies
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus

act proposal	measure (j)	interest group (i)	reaction
Office for Supervision over Health Insurance Companies (OSHIC) act proposal	(1) necessity of introducing the OSHIC in the Czech system	Labour unions	support in principle
		CMC	refuse the OSHIC creation
		AHIC	Support in principle, criticize the suggested form
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
	(2) OSHIC activities (health insurance premiums redistribution, central register of insured persons)	Labour unions	disagree
		CMC	refuse the OSHIC creation
		AHIC	should be in charge of HIC
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
	(3) OSHIC financing	Labour unions	should be financed form the state budget
		CMC	refuse the OSHIC creation
		AHIC	should be financed form the state budget
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus
	(4) OSHIC competencies	Labour unions	activities of OSHIC not clearly specified
		CMC	refuse the OSHIC creation
		AHIC	criticize many of proposed OSHIC activities
		CAP	refuse the whole reform proposal
		Political parties	opposition parties refuse the reform ideologically, within the government coalition no stable consensus

Source: Authors

*a) Public health insurance act proposal*

For the public health insurance act proposal, we study the reactions of six interest groups ( $n=6$ ) to five reform measures ( $m=5$ ) and compute the first partial total index  $S_a$ .

As for the health insurance plans introduction ( $j=1$ ), the reactions are strongly negative for labour unions and CAP, rather negative for political parties (ideologically refused by the opposition parties; quite controversial within the government coalition) and moderately positive for CMC and AHIC.

As for the managed care ( $j=2$ ), the reactions are very negative for labour unions, CMC, CAP and political parties. On the contrary, AHIC supports the managed care introduction.

Concerning the health-care standards definition ( $j=3$ ), all studied interest groups are not satisfied with the level of standards definition given by the act proposal. The health standard definition is considered by the majority of studied interest groups as a fundamental issue. The only interest group which does not clearly express its (dis)satisfaction is AHIC. But even in this case, we are convinced that in reality, this topic is important for AHIC and that they would appreciate a clear definition of health standards.

The fourth measure is the vertical/horizontal monopoly threat ( $j=4$ ). This menace is stressed mainly by labour unions and CMC. This is associated to the fact that both of these interest groups refuse the managed care. AHIC, which supports the managed care in principle, emphasizes the possibility of cartel agreements. The real threat depends on the quality of legislation in the field of the protection of competition. As for the CAP and political parties, they are worried about the monopoly creation, but in fact, CAP and the opposition parties refuse all reform measures. The political parties within the coalition support the managed care in principle even if they are conscious of the monopoly threat; it means they lay the stress on the control of competition by the Office for the Protection of Competition.

The last studied measure connected with the public health insurance act proposal is related to the reimbursement methods ( $j=5$ ). In the act proposal, the HIC are given the autonomy in concluding contracts with health-care providers on the basis of the quality of their services. The reaction is strongly negative for the labour unions. They perceive this HIC autonomy as a danger for the economic stability of the public health insurance system. From their standpoint, a higher role of the state in the question of reimbursement is necessary. The CMC reaction is also negative because of the strengthened position of the HIC while deciding whether or not to conclude a contract with a given health-care provider. AHIC support this measure even if they declare that no identical behaviour is allowed to HIC and health-care providers. CAP and the opposition parties refuse the reform ideologically and

would appreciate a stronger role of the state in this issue. As for the political parties within the coalition, they support this measure in principle.

As we described in the model, the first step is to estimate the support for the five studied reform measures from each analyzed interest groups. The values are estimated by the authors in accordance with the described interest groups' reactions.<sup>29</sup>

It can happen that all reform measures have the same significance to the studied interest group. In this case  $w_{ij}$  has the same value for each of the 5 reform measures (for one player), as the sum of weights is equal to 1, than  $w_{ij} = 0.2$ .

According to the described actors' reaction, we estimate that this is the case for political parties within the government coalition, opposition political parties, labour unions and CAP. The reform **measure weights** are then:

Government coalition ( $i=1$ ):  $w_{1j} = 0.2$  for  $j=1, \dots, 5$

Opposition parties ( $i=3$ ):  $w_{3j} = 0.2$  for  $j=1, \dots, 5$

Labour unions ( $i=4$ ):  $w_{4j} = 0.2$  for  $j=1, \dots, 5$

CAP – patients, citizens ( $i=6$ ):  $w_{6j} = 0.2$  for  $j=1, \dots, 5$

Further we suppose that in the case of CMC, the health-care standards definition is the most important issue. In the case of AHIC, the same issue was not commented on at all. In these circumstances, the reform measure weights can be formulated as follows:

CMC – doctors ( $i=2$ ):  $w_{23} > w_{21} = w_{22} = w_{24} = w_{25}$

AHIC – payers ( $i=5$ ):  $w_{53} < w_{51} = w_{52} = w_{54} = w_{55}$

In accordance with the interest groups' reactions, we presume that:

$$w_{53} < w_{21} < w_{11} = 0.2 < w_{51} < w_{23}$$

Concerning the **interest group weight** in the Czech health-care system, the estimation is not easy. In order to determine it, we are going to do a questionnaire survey. However, for the purpose of this paper, we expect, in accordance with the literature<sup>30</sup>, the highest influence in the case of health-care providers ( $i=2$ ) and of politicians ( $i=1$ ). At the same time, we suppose that the influence is the same for opposition parties ( $i=3$ ), labour unions ( $i=4$ ) – traditionally quite important in the Czech society – and payers ( $i=5$ ). The minimal influence is accorded to patients-voters ( $i=6$ ).<sup>31</sup>

$$IGW_1 = IGW_2 > IGW_3 = IGW_4 = IGW_5 > IGW_6$$

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29 Values of  $V_{ij}$  are enumerated in the Appendix (table 3).

30 See e.g. Wilsford 1995, Tuohy 1999, Kwon and Reich 2005, etc.

31 Weights for each interest group can be found in the Appendix (table 4).

To summarize, taking into account all above-set suppositions, we can conclude that the Public Health Insurance act proposal is supported only by the political parties within the government coalition and AHIC. Other players do not support this act proposal. So:

$$S_{\alpha} < 0$$

This result means that in principle, the studied interest groups do not support the Public Health Insurance act proposal, more precisely the reform measures which were analyzed.

*b) Health insurance companies act proposal*

In the case of the Health insurance companies act proposal, we study the reactions of six interest groups ( $n=6$ ) to three reform measures ( $m=3$ ) and compute the second partial total index  $S_{\beta}$ . The considered reform measures are: (1) centralized collection of health insurance premiums, (2) compulsory contribution to the OSHIC functioning and (3) HIC transformation to joint-stock companies.

As for the centralized collection of health insurance premiums ( $j=1$ ), the most negative reaction comes from AHIC. They strongly disagree with this measure. The labour unions find that the whole act proposal should be completely revised. However, in their reactions, they do not mention this issue concretely. A neutral reaction is observed for CMC. CAP and the opposition political parties are against the whole reform. The political parties within the coalition do not comment on this problem openly, apparently there exists a consensus on this issue in the government. The next studied issue is the compulsory contribution of HIC to the OSHIC functioning ( $j=2$ ). The reactions are mostly negative. The AHIC and trade unions' reaction is totally negative. Both of these interest groups assume that the OSHIC functioning should be financed from the state budget. Negative reactions come from the CAP and opposition political parties as well. In opposition to that, a neutral position can be pointed out for the CMC and political parties within the coalition. The fundamental and most controversial issue related to the health insurance companies act proposal is the HIC transformation to joint-stock companies ( $j=3$ ). The trade unions, CMC, CAP and the opposition political parties are opposed to the transformation. The consensus is found neither in the political parties within the government coalition, nor in the political party of minister Julínek. The transformation becomes one of the main political themes for the upcoming regional elections. As the purpose of this reform measure was not clearly explained to the Czech population by the Ministry, and opponents have a campaign based on the rejection of the transformation (they call it privatization with an emphasis on the introduction of a profit motive in the health-care system); regional politicians from minister Julínek's party, afraid of not being re-elected, do not support the transformation of the HIC into joint-stock companies. The only interest group supporting the transformation is AHIC.

In order to specify the support of the chosen interest groups to the health insurance companies act proposal, we can express the above-described interest groups' reactions to concrete reform measures mathematically, as was done for the public health insurance act proposal. We use the same reasoning as for the act proposal studied in the previous part.<sup>32</sup>

It can happen that all reform measures have the same significance to the studied interest group. In this case  $w_{ij}$  has the same value for each of the three reform measures (for one player), as the sum of the weights is equal to 1, than  $w_{ij} = 0.333$ .

According to the described actors' reactions, we estimate that this is the case for the political parties within the government coalition, the opposition political parties, the labour unions and CAP. The reform measure weights are then:

- Government coalition ( $i=1$ ):  $w_{1j} = 0.333$  for  $j=1, \dots, 5$   
 Opposition parties ( $i=3$ ):  $w_{3j} = 0.333$  for  $j=1, \dots, 5$   
 Labour unions ( $i=4$ ):  $w_{4j} = 0.333$  for  $j=1, \dots, 5$   
 CAP – patients, citizens ( $i=6$ ):  $w_{6j} = 0.333$  for  $j=1, \dots, 5$

We suppose that in the case of CMC, the most important issue is the problem of transforming HIC into joint-stock companies, for the other two issues, there were no reaction. In the case of AHIC, the most important issue is the problem of the centralized collection of health insurance premiums. In these circumstances, the reform measure weights are:

- CMC – doctors ( $i=2$ ):  $w_{23} > w_{21} = w_{22}$   
 AHIC – payers ( $i=5$ ):  $w_{51} > w_{52} = w_{53}$

In accordance with the interest groups' reactions, we presume that:

$$w_{21} < w_{52} < w_{11} = 0.333 < w_{51} < w_{23}$$

The interest groups' weight remains the same as in the previous part, so:

$$IGW_1 = IGW_2 > IGW_3 = IGW_4 = IGW_5 > IGW_6$$

Taking into account all above-set suppositions,<sup>33</sup> we can conclude that the health insurance companies act proposal is supported only by the political parties within the government coalition. Other players do not support this act proposal. So:

$$S_p < 0$$

<sup>32</sup> The estimated support to three studied reform measures is enumerated in the Appendix (table 5).

<sup>33</sup> Weights for each interest group can be found in Appendix (table 6).

This result means that in principle, the studied interest groups do not support the health insurance companies act proposal, more precisely the reform measures which were analyzed.

*c) Office for Supervision over Health Insurance Companies act proposal*

Concerning the Office for Supervision over Health Insurance Companies act proposal, we analyze the reactions of six interest groups ( $n=6$ ) to four reform measures ( $m=4$ ) and compute the third partial total index  $S_{\gamma}$ . The reform measures are: (1) the necessity of introducing the OSHIC into the Czech system, (2) proposed OSHIC activities, (3) proposed OSHIC financing and (4) proposed OSHIC competencies. The first thing is to see whether the interest groups support the idea of establishing OSHIC into the Czech system ( $j=1$ ). The general support comes from the labour unions, AHIC and the political parties within the government coalition. By contrast, CMC is opposed to this measure. CAP and the opposition political parties refuse the whole reform. The two next studied topics are the proposed activities of OSHIC – especially health insurance premiums redistribution and central register of insured persons’ administration – ( $j=2$ ) and the OSHIC financing ( $j=3$ ). There is a consensus within all studied interest groups; their reactions are definitely negative. The only exception could be political parties in the government coalition, which do not criticize this measure openly. As for the last studied measure – proposed OSHIC competencies ( $j=4$ ) – the reactions are not only negative. The general support comes from the AHIC, the political parties within the government coalition and the labour unions, even if they criticize some concrete competencies. The reaction is strongly negative for CMC, CAP and opposition political parties.

In order to specify the support of the chosen interest groups to the Office for Supervision over Health Insurance Companies act proposal, we can express the above-described interest groups’ reactions to concrete reform measures in the same manner as was done for the two previous act proposals. We use the same reasoning as for the act proposals studied in the previous parts.<sup>34</sup>

In the case when all reform measures have the same significance to the studied interest group,  $w_{ij}$  has the same value for each of the four reform measures (for one player), as the sum of weights is equal to 1, then  $w_{ij} = 0.25$ .

According to the described actors’ reaction, we estimate that for the OSHIC act proposal, this is the case for all studied interest groups. The reform measure weights are then:

$$w_{ij} = 0.25 \text{ for } \forall j$$

The **Interest groups’ weight** remains the same as in the previous part, so:

$$IGW_1 = IGW_2 > IGW_3 = IGW_4 = IGW_5 > IGW_6$$

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<sup>34</sup> The estimated support to three studied reform measures is enumerated in the Appendix (table 7).

Taking into account all above-set suppositions,<sup>35</sup> we can conclude that the Office for Supervision over Health Insurance Companies act proposal is supported only by the political parties within the government coalition. Other players do not support this act proposal. So:

$$S_{\gamma} < 0$$

This result means that in principle, the studied interest groups do not support the Office for Supervision over Health Insurance Companies act proposal, or – more precisely – the reform measures which were analyzed.

*d) Overall support to the reform proposal*

We can conclude that the three act proposals which were studied in this paper are not supported by the interest groups. Act proposals are only supported by the political parties within the government coalition, which is logical as it is their reform project. It is necessary to take into account that even this support is not so evident while there is not always consensus within the government coalition. The public health insurance act proposal is also supported by AHIC; other proposals have only the “government” support. This means that the interest group support to the studied reform proposal (S) is:

$$S = S_{\alpha} + S_{\beta} + S_{\gamma} = -1.139 < 0$$

## **Conclusion**

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Nowadays, reforms of any public policy cannot be carried out without a complicated balancing of various interests of participants that are affected by the given policy. Our paper is based on the primary analysis of the health policy field as well as on the identification of key players. The aim was to (1) reveal economic interests of the principal Czech health-care sector actors, (2) deduce whether the latest reform proposal could be successful.

With compliance to the theoretical framework (Heaney 2005), it seems that interest groups actively filling roles as brokers are able to induce perspicuous changes in public policies. Serving as brokers between disconnected organizations and interests is a key way for interest groups to exert influence over the concrete area of public policy. In this context, we believe that finding such a broker (or brokers) in the Czech health arena could be helpful while implementing any health reform strategy.

In this contribution, we summarize basic facts about the current form of the Czech health-care reform proposal. Selected changes in the legislation that come out of the reform are presented and discussed. The declared or supposed reactions

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35 Weights for each interest group can be found in Appendix (table 8).

of the key interest groups in the Czech health-care system to the reform proposal are pointed out.

We argue that in Czech health policy and its reform, there are six most important players: Political parties within the government coalition, the Czech medical Chamber (CMC), Opposition political parties, Labour unions, the Association of Health Insurance Companies (AHIC), and the Czech Association of Patients (CAP). Balancing their interests could be the only way of a successful public health-care system reform.

The analysis deals with the current Czech health-care reform proposal prepared by minister Julínek. We hypothesize that the proposal is good and long-prepared; however, it has little (not enough) support for a successful implementation.

Our results do not support the rejection of the hypothesis stated above. We employed a quite simple method based on individual indices measuring the particular support of each interest group we mentioned in our study. These indices are then weighted by importance of the group. Weights are based on our analysis of the perceived importance of such a part for a particular interest group and might be re-defined after we have a longer period to study the real acting of the groups.

The individual indices let us compute and formulate the overall support for the reform proposal of each interest group resulting in one complex index. Such an index could be used as a tool for the measurement of the overall probability of the reform proposal success. For the proposal covered in our paper we – as hypothesized – found an overall index of -1.14, i.e. less than zero. In accordance with our methodology, this value means that there is not enough support for the current reform proposal. So, as the reform proposal is not supported by the key players, the Julínek reform will probably not be successful.

We are aware of some degree of simplification in our findings. Our methodology is based on the perceived attitudes of the studied interest groups. These attitudes could sometimes be affected by (dis)interpretation by leaders, opponents or media. For a more complex analysis of the probable success of any policy (or policy reform), a more detailed deduction of interest groups support and importance should be used. As we mentioned in the first part of our paper, our methodology will employ a survey study. The survey will be addressed to key or very important subjects in the Czech health-care system (specialists, university professors, managers, representatives or Member of Parliament). A by-product of such a study could be some kind of verification of the structure of interest groups in the Czech health-care system. In this respect, we take our study presented in this paper as a pilot. We also intend to replicate our methodology onto other reform proposals, either foreign or from different branches of public policy.

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## Appendix

The following tables show the particular values of the parameters estimated for the support of the studied reform measures. The values are computed for each analyzed interest groups. For each of the three studied act proposals, we show two tables. The first table enumerates the parameters, and the second shows the values of interest group support to the act.

### a) Public health insurance act proposal

**Table 3**  
Interest group support to the public health insurance act proposal – estimated parameters

Public health insurance act proposal								
		Reform measure (j)						
Interest group i		1	2	3	4	5	Total	Interest group weight
<b>Political parties within the government coalition</b>	$w_{1j}$	0.2	0.2	0.2	0.2	0.2	1	0.25
	$V_{1j}$	0.5	0.5	0.5	0.5	0.5	2.5	
<b>CMC</b>	$w_{2j}$	0.4	0.15	0.15	0.15	0.15	1	0.25
	$V_{2j}$	0.5	-1	-1	-1	-1	-3.5	
<b>Opposition political parties</b>	$w_{3j}$	0.2	0.2	0.2	0.2	0.2	1	0.15
	$V_{3j}$	-1	-1	-1	-1	-1	-5	
<b>Labour unions</b>	$w_{4j}$	0.2	0.2	0.2	0.2	0.2	1	0.15
	$V_{4j}$	-1	-1	-1	-1	-1	-5	
<b>AHIC</b>	$w_{5j}$	0.1	0.225	0.225	0.225	0.225	1	0.15
	$V_{5j}$	0.5	1	0	0.5	0.5	2.5	
<b>CAP</b>	$w_{6j}$	0.2	0.2	0.2	0.2	0.2	1	0.05
	$V_{6j}$	-1	-1	-1	-1	-1	-5	

Source: Authors

**Table 4**  
Interest group support to Public health insurance act proposal

Interest group i	Interest group weight	$S_{ij}$	$S_{ij} * IGW_i$
<b>Political parties within the government coalition</b>	0.25	0.5	0.125
<b>CMC</b>	0.25	-0.4	-0.1
<b>Opposition political parties</b>	0.15	-1	-0.15
<b>Labour unions</b>	0.15	-1	-0.15
<b>AHIC</b>	0.15	0.5	0.075
<b>CAP</b>	0.05	-1	-0.05

$$S_{\alpha} = -0.25$$

Source: Authors

**b) Health insurance companies act proposal**

**Table 5**  
Interest group support to the Health insurance companies act proposal – estimated parameters

<b>Health insurance companies act proposal</b>						
Interest group i		Reform measure (j)				Interest group weight
		1	2	3	Total	
<b>Political parties within the government coalition</b>	$w_{1j}$	0.333	0.333	0.333	1	0.25
	$V_{1j}$	0.5	0.5	0.5	1.5	
<b>CMC</b>	$w_{2j}$	0.25	0.25	0.5	1	0.25
	$V_{2j}$	0	0	-1	-1	
<b>Opposition political parties</b>	$w_{3j}$	0.333	0.333	0.333	1	0.15
	$V_{3j}$	-1	-1	-1	-3	
<b>Labour unions</b>	$w_{4j}$	0.333	0.333	0.333	1	0.15
	$V_{4j}$	-1	-1	-1	-3	
<b>AHIC</b>	$w_{5j}$	0.4	0.3	0.3	1	0.15
	$V_{5j}$	-1	-1	0.5	-1.5	
<b>CAP</b>	$w_{6j}$	0.333	0.333	0.333	1	0.05
	$V_{6j}$	-1	-1	-1	-3	

Source: Authors

**Table 6**  
Interest group support to the health insurance companies act proposal

Interest group i	Interest group weight	$S_{ij}$	$S_{ij} * IGW_i$
<b>Political parties within the government coalition</b>	0.25	0.4995	0.125
<b>CMC</b>	0.25	-0.5	-0.125
<b>Opposition political parties</b>	0.15	-0.999	-0.150
<b>Labour unions</b>	0.15	-0.999	-0.150
<b>AHIC</b>	0.15	-0.55	-0.083
<b>CAP</b>	0.05	-0.999	-0.050

$$S_{\beta} = -0.432$$

Source: Authors

**c) Office for Supervision over Health Insurance Companies act proposal**

**Table 7**  
Interest group support to the OSHIC act proposal – estimated parameters

<b>Office for Supervision over Health Insurance Companies act proposal</b>							
Interest group i		Reform measure (j)					Interest group weight
		1	2	3	4	Total	
<b>Political parties within the government coalition</b>	$w_{1j}$	0.25	0.25	0.25	0.25	1	0.25
	$V_{1j}$	0.5	0.5	0.5	0.5	2	
<b>CMC</b>	$w_{2j}$	0.25	0.25	0.25	0.25	1	0.25
	$V_{2j}$	-1	-1	-1	-1	-4	
<b>Opposition political parties</b>	$w_{3j}$	0.25	0.25	0.25	0.25	1	0.15
	$V_{3j}$	-1	-1	-1	-1	-4	
<b>Labour unions</b>	$w_{4j}$	0.25	0.25	0.25	0.25	1	0.15
	$V_{4j}$	0.5	-1	-1	-1	-2.5	
<b>AHIC</b>	$w_{5j}$	0.25	0.25	0.25	0.25	1	0.15
	$V_{5j}$	0.5	-1	-1	0.5	-1	
<b>CAP</b>	$w_{6j}$	0.25	0.25	0.25	0.25	1	0.05
	$V_{6j}$	-1	-1	-1	-1	-4	

Source: Authors

**Table 8**  
Interest group support to the OSHIC act proposal

<b>Interest group i</b>	<b>Interest group weight</b>	<b><math>S_{ij}</math></b>	<b><math>S_{ij} * IGW_i</math></b>
<b>Political parties within the government coalition</b>	0.25	0.500	0.125
<b>CMC</b>	0.25	-1.000	-0.250
<b>Opposition political parties</b>	0.15	-1.000	-0.150
<b>Labour unions</b>	0.15	-0.625	-0.094
<b>AHIC</b>	0.15	-0.250	-0.038
<b>CAP</b>	0.05	-1.000	-0.050
			<b><math>S_{\gamma} = -0.456</math></b>

Source: Authors

# Enhancing Efficiency, Effectiveness and Equity in Public Service Delivery in Uganda

Mary Theopista Wenene<sup>1</sup>

## Abstract

This paper is a shortened and adapted version of the presentation by Mary Theopista Wenene to the 2008 IASIA conference in Kampala, Uganda. The editorial board decided to publish it in our Journal for two reasons. The simpler reason is obvious – readers are presented with an interesting case study, describing how Uganda implements important service quality and efficiency instruments. But this paper is more than a case study. Its main service to us is that it shows that the quality of public services does not necessarily depend on the amount of available resources. The will and the desire to deliver services may be much more important. Uganda is not poor in African terms, but it is very poor compared to Central and Eastern European countries – especially those that are already European Union members. Yet its public service delivery reforms are much more robust and citizen-oriented than in most countries of our region. Thus this paper provides an important benchmark and a painful lesson for us, for it shows that a lack of resources cannot excuse a lack of progress in changing relations between administrations and citizens.

**Key words:** *Uganda, public services, results oriented management, service charters, service review*

## 1. Introduction

Many countries all over the world are currently implementing public sector management reforms. The main objective of the reform initiatives is to enhance efficiency and effectiveness in public service delivery. The question that emerges is whether the reforms are fundamental enough to transform the way public services are managed and to produce the desired results and outcomes. Citizens and clients

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are greatly affected by the pace of the reforms but much more so by the availability, responsiveness and cost of public services.

Uganda is implementing a public service reform programme. One of the key objectives of the reform is enhanced performance and accountability by public service organizations in line with the objectives of the Poverty Eradication Action Plan (PEAP). Public service performance and accountability should be demonstrated on the level of efficiency, effectiveness and equity in the public services and should translate themselves into improved performance indicators for the attainment of the PEAP objectives. Some tools have been developed and implemented to that effect. Whereas a number of challenges have been encountered, there are opportunities that still need to be explored.

The objective of the paper is to share information on the tools for good practices from the Ugandan perspective in order to show that services should be provided within the available resources.

## **2. Tools and Good Practices for enhancing efficiency, effectiveness and equity in public service delivery in Uganda**

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A number of tools can be applied to enhance efficiency, effectiveness and equity in public service delivery. For purposes of this presentation, the tools and practices will be drawn from the experience of the public service in Uganda. The focus will be on some of the initiatives under the public service reform programme, namely the implementation of Results Oriented Management (ROM), institutionalization of client charters and National Service Delivery Surveys (NSDS).

### **2.1 Implementation of Results Oriented Management**

Results Oriented Management is an integrated performance management system. It has been successfully implemented in most developed countries including the USA, Canada, the United Kingdom and New Zealand. Other countries that have recently embraced the practice and are making remarkable improvements are Vietnam, Haiti, Peru and Chile.<sup>2</sup>

According to the Performance Management Framework issued for the local governments in New Zealand in 2007, performance management is more than a set of reports and figures, the latest performance management software with all the bells and whistles or the Mayor's weekly meeting with the Chief Executive. It is a process of determining objectives, measuring progress against those objectives and using results to improve the local authority's delivery of services to the community.

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2 Source Book. World Bank. *Emerging Best Practices in Managing for Development Results*. 2<sup>nd</sup> edn.

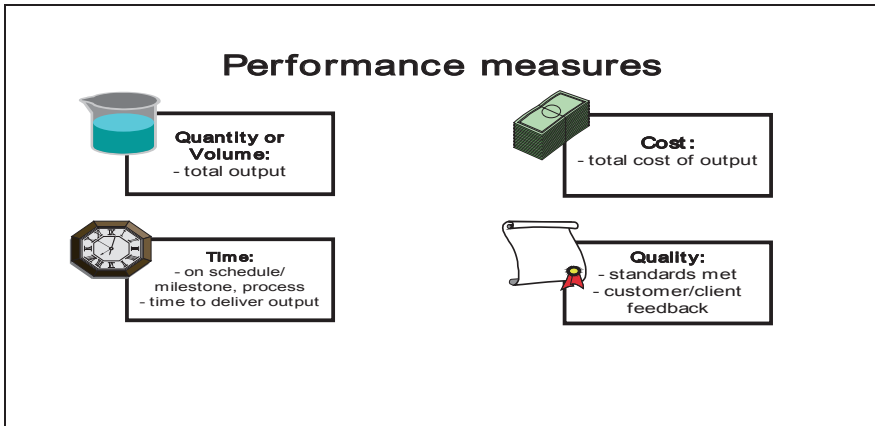
One of the good practices for promoting efficiency and effectiveness in Uganda's Public Service is through Results Oriented Management. The implementation of ROM was a result of a recommendation by the Public Service Review and the Reorganisation Commission (PSRRC) 1989/1990. The objective is to change the traditional management culture of the Public Service that focuses on procedures, activities and inputs to focus on results. According to the Public Service Reform Strategic Framework 2005/06–2009/10, ROM is the centre piece for achieving the key strategic objective of enhanced performance and accountability by public service organizations. The experience in Uganda has been unique and tailor-made, based on the history of the country.

In the Ugandan Context, ROM is being applied to promote the optimal use of available resources by focusing on the results delivered at institutional and individual levels in line with the institutional plans, sector plans and the Poverty Eradication Action Plan, which is the current over-arching National Development Framework. ROM takes into account the needs of clients and client feedback to ensure responsiveness of the services provided and continuous performance improvement. The integrated ROM framework has been designed to link plans, resources (financial and material), personnel and processes in the implementation of programmes to ensure efficiency and effectiveness in service delivery. ROM, if well implemented, addresses all the issues of efficiency, effectiveness and service delivery.

The application of the ROM framework in Uganda's Public Service is demonstrated as follows.

- a) **Development of institutional results framework:** Public service institutions, that is Ministries, Departments and Agencies and Local Governments (MDAs and LGs), have developed strategic medium-term and annual plans that articulate their vision, mission and objectives. They also articulate the key outputs that are expected to be delivered and the performance indicators that should be used to measure performance.
- b) **Planning and budgeting:** Preparation of the budget framework papers and the policy statements reflects outputs in line with the institutional results framework. Some sectors have developed sector plans. All levels of plans show how they contribute to the national development framework, in this case the Poverty Eradication Action Plan.
- c) **Individual staff performance appraisal:** The staff performance appraisal instrument was reviewed to match the requirements for result-oriented management. Individuals are now required to be assessed on the basis of achievement of outputs and to understand how their individual contribution links to the Departmental and Organisational objectives and, subsequently, to the national objectives. This has created a sense of responsibility and focus on the part of individual public servants on the need to demonstrate outputs and results, as opposed to inputs and activities.

- d) **Performance review and reporting:** At the institutional level, some organizations prepare annual performance plans, undertake quarterly performance reviews and prepare annual performance reports based on outputs. The national monitoring framework now focuses on results and outputs as opposed to activities and inputs. Overall, performance reporting has improved following the implementation of ROM.
- e) **Performance measurement:** The performance measures that are being promoted are four, namely, quantity or volume, cost, time and quality, as reflected in the figure below.



Source: Ministry of Public Service, ROM Handbook

MDAs and LGs have developed some performance indicators to facilitate reporting on the achievement of outputs. The indicators should be in terms of quantity or volume, cost, time and quality.

- f) **Reward and recognition:** A reward and recognition scheme has been developed and issued for implementation. The scheme places emphasis on non-monetary rewards for individuals, teams and institutions. The guidelines will standardize the practice across the public service. Overall benefits of the scheme are yet to be realized.
- g) **Performance improvement initiatives:** Implementation of deliberate performance improvement initiatives is a key step in result orientation. This is still a challenge as most of the institutions have not developed separate specific performance improvement plans. Emerging issues from the individual staff performance appraisals and the overall monitoring and evaluation of performance need to be translated into performance improvement strategies. Performance improvement requires openness to changing the way some of the things are done. The Ministry of Public Service, however, has developed a change management strategy and has started to implement it. It is planned that the lessons

learnt within the Ministry will be applied in rolling out the strategy to the entire public service. Coaching and mentoring guidelines are being developed.

*Steps undertaken to introduce ROM in Uganda*

The process for introducing and implementing ROM included:

- a) Pilot implementation in 5 MDAs and 5 LGs.
- b) Sensitization of political leadership to obtain buy in after the pilot.
- c) Endorsement by the Cabinet.
- d) Development of the Uganda ROM framework and training materials.
- e) Sensitization of senior management staff in MDAs and LGs.
- f) Identification and training of ROM facilitators/champions within each MDA or LG.
- g) Introduction of ROM in each MDA or LG and development of an institutional results framework through a participatory process.
- h) Implementation of the results framework through planning and budgeting, staff performance appraisal, monitoring and evaluation and reporting of performance.
- i) Continuous review of ROM implementation to improve the quality of the results framework and implementation modalities.

*Evaluation of ROM implementation in Uganda*

There has been the opportunity to evaluate the implementation of ROM in order to identify strategies for strengthening it.

The evaluation report of ROM implementation of March 2004 indicated that the level of understanding, ownership commitment by Political Leaders, the Accounting Officers and the Management Team was very high in some Central and Local Governments, but also very low and absent in others. Most institutions had participatively developed their results'framework with clear and measurable performance indicators that had also been disseminated to all levels of management. However, it was also noted in the report that the quality of the results framework in some institutions, and the application of ROM in planning and budgeting, staff performance appraisal, and monitoring and evaluation processes needed to be improved upon and strengthened.<sup>3</sup>

Another independent review of ROM was undertaken in April-May 2008. The findings of the Review exercise indicate that:

- a) The ROM initiative has been successful in providing a common results framework and understanding of the framework across institutions.

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<sup>3</sup> Results Oriented Management Implementation Review Report 2004.

- b) The ROM concepts are well understood by officers down to the middle-management level in Ministries and Local Governments.
- c) Most Officers believe that there have been improvements in their own work and the work of their departments and organisations due to a greater focus on outputs.
- d) ROM has provided a very good foundation for an increasing focus on outputs in the budget.
- e) There is the need to ensure that the Integrated Financial Management System (IFMS) is able to facilitate analysis of the budget to match outputs, approved budgets and expenditure and to improve on the quality of indicators.<sup>4</sup>

Although not yet quantified, increasing the focusing on results, the definition of performance indicators and the on-going work to link the budget to outputs has contributed to improvements in efficiency and effectiveness in public service delivery.

### **3. Institutionalization of Client Charters**

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Results and priorities of public services ought to be tailored to meet the needs of service recipients. If that is not done, the public service risks the danger of continuing to produce outputs and results year-in year-out that do not add value to the needs and expectations of the people. There is now a deliberate effort to increase the participation and engagement of service recipients and stakeholders in the design, implementation and monitoring of public services through client charters. For that reason, client charters have been introduced in the public service.

In the Uganda Public Service, a Client Charter is understood as a social contract between an MDA or LG and the service recipients. It is issued as a publication by a Ministry, Department, Agency (MDA) or Local Government (LG) setting out service standards that the clients and stakeholders should expect and the commitment to continuous service improvement.

The objectives of implementing client charters are to:

- a) Inform clients and stakeholders of the services the MDA or LG provides.
- b) Provide an accountability framework for the MDA or LG to account to its clients and stakeholders on a regular basis.
- c) Enable the clients and stakeholders to hold the MDA or LG to account.
- d) Act as a tool for continuous performance improvement by addressing service delivery issues.

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<sup>4</sup> Results Oriented Management Implementation Review Report 2008.

The process for developing a client charter of an MDA or LG includes:

- a) An introductory session for the senior staff of an organization.
- b) Identification of an internal team to champion the process.
- c) Agreement of commitments at the departmental level within an organization.
- d) Involvement of all levels of staff in discussing the commitments.
- e) Agreement of key commitments by the senior management of an organization.
- f) Presentation of key commitments to a stakeholders' meeting for their endorsement.
- g) Endorsement of the commitments by a Minister in the case of a Ministry, and the Council in the case of a Local Government.
- h) Finalization of the charter and printing.
- i) Launch and dissemination for implementation.

#### **4. National Service Delivery Surveys**

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Strong monitoring and evaluation (M & E) arrangements support efficiency, effectiveness and equity in public service delivery. Participatory M & E helps to answer questions as to how well public services are being provided and to provide honest explanations of what is going well and what is not working out as planned. Service recipients are given voice to provide feedback. This can be institutionalized at various levels including the National, Sector, Institutional and Community levels and the household level.

One of the good practices that has been applied in Uganda is the National Service Delivery Survey (NSDS). The first NSDS was undertaken in 2000. The practice was thereafter institutionalized, and it was agreed the NSDS would be undertaken every four years. The second NSDS was undertaken in 2004 and preparations for the NSDS 2008 are in an advanced stage.

The overall objective of the NSDS is to provide a comprehensive assessment of the trends in service delivery in selected sectors and to establish the availability, accessibility, cost and utilization of services and whether service recipients are satisfied with the trends in service delivery in terms of coverage, quantity and quality. The specific objectives of the surveys are to:

- a) Provide up-to-date information about the performance and impact of public services both at the local and national levels.
- b) Establish the cost of delivering services.
- c) Measure and document trends in service delivery.
- d) Identify constraints and gaps in the provision of services.

- e) Provide recommendations for improvement in service delivery.

### **Steps for conducting a National Service Delivery Survey**

The steps undertaken in conducting an NSDS in Uganda usually include:

- a) Developing terms of reference for the study.
- b) Constituting a technical team comprised of the key sectors and coordinating institutions.
- c) Identifying key areas for the survey in consultation with the sectors.
- d) Determining coverage and sample size.
- e) Designing survey instruments.
- f) Pilot testing the instruments and finalizing the instruments.
- g) Listing households and service providers to participate in the survey.
- h) Identifying and training field staff.
- i) Carrying out field work to collect data from households and service providers.
- j) Analysing data and report writing.
- k) Disseminating findings.

A qualitative survey to complement findings of the quantitative survey 2008 is planned to be undertaken. This will mainly involve focus group discussions. Following lessons learnt from the previous surveys, it is planned that the dissemination of the findings and the campaign to use the results by the government, private sector and NGOs will be stepped up. It should be noted that the NSDS collects the experiences of service users and not just their opinion. For purposes of illustration, some findings of the NSDS 2004 from the education and water sectors are highlighted below:

The education attainment of the household head may influence the decisions regarding the use of educational services. The findings revealed that less than 2 percent of the household heads did not have any primary education. The majority of the household heads had at least some primary education with 20 percent having completed lower primary and about 35 percent upper primary. The percentage of female household heads without primary education was more than twice that of the male household heads.

The respondents were asked to rate the quality of teachers at the schools their children attended. The findings revealed that the households were generally satisfied (86 %) with the quality

of the teachers with 48 percent saying they were good and 38 percent saying they were fair.

Regarding water, the findings revealed the average distance to a water source was 1.1 and 0.9 km during the dry and wet seasons respectively. The 2000 NSDS showed an average distance of 1.5 and 1.2 km during the dry and wet seasons respectively. The findings suggested that water was more accessible at the time of the Survey than four years earlier.

The water and sanitation sector performance measurement target for water collection time in rural areas is 27 minutes, while for the urban areas, it is 7 minutes. Drinking water collection time was considered as the waiting time at the source, and the time to and from the water source. For the rural areas, the Survey revealed 93 minutes during the dry season and 63 minutes during the wet season. However, for the urban areas, the waiting time was 60 minutes during the dry season and 42 minutes during the wet season.

Source: Report on the National Service Delivery Survey, Uganda 2004.

## **Conclusions**

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The challenges outlined above are an indication that most African countries do not yet provide services in an efficient, effective and equitable manner. They are indeed a result and a cause of the inefficiencies, ineffectiveness and inequities in public service delivery.

Efficiency, effectiveness and equity should be considered within the total picture of a public service. The dilemma is that after half a century of independence, African Countries are still grappling with the basics in public service delivery. In the 21<sup>st</sup> century, people are still going hungry and naked. There is the need to get a few basics right. When there are no basics in place, it becomes difficult to discuss issues of efficiency, effectiveness and equity. The lack of equity in service provision is evident in regional or ethnicity imbalance within states, urban vs. rural, gender and disability, institutional priorities and outcomes, those who have and the have-nots.

The academia and technocrats need to collaborate more in order to improve public service delivery. The Public Service and the Training Schools and Institutions should be at the forefront of advocating for human capital. Much progress will not be realized until the human resource contribution is valued and given due recognition. There is also the need to promote good practices across borders.

The need to increase the participation of service recipients in the design, delivery and monitoring of public services cannot be ignored. Participatory M & E

and quality assurance mechanisms need to be institutionalized. Equity is an issue of governance. The scope of governance in Africa needs to be deepened beyond the current focus of elections.

There is the need to provide incentives and disincentives for public service institutions to be efficient and effective. Champions for change at all levels – political, technical, civil society and academic – are required. As many as possible should be enlisted to find solutions to problems in public service delivery.

Efficiency, effectiveness and equity in public service delivery is all about commitment, commitment and commitment. It is about commitment to promoting the well-being of all citizens, commitment to listening to service users, commitment to being result-oriented, commitment to transparency and accountability, commitment to change and to continuous improvement. It is all about commitment.

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# Degree of Fiscal Decentralization in Republic of Moldova

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*Boris Morozov*<sup>1</sup>

## Introduction

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Fiscal decentralization has been a mantra for practitioners and scholars for more than 30 years. Such particular fascination with concept of fiscal decentralization arises from potential benefits associated with it. Although there is no clear consensus among scholars on absolute necessity of a decentralized government for nation's prosperity, there is the argument that an accurately designed and implemented system for delegation of public responsibilities to local authorities creates conditions that allow for better provision of public services and goods. Proponents of such view argue that long term societal benefits of decentralization outweigh the immediate costs associated with it. Situation of developing countries allows these nations to capitalize on experiences of developed democratic countries for design and development of their own democratic systems.

The analysis of theoretical benefits and potential threats of decentralization process is far beyond the purposes of this article. Thus, the authors of this article take the argument of decentralization's positive contribution to a nation's development at face value. Consequences of such acceptance are twofold. First, recognition of the fact that decentralization has positive consequences for nation's development allows researchers to employ World Bank's system of evaluation of nation's degree of decentralization. Second, acceptance of the previously mentioned argument allows for meaningful description of the decentralization process in Republic of Moldova. Thus, this exploratory study evaluates the degree of fiscal decentralization in Republic of Moldova. It describes the criteria for evaluation, current achievements, and major problem areas (e.g. revenue and expenditure assignments, and local tax base).

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This paper is organized in three logical parts. The first part provides an overview of Moldova as a modern democracy that gained its independence as a consequence of USSR collapse. This section provides most recent socio-economic description of the country under analysis. The primary purpose of this part is to establish a system of reference for country evaluation. Second part of the paper consists of two logically connected chapters describing (1) dynamics of public sector development from regulatory and legal points of view, and (2) essence and evolution of public sector finances. Such description is justified through the fact that it addresses all aspects of decentralization process (administrative, political, and economic), which is the ultimate purpose of the entire manuscript and which is addressed in its last logical part. The article is concluded with identification of most important issues facing Republic of Moldova and general conclusions and recommendations for solution of these issues.

## 1. Country Information and Socio-Economic Description

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Republic of Moldova (RM), a small country (only 33,846 sq. km.) with population of 4 million citizens, is located off the North-West coast of the Black Sea between Romania and Ukraine. 20<sup>th</sup> century was a century of change for this region with Romania and Soviet Union being determinant factors of region's fate. During World War II the Soviet Union annexed Basarabia (territory between rivers Nistru and Prut) through Molotov-Ribbentrop Pact of 1939 and later combined it with its own Nistru area to form the Soviet Republic of Moldova. As the Soviet Union collapsed, artificially created Republic of Moldova gained its independence on August 27, 1991. The new small state was landlocked, touching Danube River for a couple of hundred meters in the south.

RM population in 1991 was ethnically diverse with about 65 % of ethnic Romanians and 25 % of ethnic Russians and Ukrainians<sup>2</sup>. In the south there was significant population of Turks. During Soviet control of the territory, both Romanian and Russian languages were actively used through Cyrillic alphabet. Simultaneously with the declaration of its Independence, the decision to switch to Latin alphabet and to declare Moldovan language (similar to Romanian) the only state language resulted in a civil war of 1992. As a result of this movement, territory east of Nistru River (also known as *Transnistria*) declared its independence from Republic of Moldova. Since that moment, Moldovan authorities could not re-establish control over that territory which since has its own governmental structures and state attributes. Simultaneously, somewhat similar movement was taking place in the South region of the country. These two events influenced the early period of Moldovan independence, diverting Central Government priori-

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2 Other 10 % of Moldovan population are ethnic Bulgarians, Turks, Belarusians, etc, with percentage shares too small, thus summarized in a group of "other ethnicities."

ties from the economic and structural reforms much needed for sustainable development of the country. These adverse initial conditions were aggravated by political/social uncertainties. The *de facto* Transnistria secession removed much of Moldova's modern industries. About 80 percent of the nation's electricity is generated by a plant in Transnistria, and the major road and railway to Odessa, the nearest Black Sea port, go through Transnistria.

Historically, Republic of Moldova was economically underdeveloped. It achieved its middle-income status only through massive Soviet investment and subsidies as well as guaranteed markets for a variety of Moldovan agricultural products. Collapse of the Soviet Union and declaration of Moldovan independence resulted in both termination of Soviet subsidies and increased complexities and difficulties for Moldovan exports. Combination of these factors was catastrophic for Moldova's economy and industry. World Bank research indicated that Moldova would be the FSU republic most affected by the move to world prices. It was.

The real GDP in 2000 year was only 41 % of its 1991 level. The 2000 GDP per capita in Moldova was US \$354.1, or less than US \$1 per day. Average monthly wage in 2000 was ~ US \$32, which covered only 43.1 % of the official poverty income. The GDP per capita in Moldova is lower than the average for the former Soviet Union economies and than that for the Central European countries of the former communist block. General Macroeconomic indices and sources of data on RM's performance between 2000 and 2006 are summarized in appendix 1.

## **2. Evolution of Regulatory, Legal and Economic Aspects of Public Sector in Moldova**

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Although there is no clear consensus on how exactly to measure fiscal decentralization of a country, there is a universal agreement among scholars and practitioners that decentralization is a "transfer by the central government to subnational governments (states, regions, municipalities) of specific functions with the administrative authority and fiscal revenue to perform those functions" (Schneider, 2003). Previously mentioned definition of decentralization identifies three major aspects of decentralization: administrative, political, and economic<sup>3</sup>. Thus, understanding evolution of a country's legal, regulatory, and economic framework is important. This is exactly the purpose of this part of this manuscript.

### **2.1 Regulatory and Legal Framework of Public Administration in Moldova**

The primary purpose of this chapter is to provide historical perspective of public sector evolution in Republic of Moldova. This part consists of (1) historical development of public administration in RM and (2) description of current legal

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<sup>3</sup> Term "economic" is used somewhat loosely here referring to "fiscal" element of public finance.

and regulatory framework of public sector. This information allows for identification of burning issues in decentralization of RM from administrative and political points of view.

RM is a representative democracy in which the people-elected deputies (representatives), not the people themselves, vote on legislation. Moldovan Constitution provides for the fundamental rights and freedoms in a democratic society. The Election Code (most recently amended in 2003), is a solid foundation for the democratic elections. Other relevant laws are the Law on Parties and Socio-Political Associations (most recently amended in 2003), the Law on Administrative Procedures (2000), and the Code on Administrative Offences (most recently amended in 2002). Several other laws were recently adopted, redrafted or significantly modified, such as the Law on Administrative-Territorial Organization (1998, amended 2003), the Law on Local Public Administration (2003), and the Law on Judicial Organization (1995, amended 1997, 1999, 2001, 2002, and 2003). Biggest implication for public sector of such continuous changes in legal framework is that it jeopardizes governmental accountability to citizens, resulting in citizens' distrust of both central and subnational governments.

Chapter VIII of the Constitution establishes the framework for public administration and local self-governance. The Election Code defines the procedures for the elections for *raion* (local "districts") councils, municipal councils and municipal mayors, as well as district (cities, villages and communes) councils and local mayors, all elected for a four-year term. All citizens, residing in Moldova of 18 years old or older, have the right to vote in local elections and stand for local councils. Exceptions are those declared incapacitated or sentenced to imprisonment, by a final decision of a court of law. Military personnel and citizens absent from the country on Election Day cannot participate in local elections.

Chronologically, one can identify four distinct stages of public administration reform in Moldova. The first stage is from December 1990 to December 1994. This period starts with the Supreme Soviet Committee's decision on Local Self Administration and Local Economy of the Moldavian Soviet Socialist Republic (MSSR) to create an independent group of experts that would critically analyze local government laws and regulations. This legislative proposal met resistance from the administrative and Communist Party nomenclature, which interpreted it as an attempt to split the raion branches of the communist organization. However, the parliamentary committee succeeded in preparing a set of new draft laws regarding the Territorial-administrative Organization (according to this law, RM was reorganized in just 9 bigger Judets instead of old 40 Raions) and laws on Local Public Administration. After political and ethnic conflicts in 1992–93, the topic was dropped from the legislative agenda. The newly created ruling coalition, Democratic Agrarian Party and Socialist Unity, which emerged after the February 1994 general elections, decided to freeze the process of local government legislation adjustment, reasoning that it

was too expensive and there was no time for experiments of such magnitude in Moldova. Public officials argued that “the existing network of small Raions accommodates the needs of the population entirely.”

The second stage started on 29 July 1994 with adoption of the new Moldovan Constitution and ended in December 1998 with the adoption of the new legislation on local government. The new Constitution embodied many fundamental principles and procedures of territorial-administrative reform, stipulating the basic principles of the newly emerging system of local government. Most important stipulations can be found in article 109, which provides the foundations for actual reform: local autonomy, decentralization of public services, election of local public authorities and citizen consultation on all public issues of local interest. Soon after, Parliament of the Republic of Moldova agreed to revise the entire legislative framework for local government, establishing the prerogatives, powers and specific competences introduced by the Constitution. The objective of this reform was enhancement of local public authorities’ capacities to react to economic challenges and involvement of the general public in exercising its rights and freedoms within an environment defined by law.

In December 1994, Parliament adopted laws that literally paved the road for the implementation of a new system of local public administration. These laws had several ambiguities that in fact conflicted with the principles of the Constitution. According to these stipulations the President could appoint local mayors. Due to the existence of such provisions, many political parties denounced the 1995 Election Law as “undemocratic,” and the Constitutional Court of Moldova as unconstitutional.

Various actions aimed at bringing government closer to the people are based on implicit assumptions that (1) local government’s responsibilities are clearly defined and (2) sufficient public funds are made available to local governments to deliver on people’s expectations (Sevic, 2007, p. 12). At the time that was not the case in RM. The lack of clarity on local governments’ responsibilities produced frustration among local public officials, resulting in a situation in which they represented dual status: as officers, appointed by superior authorities, and as locally elected independent authorities. This also created a divergence from the expectations of the local and regional officials, who felt themselves incapable of acting as the “real local power.”

The next period began in December 1998 with the adoption of two fundamental laws that redesigned the existing local public administration: the Law on Territorial-administrative Organization and the Law on Local Public Administration. According to the new territorial arrangement, the country was organized into 10 territorial-administrative units of the second level. This allowed the new regions to improve their relative significance in accordance with the trend toward regional development throughout Europe, as well as to foster the economic and

social potential of their local components (communes and municipalities). The new Law on Local Public Administration aimed to enforce principles and techniques that would ensure separation of powers among different levels of government in the Republic of Moldova.

With the adoption of the Law on Territorial-administrative Organization on December 30, 1998, Parliament transformed the old system of public administration into nine second-level territorial-administrative units called *Judets*. *Judets* was basically replacing raions through consolidation of several raions. Generally, the need for such reform derived from the necessity to rebuild and improve the existing decision-making mechanisms of the first and second levels government that would be consistent with macroeconomic reforms and the need to ensure a necessary level of public services to all localities. According to the new legal framework, the administrative organization of the territory in the Republic of Moldova is instituted on two distinct levels:

- First level: villages (644 communes), 51 cities and 14 municipalities;
- Second level: 10 districts (*judets*), AND Gagauz Autonomous Territorial-Administrative Unit (UTAG) and the Municipality of Chisinau.

The fourth stage of public administration development started in November 2003 with the promulgation of Law nr.764-XV regarding Public Administration. Essentially, RM returned to pre-1998 territorial organization with raion as the second level of local PA. The result of this law was increased number of first level units (this number increased from 728/644 units to 982/898 units of first level) because of decrease of the minimum number of residents required for the first unit level to be organized from 2500 to 1500 citizens.

At this point it is important to emphasize that only political and administrative aspects of decentralization process in Moldova were addressed. While previously mentioned facets are important for understanding of assignments of responsibilities and capacities, decentralization is not possible without discussion of its economic aspects. This is exactly the purpose of the next subsection of this article

## **2.2 Economic Aspect of Decentralization in Moldova**

The universally accepted framework for analysis of economic aspect of decentralization is through the prism of public sector functions in an economy. Economist Richard Musgrave's framework for analyzing roles or functions is widely accepted (Musgrave, 1959, 1961; see also Oates, 1977) and used for these purposes. These functions are (1) Wealth redistribution, (2) Macroeconomic Stabilization, and (3) Resource allocation functions (Musgrave, 1959, 1961; Oates, 1977). At the most general level, this theory contends that the central government should have the basic responsibility for the macroeconomic stabilization function and for income redistribution in the form of assistance to the poor. In both cases, the basic argument

stems from some fundamental constraints on lower level governments. The third function (resource allocation) should be executed by sub-national governments.

While theoretical discussion of these functions is beyond the purpose of this paper, it helps establish and logically organize this section of the article. Public Sector functions are performed to satisfy citizens' preferences and needs as a function of available resources. These preferences and needs are formalized through budgeting process. Thus, it is obvious that evaluation of degree of fiscal decentralization per se in Moldova would benefit if budgeting processes were described and discussed. Thus, authors of this article provide a description of budgeting process and regulations in republic of Moldova. Such description is then followed by the mechanism of budget implementation, which consists of revenue generation, expenditure structure, and inter-governmental transfers.

### *2.2.1 Budgeting Process in Moldova*

Public budgeting processes in Moldova are typical for a democratic state, addressing multiple interests and objectives of various stakeholders. Moldovan budget is a major tool for implementation of previously described economic functions of public sector. According to Casian and Busmachi (2007), National Public Budget (also known as *Consolidated Budget*) of Republic of Moldova consists of:

1. State budget.
2. Budget of the social insurance.
3. Budget of medical insurance.
4. Local budgets.

Essentially, RM budget is a traditional line-item budget. Expenditures are organized primarily by objects of expenditure such as salaries, materials and supplies, and goods and services. While easy to prepare, the line-item budget does not provide any information regarding activities and functions of a program, department or city. Such lack of information is not favorable for any participants and stakeholders in the budgeting process since the lack of clear milestones and expectations does no good for improvement of government functioning and public service provision.

Public budgets are developed and implemented by Ministry of Finance based on unique Budget classification. These budgets have to be approved by Parliament before budgets' implementation. Essentially, budgets are developed based on historical data. This approach is also known as "incremental budgeting". This approach does not seem to work properly in economically challenging conditions because of its limitations in flexibility in resource allocation, which is the public sector function that fiscal decentralization is aimed at. Thus, from this point of view, fiscal aspect in decentralization of public services provision in RM has significant potential.

The State Budget is an annually approved Law. State insurance budget (SIB) is an integral part of national public budget and includes "income, expenditure and

financial results of the public system” (Casian and Busmachiu, 2007). State insurance budget funds social protection programs like unemployment allocations, sick and maternity leave, etc. SIB revenues stem from social insurance taxes (paid by citizens and corporations) and state budget transfers. SIB is similar to State budget in its annual nature.

The Funds of Obligatory Medical Insurance (FOMI) was organized as a result of laws regarding compulsory medical insurance and implementation of such insurance. Obligatory medical insurance is a guaranteed system of public healthcare. Budgets of territorial-administrative units (TAUs) represent income and expenditure assigned by law for public services and goods as specified in existing legislation.

Other important documents that define parameters of public sector economic activity are law on budgetary system and budgetary process, law on local public finance, and the annual State budget. These laws and regulations define intra-governmental relations in Moldova through assignment of tax collection and service provision responsibilities to various levels of governments, which is the purpose of the next sub-section of this paper.

### *2.2.2 Subnational Revenues, Expenditures, and Intergovernmental Transfers*

Description of the mechanism of satisfaction of local preferences and needs in Moldova would benefit from specific description of public resource generation and expenditures. Also, such description allows for evaluation of economic aspect of decentralization in RM. Thus, this subsection of the article provides general description of revenues and expenditures of public sector in Moldova. It is then followed by specific discussion of subnational revenues (both tax and non-tax) and expenditure responsibilities. Such description allows for logical identification of major issues in decentralization process in RM, which is the goal of the subsequent section of this article.

As already mentioned, the three functions of a government are resource allocation, income redistribution, and macroeconomic stabilization. These governmental functions directly influence public fiscal choices and preferences. These preferences could be categorized in three groupings:

1. Choices regarding revenue structure
2. Relative level of public spending
3. Identification and satisfaction of public preferences (public service mix)

This is the case in Moldova as well. Reports on Moldova’s State revenues and expenditures are prepared and submitted on a monthly basis by the State tax authority to central government. The aggregate monthly reports and more detailed quarterly reports regarding public expenditures are easily available. Such reporting allows an assessment and monitoring of financial situation. The information

provided in these reports is fairly detailed providing data about current spending (wages, goods and services) and capital outlays. Aggregate data on both revenue and expenditure arrears are provided to the government and parliament. This aggregate data is included in the budget documentation. The evolution of public revenues and expenditures between 2002 and 2006 is summarized in the following table:

**Table 1**  
Moldovan Public Revenues and Expenditures  
(MDL Million unless noted otherwise)

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Central Government Revenues *	3503.9	4700.8	5477.0	8738.2	9690.2
Local Revenues	1580.5	1919.7	2044.5	5789.5	8159.8
Consolidated Revenues **	5084.4	6620.5	7521.5	14527.7	17850.0
Central Government Expenses *	3693.9	4402.6	5416.0	8511.8	10024.8
Local Expenses	1500.2	1780.8	1974.1	5437.5	7954.2
Consolidated Expenses **	5194.1	6183.4	7390.1	13949.3	17979
Central Government Deficit/Excess	(190.00)	298.20	61.00	226.40	(334.60)
Local Deficit/Excess	80.30	138.90	70.40	352.00	205.60
Consolidated Deficit/Excess	(109.70)	437.10	131.40	578.40	(129.00)
Gross Domestic Product	22555.9	27618.9	32031.8	37651.9	44068.8
Inflation ***	4.40%	15.70%	12.50%	10.00%	NA

\* Based on Central Government Budget laws 2002–2006

\*\* Central Bank Data [http://www.bnm.org/en/docs/macroi/34\\_5898.pdf](http://www.bnm.org/en/docs/macroi/34_5898.pdf) URL retrieved 2/27/2007

\*\*\* Republic of Moldova: Statistical Appendix. IMF country report. May 2006.

Public sector revenues come from tax revenues, non-tax revenues, and intra-governmental transfers (also known as grants) (Schneider, 2003). Moldovan system of public finance is regulated through laws on budgets and process, law on local public finance, and the annual State budget, which define the revenue sharing mechanisms and transfers between the State and the upper level of local government. There are three main revenue sources for local governments in Moldova: own revenues, shared revenues, and transfers from central government budget (grants). Combined together, these sources account for up to 90 % of local government's revenues. Own sources of revenue represent a combination of taxes collected by respective local authority within its jurisdiction (e.g. property tax, user charges (fees), income tax, etc) and proceeds from sale/rental of public property (Sevic, 2006). Own sources provide up to 40 % of local government revenues.

Shared revenues are the cash flows part of which is kept locally while the remaining portion belongs to central government budget. The percentage of shared revenues is annually defined in budget law (e.g. Fiscal Year [FY] 2006 State Budget, Appendix 23). Generally, shared revenues are the cash flows from corporate income tax, Personal income tax, and charges from road exploitations. The specific feature of this regulation is that the minimum percentage of shared revenues to be kept by respective local government should not be less than 50%. In fact, given the economic reality of Moldova, the only local governments that share its revenues with central government are local authorities of municipalities of Chisinau (the capital) and Balti (the second largest city). All other territorial units fully keep their revenues from “taxes on business activity” (FY 2006 State Budget, Appendix 23). User fees from road usage are equally split between local and central governments. Revenue from the road tax is shared equally between the State and local governments throughout the country. In addition, each of the two local government levels have own tax and non-tax revenue sources to finance its spending. On average, shared revenues account for about 30% local authorities revenues.

In 2004, first level of local government received 100% of corporate and personal income tax revenue, with the exception of Chisinau and Balti municipalities which are entitled to only 50 percent of such proceeds collected in their areas<sup>4</sup>. The Central government defines the maximum rates for local fees and the property tax, while local governments are free to charge lower rates (Article 2 of the Law on Local Fees, No. 186-XIII/1994). The State government has introduced tax concessions for the personal and corporate profit tax that have tended to erode the tax base of local governments, although the State government has sought to offset revenue losses through higher transfers from the State budget. Customs, VAT, and excise tax revenue remains with the State government, with the exception of Gagauzia where VAT and excise revenue accrues fully to the local government. In 2003, local governments received a share in VAT proceeds.

The last source of local government revenues is the intergovernmental transfers. This type of revenue is defined by Law on Public Finance as “financial resources allocated with final claim and absolute amount as provided by law, from the state budget to the Judets budgets, to the budgets of the autonomous territorial unit and Chisinau municipality or from the corresponding budgets to the local budgets for the purpose of performing the established state functions or financing the activities performed by local governments receiving the transfers” (Article 1). The administration and implementation of the intergovernmental transfers is defined in Articles 10–12 of the Law on Public Finances.

Essentially, there are two types of transfers: general and special allocations transfers (Sevic, 2005). General transfers are calculated according to the formula provided in previously mentioned articles. The amount of the general transfer is a

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4 Laws of State Budget 2002 through 2006: Chapters 4 and Appendices 23, 24.

product of difference between local per capita revenues (these revenues are calculated as product of tax rate and tax base) and expenses and the population within specific jurisdiction of the local authority (Article 11, paragraph 3, e.). The local governments which have revenues per capita exceed the average expenditures per capita by 20% should transfer its excesses to the Central budget for redistribution of this excess among other local governments.

The second type of intergovernmental transfers in Moldova is *special purpose transfers*. These grants and conditions for these transfers are defined in article 13 of the Law on Public Finances. According to the previously mentioned article, the state budget is to provide for special purpose transfers to the budgets of the administrative-territorial units in case that the central Government delegates some assignments to the public authorities in the region or it promulgates new laws that jeopardize local governments' revenues.

Basically, intergovernmental transfers (also known as *grants*) are nothing but an equalization technique employed by central government to address the issue of horizontal imbalances among different local authorities. Existing equalization grants in Moldova are based on per capita amounts of public services to be provided by respective local government. Although this approach is theoretically sound, the achievement of inter-regional equalization might be jeopardized by inadequacy of the norms used for calculation of the total amount of the transfer. Also, existing documentation does not provide information on qualitative aspect of the norms used for calculation of the transfer amount. This represents a shortcoming for identification of level of public services to be provided.

Although first level of local governments *de jure* is free in allocating revenue and transfers to the lower-level local governments (as specified in Law on Public Finance), *de facto*, local public practitioners assert that transfer mechanism from the upper to the lower level of local governments is a subject to unjustifiable discretion. Current law on local public finance defines tax sharing procedures and transfers to "local governments". The "local governments" referred to in this law are one of raions. The law does not provide clear guidelines on revenue sharing between two levels of local governments. It is Raion councils who determine the share of each of these taxes that will go to each individual local government. One of the consequences of such vague definition of intra-local government relations is the break between LG's responsibilities for service provision and accountability. Subsequently, this results in disincentive for local governments to mobilize local revenues. While subnational revenues were extensively discussed, fiscal decentralization implies alignment of *both* revenues and expenditures. Thus, discussion of subnational expenditure will improve understanding of the phenomenon in RM. It is exactly the goal of the next part of this chapter.

The responsibilities of local governments are defined in Law on Public Finances and Law on Local Public Administration. Law on Public Finances provides

guidance for types of public services to be provided by each level of local government. The competencies for funding public expenditures are shared between budgets of administrative-territorial units based on the Law local public administration. Confusion regarding LG obligations for service provision occurs because the responsibilities for public service provision are shared by different levels of government. Specifically, responsibilities for social security and unemployment benefits management, public parks, environment protection, public safety, social services, and public health protection are shared by both first and second levels of government. The aggregate structure of local governments' expenditures for both first and second levels of governments is summarized in the following table:

**Table 2**  
 Structure of Local Government Expenses 2001–2005  
 (MDL Million unless noted otherwise)

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Total Expenditure	1780.80	1974.10	5437.50	7954.20
General Public Services	118.39	139.53	429.84	543.61
Public Safety	51.18	63.57	180.87	221.06
Education	616.73	809.05	2613.09	3651.91
Healthcare	319.27	441.09	100.65	84.94
Social Security	26.22	41.06	136.41	210.03
Social Programs	45.06	63.00	241.97	362.04
Environment Admin. and Protection	19.18	19.75	84.95	317.69
Transportation and Communications	16.55	19.04	94.22	103.25
Housing	209.62	224.69	968.27	1429.83
Other Expenditures	77.99	153.33	587.24	1029.85

Source: Ministry of Finance of the Republic of Moldova, 2006.

Generally, local governments have formal authority over local spending decisions. However, central government frequently intervenes with “recommendation” on local spending through delegation of unfunded responsibilities from central to local budgets. This results in vertical imbalance. Supplementary expenditure obligations for local authorities come from state-owned enterprises, which provide many public services, including local infrastructure (e.g., roads, heating, water and sewerage), health clinics, and day care facilities. Given limited local tax base, local governments are not in position to fully finance these services.

### **3. Burning issues in RM**

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One of the basic tenets of fiscal decentralization is its complex nature. Decentralization process is a combination of political, administrative, and economic factors

organized for provision of public services and goods in a most effective and efficient way. Given that, intergovernmental relationships must be analyzed and understood as a system. All of the component parts of this system have to be analyzed concurrently without giving preference to any specific component of the system. Existing theoretical doctrine for analysis of fiscal decentralization is extensive in terms of system of reference for analysis of the phenomena of fiscal decentralization. Bahl (1999) provides a list of necessary and desired components of a system of fiscal decentralization. This framework will be used for evaluation of the Moldovan decentralization degree that is briefly summarized:

<b>Necessary conditions</b>	<b>Situation in Moldova</b>
Elected local council	Local and raion councils are the representative organs of local government and are elected through free and universal elections for a term of four years.
Locally appointed chief officials	All of the members of the current local and raion administration are nominated by local and raion councils, elected by a popular vote.
Locally approved budget	The local council approves the local budget
Absence of mandates as regards to local government personnel	Local government employment and salaries was centralized as a result of 2001 public administration reform. Salaries are now determined by the central government, which makes earmarked transfers for this purpose.
Local governments may control some revenues.	Local governments have very limited control on the level of revenues sources.
Local governments have some powers to borrow.	Local governments may borrow from financial institutions and from higher levels of government. Current legislation clearly defines upper limits as well as the maximum term of the local borrowing.
The grant system is transparent and adequate.	The amount of grants is determined by the Ministry of Finance in the annual State Budget Law, which is approved by the Parliament. Transfers from central government to the 2 <sup>nd</sup> level local government: the transfer system is clear and done according to the formula. However, the allocation of transfers between the 2 <sup>nd</sup> and 1 <sup>st</sup> level of local government is done by means of negotiations between the two authorities and has no clear criteria behind, therefore it is ambiguous.
Hard Local Budget constraint	Currently, local budgets must be balanced, i.e. total revenues should equal local governments' expenditures.
Clear expenditure assignment.	Expenditure assignment is clear between the state and local governments. It is not clear between the 2 <sup>nd</sup> and the 1 <sup>st</sup> level of government and is overlapping. Another concern is "central suggestions" on expenditure norms and levels of public service to be provided locally

Previous table summarizes degree of decentralization in Moldova. While certain criteria for efficient and effective decentralization system are met (i.e. hard local budget constraint), other criteria still offer room for improvement (i.e. expenditure assignment). The nature of existing situation is such that potential improvements

can be achieved through a comprehensive action plan. The comprehensive nature of such plan stems from complexity and multi-discipline essence of decentralization. Specifically, central government's participation in local human resource management might result in political appointment of centrally acceptable candidates who might not be responsive to local needs and preferences. Also, such involvement in local decision making counter decentralization and thus, limits the potential benefits of decentralization by increasing the accountability links between citizens and local governments (for additional information on accountability model of decentralization see World Bank Report, 2003). Additionally, such involvement of central government in local decision making makes local elections just another formality.

#### **4. Conclusions**

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Qualitative description of the political, administrative, and economic environment in Moldova reveals that there are certain challenges in the field of fiscal decentralization. Lack of clearly defined "necessary" constraints for decentralization is complimented by political decision about administrative structure of the country. Moldova's recent fluctuations from old Soviet territorial structure of Raions to Judets structure and back have consequences that reach far beyond local politics and economy. Such variation within short period of time represents a major challenge for efficient and effective planning of capital improvement projects and investments.

Recent return to old Soviet structure of Raions, besides its symbolism, is an economically questionable decision. Literature on fiscal decentralization suggests that public services should be provided at the lowest economically feasible level of government. The argument is that link between own revenues and local authorities would be enforced, increasing accountability of local governments to citizens. Own revenues are a function of local tax base. In this way, substitution of 10 Judets with 32 Raions might be both reduction of tax base and increase of the governments' cost to residents of respective communities. Furthermore, reduced local tax base might jeopardize local government's ability to deliver public services in effective and efficient way.

The subject of multiple local governments subsequently influences the aspect of relationship between deferent levels of local governments. The relationships between 1<sup>st</sup> and 2<sup>nd</sup> level governments represent another burning issue. These rapports are not clearly explained under existing legislation. Ambiguous assignment of responsibilities does not enhance public service provision. The degree of ambiguity increases once the expenditure assignments are included in the picture. Although there is an equalization system of inter-governmental transfers in place, it is based on questionable centrally defined norms of compensation based on population of a local government. This discrepancy of centrally set norms with local conditions results in less than efficient provision of public services. Another issue with existing

centrally defined norms is that these norms are purely quantitative. Thus, the quality of public services is ignored.

Also, predominantly insufficient revenue autonomy is the fragile point of a local government system. Local governments (with exception of Chisinau) have more than limited local tax base, independent authority over user charges, and administrative capacity to collect these local revenues. With regard to user charges, the main impediments appear to be lack of administrative capacity and the persistence of central government regulations concerning pricing of locally provided services, such as transportation and utilities. Pricing regulations constrain local efforts to achieve greater cost recovery.

Finally, existing budgeting technique represents an impediment for efficient provision of public goods and services since it does not provide an unambiguous set of performance measures that would address both qualitative and quantitative aspect of the public service provision.

## **5. Recommendations**

Fiscal decentralization is a complex system that involves factors of political, administrative and economic field. This framework for provision of public services and goods could be potentially beneficial if the system is analyzed comprehensively. The ultimate outcome of a properly developed system of decentralization would be increased economic efficiency of service provision accompanied by increased quality of governance.

The identification of burning issues for Republic of Moldova is dual in its nature. It both outlines the problems and offers some insight into what might be construed as a possible remedy of a specific problem. Under these conditions, following are recommendations that would correct issues identified throughout the paper:

- Clarification of responsibilities of different level of local government would minimize the ambiguity on the issue. This would result in an attachment of responsibility to a specific local authority, which in turn will be responsible to its constituents.
- Explore the adequacy of LG size and territory according to economic efficiency and equalization principles for purposes of identification of the best size of local authorities.
- Limit the central government's "recommendation" on additional specification of local public service delivery.
- Currently, Moldovan budgeting approach is at best outdated. The core philosophy of budgeting needs to be adjusted for new environmental conditions. These adjustments are required for development of a normally balanced local budgets and development of a truly democratic state.

- Improvement of reporting on budget execution for the general public would address the issues of accountability. This reporting should include both qualitative and quantitative measures.
- Develop an appropriate mechanism for timely update of the norms and standards used for calculation of the intergovernmental transfers.
- Improve coordination between cash and debt management functions in the State of local treasuries through integrated financial system.
- Comprehensive VAT, applying to all products uniformly, that can be shared with regions and local governments. This will eliminate any problem of “cascading” tax increases on the product. The central government can either share revenue on a percentage basis or could allow their states/provinces to apply a regional tax as a surcharge on the national tax. This latter has some advantages because the central government can vary its VAT rates, for macroeconomic purposes, without affecting revenue raised by the state VAT portion. This recommendation is subject to further analysis and research.

Given existing economic reality of republic of Moldova, where economy is quite small and dependent on a relatively small number of primary exports, prone to inflation, and susceptible to external influences, and where 50 % of State revenues are generated in municipality of Chisinau, it might be implied that fiscal decentralization would increase discrepancies between Chisinau and other local governments.

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**Appendix 1: Select macroeconomic indices of Moldovan economic development 2000–2006**  
(MLD Million, unless noted otherwise)

	2000 *	2001	2002	2003	2004	2005	2006
<b>General Indicators:</b>							
Population	3,638,613	3,630,876	3,622,894	3,612,145	3,603,153	3,594,581	3,585,292
Gross Domestic Product	16019.6	19051.5	22555.9	27618.9	32031.8	37651.9	44068.8
GDP per capita (USD)	\$354.1	\$407.8	\$458.7	\$548.4	\$721.1	\$831.3	\$936
GDP per Capita	4402.67	5247.08	6225.94	7646.12	8889.94	10474.63	12291.55
Industrial output	8167.7	10427.6	12624.1	15963.1	17591.1	20770.2	22243
Agricultural output	8268	8646	9474.2	10354	11819	12688	13695
Capital investments	1759.3	2315.1	2804.2	3621.7	5140	7189.1	9580.4
Unemployment rate**	8.50%	7.30%	6.80%	7.90%	8.10%	7.30%	NA
Inflation***	18.5%	6.4%	4.4%	15.7%	12.50%	10.0%	NA
<b>External and Internal Debt (USD Million):</b>							
Loans and Bonds	1262.6	1261.6	1369.2	1449.9	1369.9	1399.3	1702.6
Loans and Bonds % of GDP	98.00%	85.20%	82.39%	73.19%	52.72%	46.83%	50.74%
Direct Public Guaranteed External (DPGE) Debt	868.6	810.4	836.3	867.2	754.3	678.7	735.7
DPGE Debt % of GDP	67.42%	54.73%	50.32%	43.78%	29.03%	22.71%	21.92%
Debt on imported energy resources	316.4	287.2	301.4	300	287.1	288.6	319.7
Energy Debt as % of GDP	24.56%	19.40%	18.14%	15.14%	11.05%	9.66%	9.53%
Public Internal Debt (MDL million)	2022.2	2400.5	2821.4	2920.4	3714.1	3787.1	3790.2
Public Internal Debt (USD million)	162.64	186.57	207.87	209.46	301.27	300.56	288.62
Public Internal Debt % of GDP	12.62%	12.60%	12.51%	10.57%	11.60%	10.06%	8.60%

<b>Foreign Trade Indicators:</b>										
Export (USD million)	641.4	735.5	876.4	1058.7	1348.6	1528.3	1568			
Import (USD million)	971.9	1088.5	1294.5	1728.6	2124.7	2743.1	3167.5			
Deficit: (USD million)	<b>(330.50)</b>	<b>(353.00)</b>	<b>(418.10)</b>	<b>(669.90)</b>	<b>(776.10)</b>	<b>(1,214.80)</b>	<b>(1,599.50)</b>			
Deficit % of GDP	25.7%	23.8%	25.2%	33.8%	29.9%	40.7%	47.7%			
<b>Exchange rate Lei USD</b>	12.4334	12.8668	13.573	13.9426	12.3283	12.6003	13.132			

\* FY 2000 – Base year

\*\* International Bureau of Labor Data

\*\*\* IMF Country Report No. 06/187 “Republic of Moldova: Statistical Appendix,” May 2006

Adopted from “BNNM: Macroeconomic Indicators.” [http://www.bnm.org/en/docs/macro/34\\_5898.pdf](http://www.bnm.org/en/docs/macro/34_5898.pdf)  
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# Factors of Egovernment Development in Poland

*Agnieszka Pawlowska<sup>1</sup>*

## Abstract

There is a considerable gap between electronic service delivery in Poland and the average level in EU member states. The author analyzes three dependent variables of egovernment building in Poland: 1) strategic thinking; 2) ICT project implementation, and 3) leadership and public participation. Accordingly, three hypotheses are formulated: 1) egovernment development in Poland has not been based on a comprehensive and coherent strategy; 2) unsuccessful ICT project implementation considerably influences delays in online service delivery; 3) the process of egovernment building is characterized by the absence of stable and uniform leadership and mechanisms of public participation. The author based her considerations mostly on an examination of national documents: plans, projects and reports, legal regulations, as well as on an analysis of policy implementation. Special attention has been paid to the implementation of the PESEL2 programme, which referred to the reconstruction of state personal registry. Several mistakes that occurred before and during the project implementation are pointed out. The lack of stable leadership and adequate organizational support, as well as the deficiency of control are named as important weaknesses affecting the implementation of egovernment strategies and projects.

## 1. Introduction

In Poland, public services delivered electronically present dynamic growth. Although that growth is a bit more forceful in this country than the EU average, indicators of egovernment development are still considerably lower. This disappointing state of affairs is frequently justified by the size of the country, both when it comes to its territory (312.7 thousand km<sup>2</sup>) and to its population (38.5 mln), which makes the development of an information society more complex than in other new EU

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member states. Yet, the difficulties in e-government building cannot be described solely by such independent and quantitative variables as the size of the territory and its population. The way e-government projects are being accomplished shows that qualitative variables have critical meaning. This paper is dedicated to an analysis of the latter.

The analysis is based on the following hypotheses: 1) e-government development in Poland has not been based on a comprehensive and coherent strategy; 2) unsuccessful ICT project implementation considerably influences delays in online service delivery; 3) the process of e-government building is characterized by the absence of stable and uniform leadership and mechanisms of public participation.

The national policy of e-government development included in national strategies as well as legal regulations will be examined to elaborate the first hypothesis mentioned above. The second hypothesis will be considered by means of the example of the PESEL2 programme – one of the key ICT projects of the central administration. This analysis will be based on information gathered during the period in which the author served as a member of the Consultation Council for the project. The third issue will be based on an examination of reports on the proceedings of e-government building in Poland. To give a fair background for speculations concerning e-government building, the author occasionally refers to broad characteristics of the Polish political system, general features of public administration and the communist heritage of both.

Before passing to the core subject of the paper, let me first present the state of online service development in Poland, which will allow further assessment of the scale of the problem.

## **2. Level of e-government development in Poland**

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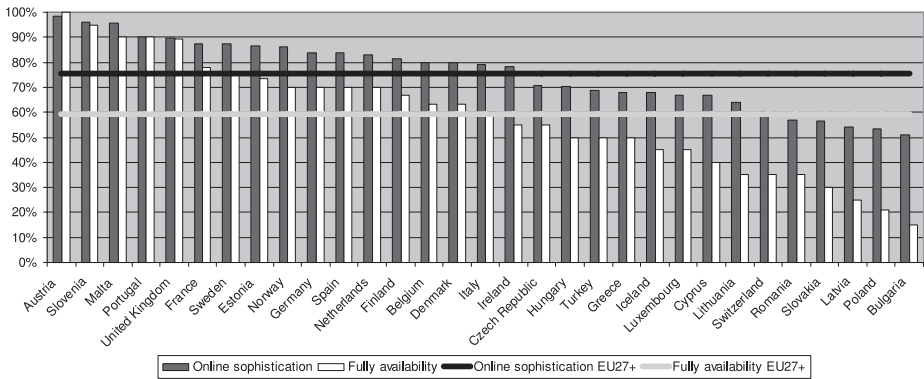
Reports show continuous, albeit slow and incoherent, growth of online services in Poland. The measurement held by Capgemini<sup>2</sup> in September 2007 shows that its level has reached 53 % (two-way interaction) on a five-level scale (Capgemini 2007), and although it considerably increased since the first measurement in October 2004 (when it reached 36%), it has not changed since the last measurement in 2006

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2 The measurement performed by Capgemini is based on two indicators: online sophistication and number of public services fully available online. The first indicator is based on a 5-level model: 1) information (0–20%) – only information on public services is placed on web sites; 2) one-way interaction (20–40%) – downloadable forms are available on web sites, public services are delivered traditionally; 3) two-way interaction (40–60%) – electronic forms, but service delivered traditionally; 4) transaction (60–80%) – full electronic case handling, 5) personalization (80–100%) – pro-active service delivery, i.e. service delivery is based on registration of life event, no additional activity of a customer is needed. The second indicator is based on 0–1 evaluation: if service is delivered on the 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> level of online sophistication, it is calculated as 0 (no service is delivered electronically), service is accepted as delivered electronically if it reaches the 4<sup>th</sup> and 5<sup>th</sup> level (Capgemini 2007).

(Capgemini 2006). The median level of online services delivered in 31 European states<sup>3</sup> has reached 76 % in 2007 and 65 % in 2004 (Capgemini 2007, Capgemini Polska 2004). In Poland, 25 % of public services are delivered entirely online (transaction level), which is 5 percent points more than in 2006 and 15 percent points more than in 2004. It is, however, necessary to point out that the same indicator for the 31 European states in 2007 rose to 58 % since the previous year when it amounted to 48 %. The difference between public services delivered online in Poland and the average number of those services delivered in other European states is considerable. Furthermore, the dynamic of online service growth in Poland is insufficient to eliminate this difference in a short time. In the figure below combined data concerning online sophistication and the full availability of online services compared to the EU27+ average is presented. This figure shows an overall discrepancy of online services delivered in Poland in comparison to other European states.

**Figure 1**  
Comparison of sophistication and full online availability



Source: Capgemini 2007, 17.

The progress in sophistication of online services delivered in Poland is presented in the table below. The list of twenty basic public services was presented in the document *eEurope 2002: An Information Society for All*, delivered by the European Commission in June 2000 and adopted by Capgemini for measurement purposes. The first measurement of online services in Poland took place in 2004, the last in 2007.

3 All member states of EU + Norway, Iceland, Switzerland and Turkey.

**Table 1**  
Sophistication of online services in Poland in 2004 and 2007

Public services	Level (%)	
	2004	2007
<b>For citizens</b>		
Income taxes	49	80
Job search services	31	100
Social security benefits	25	<40*
Personal documents	30	<35
Car registration	28	<40
Application for building permission	25	40
Declaration to police	27	<35
Public libraries	34	60
Certificates	39	<55
Enrolment in higher education	52	<65
Announcement of moving	31	<35
Health-related services	11	<10**
<b>For businesses</b>		
Social contributions for employees	75	100
Corporate tax	36	50
VAT	49	50
Customs declaration	43	100
Public procurement	25	75
Submission of data to statistical offices	70	60**
Registration of a new company	24	<60
Environment-related permits	25	< 15**

\* In Capgemini's report in 2007, the data for individual countries were presented in graphic form, therefore only their approximate value is accessible. The symbol "<" used in the table means that the value of given indicator is placed between the given value and a value of 5 percent points less.

\*\* The lower value of the indicator in 2007 can be an effect of a different method of measurement used in 2004 and 2007.

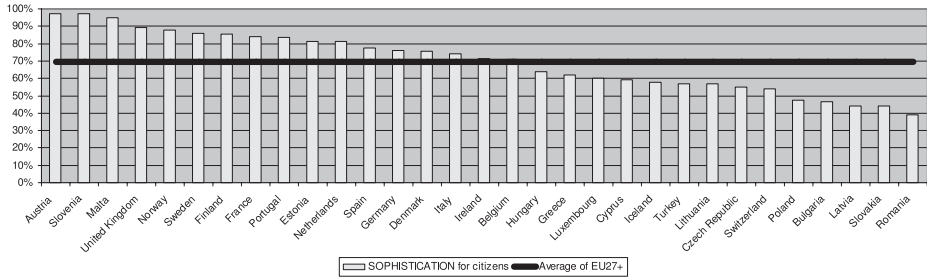
Source: Capgemini Polska 2004, Capgemini 2007.

The above data show a considerable increase in online services delivered to businesses. The social contributions for employees and customs declarations reached the transaction level. Public procurement increased its electronic delivery considerably since 2004, however since 2006, no change has been observed. Increase has also been visible in "corporate tax" and "registration of a new company"

services; whereas no progress has been found in “VAT” and “environment-related permits”. Among the services delivered to citizens, a major enhancement has been detected in job search and income taxes. Other services are transferred slower on electronic platforms.

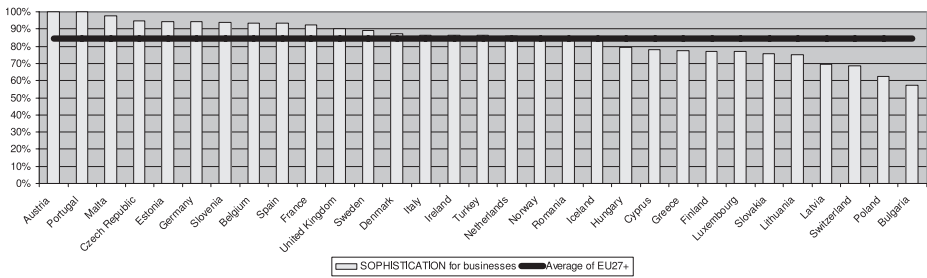
When we compare the sophistication of services delivered to citizens with the sophistication of services delivered to businesses, it can be detected that although the latter are better developed, in both cases there is almost the same gap between the level reached in Poland and the average level for EU27+ (Figures 2 and 3).

**Figure 2**  
Sophistication of services delivered to citizens



Source: Capgemini 2007, 20.

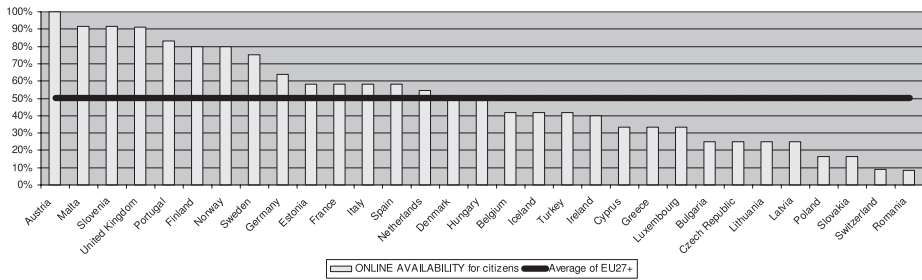
**Figure 3**  
Sophistication of services delivered to businesses



Source: Capgemini 2007, 20.

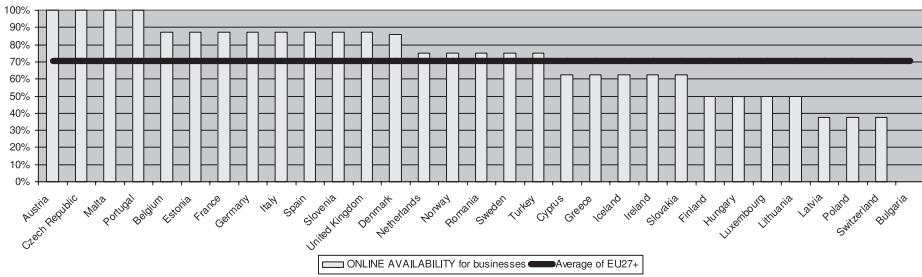
When it comes to full online availability, data show a larger discrepancy between services delivered online in Poland and the EU27+ average. While the difference for sophistication is about 20–22 percent points, for full availability, it arrives at about 32 percent points (Figures 4 and 5).

**Figure 4**  
Full online availability of services for citizens



Source: Capgemini 2007, 21.

**Figure 5**  
Full online availability of services for businesses



Source: Capgemini 2007, 22.

A comparison of the levels of sophistication with the full online availability shows that accomplishing a transactional level is more complicated than accomplishing earlier stages of e-government. It is closely related to the implementation of an electronic signature that for years has been postponed in Poland. Although the relevant law was passed already in 2001 (*Ustawa z dnia 18 September 2001*)<sup>4</sup> and originally the deadline for setting e-signature in motion was set for August 2006, mostly due to the fact that the local administration was unprepared to recognize e-signature<sup>5</sup>, the time of its launching was postponed to 1 May 2008. This date is also the main reason of the increased activities in putting public services online.

4 This regulation was heavily criticized for establishing very high demands of security and responsibility for the improper use of an e-signature, which in fact, instead of supporting development of online services, constituted a considerable barrier. At present (first quarter of 2009), the Polish Government works on a new regulation.

5 According to estimates of the Ministry of the Interior, only every tenth local office was prepared to launch the electronic signature in 2006.

### 3. Factor no. 1: Imperfect strategic thinking

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The development of egovernment is one big venture that consists of numerous smaller projects. The latter must harmonize with each other and have strong foundations in back office informatization. Online services are a considerable part of public administration transmitted to virtual space. It is a difficult and complex enterprise that needs developed strategic thinking (Ciborra 2002, 34–39). Unfortunately, this side of egovernment building is very seldom discussed; however, in my opinion, it is pivotal, also for the explanation of its faults.

For a long time, there has not been any comprehensive and coherent strategy of egovernment development in Poland. Although numerous documents have been presented, they have not met those conditions.

Activities concerning egovernment building were basically structured in *Gateway: Preliminary project* (KBN 2002), delivered in December 2002. *Gateway to Poland* was meant to be a central Web site of public administration that makes possible:

- receiving information on public services;
- applying for services, including authentication and – if necessary – payment for services;
- receiving results of the service if, in their nature, they are information;
- monitoring the procedure of delivering services.

The document, however, did not refer directly, and ultimately, to the quality of the delivered services. The deadlines for the *Gateway* creation were settled in another document delivered a year later – the *Strategy of Informatization of Polish Republic – ePoland* for the years 2004–2006 (MNiI 2003). Neither of those two documents considered the effects of ICT projects accomplished until then in public administration; neither social needs, nor recommendations of the European Union in respect to electronic service delivery were taken into account in those documents. In the strategy *ePoland*, no leading institutions responsible for the accomplishment of the main activities were pointed out, no expected results and their measures were defined. The contents of the mentioned document were incoherent – rather resembling a cluster of departmental projects (Najwyższa Izba Kontroli 2006). Its incoherence was especially visible in quarterly published reports that also revealed delays in the execution of ICT tasks by public institutions.

Strategic thinking also includes methods and instruments of accomplishing strategic goals. Strategies of implementing egovernment in Poland mostly relied on laws and bylaws. Although amply used, legal regulations were frequently not consistent with strategies. In fact, the former preceded the latter in many respects. For example, a universal system of public Web sites, called Public Information Bulletin (PIB), written in the *Law on an access to public information* (Ustawa z 6 September

2001) had not been sketched in strategic documents, although it entirely constitutes the first (information) and second (one-way interaction) stages of e-government. This project was accomplished in 2005 (Demczuk and Pawlowska 2006). Meanwhile, the idea of an electronic portal of public administration services (e-PUAP), a kind of continuation of the previously discussed *Gateway* project, emerged. If followed in their original version, PIB and e-PUAP would most probably have resulted in the emergence of two equally universal sources of public information and services, very probably inconsistent in their contents, as every public institution has its PIB site, while e-PUAP was meant to be constructed and conducted as one and by one public administration agency.

The divergence between strategic planning and legislation is a broader issue in Poland (not limited to issues of e-government). It refers to a political system that is parliamentary in its nature, i.e. legislative bodies (two-chamber parliament) dominate over the executive and are structurally and functionally related. The usual place of policy-making are the lobbies of parliament, to a lesser degree executive offices (See Sarnecki, Szmyt and Witkowski 1999).

In countries with a long parliamentary tradition, legislative powers are being balanced with position of the executive that grows stronger. In Poland, as probably in the majority of post-communist states, executive and administrative structures are relatively weak, as their predecessor – the communist state, although overwhelming, was also weak – was subordinated to the communist party and rooted in its structures. When this source of power came to an end, state structures turned out to be no more than the shell of a blown egg. The political scene soon got filled with actors taking their roles in Parliament while the executive structures were still under construction. The undetermined position of civil service, vertical and departmental organization of policy implementation further reduces the influence of public managers on law-making and in conclusion makes it parallel instead of inter-related with strategic planning<sup>6</sup>.

The weakness of public managers makes the law a basic instrument of policy implementation. The focal location of legal regulations supports the bureaucracy-like nature of thinking about e-government. Eventually, not the goals that are expressed in the strategies but the laws point out the next steps in e-government building. This statement is supported by the way that the informatization of the state is being proceeded. In 2005, the *Law on informatization of institutions delivering public services*<sup>7</sup> (Ustawa z dnia 17 February 2005) has been passed. Not the previous strategies but this regulation made the Polish administration think more compre-

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6 For more information on the post-communist transformation of the state structures see Staniszkis 1999.

7 This legal act was followed by several ordinances regulating technical aspects of the ICT infrastructure of public administration, as for example, basic demands for ICT systems, public registers and electronic data exchange (Rozporządzenie RM z 11 October 2005a and 2005b).

hensively about e-government development. The national government presented – in the form of an ordinance – *the Plan of Informatization of the State* (Rozporządzenie Rady Ministrów z dnia 28 March 2007). The latter was accepted in March 2007 and included:

- priorities and aims of informatization of the state; three priorities were named: 1) transformation of Poland towards a modern, citizen- and business-friendly state, 2) optimization of public spending for informatization and information society development; 3) neutrality of ICT solutions used by public administration;
- a list of 5 ultrasectorial and 23 sectorial ICT projects: among them G2C projects, as for example e-PUAP – electronic portal of public services; G2G, such as STAP – ICT network for public administration, G2G and G2B projects such as PESEL2 (see: section below); G2B and G2C projects such as electronic tax declarations, and others addressed at the broad public or limited groups of customers;
- the action plan of information society development, which includes the following activities: a) effective public spending; b) elaborating of national strategy; c) providing a friendly legal environment, d) preventing digital divide, e) liberalization of the market for ICT services, f) development of entrepreneurship and competitiveness; g) development of Polish e-content;
- a list of 24 public services that are to be delivered online (a list of 20 basic services adjusted to the Polish system of social services).

The document defines the executors of the particular projects, their deadlines, costs and sources of financing. The plan is complex and fairly comprehensive. In many instances, its parts (several projects and a number of services) are interrelated; therefore careful implementation of each project according to schedule is indispensable if other projects are to be executed properly.

Nevertheless, also regarding this plan, the thesis on the weak relationship between strategic thinking, legal regulations and practice is further supported – several projects declared in the ordinance were fairly under way when it was announced.

#### **4. Factor no. 2: unsuccessful ICT project implementation**

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Back office integration is frequently stressed as a critical success factor for e-government development (Bekkers and Homburg 2005). One back office G2G project, whose success was central for delivering public services online, was the PESEL2 programme *Reconstruction and integration of state registers*. Its strategic objective was to improve the provision of services to Polish citizens and entrepreneurs by

providing online access to data stored in a population register (PESEL)<sup>8</sup> and by the construction of an integrated system (called PESEL2) as a reference register for the population registry.

PESEL2 was expected to make administrative procedures easier and to eliminate the need of direct participation the of customer in their execution, through<sup>9</sup>:

- limitation of paper documents delivered by public institutions and their replacement by granting access to reliable and updated information in central registers to those public bodies that need it to deliver services;
- “de-placing” public services, i.e. creating conditions for delivering public services in any municipal office, regardless of the official address of the citizen;
- creating an automatic system of updating personal data without the need for the citizen to do it him-/herself (MSWiA 2006).

In September 2005, the programme was initiated. Its implementation period was set from 1 June 2005 to 31 December 2007; the total budget amounted to PLN 200 million (over 56.5 million Euro). The project was co-financed by the European Regional Development Fund (the Sectorial Operational Programme, Improvement of the Competitiveness of Enterprises, Measure 1.5 Development of an online access system for entrepreneurs to public information and services).

The very short period of time constituted the basic risk for the project. This short period<sup>10</sup> was determined by the conditions of its financing. However, there were other factors forecast as working against the success of this venture, such as:

- insufficient human resources for such a big-scale ICT project;
- the need of coordinating many activities of diverse contractors;
- its innovative character;
- its organizational complexity (engagement of several thousand units);
- the technical complexity of the system resulting from numerous units delivering and loading data;
- the need to preserve the continuity of activities of public institutions where PESEL2 would be put into practice, which is mostly connected to the transfer of data from the existing system to the new one and the improvement of their quality.

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8 PESEL stores 46 millions of personal data records (the register also contains data of persons who died or gave up their Polish citizenship). At present it is a G2G system – it is the reference register for other national registers, therefore it has been chosen as the basis for their reconstruction and integration. In the future, PESEL is expected to also support G2B communication and deliver access to personal data to several businesses that need reliable personal authentication (banks, telecommunication, insurance enterprises, etc.).

9 The meaning of issues included in operational goals of the PESEL2 programme was raised by Vintar, Kunstelj, Dečman and Berčič 2003 (137).

10 It was later postponed to the end of June 2008.

The first critical issue that appeared was the insufficient human resources for the management of the project. Since September 2005, for almost one year, no activities were undertaken and only in August 2006, a Project Office was created, and planning and organizational work began (MSWiA 2006).

Soon after establishing the Project Office, public procurement proceedings were commenced for the selection of a consultant for the design of system architecture, technical assistance and management services. The final resolution of these proceedings was reached as late as June 2007 – a year before the expected termination of the project. The slow pace of the project implementation resulted in limiting both its value and its scope: in December 2006, its value was reduced to PLN 167 million; in October 2007 further to PLN 126 million, and the scope of services to be provided was limited from an originally planned eight to five.

In December 2007, the architecture of the system was conditionally accepted, and its further improvement was prolonged to the first quarter of 2008. In January 2008, the PESEL2 Steering Committee announced that there was a significant discrepancy between the declared aims and the actual project implementation capacity. Failures to contract works on its implementation raised doubt regarding the sense of continuing the programme and threatened the loss of EU co-financing in the amount of PLN 126 million. In the period from 2005 to 2007, only consultation was contracted, and the whole part relating to the purchase of equipment and software development remained at the planning stage.

Since the preparatory works could not be completed in 2 years, the assumption that it was possible to practically contract and implement the whole system by June 2008 did not seem rational. Therefore, in the light of the previous failures and the enormous delay, two options were considered:

1. to abandon the programme implementation entirely, or
2. to make the programme objectives more realistic and limit it to those parts, for which there is a high probability of completion.

Since the PESEL2 programme remains of key importance for the development of egovernment in Poland, and other important ICT projects strongly depend on it, the Steering Committee decided in December 2007 to continue the project.

A recovery plan for the development of the PESEL2 system was elaborated, limiting the scope and making the functionalities more realistic. A significant part of the work on the development of the programme was focused on the modernization of the PESEL central register, which was justified by the obsolete technologies used for the development of its previous version, which made any development of the system impossible. The number of services to be implemented by June 2008 was limited to 2. Those tasks, the completion of which under the project PESEL2 was

not probable in the then financial perspective<sup>11</sup>, were transferred to other projects. In consequence, financing was reduced dramatically, by ca. 75% – from PLN 126 million to 31 million. The scope of the project was limited to the modernization of the central layer and the provision of only two services: “on-line access to issued and annulled documents” and “on-line verification of personal and address data” MSWiA 2008a. The programme was eventually closed in September 2008. Apart of the two service mentioned, the service of “rendering personal data” was also provided (MSWiA 2008b).

Examining the contents of both the PESEL2 programme and its implementation gives us a picture of a project that was late and not well elaborated. It refers to the original vision upon which the project was developed as its further accomplishment.

The importance of the project cannot be overestimated. If completed, it would have delivered a solid base for the information system of public administration and pushed forward the development of online services. On the other hand, the designers of the project assumed a conservative attitude towards the existing administrative structure. They did not plan any changes to the structure and workings of public institutions through the implementation of the project. For example, they did not decide to move the back office of administrative services to an upper level of local administration (from almost 2,500 communities to slightly more than 300 provinces), which would not only make public administration more efficient but also make an accomplishment of the project easier. Taking into account that among the objectives of the project was de-placing the services and eventually delivering them online, the moving of administrative operations to offices of provinces would probably not cause a big problem for customers.

Putting the main burden of the project accomplishment on provinces would mean “invading” the existing bureaucratic structure and interests of both institutions (Offices of Registry placed on the community level) and public servants. The decision-makers were not courageous enough to undertake this risk, and they made the project as uninnovative as possible in respect to non-technical issues.

The time frame for PESEL2 was underestimated. Mistakenly it was subordinated to deadlines of EU co-financing, although the probability of the project’s accomplishment in the set time was assessed as low already in June 2006. In spite of being aware of the insufficient timing, public managers did not prepare any alternative plan, which in effect got the project its minimal profile.

Finally, several mistakes were made during the course of project implementation. The concept for developing technical documentation of the project was changed during its accomplishment. Initially it was planned to be outsourced; eventually, a major part of the documentation was decided to be elaborated by the

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11 Development of the local layer of PESEL2, i.e. the provision of computers and network infrastructure to local governments and the modernization of local software, along with the implementation of new information flows in the system.

specialists employed in the Ministry. Another weakness – important, but I was not able to determine how decisive – was changing the Project Leader three times by the end of 2007.

### **5. Factor no. 3: the absence of stable and uniform leadership and mechanisms of public participation**

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Activities aimed at egovernment development have been undertaken by a number of responsible bodies. Since 2001, when the first strategy of information society building in Poland was published, the ministry responsible for egovernment development has changed three times<sup>12</sup>. For a long period, no public agent was able to gather efforts of all others to push forward the process of informatization in public administration.

The deficiency in control is the natural consequence of heterogeneous leadership. The Minister of Scientific Research and Information Technology, responsible for the accomplishment of the egovernment strategy till November 2005, did not provide information about the real state of its implementation, nor did he indicate threats to the prompt accomplishment of ICT projects consistent with the expected results. In effect, no correction measures were undertaken towards the institutions responsible for 77 % unaccomplished activities planned till the end of 2004, and the Minister himself was not determined enough to execute the planned activities from the responsible institutions and persons (Najwyższa Izba Kontroli 2006).

The lack of stable leadership also affected particular ICT projects. The already discussed PESEL2 programme revealed the shortage of leadership continuity, which might have considerably influenced its failure.

No mechanisms of public participation in the strategies' development were elaborated. Local authorities influenced the ministerial activities indirectly through their associations, focused either on ICT applications in local administration (Association "Cities on Internet") or on general issues of local government (Association of Polish Counties, Association of Polish Cities). Several regions<sup>13</sup> elaborated their own strategies of information society development but it was not a comprehensive idea and process, coordinated vertically or horizontally throughout different levels and units of public administration. Although regional authorities engaged non-governmental organizations in the process of information society development (also on

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12 The ministry that delivered the first strategic document on developing the information society in Poland (*ePolska*) in 2001 was the Ministry of Economy. Already the following year, the State Committee of Scientific Research took charge of preparing strategies of egovernment development; however since 2003, the Ministry of Scientific Research and Information Technology was responsible for monitoring the informatization process and information-society building. In 2005, those tasks were given to the Ministry of Interior and Administration, which is still responsible for their implementation.

13 Poland is divided into 16 regions (voivodships).

the strategic level), the same does not refer to national bodies, which did not work out any mechanism of the NGOs' control over strategy development.

The legal regulations guarantee, however, an influence of sub-national authorities and NGOs on bills. In case the bill has an impact on functions performed by the local government, it has to be consulted with the Common Commission of the Government and Local Authorities. This was the case with the *Law on informatization of institutions delivering public services*, the original bill of which was modified because of the intervention of local authorities.

Stability in leadership and public participation does not, however, guarantee a proper accomplishment of ICT strategies and projects. The appropriate organizational structure needs to be established to coordinate, monitor and control activities undertaken by public institutions regarding e-government development. Till 2005, no such institution was founded, nor were control procedures elaborated. After the change of government in Poland in November 2007, the responsibility for coordinating and monitoring the implementation of e-government ventures was placed in the Department of Information Technology Development in the Ministry of the Interior and Administration. This Department completed the cut of the project PE-SEL2; it also concluded the development of the first stage of a universal electronic platform of public administration services (e-PUAP). The stability of this organizational structure should be preserved, to at least keep the progress in e-government development constant.

## 6. Conclusions

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At the moment, the delay in e-government building in Poland can be estimated at two years. This estimation is based on the data on the implementation of several ICT projects in public administration. For example, the accomplishment of a "one stop shop" for entrepreneurs, originally scheduled for January 2007, has been postponed to October 2008. August 2006 was scheduled as a turning-point in e-government development – the introduction of an electronic signature to public service delivery. However, only every tenth public office was prepared to meet that date; therefore it was postponed to May 2008 – still it is far from getting its full functionality. Those impediments are due to weak strategic thinking, frequent unsuccessful ICT project implementation and the lack of stability in organizational arrangements.

Till March 2007, i.e. the time when the Plan of Informatization of the State was accepted, no all-encompassing strategy of e-government building marked the direction of administrative activities referring to rebuilding the information infrastructure of the state towards online service delivery. Previous documents barely faced social needs and goals of the EU with respect to the administrations' interoperability. In fact, the Plan of Informatization of the State does not hold the typical features of a strategic document. It is rather a list of projects aimed at the accomplishment of

defined goals and priorities. The order of the latter is, however, disappointing. The programme of information society development has been subordinated to the programme of informatization of public institutions. Projectors decided to begin with the development of the supply side of online services and only later take care of the demand for them, i.e. improving access to those services by citizens. This arrangement should be assessed as harmful regarding the still low level of Internet access in Poland<sup>14</sup>, though it is justified by one important circumstance. Reports prepared by Capgemini for the European Commission, illustrating the progress in egovernment development in EU member states, refer to the supply side of online services, to a lesser extent to the scope of their use by entrepreneurs and citizens. This fact suggests that the supply side interested the European Commission most and was the origin for further judgment of the level of keeping up with all-European trends in a given country. The focus on the supply side instead of customers' demands and their readiness – technical and mental – to make use of public services delivered electronically, preserves rather a bureaucratic than a governance outlook of public institutions.

Confusion stemming from the vague vision of the ICT infrastructure of public administration and the uncertain direction of its further development produced a particular attitude towards electronic services as a separate entity without back office support. Organizational infrastructure and human resources were not set up on time to carry the burden of numerous ICT projects. Issues of the systems' interoperability, workflows, reference databases, etc. were not sufficiently elaborated. The case of the PESEL programme, started very late (in 2006) and constantly limited in its scope and financing, gives us a clue for back office preparations to meet the demands of online services.

Another significant issue in the process of egovernment building in Poland is ignoring the chance it provides to transform drawbacks of traditional bureaucracy to advantages of e-governance, for example a bigger reduction of paper documents and administrative procedures, making administrative structures more efficient, supporting the engagement of citizens in the decision-making on public services and their delivery, etc. By and large, citizens are mostly "absent" in implementing online services in Poland. Their particular needs are not examined, neither their ability nor their willingness to use ICT in communication with public offices. Strategies and projects of informatization and information society development suffer from the lack of subsidiary activities of the local authorities and non-governmental organizations. In general, there is a lack of mechanisms of all-encompassing decision-making with respect to the information society development. Until now, the approach to strategy formulation – isolated and exclusive – needs to be transformed

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14 In January 2008, broadband penetration in Poland was at 8.4% (the second lowest in EU27), far below the average of 20%. Growth in 2007 was relatively slow with an annual increase of 3.2 percentage points (European Commission 2008).

into an open and inclusive one; in other words, it should be redefined into governance (network) decision-making.

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**Issues of  
Interest  
for the  
Community**





## Research Report Summary

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Juraj Nemec

**Ministry of Budget, Public Finance and Public Services (ed.), 2008: Paris**

**“If you want to go fast, walk alone. If you want to go far, walk together:  
citizens and the co-production of public services.”**

*This summary sets out the key findings of a European research report produced by Governance International and pollster Tns-Sofres for the “5<sup>th</sup> Quality Conference for Public Agencies” in Paris in October 2008. The report explores a relatively recent idea to the literature on quality management in the public sector: co-production. The report was commissioned by the French Ministry of Finance and presented in a keynote speech by Elke Loeffler to more than 1000 participants of the conference. Many other experts, including the editor of this summary, were part of the European team who convened focus groups of in all five participating countries to discuss with public service professionals and NGO representatives the changing role of citizens in public services and the likely impact of co-production. The full report is available at the conference website [5qualiconference.eu](http://5qualiconference.eu).*

What does this term mean? Like many scientific concepts, co-production is not new. Indeed, it goes back at least to the 1980s when it was realised that services should not just be done TO service users but be produced together WITH them. Indeed, as the leading researchers behind this report, Elke Löffler, Salvador Parado, Tony Bovaird and Gregg Van Ryzin found out, citizens are generally becoming much more involved in public services. Therefore, the authors decided to ask citizens a new question: “What role do they play and are they prepared to play in the delivery of those public services which matter most to them?”

The report sets out the answers provided by citizens to this question and the views of public service officials to the same question. It draws on data from a representative citizen survey in five European countries, including Czech Republic, Denmark, France, Germany and the United Kingdom in May 2008 and from focus groups with public service officials and NGOs undertaken in those countries in

early 2008. It consists of six main parts, focusing on the following aspects of co-production:

Part 1: The increasing role of citizens in service delivery

Part 2: What is new about co-production?

Part 3: Co-production in three public services: the state of the art in five European countries

Part 4: Attitudes towards co-production

Part 5: Obstacles and drivers of co-production

Part 6: Policy conclusions

In the first part, the authors introduce the idea of co-production. They stress the fact that the boundary between service providers and service users has shifted towards a more inter-dependent relationship. The examples provided in the report speak for themselves: in past flight bookings had to be done through a travel agency and all banking business had to be done in person over the counter at the bank. Today these transactions can be done comfortably at home on the internet. In most gas stations car drivers now have to fill the tank themselves and no longer get their windscreen wiped and other courtesy services. Similar developments can be observed in the public sector. At one time, public services were simply delivered by professionals with little involvement of users, who often had little choice. Increasingly, we are seeing greater involvement of users in service delivery. For example, e-government enables and encourages people to download and submit documents electronically, e.g. applications for permits or licenses, which give citizens an element of greater autonomy in their relations with public sector organisations. Even in social services such as health, new technologies allow patients to take responsibility for their own treatment, for example patients with kidney problems running their dialysis at home, so that they no longer need to go to the hospital several times a week. And of course, the world of education has changed as well, with schools and universities investing in e-learning, which gives students more flexibility.

The authors stress that, while advances in ICT, particularly the internet, have profoundly changed the relationship between service users and service professionals, ICT-led approaches are nevertheless not the whole story in enabling citizens to play a more important role in delivering services and outcomes. There are also instances where citizens have begun to share with professionals some of the key service delivery tasks. For example, in Denmark parents (mainly of teenagers) in some neighbourhoods now patrol the streets at night so that they are visible in all the places where young people go. By doing so, they support the police and school/social workers to prevent riots in 'hot spots'. Even governments and service professionals have spotted, over recent years, that effective public services require the active contributions of all parties.

Consequently, more and more service providers in the private and public sectors are seeking to co-operate with service users in order to tailor services better to

their needs and to cut costs. Governments have set up new schemes such as the Expert Patients Programme in the UK, local safety pacts ('contrats locaux de sécurité') in France, the safe locality project in the Czech Republic, recycling schemes which give citizens a greater role in health, community safety and the local environment and many other initiatives.

According to the authors, these trends have major implications for public service improvement strategies and raise at least three key questions for public managers and researchers:

1. How big is the role which citizens play in delivering public services?
2. How does the involvement of citizens change their attitudes and expectations towards public services?
3. Is the role of citizens in public service delivery likely to be more important in the future than at present? What are the obstacles and drivers of co-production in the public domain?

The second part of the report discusses definitions of co-production and investigates the general theoretical background of co-production. According to the authors, the literature on co-production highlights that production and consumption of many services are inseparable, which implies that quality in services often occurs during service delivery, usually in the interaction between the customer and provider, rather than just at the end of the process.

They also identify the main objectives being pursued by means of co-production, such as:

1. improving public service quality by bringing in the expertise of the service user, and often that of their families and communities as well,
2. providing more differentiated services and increased choice,
3. making public services more responsive to users.

The definition of co-production used in the study is the "involvement of citizens in the delivery of public services to achieve outcomes, which depend at least partly on their own behaviour". Co-production puts the emphasis on the contribution made by the service beneficiary in the service delivery process.

For example, in education, outcomes not only depend on the quality of teaching delivered by school teachers or university staff but also on the attitudes and behaviour of students. If students are not willing even to listen or not able to undertake follow-up exercises at home, the amount that they learn will be very limited. In a public sector context, the "co-operative behaviour" of service recipients may even extend to their acceptance of constraints or punishments – for example, improving community safety involves citizens accepting speeding or parking restrictions and being willing to pay a fine when they have ignored these restraints.

Citizens may also engage in co-production on behalf of other people, which is typically referred to as 'volunteering'. However, this can only be considered as co-production with the public sector, as opposed to simply 'self-organising' activity, if it is done in collaboration with service professionals, e.g. if the care of the sick person is done in conjunction with a doctor's diagnosis and advice.

The authors show that there is now new interest on the part of professionals in the co-production of public services. They distinguish between four model situations:

1. Situations where the citizen is active and gets significant public sector help ('co-production'). A good example is the neighbourhood watch movement in the UK, whose local groups involve partnerships between the police and local residents.
2. Situations where the involvement of citizens is high but there is not much support by service professionals. The French focus group on co-production in health suggested that many patient associations would fall into this category, since they do not have much support from medical staff.
3. Situations, still quite common, where passive users are 'given service' by a professional. The Czech focus group thought that the health system in the Czech Republic is still largely based on the notion of a "passive patient".
4. Situations where users are passive and the public sector is largely absent, services nevertheless still get provided –, they get 'looked after' by a volunteer system. As an example of this, the German focus group thought that some aspects of health and social services have become so complex that users require expert advice by NGOs about available treatment options and legal entitlements.

Quoting Pollitt, Bouckaert and Löffler (2007), the authors stress that user and citizen involvement may take place in all four phases of the production cycle of public services including:

1. co-design of public services, e.g. community planning of public services
2. co-decision in resource allocation, e.g. participatory budgeting at local level
3. co-delivery of public services, e.g. volunteers of fire services, jurors in courts, parent governors in schools, etc.
4. co-evaluation of public services, e.g. citizen inspectors in public hospitals and social housing.

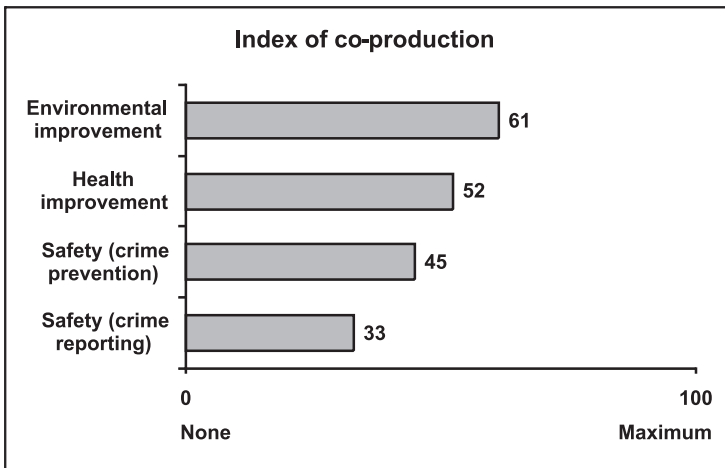
The core part of this research report is chapter three, describing methodology and general results from the survey conducted by telephone from April to May 2008, among a representative random sample of 4,951 adults (18 years of age or older), with about 1,000 interviews in each of these five countries. The study focused on three different sectors which reflect distinctly different types of government functions:

1. Community safety, as an example of coercive action on the part of the state
2. Local environment, as an example of the regulatory function of the state
3. Public health, as an example of the welfare improvement function of the state.

In the survey, given the limited resources available and the short time afforded by telephone interviews, the authors decided to survey all citizens, rather than survey service users only. The survey focused particularly on preventative activities of citizens, asking them what they currently do – and what they would be prepared to do in the future – to help public agencies to prevent problems from arising. However, in the community safety questions, citizens were also asked about how they personally dealt with some problems, specifically how they react when they come across crime and anti-social behaviour – do they try to help the police to deal with the problem?

The results of the survey show (Graph 1) that there are significant differences between countries and between the three different sectors. Citizens are particularly active in taking steps to look after the local environment (index score 61), to a somewhat lesser degree in health improvement initiatives (index score 52) and considerably less active in prevention of crime (index score 45). When it comes to reporting crime to the police, including making personal interventions to stop someone behaving in an anti-social way, the co-production index goes down to 33.

**Graph 1**  
Total level of co-production in community safety,  
local environment and health issues



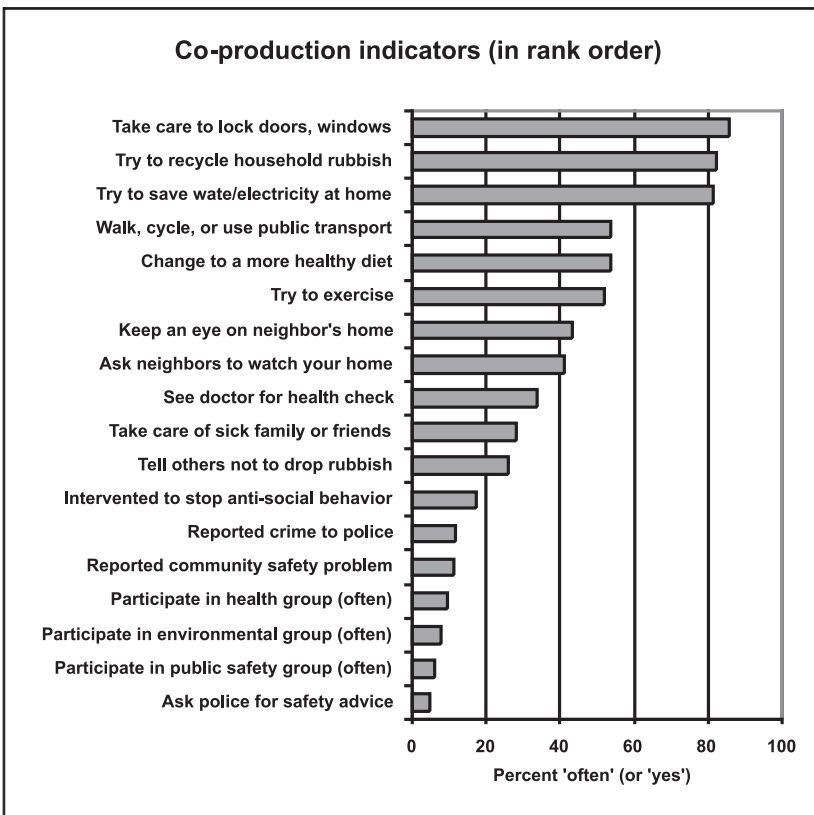
The authors investigated also what kind of contributions citizens make on a regular basis in each of these sectors (Graph 2). The data show that European citizens in these five countries show particularly high levels of engagement when they

can undertake activities which do not need much effort by themselves and do not require getting in touch with third parties. When it comes to making changes to personal lifestyle, there is a sharp drop in the number of citizens who walk, cycle or use public transport, change to a more healthy diet or try to exercise. There are also activities that citizens are even less inclined to undertake, at least on a regular basis. Interestingly, all the activities at the bottom of the ranking list imply getting involved with others – be it a neighbour, a doctor, the police or strangers.

Only a very few citizens wish to get engaged in some organized form on a regular basis. As the survey results show, the level of regular participation of citizens in groups and organisations is highest in health (9.7%), followed by environment (7.9%) and then safety (5.9%). This is an interesting finding since the index of overall coproduction activities of citizens is highest in local environment, not in health. The fact that more citizens ‘co-produce’ in health by getting organised may indicate a lack of availability of individual forms of co-production.

**Graph 2**

A ranking list of co-production: What citizens like doing best and least



The authors discovered the encouraging fact that relatively many people are prepared often to take steps to encourage others to behave more appropriately, e.g. telling them not to drop rubbish (26 %) and intervening to stop anti-social behaviour (17 %). Given that these are high effort actions, and not to be undertaken lightly, this indicates that there is a significant group of the population who see themselves as real 'activists', at least in those areas about which they genuinely care.

In part four, the authors explore the main incentives for co-production. They found that citizens who are elderly, female and not active in the labour market are more likely to be active co-producers than other groups of citizens. Three important research questions are discussed:

1. Are citizens who co-produce willing to do more?
2. Do citizens believe their co-production can make a difference?
3. Are citizens who co-produce more satisfied with the performance of public agencies?

The results are interesting. Citizens who are already strong 'co-producers' tend to be willing to do even more, in terms of spending more time each week tackling the issue themselves or helping others to do so. The correlation between the co-production index and the index of their willingness to do more in these ways is nearly 0.3. Those who score higher on the co-production index also tend to believe that citizens can make a difference, although this is not quite as strong an association as in the case of willingness to do more. This suggests that some people who are active in co-production may not be sure that their interventions will make a difference but express, nevertheless, a willingness to do more.

Finally, active co-producers show only a weak tendency to be more satisfied with the performance of public agencies in the fields of community safety, local environment and health. The authors suggest several possible explanations for this fact. One hypothesis is that many people may actually become co-producers explicitly because they are dissatisfied with public services and want to improve them. Another hypothesis is that people who do co-produce may become more satisfied with services because they have helped to improve them. Again, another hypothesis is that some citizens who are engaged in service delivery become more dissatisfied because their expectations increase but are not realised. Since all three hypotheses may be true simultaneously, but partially undermine each other, this may be the reason for the weak relationship observed between active co-production and satisfaction with services.

The authors also try to discover how much more time citizens are ready to spend in co-production. The data show that 19 % of citizens are willing to spend a few hours more per week to improve their own health or the health of other people, for improving community safety, 17 % are willing to invest a few hours per week, but for improving the local environment only 13 % are willing to do so.

Taken together over the three sectors, 28 % of citizens indicate themselves to be willing to spend a few hours more per week, while another 43 % are prepared to spend a few more hours per month, and only 29 % indicate that they are not willing to spend any time at all.

Part five examines the extent to which co-production by the respondents is associated with a range of variables which are often thought to be important drivers of co-production activity. When it comes to the scope for government action, statistical analysis shows that better government information and consultation cannot be considered as strong drivers towards more citizen co-production, even though clearly these factors can play a role. The survey shows that it would be most promising for government to target young people in order to increase user-involvement, since the survey shows that the younger people are, the more willing they are to do more. It is also critically important to ensure that initiatives are targeted at those who are likely to be interested in them. The results demonstrate that many people who actively co-produce in health or in community safety or in local environmental improvement have little interest in the other fields. It is therefore essential that citizen participation units in government do not try to talk to all citizens at the same time but rather capture the interest of citizens through addressing them on the specific services and issues in which they are personally interested – a much more sophisticated (and challenging) task.

A counter-intuitive insight of the survey is that urban-rural location and levels of education, as well as the level of 'self-service' behaviour in private sector services, are not much linked to co-production behaviour in public services.

More generally, the survey suggests that there has been too much attention on how to motivate citizens in general and service users in particular to get them more involved in public service delivery. Our findings demonstrate that actually the underlying problem is more likely to be the way they are approached. This suggests that increased levels of co-production in the future will require appropriate mechanisms and initiatives, which are sufficiently easy and straightforward to encourage individuals and their families to get involved. Ideally, these should be initiatives that individuals can pursue on their own, if they want to do so – many individuals are reluctant 'joiners'.

The last part summarizes findings and proposes some steps for future. In particular, the survey has shown that:

1. There is already a lot more citizen involvement in public service delivery than the professionals taking part in our focus groups wanted to acknowledge.
2. There will be more citizen involvement in service delivery in the future due to the demographic changes taking place in most European countries. The involvement of citizens in delivering public services clearly increases with age, so that the 'ageing society' is good news in terms of increasing levels of 'coproduction'.

3. Citizens are most willing to make a contribution towards improving public services when it involves them in relatively little effort and when they do not have to work closely with other citizens or staff or professionals in the government.

On this basis, a simple but important question is discussed: “How can government make more effective use of citizens as co-producers of public services?” The survey results point out a number of ‘drivers’:

1. While older people and those not currently working are already quite ‘active’, there is a significant number of citizens willing to do more in the future. In particular, the younger people are, the more willing are they to do more.
2. This willingness to get more involved is most strongly evident in relation to improving their own health and the health of other people but it also applies to an important extent in improving community safety and improving the local environment.
3. It is also critically important to ensure that initiatives are targeted at those who are likely to be interested in them. Results demonstrate that many people who actively co-produce in health or in community safety or in local environmental improvement have little interest in the other fields. Unless they are approached and engaged directly in relation to the issue about which they actually care, they are likely to shy away from any involvement at all.

This suggests that government should take on the challenge of targeting young people and getting them more involved – while many young people clearly have little or no interest in this, the ones that do should be identified, encouraged and supported. The most obvious way of doing this would be to start by helping young people to take steps to improve their own health. The missing piece of the jigsaw is the provision of attractive opportunities for them to put this motivation into practice and to provide needed “pay-offs”.

According to the authors, increased levels of co-production in the future will require appropriate mechanisms and initiatives, which are sufficiently easy and straightforward to encourage individuals and their families to get involved. Ideally, these should be initiatives that individuals can pursue on their own, if they want to do so – many individuals are reluctant ‘joiners’. Clearly, many e-government initiatives are ideal in this respect, in that they can cater very well for those who prefer ‘bowling alone’.

But as the authors point out the real challenge is the cultural change needed in public service. Co-production means professionals are no longer the only experts who know what is best for the users of their services. In traditional services, professionals took the attitude *If you want to go fast, walk alone*. In the new relationship with citizens, professionals have to believe: *If you want to go far, walk together*.



## **Information for Contributors**

The *NISPAcee Journal of Public Administration and Policy* is dominantly devoted to public administration and public policy issues in Central and Eastern Europe. Theoretical and empirical papers with some focus on the region are the main target for the Journal, however specific cases might be considered.

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Decisions about the publication of a manuscript are based on the recommendation of the editor-in-chief and an additional review process conducted by two appropriate specialists from a relevant field.

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### ***Standard Structure of a Paper***

#### ***Title***

The title should be a brief phrase adequately describing the content of the paper.

#### ***Abstract***

An abstract is a summary of the information in a document. The abstract should not exceed 250 words. It should be designed to clearly define the contents of the paper. The abstract should: (i) state the principal objectives and scope of the research; (ii) describe the methodology employed; (iii) summarise results and findings; and (iv) state the principal conclusions. References to literature, bibliographic information, figures or tables should not be included in the abstract.

#### ***Introduction***

The introduction should supply sufficient background information on the topic and also provide the rationale for the present study. Suggested guidelines are as follows: (i) the introduction should first clearly present the nature and scope of the problem that was researched; (ii) it should provide an overview of the pertinent literature used; (iii) it should state the research methodology employed and, if necessary, the reasons for using a particular method.

#### ***Core text***

This section depends on the character of the paper. In the case of empirical studies it should contain an overall description of the topic and present data gathered during the research project. The manuscript should utilise representative data rather than repetitive information. Data that will be referenced several times in the text should be provided in tables or graphs. All data, repetitive or otherwise, should be meaningful. Results must be clearly and simply stated as the section comprises innovative research findings for an international community of academics and practitioners.

### ***Discussion/conclusions***

This section presents the researcher's findings and suggestions, if applicable. It should not restate information present in the core section, but may (depending on the type of the paper): (i) point out any exceptions or lack of correlation; (ii) define unresolved issues; (iii) show how the results and interpretations agree (or contrast) with previously published work; (iv) discuss the theoretical implications of the work, and any possible practical applications; and (v) summarise the evidence for each conclusion. The primary purpose of the discussion section is to show the relationships among facts that have been observed during the course of research. The discussion section should end with a short summary or conclusion regarding the significance of the work.

### ***Acknowledgements***

Assistance received from any individual who contributed significantly to the work or to the interpretation of the work and/or outside financial assistance, such as grants, contracts, or fellowships, must be acknowledged.

### ***References***

As standard only significant, published and in-text used references should be listed (except for specific cases). Authors should verify all references against the original publication prior to submitting the manuscript.

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## ***Navigation: Example of the Standard Components of an Empirical Policy Analysis Paper***

### ***Presentation of the Issue***

What is the problem that requires action?

### ***Scope of the Problem***

What is the history and current context of the issue? How did it become an issue?

Who is affected and how severely?

### ***Consultations***

What are the views or positions of groups who will be significantly affected? What are the concerns of other ministries/agencies who will be affected?

### ***Options for Consideration***

What three or four distinct options should be considered? What are their implications? What are their advantages and disadvantages?

### ***Additional Issues:***

Consistency with the government's priorities; the effectiveness of available options in addressing the issue; the economic cost-benefit; the effects on taxpayers; the impact on the private sector; environmental impacts; the fiscal impact on the government; the disproportionate impact on various groups or regions; the complexity and timing of implementation; public perception; and constraints raised by legal, trade, or jurisdictional issues.

### ***Recommendation(s)***

What is the proposed course of action? Why was it chosen over other possibilities?

### ***Implementation Issues***

What are the financial impacts of the proposed course of action? What are the implications for government operations? Will the proposal require regulatory or legislative changes? What is the proposed means of evaluation?

### ***Communications Analysis***

What is the current public environment? What are the key issues of contention, and how can they be addressed? What is the position of key stakeholders, both inside and outside the government, on the proposal, and what communication vehicles should be used for each? How does the proposal relate to government reform priorities? What is the objective of communication on this issue? What is the key message?





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